

**COOS BAY-NORTH BEND WATER BOARD  
COOS COUNTY, OREGON**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2016**

**COOS BAY-NORTH BEND WATER BOARD**  
**Coos County, Oregon**

**ANNUAL FINANCIAL REPORT**  
**For the Fiscal Year Ended June 30, 2016**

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**BOARD OF DIRECTORS**

**COOS BAY-NORTH BEND WATER BOARD**

**BOARD OFFICIALS**  
**June 30, 2016**

**BOARD OF DIRECTORS:**

Melissa Cribbins, Chair  
410 Date Street  
Coos Bay, Oregon 97420

Richard Vigue, Vice-Chair  
598 Anderson Avenue  
Coos Bay, Oregon 97420

J. Gregory Solarz, Secretary  
2656 Stanton Street  
North Bend, Oregon 97459

Charles J. Sharps, Ph.D., Member  
2285 N. 14<sup>th</sup> Street  
Coos Bay, Oregon 97420

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**ADMINISTRATIVE STAFF**

Ivan Thomas, General Manager

Jeffrey Howes, Finance Director

James C. Coffey, Legal Counsel

**REGISTERED OFFICE:**

2305 Ocean Boulevard  
P.O. Box 539  
Coos Bay, Oregon 97420

# **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

November 2, 2016

To the Board of Directors of Coos Bay-North Bend Water Board:

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Coos Bay-North Bend Water Board, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Water Board's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Coos Bay-North Bend Water Board as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to management's discussion and analysis, and the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

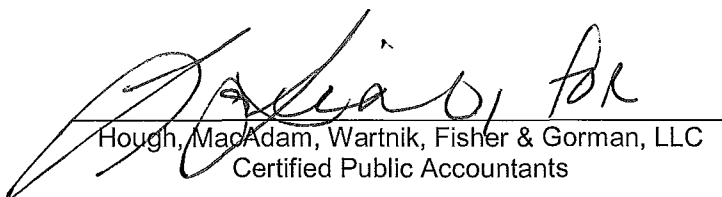
Our audit was conducted for the purpose of forming an opinion on the financial statements of the Coos Bay-North Bend Water Board. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Coos Bay-North Bend Water Board.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards* and Oregon Revised Statutes**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2016, on our consideration of the Coos Bay-North Bend Water Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Board's internal control over financial reporting and compliance.

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated November 2, 2016, on our consideration of the Coos Bay-North Bend Water Board's internal control over financial reporting and on tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 to 162-10-320. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.



Hough, MacAdam, Wartnik, Fisher & Gorman, LLC  
Certified Public Accountants



## Management's Discussion and Analysis

The Coos Bay-North Bend Water Board (Water Board) management staff offers readers of the Water Board's financial statements this overview and analysis of the financial activities of the Coos Bay-North Bend Water Board for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in the Water Board's Financial Statements, and associated notes.

### Financial Highlights

- Total assets of the Water Board were \$70,751,358 and \$69,596,578 as of June 30, 2016 and 2015, respectively, with the utility plant values at \$65,160,077 and \$63,584,611 net of accumulated depreciation. Current assets are \$5,532,690 and \$5,896,278 as of June 30, 2016 and 2015; restricted assets are \$58,591 and \$115,689.
- Deferred Outflows of Resources, a new GASB disclosure, is \$668,206 and \$590,548 as of June 30, 2016 and 2015. Please see note disclosure, Deferred Outflows/Inflows of Resources, page 16.
- The assets of the Water Board exceeded its liabilities at the close of the 2016 and 2015 fiscal years by \$51,739,651 and \$50,356,895, respectively. Of these amounts, \$2,886,439 and \$3,251,211 may be used to meet the Water Board's ongoing obligations.
- Capital assets less related debt are \$48,853,212 for fiscal year 2016. Revenue secured loans total \$9,662,066 and general obligation bonds total \$6,790,000 as of June 30, 2016.
- The Water Board's net position increased by \$1,382,756 from June 30, 2015 to June 30, 2016, and \$1,162,445 during the previous 2015 fiscal year. Exclusive of prior period adjustment.
- Total liabilities were \$19,679,913 and \$19,830,231 as of June 30, 2016 and 2015, respectively, with long-term liabilities of \$15,207,321 and \$15,498,865, and other liabilities (comprised of current liabilities and those payable from restricted assets) of \$2,851,092 and \$2,953,390 for fiscal 2016 and 2015, respectively. Net pension liability was \$1,621,500 and \$1,377,976 for for fiscal 2016 and 2015; respectively, see note disclosure Pension – Defined Benefit Plan, page 26.
- Total operating revenues for the fiscal year 2015-2016 were \$7,094,334, which is an increase of 5.3% over the prior year. The increase in revenues is the result of a rate adjustment targeted to generate a 6.1% increase in revenue in fiscal year 2015-2016.
- Total operating expenses for the fiscal year 2015-2016 and 2014-2015 were \$6,037,909 and \$5,337,820, respectively. This is an increase of 13.1% over the prior year, see more detail on page 7.

### Overview of the Financial Statements

The Water Board is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Water Board's basic financial statements are comprised of three components; 1) Statement of Net Position; 2) Statement of Revenues, Expenses and Changes in Net Position; and 3) Statement of Cash Flows. This report also contains other supplementary information in addition to the basic financial statements themselves.



The Statement of Net Position (page 10) presents the current and long-term portions of assets and liabilities separately and may provide a useful indicator of whether the financial position of the Water Board is improving or deteriorating over time. The financial statement includes all of the Water Board's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Water Board's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and financial flexibility of the Water Board.

The Statement of Revenues, Expenses, and Changes in Net Position (page 11) presents information showing profitability and credit worthiness as well as how the Water Board's net position changed during the most recent fiscal year. This statement shows income and expenses from operations, non-operating revenues and expenses, and reconciles the change from one fiscal year to the next. This statement measures the success of the Water Board's operations over the past year and can be used to determine whether the Water Board has successfully recovered all its costs through user fees and other charges.

The Statement of Cash Flows (page 12) is prepared using the direct method (reporting revenue and expenditures as they happen) and is concerned solely with input and outlay of cash from operating activities, non-capital financing activities, capital and related financing activities and investing activities. This statement also includes a reconciliation to the Statement of Revenues, Expenses, and Changes in Net Position. The primary purpose of this statement is to provide information about the Water Board's cash receipts and cash payments during the reporting period. It answers such questions as where did the cash come from, what was the cash used for and what was the change in cash balance during the reporting period.

### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information, which is essential to a full understanding of the data provided in the financial statements.

### **Financial Analysis**

As noted earlier, net position may serve as a useful indicator of the Water Board's financial position. In the Water Board's case, assets exceeded liabilities by \$51.7 million at the close of the most recent fiscal year, an annual increase of \$1.4 million, or 2.7%, inclusive of prior period adjustment.

By far the largest portion of the Water Board's net position (94.4%) reflects its investment in the utility plant (e.g., land, buildings, equipment, reservoirs and pipelines), less related debt. The Water Board uses the utility plant to provide services to ratepayers; consequently, the utility plant assets are not available for future spending. Although the Water Board's investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from services to customers (ratepayers) or other sources, since the utility plant cannot be used to liquidate these liabilities.

### Net Position

	2016	2015	Difference	%
Current and other assets	\$ 5,591,281	\$ 6,011,967	\$ (420,686)	-7.0%
Utility Plant	65,160,077	63,584,611	1,575,466	2.5%
<b>Total assets</b>	<b>70,751,358</b>	<b>69,596,578</b>	<b>1,154,780</b>	<b>1.7%</b>
Deferred Outflows of Resources	668,206	590,548	77,658	13.2%
Other liabilities	2,851,092	2,953,390	(102,298)	-3.5%
Net Pension liability	1,621,500	1,377,976	243,524	17.7%
Long-term liabilities	15,207,321	15,498,865	(291,544)	-1.9%
<b>Total liabilities</b>	<b>19,679,913</b>	<b>19,830,231</b>	<b>(150,318)</b>	<b>-0.8%</b>
Invested in capital assets, net of related debt	48,853,212	47,105,684	1,747,528	3.7%
Unrestricted	2,886,439	3,251,211	(364,772)	-11.2%
<b>Total net position</b>	<b>\$ 51,739,651</b>	<b>\$ 50,356,895</b>	<b>\$ 1,382,756</b>	<b>2.7%</b>

At June 30, 2016, capital assets net of debt totaled \$48.9 million, the remaining \$2.9 million of unrestricted net position may be used to meet the Water Board's ongoing obligations to ratepayers and creditors. None of the Water Board's net position represents resources that are subject to external restrictions on how they may be used.

Operating and non-operating activities increased the Water Board's net position by \$1,382,756 an increase of 2.7%, inclusive of prior period adjustment.

Total operating revenues were up 5.3%. The increase is the result of rate adjustments targeted to generate a 6.1% increase in revenue in fiscal year 2015-2016.

### Change in Net Position

	2016	2015	Difference	%
Water service	\$ 6,938,179	\$ 6,584,977	\$ 353,202	5.4%
Other	156,155	155,050	1,105	0.7%
<b>Total operating revenue</b>	<b>7,094,334</b>	<b>6,740,027</b>	<b>354,307</b>	<b>5.3%</b>
Source of supply	176,411	170,378	6,033	3.5%
Power and pumping	411,119	386,451	24,668	6.4%
Purification	882,840	826,295	56,545	6.8%
Transmission	6,911	96	6,815	7099.0%
Distribution	878,252	698,834	179,418	25.7%
Customer's accounting and collection	857,019	838,777	18,242	2.2%
Administrative and collection	1,196,672	861,564	335,108	38.9%
Depreciation	1,628,685	1,555,425	73,260	4.7%
<b>Total operating expenses</b>	<b>6,037,909</b>	<b>5,337,820</b>	<b>700,089</b>	<b>13.1%</b>
<b>Operating income</b>	<b>1,056,425</b>	<b>1,402,207</b>	<b>(345,782)</b>	<b>-24.7%</b>
Interest income	11,175	16,662	(5,487)	-32.9%
Miscellaneous	586,408	175,397	411,011	234.3%
Sewer service billing	122,385	120,693	1,692	1.4%
Interest expense	(614,276)	(659,815)	45,539	6.9%
Amortization of debt discount and expense	(17,082)	(17,082)	-	0
<b>Total net non-operating (expenses)/revenue</b>	<b>88,610</b>	<b>(364,145)</b>	<b>452,755</b>	<b>-124.3%</b>
<b>Contributed capital</b>	<b>237,721</b>	<b>124,383</b>	<b>113,338</b>	<b>91.1%</b>
<b>Change in net position</b>	<b>1,382,756</b>	<b>1,162,445</b>	<b>220,311</b>	<b>19.0%</b>
<b>Beginning net position</b>	<b>50,356,895</b>	<b>49,930,078</b>	<b>426,817</b>	<b>0.9%</b>
Prior Period Adjustment, See pension note	-	(735,628)	735,628	100.0%
<b>Beginning balance after adjustment</b>	<b>50,356,895</b>	<b>49,194,450</b>	<b>1,162,445</b>	
<b>Ending net position</b>	<b>\$ 51,739,651</b>	<b>\$ 50,356,895</b>	<b>\$ 1,382,756</b>	<b>2.7%</b>

Operating expenses increased in total by 13.1% or \$700,089. Significant expense changes from 2015 to 2016 are as follows:

- Power and Pumping expenses increased 6.4% or \$24,668 reflecting full staffing and contract work.
- Purification expenses increased 6.8% or \$56,545 reflecting full staffing and an increased cost of oversight. The new Director of Operations position is 50% funded from Purification and the prior Operations Director was not.

- Transmission expenses increased 7,099.0% or \$6,815 reflecting needed bi-annual maintenance. The dunes transmission line was maintained with contractual services for more efficient operations.
- Distribution expenses increased 25.7% or \$179,418 reflecting more operation and maintenance expenses. Crews were fully staffed and the new Director of Operations position is 50% funded from Distribution and the prior Operations Director was not.
- Administration and General expenses increased 38.9% or \$335,108 reflecting increased costs of hiring, legal and professional expenses, and GASB 68 recognition of pension expenses.
- Interest income decreased -32.9% or \$5,487 reflecting a reduced reserve balance and a very low rate of return on investments.
- Miscellaneous Income increased by 234.3% reflecting timber receipts received. Timber harvest occur every other year.

Noteworthy changes in assets, liabilities, and nonoperating income and expenses are as follows:

- New GASB 67 and 68, accounting for pensions and note disclosure, were implemented in 2016, please see the pension note for more information.

### **Capital Asset and Debt Administration**

#### *Capital Assets (Utility Plant in Service)*

The Water Board's investment in capital assets as of June 30, 2016 amounts to \$65.2 million (net of accumulated depreciation). This investment in capital assets includes land, structures, mains, services, meters, furniture & fixtures, and various other equipment for transportation, shop, lab, and communication. The total increase in the Water Board's investment in capital assets for the current fiscal year was \$1.6 million or 2.5%.

#### *Long Term Debt*

At the end of the 2016 fiscal year, the Water Board had total debt outstanding of \$16.3 million. All of the debt is held by the City of Coos Bay and the City of North Bend equally on behalf of the Water Board. The refunding obligation bonds of \$8.7 million were used to fund the Water Supply Expansion Project and revenue secured loans of \$0.2 million were used to fund The Bay Crossing Pipeline Project. The Pony Creek Treatment Plant Expansion project has incurred debt of \$10 million and as of June 30, 2016 the balance was \$8.7 million. The Water Board received an ODOT Reimbursement Loan for \$808,000 for the South Empire Blvd. Project in 2016. On the Statement of Net Position, \$1.1 million is due within the next 2017 fiscal year and is reported under current liabilities, with the remaining \$15.2 million being reported as long-term liabilities. Additional information on the Water Board's long-term debt can be found on page 22 of the report.

### **Economic Factors and Next Year's Budget and Finances**

The Water Board operates on a zero based budget. During the budgeting process the Water Board's first step is to identify all possible capital, operational and reserve expenditures. The next step is to analyze the sources of revenue. If the revenues do not cover all the expenditures, then expenditures are analyzed again to determine what, if anything, can be reduced or deleted altogether. The major source of our income (water sales/rates) is then analyzed and adjusted to meet all proposed expenditures. Before increasing rates for the 2016 fiscal year the Water Board built in a 0.25% growth factor for the residential, multi-residential, and commercial customer classes. For the 2016 fiscal year, rates were increased by 6.1% to provide additional revenue to cover budgeted expenditures.

## **Requests for Information**

The financial report is designed to provide a general overview of the Coos Bay-North Bend Water Board's finances. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the Finance Director, Coos Bay-North Bend Water Board; PO Box 539; Coos Bay, Oregon 97420.

**BASIC FINANCIAL STATEMENTS**

**COOS BAY-NORTH BEND WATER BOARD**  
**STATEMENT OF NET POSITION**  
June 30, 2016

**ASSETS**

	2016
Current assets:	
Cash and cash equivalents	\$ 4,122,927
Accounts receivable:	
Customer - net	346,048
Sewer service customers	314,689
Outside surcharges	47,399
Other	9,239
Prepaid expenses	22,363
Inventory	446,788
Clearing accounts	106,529
Other work in progress	116,708
	5,532,690
Noncurrent assets:	
Restricted cash:	
Customer water deposits	43,032
Customer project deposits	15,559
	58,591
Utility plant:	
Utility plant (net of accumulated depreciation)	63,846,245
Construction in progress	1,313,832
	65,160,077
Total assets	70,751,358
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amounts related to pensions	\$ 668,206

The notes to the basic financial statements are an integral part of this statement.

## LIABILITIES AND NET POSITION

	<u>2016</u>
Current liabilities (payable from current assets):	
Accounts payable	\$ 258,916
Accrued salaries, payroll taxes and insurance	157,715
Accrued interest on long-term debt	197,120
Accrued vacation	128,156
Accrued other expenses	19,495
Current portion of long-term liabilities	1,099,544
Due to cities of Coos Bay and North Bend:	
Sewer service collections	616,866
Sewer service receivables	314,689
Noncurrent liabilities (payable from restricted assets):	
Customer water deposits	43,032
Customer project deposits	15,559
Net pension liability	1,621,500
Long-term liabilities:	
Bonds and loans payable (net)	<u>15,207,321</u>
Total liabilities	<u>19,679,913</u>
Net position:	
Net investment in capital assets	48,853,212
Unrestricted	<u>2,886,439</u>
Total net position	<u><u>\$ 51,739,651</u></u>



**COOS BAY-NORTH BEND WATER BOARD**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the Fiscal Year Ended June 30, 2016**

	2016
Operating revenues:	
Water sales	\$ 6,938,179
Other	156,155
	7,094,334
Total operating revenues	
Operating expenses:	
Source of supply	176,411
Power and pumping	411,119
Purification	882,840
Transmission	6,911
Distribution	878,252
Customers' accounting and collecting	857,019
Administrative and general	1,196,672
Depreciation	1,628,685
	6,037,909
Total operating expenses	
Operating income	1,056,425
Non-operating revenues (expenses):	
Interest income	11,175
Miscellaneous income	586,408
Sewer service billing income	122,385
Interest expense	(614,276)
Amortization of debt discount and expense	(17,082)
	88,610
Total net non-operating revenues/(expenses)	
Income before capital contributions	1,145,035
Capital contributions	237,721
Change in net position	1,382,756
Net position, beginning of the year	50,356,895
Net position, end of the year	\$ 51,739,651

The notes to the basic financial statements are an integral part of this statement.

**COOS BAY-NORTH BEND WATER BOARD**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2016**

	2015
Cash flows from operating activities:	
Cash received from customers	\$ 7,084,075
Cash payments to employees	(2,558,816)
Cash payments to suppliers	(1,814,971)
	2,710,288
Cash flows from noncapital financing activities:	
Misc income	586,408
Sewer service billing income	122,385
	708,793
Cash flows from capital and related financing activities:	
Interest paid	(628,174)
Project deposits	(64,456)
Additions to plant and equipment	(3,300,252)
Disposition of equipment	(5,935)
Capital contributions (from outside parties)	237,721
Issuance of debt	808,000
Principal payments on long-term debt	(997,144)
	(3,950,240)
Cash flows from investing activities:	
Interest on investments	11,175
	(519,984)
Cash and cash equivalents, beginning of year (including restricted cash of \$115,689)	4,701,502
Cash and cash equivalents, end of year (including restricted cash of \$58,591)	\$ 4,181,518

**Reconciliation of operating income to net cash provided by operating activities**

Operating income	\$ 1,056,425
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,628,685
Depreciation allocated to materials and services	102,036
Pension expense related to GASB 68	165,866
Changes in assets and liabilities:	
Accounts receivable	(10,259)
Inventory	(49,958)
Prepaid expenses	(39,081)
Accounts payable	(156,561)
Accrued payroll and benefits	31,173
Compensated absences payable	(25,396)
Customer deposits	7,358
	7,358
Net cash provided by operating activities	\$ 2,710,288

The notes to the basic financial statements are an integral part of this statement.

**COOS BAY-NORTH BEND WATER BOARD**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity and Nature of Operations**

The Coos Bay-North Bend Water Board (Water Board) was established through City Charter provisions in 1947. At that time, the cities of Coos Bay and North Bend jointly purchased the water system from the Coos Bay Water Corporation (a private company which provided the public water system for the Coos Bay and North Bend area dating back to 1897). The creation and full control over the operation, maintenance, and extension of the water system is granted to the Coos Bay-North Bend Water Board by the charter of each city under the provision of ORS 225.050. The Water Board operates today as a municipal water provider with a four-member board of directors, two from each city as appointed by the Mayor, with 4-year terms each.

The Water Board serves approximately 13,000 customers both inside and outside the city limits of Coos Bay and North Bend. The Water Board relies on three different surface water reservoirs in the area holding over 2 billion gallons of water in total and maintains two water treatment plants as well.

The Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Water Board considered all potential component units in determining what organizations should be included in the financial statements. Based on the criteria discussed earlier, there are no component units to include in the Water Board's financial statements.

The accounting principles of the Coos Bay-North Bend Water Board conform to the accounting principles generally accepted in the United States of America as applicable to governmental units. The Water Board complies with accounting principles generally accepted in the United States of America and applies all relevant GASB pronouncements.

**B. Basis of Presentation**

The accounts of the Water Board are organized and operated on the basis of a single proprietary fund. The Water Board's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-type activities provided to the general public. These activities are financed primarily by water sales and the measurement of financial activity focuses on net income measurement similar to the private sector.

**C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

Proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in Net Position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as Net Position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Board's enterprise funds are water sales. Operating expenses for enterprise funds include depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. See Note IIIB for discussion of sewer service charges.

When both restricted and unrestricted resources are available, it is the Water Board's policy to use restricted resources first, then unrestricted resources as they are needed.

## **D. Assets, Liabilities, and Net Position**

### *1. Cash and Investments*

The Water Board is restricted by State of Oregon statutes in the types of investments that can be made. Statutes authorize the Water Board to invest in obligations of the U.S. Treasury, agencies, and instrumentalities of the U.S.; States of Oregon, Washington, Idaho and California; various interest bearing bonds of municipalities; commercial paper rated P-2 and better by Moody's Investors Services or A-2 and better by Standard and Poor's Corporation; bankers' acceptances; and the Oregon State Treasurer's Short-Term Government Investment Fund. Certain other investment types, which are not listed here, are also authorized.

Investments are valued at cost, which approximates fair value. No investments are recorded at amortized cost. Fair value is defined as the amount at which an investment could be exchanged between willing parties, other than in a forced or liquidation sale.

### *2. Cash Equivalents/Statement of Cash Flows*

For purposes of the statement of cash flows, cash and investments include short-term (original maturity of three months or less) highly liquid investments that are readily converted into known amounts of cash or so near maturity they present insignificant risk of changes in value as a result of changes in interest rates.

### *3. Accounts Receivable*

Water revenues are recorded when billed. Billings are rendered on twelve monthly cycles for water consumption utilized as of the read date. An allowance for doubtful accounts is reviewed periodically for adequacy and was \$73,984 at June 30, 2016. The sewer service customers receivable amount consists of pass through receipts. See Note IIIB. Outside surcharges are additional fees for customers outside the city's boundaries.

### *4. Inventories*

Inventory of materials is stated at average cost, which approximates market. The costs of inventories are recorded as expenses when consumed rather than when purchased.

### *5. Restricted Assets and Related Liabilities*

Assets, whose use is restricted to specific purposes and which include water deposits, customer project deposits, and other purposes, along with related liabilities are segregated on the Statement of Net Position.

6. *Clearing Accounts and Other Work in Progress*

These charges consist of preliminary costs for projects that may be capitalized in the future but are not yet capitalized. If the project is abandoned these costs will be expensed. Also included are costs for customer-funded projects.

7. *Utility Plant in Service*

All purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

Expenditures or major additions, improvements, and replacements are capitalized for amounts in excess of \$5000 with an initial useful life of more than one reporting period. The costs of normal maintenance and repairs incurred that do not add to the value of the asset or materially extend asset lives are charged to operations and not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed. Capital assets are depreciated using the straight-line method over their estimated useful lives.

Depreciation is computed using the straight-line method over the estimated useful lives of the various assets as follows:

Buildings	5 to 50 years
Land improvements	10 to 100 years
Furniture and fixtures	3 to 15 years
Machinery and equipment	3 to 15 years
Vehicles	6 to 20 years
Water utility system	10 to 75 years

8. *Compensated Absences*

Each regular employee is entitled to accumulate an unlimited amount of sick leave. Upon retirement from Water Board employment, as defined by the Water Board Retirement Program, the employee shall be paid for thirty percent (30%) of his/her accumulated sick leave at their regular rate if they have between 0 to 399 accumulated hours of sick leave, fifty percent (50%) for 400 to 799 accumulated hours of sick leave, and seventy percent (70%) for 800 to 1,200 accumulated hours of sick leave. For purposes of payment upon retirement, accumulated sick leave will be capped at 1,200 hours.

No amount has been determined or accrued for the potential liability of the Water Board pertaining to the payment of accumulated sick leave, as it is paid only to those employees who actually retire from Water Board service and is not considered a liability until that event occurs. However, \$28,397 of accumulated sick leave was estimated as of June 30, 2016, for employees 55 or over.

Currently employees earn vacation on a sliding scale based on continuous full-time years of service up to 180 hours per year, with the ability to carryover forty hours per employee to the next year. Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees.

9. *Long-term Obligations*

Since the Coos Bay-North Bend Water Board is a governmental entity that uses proprietary fund accounting, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position.

#### *10. Deferred Outflows/Inflows of Resources*

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Statement of Net Position reports deferred outflows of resources for the net difference between projected and actual earnings on investments related to net pension liability.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

#### *11. Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Retirement Income Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### *12. Capital Contributions*

Contributions from customers are comprised primarily of service installation fees, system development charges, and contributions by developers for meter and pipe installation.

#### *13. Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenses as of and for the year ended June 30, 2016. Accordingly, actual results may differ from such estimates.

#### *14. Proprietary Fund Net Position*

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the Water Board's financial statements. Net investment in capital assets consists of the historical cost of capital assets, net of accumulated depreciation, reduced by any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets. Debt related to unspent proceeds or other restricted cash and investments are excluded from the determination.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally this occurs when there are limitations imposed on their use either through enabling legislation adopted by the Water Board or through external restrictions by creditors, grantors, or law or regulations of other governments. There was no restricted net position at June 30, 2016.

Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

	2016
Net Investment in capital assets:	
Net capital assets	\$ 65,160,077
Less:	
Revenue secured loans	(9,662,066)
Revenue bonds	(6,790,000)
Unamortized debt reoffering premium	145,201
	<u>\$ 48,853,212</u>

#### 15. *New Accounting Pronouncements*

GASB Statement No. 72, Fair Value Measurement and Application. Issued February 2015, this statement establishes accounting and financial reporting standards for fair value measurements, the level of fair value hierarchy, and valuation techniques. GASB Statement No. 72 was effective for the Water Board as of fiscal year ending June 30, 2016.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Issued June 2015, this statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB Statement No. 76 was effective for the Water Board for the fiscal year ending June 30, 2016.

The Water Board anticipates no financial impact as a result of implementing these statements.

#### 16. *New Accounting Pronouncements Upcoming*

The Water Board will implement new GASB pronouncements in the fiscal year no later than the required effective date. Management has not yet determined the effect on the financial statements from implementing any of the following pronouncements.

GASB Statement No. 73 *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.”* The statement establishes accounting and financial reporting requirements related to pensions provided by governments that are not within the scope of GASB Statement No. 68, extending that approach to all pensions. The statement is effective for fiscal years beginning after June 15, 2016. Management does not expect this statement to have a financial impact on the Water Board.

GASB Statement No. 75 *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.”* The statement establishes accounting and financial reporting requirements related to other postemployment benefits (OPEB), replacing GASB Statements No. 45 and No. 57. The statement is effective for fiscal years beginning after June 15, 2017. Management has not yet determined the financial impact of this statement on the Water Board.

GASB Statement No. 77 *“Tax Abatement Disclosures.”* The statement establishes accounting and reporting guidance on tax abatement agreements for governments. The statement is effective for fiscal years beginning after December 15, 2015. Management does not expect this statement to have a financial impact on the Water Board.

## II. OTHER INFORMATION

### A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Under the provision of ORS 294.316 (7), the Water Board is exempt from Local Budget Law. However, the Water Board does follow many of the practices of entities that are subject to Local Budget Law, such as a budget committee, public hearing, media advertisements, and resolution adopting the budget by functional category.

## III. DETAILED NOTES

### A. Deposits and Investments

**Deposits.** The Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, requires governmental agencies to disclose an indication of the level of risk assumed by the entity at year-end. If bank deposits at year-end are not entirely insured or collateralized with securities held by the Water Board or by its agent in the Water Board's name, the Water Board must disclose the custodial credit risk that exists. Deposits with financial institutions are comprised of bank demand deposits. For deposits in excess of federal depository insurance, Oregon Revised Statutes now require that the financial institution participate in the Public Funds Collateralization Program. The Public Funds Collateralization Program is a multiple financial institution collateral pool administered by the Oregon State Treasurer's office.

For the fiscal year ended June 30, 2016, the carrying amounts of the Water Board's deposits in various financial institutions were \$1,963,604 and the bank balances were \$1,962,629. All deposits are held in the name of the Water Board in accounts that include demand deposit and money market accounts. Of the bank balances, \$750,000 was covered by federal depository insurance. The remaining \$1,212,629 was covered by the Public Funds Collateralization Program.

*Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Water Board does not have a formal deposit policy for custodial credit risk.

The Oregon State Treasurer is responsible for monitoring public funds held by bank depositories in excess of FDIC insured amounts, and for assuring that public funds on deposit are collateralized to the extent required by Oregon Revised Statutes (ORS) 295. ORS Chapter 295 requires depository banks to place and maintain on deposit with a third party custodian bank securities having a value of 10%, 25% or 110% of public funds on deposit depending primarily on the capitalization level of the depository bank. Deposits in the Public Funds Collateralization Pool are not 100% guaranteed.

**Investments.** State statutes authorize the Water Board to invest primarily in general obligations of the U. S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial papers and the State Treasurer's Investment Pool, among others.

At June 30, 2016, the Water Board had invested \$2,215,062 with the Oregon Short-Term Fund (OSTF), which is a cash and investment pool available for use by all state funds and local governments and is maintained by the State Treasurer. The Local Government Investment Pool (LGIP) is an unrated, open-ended, no-load diversified portfolio offered to eligible participants, including any municipality, political subdivision, or public corporation of the state. Currently, there are more than 1,500 participants in the Pool. Local government pooled assets are reported as an Investment Trust Fund in Oregon's Comprehensive Annual Financial Report. The Oregon Short-Term Fund Board, established by the Oregon Legislature, advises the Oregon Investment Council and the Oregon State Treasury in the management and investments of the LGIP.



*Credit Risk* – Credit risk for investments is the risk that, in the event of the failure of the counterparty, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State of Oregon LGIP is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the Pool's investment policies. The State Treasurer is the investment officer of the Pool and it is responsible for all funds in the Pool. These funds must be invested and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the fund are further governed by portfolio guidelines issued by the Oregon Short-Term Funds Board, which establish diversification percentages and specify the types and maturities of investments. The Water Board has no formal investment policy that further restricts its investment choices.

*Concentration of Credit Risks* - The Water Board is required to provide information about the concentration of credit risk associated with its investments in one issuer that represent 5 percent or more of the total investments, excluding investments in external investment pools or those issued and explicitly guaranteed by the U.S. Government. The Water Board has no such investments.

*Interest Rate Risk* - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Oregon Short-Term Fund Board manages this risk by limiting the maturity of the investments held by the fund. The Water Board's investment policy includes only those investments authorized by statute, but places no limits on the amount of each type in the investment portfolio. The Water Board does not have a formal investment policy that explicitly limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

Investments in the State Treasurer's investment pool are stated at fair value, which is essentially equal to cost at June 30, 2016. The fair value of investments is determined annually, and is based on current market prices. Investments with remaining maturities of up to ninety days are carried at amortized cost, which approximates fair value.

At fiscal year end, the carrying amounts of the Water Board's investments were as follows:

	<u>June 30, 2016</u>
Oregon State Treasury	
Local Government Investment Pool (LGIP)	<u>\$ 2,215,062</u>

Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* established accounting and financial reporting standards for investments held by governmental external investment pools, and established fair value standards for other governmental entities. GASB Statement No. 31 requires that governmental entities, including those such as the Water Board, report certain investments at fair value in the balance sheets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. This is reported under Non-operating Revenues (Expenses) on the Statement of Revenues, Expenses, and Changes in Net Position. The net increase (decrease) in the fair value of investments the year ended June 30, 2016 was zero. The amount takes into account all changes in fair value during the year.

In addition, the LGIP distributes investment income on an amortized cost basis and participants' equity in the pool is determined by the amount of participant deposit, adjusted for withdrawals and distributed income. Accordingly, the above adjustments to fair value do not represent an expendable decrease or increase in the Water Board's cash position.

Investments in Oregon State Treasury Local Government Investment Pool are made under the provisions of ORS 294.810. These funds are held in the Water Board's name and are not subject to the collateralization requirements of ORS 295.015.

A reconciliation of cash and cash equivalents as shown on the Statement of Net Position follows:

	<u>2016</u>
Petty cash	\$ 2,852
Carrying amount of deposits	1,963,604
Carrying amount of investments	<u>2,215,062</u>
Total cash and cash equivalents	<u>\$ 4,181,518</u>
Cash and cash equivalents:	
In unrestricted accounts	\$ 4,122,927
In restricted accounts (Note III C)	<u>58,591</u>
Total	<u>\$ 4,181,518</u>

**B. Related Party Transactions**

All sewer service charges are billed by the Water Board as an accommodation for the Cities of Coos Bay and North Bend, and collections thereon are remitted to the cities, less a handling fee, for providing these services. The Water Board received \$68,706 from Coos Bay and \$53,678 from North Bend for these sewer billing services for the year ending June 30, 2016. The North Bend monies included handling fees for storm sewer payments. Sewer fees collected by the Water Board and remitted to the City of Coos Bay, along with charges for sludge disposal and office use, were \$5,535,312, and to North Bend for sewer fees and storm sewer were \$2,159,918, totaling \$7,695,230 for the fiscal year ended June 30, 2016. The uncollected sewer service charges are offset by a like amount under current liabilities. The current liabilities also include the sewer charges collected but not yet remitted to the cities.

**C. Restricted Assets**

Restricted assets (and similar liabilities) pertain to customer water deposits on hand of \$43,032 at June 30, 2016, to eventually be refunded or applied to water sales.

The remaining restricted item as of June 30, 2016 pertains to \$15,559, of monies being received from customers for project deposits.

#### D. Utility Plant

The utility plant in service is summarized by major categories as follows:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 1,788,655	\$ 1,058,886	\$ (1,533,709)	\$ 1,313,832
<i>Capital assets being depreciated:</i>				
Intangible plant, franchises and consents	43,695	19,473	-	63,168
Source of supply plant	24,263,267	4,377	-	24,267,644
Power and pumping plant	2,753,993	41,334	-	2,795,327
Purification plant	21,895,347	109,415	-	22,004,762
Transmission plant	2,500,184	-	-	2,500,184
Distribution storage plant	3,146,877	85,585	-	3,232,462
Distribution plant	25,584,344	3,219,503	(38,235)	28,765,612
General plant	6,766,183	295,388	(32,353)	7,029,218
<b>Total capital assets being depreciated</b>	<b>86,953,890</b>	<b>3,775,075</b>	<b>(70,588)</b>	<b>90,658,377</b>
<i>Accumulated depreciation:</i>				
Intangible plant	(1,520)	(152)	-	(1,672)
Source of supply plant	(3,716,604)	(240,674)	-	(3,957,278)
Power and pumping plant	(1,496,364)	(84,019)	-	(1,580,383)
Purification plant	(4,927,598)	(600,695)	-	(5,528,293)
Transmission plant	(1,167,229)	(33,404)	-	(1,200,633)
Distribution storage plant	(1,544,744)	(42,004)	-	(1,586,748)
Distribution plant	(10,025,749)	(434,712)	30,533	(10,429,928)
General plant	(3,828,566)	(295,061)	32,353	(4,091,274)
Unallocated reserve	1,550,440	-	13,637	1,564,077
<b>Total accumulated depreciation</b>	<b>(25,157,934)</b>	<b>(1,730,721)</b>	<b>76,523</b>	<b>(26,812,132)</b>
<b>Total capital assets being depreciated (net)</b>	<b>61,795,956</b>	<b>2,044,354</b>	<b>5,935</b>	<b>63,846,245</b>
<b>Total utility plant</b>	<b>\$ 63,584,611</b>	<b>\$ 3,103,240</b>	<b>\$ (1,527,774)</b>	<b>\$ 65,160,077</b>

**E. Non-current Liabilities**

*1. Bonds and Loans Payable*

The Water Board, by resolution, is pledged to establish, maintain, and collect rates and charges for water service that will produce sufficient revenue, after deducting the expenses for operation and maintenance, to meet principal and interest payments when due. The Water Board makes payments on these obligations to the individual cities and the cities make the debt payments to the financing institutions.

The cities of Coos Bay and North Bend each borrowed \$5 million dollars on the Water Board's behalf to finance the Pony Creek water treatment plant expansion. Debt repayment began on December 1, 2013. Contract terms include interest at 3.4% over a 24-year time period. The bonds outstanding as of June 30, 2016 for each individual city are as follows:

<u>Fiscal Year</u>	<u>Issue of 2010</u>		
	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2016-2017	\$ 348,630	\$ 201,016	\$ 147,614
2017-2018	348,630	207,851	140,779
2018-2019	348,630	214,918	133,712
2019-2020	348,630	222,225	126,405
2020-2021	348,630	229,781	118,849
2021-2026	1,743,148	1,271,542	471,606
2026-2031	1,743,148	1,502,912	240,236
2031-2033	541,062	491,319	49,743
Total	<u>\$ 5,770,508</u>	<u>\$ 4,341,564</u>	<u>\$ 1,428,944</u>

**Advance refundings** – In 2006 the Cities of Coos Bay and North Bend, on behalf of the Water Board, issued \$11,290,000 of limited tax full faith and credit refunding obligation bonds, \$5,645,000 each city, to provide resources that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments on Revenue Bonds issued in 2000. This refunding reduced the total debt service payments over the years by \$866,502. This resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$749,048. The reacquisition price of the new debt exceeded the net carrying amount of the refunded debt by \$298,658. This amount is reported as an offset against the new debt and is amortized over the life of the refunded debt, which is the same as the debt issued. At June 30, 2016 there was \$145,201 remaining to be amortized.

<u>Fiscal Year</u>	<u>Issue of April 26, 2006</u>		
	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2016-2017	\$ 452,967	\$ 315,000	\$ 137,967
2017-2018	453,080	330,000	123,080
2018-2019	453,736	345,000	108,736
2019-2020	453,755	360,000	93,755
2020-2021	453,136	375,000	78,136
2021-2025	1,814,742	1,670,000	144,742
Total	<u>\$ 4,081,416</u>	<u>\$ 3,395,000</u>	<u>\$ 686,416</u>

Interest rates: Vary between 4.15% and 5.00%

**Revenue loans** – On June 13, 2005, the Water Board secured revenue loans with the State of Oregon, Business Development Department, in the amount of \$250,000, \$125,000 each City, for its portion of the Bay Crossing Project water line construction. This is a primary obligation of the Cities of Coos Bay and North Bend over 25 years at 4.97% annual interest.

The future requirements for amortization of this revenue secured debt, for each individual City, are as follows:

<u>Fiscal Year</u>	<u>Issue of June 13, 2005</u>		
	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2016-2017	\$ 8,620	\$ 4,372	\$ 4,248
2017-2018	8,620	4,590	4,030
2018-2019	8,620	4,818	3,802
2019-2020	8,620	5,057	3,563
2020-2021	8,620	5,308	3,312
2021-2026	43,100	30,771	12,329
2026-2030	34,438	30,553	3,885
Total	<u>\$ 120,638</u>	<u>\$ 85,469</u>	<u>\$ 35,169</u>

**Full faith and credit loans** – On March 31, 2016, the Water Board secured loans with the State of Oregon, Transportation Infrastructure Fund, in the amount of \$808,000, \$404,000 each City, to finance the South Empire Blvd. Project. This is a primary obligation of the Cities of Coos Bay and North Bend over 10 years at 1.34% annual interest.

The future requirements for amortization of this full faith and credit loan, for each individual City, are as follows:

<u>Fiscal Year</u>	<u>Issue of March 31, 2016</u>		
	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2016-2017	\$ 43,302	\$ 38,016	\$ 5,286
2017-2018	43,302	38,527	4,775
2018-2019	43,302	39,045	4,257
2019-2020	43,302	39,570	3,732
2020-2021	43,302	40,102	3,200
2021-2026	216,512	208,740	7,772
Total	<u>\$ 433,022</u>	<u>\$ 404,000</u>	<u>\$ 29,022</u>

2. *Changes in long-term liabilities.*

During the fiscal year ended June 30, 2016, the following changes occurred in long-term liabilities:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Amount due within one year
<u>City of Coos Bay</u>					
Issue 6/14/05	\$ 89,634	\$ -	\$ (4,165)	\$ 85,469	\$ 4,372
Issue 4/26/06 (refunding)	3,695,000	-	(300,000)	3,395,000	315,000
Issue 2010	4,535,971	-	(194,407)	4,341,564	201,016
Issue 3/31/16	-	404,000	-	404,000	38,016
<u>City of North Bend</u>					
Issue 6/14/05	89,634	-	(4,165)	85,469	4,372
Issue 4/26/06 (refunding)	3,695,000	-	(300,000)	3,395,000	315,000
Issue 2010	4,535,971	-	(194,407)	4,341,564	201,016
Issue 3/31/16	-	404,000	-	404,000	37,834
Total	16,641,210	808,000	(997,144)	16,452,066	1,116,626
Less unamortized discount	(162,283)	-	17,082	(145,201)	(17,082)
Total	<u>\$ 16,478,927</u>	<u>\$ 808,000</u>	<u>\$ (980,062)</u>	<u>\$ 16,306,865</u>	<u>\$ 1,099,544</u>

Additionally, the following changes took place in accrued compensation:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Amount due within one year
Accrued vacation	\$ 153,552	\$ 112,333	\$ (137,729)	\$ 128,156	\$ 128,156

**F. Operating Leases**

The Water Board leased land to four companies under operating leases for communication sites with future minimum rent payment obligations. Lessees are also obligated to pay real property taxes assessed on the respective sites.

1. *High Level Reservoir Site A - Pacificorp*

The original date of this lease was December 18, 2001, and has since been renewed with the same terms. The current lease is for five years ending December 20, 2016 and required an annual lease payment of \$4,054 for the fiscal year ending 6/30/2016. It is adjusted annually for consumer price index variations. The lessee is also obligated to pay half of the real property taxes assessed (sharing costs with High Level Reservoir Site B, below). Annual payments on this lease are payable to the Water Board on December 21st.

2. *High Level Reservoir Site B – Charter Communications*

The original date of this lease was May 25, 2001, and has since been renewed with the same terms. This lease is for five years ending February 28, 2017 and required an annual lease payment of \$10,928 for the fiscal year ending 6/30/16. Lease payments are adjusted annually for consumer price index variations. The lessee is also obligated to pay half of the real property taxes assessed (sharing costs with High Level Reservoir Site A, above). Annual payments on this lease are payable to the Water Board on March 1st. The lease contains a five year renewal option with the same terms and conditions. The Water Board expects the lease to be renewed.

3. *Charleston Site – AT&T (formerly Edge Wireless, LLC)*

The original date of this lease was September 1, 2002 and was last renewed August 23, 2007. This lease ending August 31, 2012 has not been officially renewed, but continues on a year-to-year basis under the same terms. The terms are expected to continue to require an annual lease payment adjusted annually for consumer price index variations. The lessee is also obligated to pay the real property taxes assessed. Annual payments on this lease are payable to the Water Board on September 1st. Annual lease payment for fiscal year ending 6/30/16 was \$10,810.

4. *Easement Agreement - ORCA Communications*

The original date of this lease was July 23, 2014 and can be renewed for five years. The contract is \$1,000 per year. ORCA has paid the contract in full.

The following is a schedule as of June 30, 2016, of projected future rentals (based on a 1.1% Consumer Price Index increase) on non-cancelable operating leases, with remaining terms in excess of one year, by fiscal year.

<u>June 30th</u>	
2017	<u>\$ 15,166</u>

**G. Timber Management Plan**

The Pony Creek watershed, consisting of about 2,855 land and reservoir acres, is divided between the City of Coos Bay, which individually controls approximately 37% of the area, and the Water Board, which manages the remaining 63%. By agreement between the City and the Water Board, the general management of the entire area is assigned to the Water Board. The logging, clearing, and planting of the area is to be accomplished over a period of years by management units. Net revenues from log sales from certain management units are divided between the City of Coos Bay and the Water Board, based on a percentage of controlled land by each agency within the logged units. The Water Board's share of the net gain or loss is determined and reported on an annual basis.

## H. Pension – Defined Benefit Plan

### General information about the Plan

#### *Plan Description*

The Water Board manages a Retirement Income Plan (Plan) for its employees. The Plan's funds are held by Alliance Capital and AXA Equitable. This plan is a single employer retirement income defined benefit plan, covers all eligible employees and does not issue a stand-alone financial report. The Water Board determines which benefit provisions are established and may be amended. The covered payroll for employees in the plan for the years ended June 30, 2016 was \$1,311,857; the Water Board's total payroll was \$2,049,857. Effective January 1, 2011 the plan was frozen to new entrants. Eligible employees are those hired before December 31, 2010 who have completed six months of continuous employment.

The Retirement Income Plan for employees of the Water Board's most recent Actuarial Valuation was prepared as of July 1, 2015 by Milliman USA, and the report may be obtained by contacting the Water Board. The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The valuation method used for the Water Board's plan is the Entry Age Normal Actuarial Cost Method. At the July 1, 2015 valuation date there were a total of 73 plan participants including 25 active, 10 vested terminated and 38 retired plan members.

#### *Plan Benefits*

Pension Benefits – Normal retirement amount is based on a formula upon attainment of age 65. Benefits are normally in the form of Modified Cash Refund Life Annuity payable from the Normal Retirement Date.

Early Retirement Benefits - Available based on a formula which may be less than full retirement, depending on age at retirement and the number of years of service.

Disability Benefit – Available upon completion of ten years of service and total and permanent disability.

Severance Benefit – Employees who have completed five years of coverage may elect a return of employee contributions with interest, or a monthly retirement based on the formula. Employees who have not completed five years of service, or attained the age of 55 as of termination of employment will receive their employee contributions with interest in a lump sum payment.

Preretirement death benefit – If a person who is eligible for early retirement dies while employed, his spouse will receive monthly payments equal to 50% of the benefit which would have been payable had the participant retired on the date of death.



Cost of living adjustments – Member's benefits will be recalculated annually after retirement by use of a factor based on the annual increase or decrease in the Portland, Oregon Consumer Price Index, subject to a maximum annual increase of 2%. In no event will the monthly benefit be decreased below the benefit determined at retirement.

#### *Contributions*

The rate of employer contribution is based upon the actuarial valuations. The required employer contribution rate for 2015-16 was 13.34% of annual covered payroll plus an additional monthly amount of \$14,429 which represents 15-year amortization of the unfunded actuarial accrued liability. The actual employer contribution rate for 2015-16 averaged 25.07%. No employee contributions have been made since 1975. Total contributions were \$330,073 for 2015-16.

#### Net Pension Liability

The Coos Bay-North Bend Water Board's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of June 30, 2016, using an actuarial valuation as of July 1, 2015. The total pension liability is determined using the entry age normal actuarial cost allocation method. GASB 67 and 68 require that the allocation of costs for accounting purposes be made as a level percentage of employees' projected pay, including future anticipated pay increases. The fiduciary net position as of June 30, 2016 is equal to the market value of assets at that date.

#### Actuarial Methods and Assumptions

##### *Discount rate*

The discount rate is a single rate that reflects the long-term expected rate of return on the market value of assets to the extent those assets plus future contributions in excess of the normal costs are sufficient to pay projected benefits, and a 20 year tax-exempt, high quality general obligation municipal bond yield or index rate to the extent that assets and future contributions are not sufficient. Because the Plan is projected to be solvent, the discount rate for purposes of calculating liabilities is equal to the expected long-term expected rate of return on plan assets at the measurement date. At June 30, 2016, the discount rate was 6.5%, the same as the prior year. Contributions are assumed to be at the actuarially determined amounts.

##### *Actuarial Assumptions*

Economic assumptions were based on a review of Plan experience, the forecasts of investment consultants, and professional judgment.

Demographic assumptions were based upon review of plan experience and published tables/data, and the actuary's professional judgment regarding future outlook. Certain assumptions (such as pre-retirement mortality) were deemed insignificant to the measurement and therefore not applied.

Changes in actuarial methods and assumptions – The investment earnings assumption was reduced from 7% used in 2014 and prior to 6.5% in 2015 and 2016 to better reflect anticipated future experience. The new assumption was selected based on the median returns projected over a 30-year period using the capital markets assumptions of 12 investment consultants applied to the Plan's target asset allocation by asset class. In general, return expectations have been decreasing due to historically low bond yields, low inflation, and other factors.

The Post-Retirement Mortality assumption was updated in 2015 from the RP-2000 Combined table projected to 2020 to the RP-2000 Combined table projected to 2030 to better reflect expected future mortality improvements.

Actuarial methods and assumptions used in developing total pension liability are as follows:

Investment Earnings:	6.5% (net of expenses)	
Salary Increases:	4.0%	
Post-retirement Cost-of-Living Increases:	2.0%	
Termination from Employment:	<u>Years of Service</u>	<u>Rate of Termination</u>
	Less than 5	4.5%
	5 - 9	3.0%
	10 - 14	1.5%
	More than 15	0.0%
Retirement	65% at Normal Retirement Age, and 35% at First age at which the Rule of 85 applies	
Unused Vacation Pay:	Each member was assumed to accrue unused vacation pay of 220 hours at retirement.	
Target Amortization Period:	15 years	closed
Post-Retirement Mortality:	RP 2000 Combined Healthy Mortality Table Projected to 2030 by Projections Scale AA	

Assumed Asset Allocation:

Asset Class/Strategy	Target
US Cash	1.0 %
US Core Fixed Income	43.0 %
US Large Caps	11.2 %
US Large Value	16.8 %
US Growth	16.8 %
US MidCap Growth	<u>11.2 %</u>
Total	100.0 %

#### Long-Term Expected Rate of Return:

Asset Class	Compound Annual Return (Geometric)
Growth & Income	8.6 %
Mid Cap Growth	7.00 %
Growth stock	10.70 %
Equitrak equity index	7.80 %
Strategic Bond	1.80 %
Short term liquidity	0.00 %
Russell 1000 Value	4.10 %
Russell Midcap Growth Index	9.50 %
Russell 1000 Growth	10.60 %
S & P 500 Total Retrun Index	7.40 %
Barclays US Aggregate Index	1.90 %
Target rate of return	7.50 %

#### *Entry Age Normal Actuarial Cost Method*

A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The portion of the Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

Under this method the excess (deficit) of the Actuarial Accrued Liability over (under) the Actuarial Value of Assets is the Unfunded Actuarial Accrued Liability (Surplus). Also under this method the Actuarial Gains (Losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

This method produces a recommended contribution equal to the Normal Cost plus an amortization of the Unfunded Actuarial Accrued Liability expressed as a level dollar amount.

#### Valuation of Assets

For this valuation, assets were based on the market value of associated investment accounts with Alliance Capital and AXA Equitable.

The following table presents the changes in Net Pension liability from June 30, 2015 to June 30, 2016:

Changes in Net Pension Liability  
June 30, 2015 to June 30, 2016

	Increase (Decrease) Plan		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of June 30, 2015	\$ 8,293,490	\$ 6,915,514	\$ 1,377,976
Changes for the year:			
Service cost	188,672	-	188,672
Interest on total pension liability	533,529	-	533,529
Effect of plan changes	-	-	-
Effect of economic/demographic (gains) or losses	-	-	-
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(359,388)	(359,388)	-
Administrative expenses	-	-	-
Member contributions	-	-	-
Net investment income	-	149,820	(149,820)
Employer contributions	-	328,857	(328,857)
Balances as of June 30, 2016	<u>\$ 8,656,303</u>	<u>\$ 7,034,803</u>	<u>\$ 1,621,500</u>

The following presents the net pension liability of the Plan, calculated using the discount rate of 6.5%, as well as what the Plan's net pension liability would be if it were calculated using discount rate that is one percent lower (5.5%) or one percent higher (7.5%) than the current rate:

Sensitivity Analysis

	1% Decrease 5.50%	Current Discount rate 6.50%	1% Increase 7.50%
Total pension liability	\$ 9,736,969	\$ 8,656,303	\$ 7,743,477
Fiduciary net position	(7,034,803)	(7,034,803)	(7,034,803)
Net pension liability	<u>\$ 2,702,166</u>	<u>\$ 1,621,500</u>	<u>\$ 708,674</u>

As of June 30, 2016, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 967	\$ -
Changes in assumptions	354,249	-
Net difference between projected and actual earnings on investments	312,990	-
Total	<u>\$ 668,206</u>	<u>\$ -</u>

Amounts currently reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2017	\$ 221,038
2018	221,038
2019	166,390
2020	59,740
Thereafter	<u>-</u>
	<u>\$ 668,206</u>

#### I. Pension – Defined Contribution Plan

For employees hired or rehired on or after January 2011, the Water Board has established a voluntary 401(a) defined contribution retirement plan in lieu of the existing retirement plan described above. The plan is administered by Nationwide Insurance Company. The Water Board has the authority to amend the plan and has negotiated the current contribution rate with the employee union. The current contract requires the Water Board to contribute at the same rate per annum as the employee contributes to the 457(b) plan for that year, but no less than 9% and no more than 13% of the employee's annual regular salary for payroll periods ending in that year. For this purpose, annual regular salary does not include lump sum payments for unused leave. Employees become eligible under this plan on or after the employee's seventh month of employment with the Water Board. Employees are required to be employed for 48 continuous months after the date of the employee's hire or rehire before the employee is fully vested in the plan. For the fiscal year ended June 30, 2016, the Water Board contributed \$38,372 to the plan and employees contributed \$46,336.

In conjunction with the 401(a) plan, the Water Board has established a 457(b) retirement plan. Employees may contribute any amount they choose to this plan, not to exceed the annual limit under the Federal Law.

#### J. Risk Management

The Water Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Water Board purchases and carries commercial insurance subject to customary deductibles and total coverage limits recommended by the Water Board's insurance agent of record. Workers compensation insurance is purchased from a commercial carrier. Premiums are determined based on payroll paid at various employment classification rates. Loss prevention services are available from the carrier and the Water Board has no potential liability beyond the premiums paid.

Insurance coverage for the years ended June 30, 2016 was the same or greater than in prior years. No losses were incurred during the past three years which were greater than the Water Board's coverage.

**K. Other**

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* was effective for the Water Board in fiscal year 2009-10. Management has determined that the Water Board has no liability under GASB 45

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**COOS BAY-NORTH BEND WATER BOARD**  
**Schedule of Changes in Total Pension Liability, Fiduciary Net Position and Related Ratios**  
**For the Fiscal Year Ended June 30, 2016**

Fiscal Year Ending	Total pension liability (a)	Fiduciary net position (b)	Net pension liability (a) - (b)	Fiduciary net position as a % of total pension liability (b / a)	Covered payroll	Net pension liability as a % of covered payroll
6/30/2016	\$ 8,656,303	\$ 7,034,803	\$ 1,621,500	81.27%	\$ 1,311,857	123.60%
6/30/2015	\$ 8,293,490	\$ 6,915,514	\$ 1,377,976	83.38%	\$ 1,449,465	95.07%
6/30/2014	\$ 7,295,864	\$ 6,560,236	\$ 735,628	89.92%	\$ 1,491,215	49.33%



**COOS BAY-NORTH BEND WATER BOARD**  
**Schedule of Employer Contributions**  
**For the Fiscal Year Ended June 30, 2016**

<u>Fiscal Year Ended</u>	<u>Actuarially determined contribution</u>	<u>Actual employer contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contribution as a % of covered payroll</u>	<u>Valuation date</u>	<u>Investment Rate of Return Assumption</u>
6/30/16	\$ 299,141	\$ 328,857	\$ (29,716)	\$ 1,311,857	25.07%	7/1/2013	7.00%
6/30/15	\$ 315,282	\$ 339,371	\$ (24,089)	\$ 1,449,465	23.41%	7/1/2013	7.00%
6/30/14	\$ 344,489	\$ 343,999	\$ 490	\$ 1,491,215	23.07%	7/1/2011	7.00%
6/30/13	\$ 351,329	\$ 351,206	\$ 123	\$ 1,550,750	22.65%	7/1/2011	7.00%
6/30/12	\$ 357,389	\$ 357,233	\$ 156	\$ 1,567,498	22.79%	7/1/2009	7.50%
6/30/11	\$ 372,104	\$ 370,383	\$ 1,721	\$ 1,632,034	22.69%	7/1/2009	7.50%
6/30/10	\$ 216,900	\$ 244,513	\$ (27,613)	\$ 1,506,248	16.23%	7/1/2007	7.50%
6/30/09	\$ 221,762	\$ 237,875	\$ (16,113)	\$ 1,540,017	15.45%	7/1/2007	7.50%
6/30/08	\$ 221,060	\$ 220,491	\$ 569	\$ 1,426,195	15.46%	7/1/2005	7.50%
6/30/07	\$ 212,223	\$ 220,114	\$ (7,891)	\$ 1,369,181	16.08%	7/1/2005	7.50%

**COOS BAY-NORTH BEND WATER BOARD**  
**Schedule of Changes in Total Pension Liability, Fiduciary Net Position and Related Ratios**  
**For the Fiscal Year Ended June 30, 2016**

**Notes to Schedule**

Valuation date	Actuarially determined contribution calculated as of July 1 the year prior to the fiscal year in which contributions are reported
Methods and assumptions used to determine contribution rates	
Actuarial Cost Method	Individual Entry Age Normal with Normal Cost Expressed as a Level Percentage of Payroll
Amortization Method	Effective 7/1/2011: Closed 15-year amortization, level dollar Effective 7/1/2005: Open 15-year amortization, level percentage of payroll Prior to 7/1/2005: Open 20-year amortization, level percentage of payroll
Asset Valuation Method	Market value
Healthy Mortality	Effective 7/1/2011: RP-2000 Combined Healthy Mortality projected to 2020 using Scale AA Prior to 7/1/2011: UP-1994 projected to 2012 using Scale AA
Inflation	Effective 7/1/2005: 3.00% Prior to 7/1/2005: 4.5%
Future Salary Increases	Effective 7/1/2005: 4.00% Prior to 7/1/2005: 4.5%

**SUPPLEMENTARY INFORMATION**

**COOS BAY-NORTH BEND WATER BOARD**  
**SCHEDULE OF OPERATING REVENUES - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Water sales:			
Residential	\$ 4,166,300	\$ 4,201,798	\$ 35,498
Commercial	1,522,500	1,566,310	43,810
Industrial	746,000	657,858	(88,142)
Private fire protection - commercial	34,200	35,247	1,047
Public authorities - metered	431,200	432,562	1,362
Public authorities - hydrants	32,900	33,143	243
Other water sales	11,300	11,261	(39)
Total water sales	<u>6,944,400</u>	<u>6,938,179</u>	<u>(6,221)</u>
Other operating revenues:			
Rent from water property	25,700	26,420	720
Servicing customer's installations	4,500	7,453	2,953
Miscellaneous water revenue	115,200	122,282	7,082
Total other operating revenue	<u>145,400</u>	<u>156,155</u>	<u>10,755</u>
Total operating revenues	<u><u>\$ 7,089,800</u></u>	<u><u>\$ 7,094,334</u></u>	<u><u>\$ 4,534</u></u>

See auditor's report.

**COOS BAY-NORTH BEND WATER BOARD**  
**SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Expenses:			
Source of supply:			
Operating:			
Labor	\$ 47,700	26,441	\$ 21,259
Supplies and expenses	81,900	93,993	(12,093)
Maintenance:			
Labor	44,300	25,442	18,858
Supplies and expenses	38,600	30,535	8,065
Total source of supply	<u>212,500</u>	<u>176,411</u>	<u>36,089</u>
Power and pumping:			
Operating:			
Labor	48,000	26,339	21,661
Supplies and expenses	18,600	15,334	3,266
Power purchase	324,900	291,860	33,040
Maintenance:			
Labor	37,600	44,825	(7,225)
Supplies and expenses	41,600	32,761	8,839
Total power and pumping	<u>470,700</u>	<u>411,119</u>	<u>59,581</u>
Purification:			
Operating:			
Labor	433,500	392,673	40,827
Supplies and expenses	446,800	372,350	74,450
Maintenance:			
Labor	68,500	52,919	15,581
Supplies and expenses	16,200	64,898	(48,698)
Total purification	<u>965,000</u>	<u>882,840</u>	<u>82,160</u>
Transmission:			
Operating:			
Labor	800	-	800
Supplies and expenses	200	-	200
Maintenance:			
Labor	1,200	1,929	(729)
Supplies and expenses	900	4,982	(4,082)
Total transmission	<u>\$ 3,100</u>	<u>\$ 6,911</u>	<u>\$ (3,811)</u>

See auditor's report.

**COOS BAY-NORTH BEND WATER BOARD**  
**SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL (continued)**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Distribution:			
Operating:			
Storage:			
Labor	\$ 47,000	\$ 21,854	\$ 25,146
Supplies and expenses	9,600	8,873	727
Mains:			
Labor	184,000	255,504	(71,504)
Supplies and expenses	20,100	61,240	(41,140)
Meters:			
Labor	79,800	62,760	17,040
Supplies and expenses	35,700	14,743	20,957
Services:			
Labor	89,600	66,701	22,899
Supplies and expenses	6,500	9,701	(3,201)
Maintenance:			
Storage:			
Labor	69,100	48,958	20,142
Supplies and expenses	39,100	45,252	(6,152)
Mains:			
Labor	130,800	90,606	40,194
Supplies and expenses	63,800	61,382	2,418
Meters:			
Labor	42,200	19,535	22,665
Supplies and expenses	14,600	8,942	5,658
Services:			
Labor	43,100	62,207	(19,107)
Supplies and expenses	34,600	39,994	(5,394)
Total distribution	<u>\$ 909,600</u>	<u>\$ 878,252</u>	<u>\$ 31,348</u>

See auditor's report.

**COOS BAY-NORTH BEND WATER BOARD**  
**SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL (continued)**  
**For the Fiscal Year Ended June 30, 2016**

	Budget	Actual	Variance
Customers' accounting and collecting:			
Operating:			
Meter reading:			
Labor	\$ 243,500	\$ 240,099	\$ 3,401
Supplies and expenses	21,200	26,977	(5,777)
Collecting:			
Labor	398,200	380,763	17,437
Supplies and expenses	26,500	34,432	(7,932)
Billing:			
Labor	86,800	92,901	(6,101)
Supplies and expenses	65,600	63,373	2,227
Uncollectible accounts	48,000	18,474	29,526
 Total customers' accounting and collecting	 889,800	 857,019	 32,781
 Administrative and general:			
Operating:			
Salaries of administrative officers	190,000	234,404	(44,404)
Other general office salaries	372,100	428,804	(56,704)
General office supply and expense	103,800	137,769	(33,969)
Special services-audit	16,400	16,395	5
Legal services	49,600	71,115	(21,515)
Insurance - liability and property	47,600	49,399	(1,799)
Miscellaneous general expense	12,000	23,672	(11,672)
General property tax	-	627	(627)
Employer pension	-	165,866	(165,866)
Maintenance:			
Labor	30,900	33,803	(2,903)
Supplies and expenses	30,400	34,818	(4,418)
 Total administrative and general	 852,800	 1,196,672	 (343,872)
 Depreciation	 1,691,100	 1,628,685	 62,415
 Total operating expenses	 \$ 5,994,600	 \$ 6,037,909	 \$ (43,309)

See auditor's report.

**COOS BAY-NORTH BEND WATER BOARD**  
**SCHEDULE OF NON-OPERATING REVENUES (EXPENSES) - BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2016**

	Budget	Actual	Variance
Non-operating revenues (expenses):			
Interest income	\$ 21,500	\$ 11,175	\$ (10,325)
Miscellaneous income	222,500	586,408	363,908
Sewer service billing income	122,400	122,385	(15)
Interest expense	(627,200)	(614,276)	12,924
Amortization of debt refunding deferral	(17,100)	(17,082)	18
	(277,900)	88,610	366,510
Total non-operating revenues (expenses)			
Net Income	\$ 817,300	1,145,035	\$ 327,735

**Adjustments to excess of revenues over expenses  
to reconcile to changes in Net Position on a GAAP basis:**

Capital contributions received:		
Tap charges		43,091
System development charges		159,565
Contributions in aid of construction		35,065
		237,721
<b>Change in Net Position</b>		<b>\$ 1,382,756</b>

See auditor's report.



**ACCOMPANYING INFORMATION**



**INDEPENDENT AUDITORS REPORT  
REQUIRED BY OREGON STATE REGULATIONS**

November 2, 2016

To the Board of Directors of Coos Bay-North Bend Water Board:

We have audited the basic financial statements of the Coos Bay-North Bend Water Board as of and for the year ended June 30, 2016 and have issued our report thereon dated November 2, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Oregon Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

**Compliance**

As part of obtaining reasonable assurance about whether the Coos Bay-North Bend Water Board's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 to 162-10-320, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures, which included, but were not limited to the following:

The use of approved depositories to secure the deposit of public funds (ORS Chapter 295).

The requirements relating to debt.

The requirements relating to the preparation, adoption and execution of annual budgets (ORS Chapter 294). However, the Water Board is exempt from Oregon Budget Law under ORS 294.316.

The requirements relating to insurance and fidelity bond coverage.

The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.

The statutory requirements pertaining to the investment of public funds (ORS Chapter 294).

The requirements pertaining to the awarding of public contracts and the construction of public improvements (ORS Chapters 279A, 279B, 279C).

In connection with our testing nothing came to our attention that caused us to believe that the Coos Bay-North Bend Water Board was not in substantial compliance with certain provisions of laws, regulations, contract and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Oregon Secretary of State.

## OAR 162-10-230 Internal Control

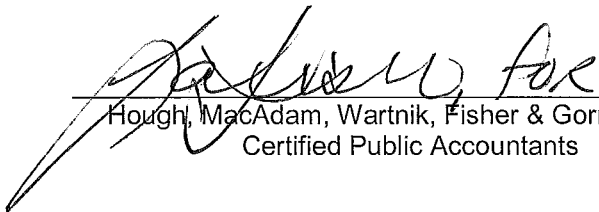
In planning and performing our audit, we considered the Coos Bay-North Bend Water Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Coos Bay-North Bend Water Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Coos Bay-North Bend Water Board's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Purpose of this Report

This report is intended solely for the information and use of the Board of Directors and management of the Coos Bay-North Bend Water Board and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



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Hough, MacAdam, Wartnik, Fisher & Gorman, LLC  
Certified Public Accountants



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

November 2, 2016

To the Board of Directors of Coos Bay-North Bend Water Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Coos Bay-North Bend Water Board as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Water Board's basic financial statements, and have issued our report thereon dated November 2, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Coos Bay-North Bend Water Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Coos Bay-North Bend Water Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Water Board's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

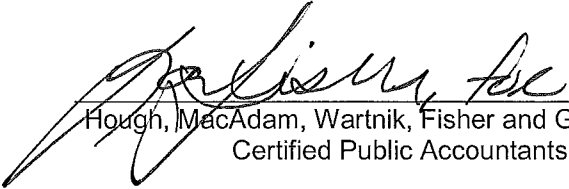
Our consideration of internal control was for the limited purpose described in the first paragraph of this section, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Coos Bay-North Bend Water Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Coos Bay-North Bend Water Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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Hough, MacAdam, Wartnik, Fisher and Gorman, LLC  
Certified Public Accountants