

# **NESKOWIN REGIONAL WATER DISTRICT**

## **AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION**

*Neskowin, Oregon  
June 30, 2016*

**PATRICK G. CARNEY, CPA, P.C.**  
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**NESKOWIN REGIONAL WATER DISTRICT  
BOARD OF COMMISSIONERS**

*June 30, 2016*

Jean Cameron  
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Neskowin, Oregon 97149

President

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P.O. Box 1014  
Neskowin, Oregon 97149

Secretary

Alan Gits  
P.O. Box 433  
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Treasurer

Vicki Poole  
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Commissioner

Dan Sheridan  
P.O. Box 421  
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Commissioner

Registered Agent: Jean Cameron

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## CONTENTS

<b>A. Independent Auditor's Report</b>	<b>3</b>
<b>B. Management's Discussion And Analysis</b>	<b>5</b>
<b>C. Basic Financial Statements</b>	
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Fund Net Position	11
Statement of Cash Flows	12
Notes to Financial Statements	13
<b>D. Supplementary Information</b>	
Schedule of Receipts, Cash Expenditures and Changes in Fund Balances - Budget and Actual - General Fund - Cash Basis	26
Schedule of Cash Expenditures - Budget and Actual - General Fund - Cash Basis	27
Schedule of Receipts, Cash Expenditures and Changes in Fund Balances - Budget and Actual - Debt Service Fund - Cash Basis	28
Schedule of Receipts, Cash Expenditures and Changes in Fund Balances - Budget and Actual - System Development Fund - Cash Basis	29
Schedule of Receipts, Cash Expenditures and Changes in Fund Balances - Budget and Actual - Capital Improvement Fund - Cash Basis	30
Schedule of Receipts, Cash Expenditures and Changes in Fund Balances - Budget and Actual - Truck and Equipment Fund - Cash Basis	31
Schedule of Property Tax Transactions	32
Schedule of Long-Term Debt	33
<b>E. Independent Auditor's Report Required by Oregon State Regulations</b>	<b>34</b>

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners  
Neskowin Regional Water District  
Tillamook County, Oregon

I have audited the accompanying basic financial statements of the Neskowin Regional Water District (the District), Neskowin, Oregon (the District), which comprise the statements of net position as of June 30, 2016, and the related statement of revenue, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

**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**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of the Neskowin Regional Water District as of June 30, 2016 and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally

accepted in the United States of America.

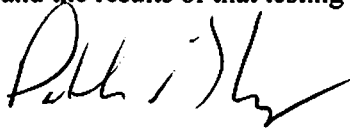
**Other Matter**

Accounting principles generally accepted in the United States of America require that the management discussion 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. I have applied certain limited procedures to the required supplementary 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The supplementary information (budgetary comparison information, schedule of property tax transactions and schedule of long-term debt) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 my opinion, supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, I have issued my report dated January 2, 2017, on my consideration of the District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of my testing of compliance and the results of that testing and not to provide an opinion on compliance.



Lake Oswego, Oregon  
January 2, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis presents the highlights of financial activities and financial position for the Neskowin Regional Water District (District). The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the District.

Management's Discussion and Analysis focuses on current year activities and resulting changes. Please read it in conjunction with the District's financial statements.

### **REPORT LAYOUT**

The District's annual financial report consists of several sections. Taken together they provide a comprehensive financial look at the District. The components of the report include the following:

- \* **Management's Discussion and Analysis.** This section of the report provides financial highlights effecting the District.
- \* **Basic Financial Statements** The District's basic financial statements are comprised of four components; 1) Statement of Net Position, 2) Statement of Revenue, Expenses and Changes in Net Position, 3) Statement of Cash Flows and 4) Notes to Basic Financial Statements.

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

The Statement of Revenue, Expenses and Changes in Net Position present information showing profitability and credit worthiness as well as how the District's net assets changed during the most recent fiscal year. This statement shows income and expenses from operations, nonoperating revenues and expenses, and reconciles the change from one fiscal year to the next. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

The Statement of Cash Flows is prepared using the direct method and is concerned solely with input and outlay of cash from operating 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 District'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.

The Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

## **FINANCIAL INFORMATION**

The Neskowin Regional Water District (NRWD) is a municipal water district that was formed in 1976. The District is identified by the Oregon Health Authority's Drinking Water Program's public water system inventory as Public Water System #OR4100970. The District's infrastructure consists of a 380 gallon per minute membrane water treatment plant, approximately nineteen miles of distribution piping, eight pressure zones, five booster pump stations, four chlorine booster stations and six storage reservoirs (total storage of 1,140,000 gallons).

This discussion and analysis presents the highlights of the financial activities and financial position for the five funds that make up the District's budget.

### **1. General Fund**

Revenue for this fund comes from water billings, permanent tax rate revenue, interest, meter installation, and miscellaneous sources. In 2015/16 General Fund revenue was \$458,758, up from \$408,486 in 2014/15. Water sales were \$399,849, up from \$348,029 in 2014/15. Permanent tax rate revenue was \$50,310, down from \$53,140 in 2014/15. Interest revenue was \$5,411, up from \$4,186 in 2014/15 due to a higher balance in the District's savings account (LGIP) and a higher earned interest rate. Service installation was \$786, up from \$488 in 2014/15. Miscellaneous revenue was \$2,402, down from \$2,651 in 2014/15. The General Fund beginning fund balance was \$66,813, down from \$74,377 in 2014/15. Total expenditures for the General Fund were \$403,449, up from \$396,449 in 2014/15. Personal Services expenditures were \$295,857, up from \$290,361 in 2014/15. Materials and Services expenditures were \$107,591, up from \$100,339 in 2014/15. Transfers to the Truck and Equipment Fund were \$19,200, the same as in 2014/15. The 2015/16 General Fund ending fund balance was an estimated \$102,923, up from \$66,813 in 2014/15.

**Discussion:** The General Fund ended 2015/16 in excellent condition. In 2015/16 General Fund revenue increased mostly due to an increase in water sales. The District raised the minimum water rate from \$28.50 to \$33.00 beginning on July 1, 2015. This increase has allowed the District to put a larger percentage of the permanent tax rate income into the Capital Improvement Fund, and also increase revenue for the General Fund. Expenditures were up, due to an increase in expenses in Personal Services and Materials & Services. The General Fund is in good shape going forward, but the District will have to closely monitor our revenue versus spending.

### **2. Debt Service Fund**

This fund is used exclusively for the payment of interest and principal on the bonded debt incurred by the District. Property taxes are the only source of Debt Service revenue. Total Debt Service Fund revenue in 2015/16 was \$61,989, down from \$63,146 in 2014/15. Total expenditures in 2015/16 were \$59,969, the same as in 2014/15. The ending fund balance for 2015/16 was \$115,446, down from \$116,883 in 2014/15.

**Discussion:** The Debt Service Fund ended 2015/16 in excellent financial condition. The District has one General Obligation Bond to pay off. The District continues to maintain enough cash in this fund to cover our obligations, plus reserve cash to cover any tax revenue not received. The District's only bond to be paid off is held by the State of Oregon – Oregon Business Development.

This remaining bond was passed to rebuild the District's water treatment plant. This bond will be paid off in 2025. Annual payment on this bond is \$59,969.

### **3. System Development Fund**

This fund is used to provide for improvements to the water system that are needed due to growth. Revenue for this fund comes from System Development Charges (SDC's) assessed when a new building is added to the water system. All expenditures are capital outlay for system improvements or replacement. Total revenue in 2015/16 was \$41,859, up from \$15,070 in 2014/15. SDC revenue was \$41,859, up from \$15,070 in 2014/15, due to an increase in new hook ups to the water system. Total capital outlay expenditures in 2015/16 were \$12,230, up from \$0 in 2014/15. The ending fund balance for 2015/16 was \$309,340, up from \$279,711 in 2014/15.

Discussion: The System Development Fund ended 2015/16 in excellent financial condition. This fund ended the year with \$309,340 in cash. In 2014/15 the District received five and a half SDC's. The total number of SDC's received per year has an impact on how quickly the District can complete the SDC eligible projects identified in our Capital Improvement Plan. Our System Development Charge was reviewed in 2005/06 after the District completed our new Water System Master Plan. The District raised the SDC to \$7,535 starting in fiscal year 2006/07.

### **4. Truck and Equipment Fund**

This fund allows the District to accumulate money to purchase vehicles and other heavy equipment. Total revenue for this fund in 2015/16 was \$19,200, the same as in 2014/15. The revenue for this fund comes from the General Fund as a transfer. Total expenditures in 2015/16 were \$77,222 up from \$24,865 in 2014/15. The ending fund balance for 2015/16 was \$23,110, down from \$81,143 in 2014/15.

Discussion: The Truck and Equipment Fund ended 2015/16 in excellent financial condition considering the two major purchases made. The District continues to maintain these reserves for the future purchase of vehicles and heavy equipment. The District purchased new membrane modules and a new work truck in the fiscal year 2015/16.

### **5. Capital Improvement Fund**

This was a new fund in 2006-2007. This reserve fund will have three purposes:

- A. To accumulate revenue to pay the non SDC eligible share of the projects identified in the approved capital improvement plan.
- B. To pay for necessary unanticipated and/or emergency repairs and additions to the water system.
- C. To make bond payments if insufficient tax revenue is collected.

In 2015/16 total revenue for this fund was \$82,800, down from \$82,843 in 2014/15. Permanent tax rate revenue for 2015/16 was \$63,530, up from \$57,843 in 2014/15. Total expenditure (Capital Outlay) in 2015/16 was \$27,185, down from \$89,460 in 2014/15. The ending fund balance for 2015/16 was \$292,484, up from \$236,801 in 2014/15.



**Discussion:** The District continues to save revenue for future repairs and/or additions to the water system with this fund. Funding for this fund is stable because its' revenue comes from our permanent tax rate. The District also puts permanent tax rate revenue in the General Fund. In 2015/16, the District applied \$48,082 of the permanent tax rate revenue into the General Fund and \$63,535 into the Capital Improvement Fund. In 2015/16 the District used this fund to complete engineering on the District's number one and two highest priority Capital Improvement Plan projects.

### **Conclusion**

The District's financial picture is challenging, based on the current economic conditions. The rate increase implemented on July 1, 2011 has helped balance our revenues with our expenditures, but without additional new customers the District will face a situation where additional rate increases and/or spending reductions will be necessary. In fact, beginning July 1, 2015 the board did increase the minimum monthly rate from \$28.50 to \$33.00 per month per REU. In 2015/16 the District received 5.5 new hookups which generated \$41,859 of revenue for the System Development Fund and approximately \$786 in revenue for the General Fund. The assessed value of the property within the District's boundaries continues to go up. In 2015/16 the assessed value was \$309,991,599, up 3.25% from \$300,086,702 in 2014/15. This increase results in additional permanent tax rate revenue for the General Fund and the Capital Improvement Fund. The increase in the System Development Charge and the creation of the Capital Improvement Fund continue to provide the revenue for the District to improve its distribution system. The District's new 2015 Master Plan sets out the projects that are needed to provide proper pressure and fire suppression flows to all areas in the District. Total revenues for 2015/16 were \$603,548, up from \$561,678 in 2014/15. Total expenditures for 2015/16 were \$580,055, down from \$634,458 in 2014/15. Total Ending Fund Balances for 2015/16 were \$843,303, up from \$777,425 in 2014/15. In 2015 the District contracted for a new Capital Improvement Plan. The new plan was completed by Robert Bynum of H.G.E. Engineering. Although the District's facilities are generally in good condition, some of our facilities and infrastructure need to be replaced or upgraded. The 2015 Capital Improvement Plan identified approximately \$3.6 million in needed improvements. These needed improvements and the continued operation of the system will always present challenges in the future.

## CONDENSED FINANCIAL INFORMATION

	June 30, 2015	June 30, 2016	Increase (Decrease)
Cash and current assets	\$ 840,630	\$ 907,993	\$ 67,363
Capital assets, net	2,750,741	2,599,623	(151,118)
<b>Total Assets</b>	<b>3,591,371</b>	<b>3,507,616</b>	<b>(83,755)</b>
Current liabilities	76,921	80,918	3,997
Long-term liabilities	628,590	654,894	26,304
<b>Total Liabilities</b>	<b>705,511</b>	<b>735,812</b>	<b>30,301</b>
Invested in capital assets	2,115,238	2,067,393	(47,845)
Fund balance	770,622	704,411	(66,211)
<b>Total Net Position</b>	<b>\$ 2,885,860</b>	<b>\$ 2,771,804</b>	<b>\$ (114,056)</b>

	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2016	Favorable (Unfavorable)
Water service revenue	\$ 342,058	\$ 403,225	\$ 61,167
Property tax revenue	172,713	175,832	3,119
Other revenues	46,907	69,975	23,068
<b>Total business-type revenues</b>	<b>561,678</b>	<b>649,032</b>	<b>87,354</b>
Personal services	291,194	298,667	(7,473)
Materials and services	189,635	310,838	(121,203)
Depreciation	133,209	134,559	(1,350)
Interest expense	20,420	19,024	1,396
<b>Total business-type expenses</b>	<b>634,458</b>	<b>763,088</b>	<b>(128,630)</b>
<b>Increase (decrease) in Net Position</b>	<b>\$ (72,780)</b>	<b>\$ (114,056)</b>	<b>\$ (41,276)</b>

### FINANCIAL CONTACT

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact the District at 47880 South Beach Road, P.O. Box 823, Neskowin, Oregon, 97149.

**NESKOWIN REGIONAL WATER DISTRICT**  
**STATEMENT OF NET POSITION**

*June 30, 2016*

**ASSETS**

Current assets:

Cash	\$ 850,005
Accounts receivable	876
Materials inventory – at cost	38,309
Property taxes receivable	11,821
Prepaid expenses	6,979
Total current assets	907,993

Non-current assets:

Capital assets, net of depreciation	2,575,635
Total non-current assets	2,575,635

Deferred outflows of resources:

Deferred pension costs	23,988
Total deferred outflows of resources	23,988

Total assets and deferred outflows of resources 3,507,616

**LIABILITIES**

Current liabilities:

Accounts payable	4,038
Payroll Tax liabilities	6,507
Current portion of long-term debt	42,390
Compensated absences	17,729
Accrued interest payable	10,254
Total current liabilities	80,918

Non-current liabilities:

Long-term debt	455,598
Net pension liability	152,391
Total long-term liabilities	607,989

Deferred inflows of resources:

Pension contributions	46,905
Total deferred inflows of resources	46,905

Total liabilities and deferred inflows of resources 735,812

**NET POSITION**

Invested in capital assets, net of debt	2,067,393
Restricted for:	
Debt service	118,902
System development	309,340
Unrestricted	276,169
Total Net Position	\$ 2,771,804

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

**NESKOWIN REGIONAL WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET POSITION**

*Fiscal year ended June 30, 2016*

<b>OPERATING REVENUES:</b>	
Water service revenues	\$ 403,225
Total operating revenues	<u>403,225</u>
 <b>OPERATING EXPENSES:</b>	
Personal services	298,667
Materials and services	310,838
Depreciation	<u>134,559</u>
Total operating expenses	<u>744,064</u>
 <b>Operating income (loss)</b>	 <u>(340,839)</u>
 Non-operating revenues (expenses):	
Property taxes	175,832
Interest income	5,412
Miscellaneous revenue	64,563
Interest expense	<u>(19,024)</u>
Total non-operating revenues (expenses)	<u>226,783</u>
 Change in net position	 (114,056)
 Net Position - July 1, 2015	 <u>2,885,860</u>
 <b>Net Position – June 30, 2016</b>	 <b><u>\$ 2,771,804</u></b>

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

**NESKOWIN REGIONAL WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
*Fiscal year ended June 30, 2016*

<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 403,225
Payments to suppliers	(346,422)
Payments to employees	(258,279)
Net cash provided (used) by operating activities	<u>(201,476)</u>
<b>Cash flows from non-capital financing activities</b>	
Property tax revenue	175,832
Pension Liability	130,242
Net cash provided (used) from non-capital financing activities	<u>306,074</u>
<b>Cash flows from capital and related financing activities</b>	
Purchase of fixed assets	(44,989)
Principal paid on capital debt	(40,945)
Interest paid on capital debt	(19,804)
Net cash provided (used) by capital and related financing activities	<u>(105,738)</u>
<b>Cash flows from investing activities</b>	
Interest received	5,412
Miscellaneous non-operating income	64,563
Net cash provided by investing activities	<u>69,975</u>
 Net increase (decrease) in cash and investments	 68,835
 Cash Balance - July 1, 2015	 <u>781,173</u>
 <b>Cash Balance - June 30, 2016</b>	 <b><u>\$ 850,008</u></b>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (340,839)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Cash flows reported in other categories:	
Depreciation expense	134,559
Change in assets and liabilities:	
Receivables, net	1,558
Prepaid expenses	1,036
Inventories	(1,122)
Accounts payable	522
Payroll Tax liabilities	291
Compensated absences	2,519
Net cash provided (used) by operating activities	<u>\$ (201,476)</u>

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

# **NESKOWIN REGIONAL WATER DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

*June 30, 2016*

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Authority have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

#### **Reporting Entity:**

Neskowin Regional Water District was established under the provisions of Oregon statutes to provide water distribution and service for the benefit of the population within the District, which is located within Tillamook County, Oregon. Control of the District is vested in its Board of Commissioners who are elected to office by voters within the District.

As required by generally accepted accounting principles, the District's financial statements include all component units over which the District officials exercise oversight responsibility. The criteria used in making this determination included an evaluation of the concepts of financial interdependency, election of the governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters. Based upon the evaluation of these criteria the District is a primary government with no inclusive component units.

#### **Basic Financial Statements:**

The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The government-wide statements report information on the District by aggregating the activity of the District's five funds. In the process of aggregating data for the Government-Wide financial statements, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified.

#### **Basis of Presentation**

The financial transactions of the District are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The District reports the following five funds:

### **General Fund**

The District's General Fund accounts for the administrative and operational activities of the District. The principal source of revenue is from water user fees and property taxes. Expenditures are principally for payroll related costs, materials and services and administrative expenses.

### **Special Revenue Funds**

The District's System Development Fund is used to account for the development of the water system. The principal source of revenue is from system development charges and property taxes. The principal expenditures are capital expenditures made to the water system.

The District's Truck and Equipment Fund is used to reserve funds for replacement of trucks and equipment. The principal source of revenue is from transfers from the General Fund.

### **Debt Service Fund**

The District accounts for the payment of its long term debt principal and interest. The principal source of revenue is from property taxes.

### **Capital Projects Fund**

The District's Capital Improvement Fund is used to account for the District's capital outlay expenditures.

### **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.

The District's Basic Financial Statements are presented on a full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the District's General Fund are charges to customers for sales and services. The System Development Fund also recognizes fees intended to recover the cost of connecting new customers to the District's utility system as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and overheads, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **Cash and investments**

The District is restricted by State of Oregon statutes in the types of investments that can be made. Statutes authorize the District to invest in obligations of the U.S. Treasury; agencies, and instrumentalities of the U.S.; States of Oregon, Washington, Idaho or 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 Local Government Investment Pool. Certain other investment types, which are not listed here, are also authorized.

For purposes of the Statement of Cash Flows, cash and cash equivalents 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.

### **Taxes Receivable**

Property taxes receivable which has been collected by year-end are recognized as revenues in the General Fund, Capital Improvement Fund and the Debt Service Fund. All other property taxes receivable in the General Fund are offset by deferred revenues, and such amounts are not taken into revenue until collected.

Tillamook County reviews, bills collects and distributes property taxes for all taxing jurisdictions within its boundaries, in accordance with State Law. Collection dates are November 15, February 15 and May 15. Discounts are allowed if the amount due is received by November 15 or February 15.

### **Accounts Receivable**

Accounts receivable represent amounts due from water service customers. Accounts receivable at June 30, 2016 is \$876. An allowance for doubtful accounts is not considered necessary as all possible uncollectible accounts were written off at June 30, 2016.

### **Inventories**

Inventories of materials and supplies in the General Fund are stated at cost at June 30, 2016 and charged to expenses as used.

### **Capital Assets**

Capital assets, which include property, water system and equipment are reported in the General Fund. Capital assets are charged to expenditures as purchased and then capitalized in the proprietary fund statements. Capital assets are recorded at historical cost or estimated historical cost. Donated assets are recorded at estimated fair market value as of the date of the donation.

Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life of greater than one year. Additions or improvements and other capital



outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Revenues, Expenditures and Changes in Fund Net Position with accumulated depreciation reflected in the Statement of Net Position and is provided on the straight-line basis over the following estimated useful lives:

<b>Asset</b>	<b>Years</b>
Water system	25-50
Vehicles and equipment	5
Office equipment and furniture	5-7

One-half year of depreciation is taken in the year the assets are acquired or retired. Gains or losses from sales or retirements of capital assets are included in operations of the current period.

### **Accounts Payable**

These amounts represent expenditures in the current year but paid for in the subsequent year. In accordance with the full accrual basis of accounting, these amounts are recorded as expenditures in the current year.

### **Retirement Plan**

All of the District's employees with more than 600 hours of service in a year and have 6 months employment with the District are participants in the Public Employee's Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged to expenditures.

### **Net Position**

Equity is classified as net position and displayed in three components:

- A. Invested in capital assets, net of related debt. Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- B. Restricted net position. Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws and regulations of other governments: or (2) law through constitutional provisions or enabling legislation.
- C. Unrestricted net position. All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

### **Use of Estimates**

In preparing the District's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent

assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Budgetary Information**

Annual budgets for all funds are adopted on a basis consistent with Oregon Revised Statutes (ORS 294 Local Budget Law). The process under which the budget is adopted is described in the following paragraphs. The Budget Officer submits a proposed budget to the Budget Committee. The District is required to budget all funds. The District's budget is prepared for each fund on the modified cash basis of accounting. Estimated receipts and expenditures are budgeted for by fund and object. Information on the past two years' actual receipts and expenditures and current-year estimates are included in the budget document.

The Budget Committee conducts public hearings for the purpose of obtaining citizens' comments, and then approves a budget and submits it to the Board of Commissioners for final adoption. The approved expenditures for each fund may not be increased by more than 10% by the Board without returning to the Budget Committee for a second approval.

The Board of Commissioners legally adopts the budget by resolution before July 1. The resolution establishes appropriations for each fund and expenditures cannot legally exceed these appropriations. The level of control established by the resolution for each fund is at the object group level (i.e. personal services, materials and services, capital outlay, inter-fund transfers, and contingency). Appropriations lapse as of year-end.

The Board of Commissioners may change the budget throughout the year by transferring appropriations between levels of control and by adopting supplemental budgets as authorized by Oregon Revised Statutes. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers and approval by the District. Expenditure appropriations may not be legally over-expended except in the case of grant receipts that could not be reasonably estimated at the time the budget was adopted, and for debt service on new debt issued during the budget year. Management may transfer budget amounts between individual line items within the object group, but cannot make changes to the object groups themselves, which is the legal level of control.

During the fiscal year ended June 30, 2016 the Board did not adopt a transfer of appropriation between levels of control and did not adopt a supplemental budget.

## **3. DETAILED NOTES ON ALL FUNDS**

### **Cash and Investments**

The insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Federal depository insurance of \$250,000 applies respectively, to total demand deposits and to total savings accounts at each financial institution. Where balances exceed \$250,000, banks are required to pledge collateral, based on their capital condition. Banks are required to provide

quarterly collateral pledging for the next quarter. Treasury monitors each depository bank and ensures compliance with collateralization requirements for all public fund deposits. Banks will pledge 10% if they are well capitalized, 25%, if they are adequately capitalized, and in turn, the banks are required to share in the liability of a failed institution, should it ever occur. Undercapitalized banks are required to pledge collateral equal to 110% of their deposits, which is monitored on a weekly basis.

At June 30, 2016, the District had invested \$802,253 with the Oregon Short-Term Fund, 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 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. The carrying value of this investment (cost) approximates the market value at June 30, 2016.

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 for the LGIP and it is responsible for all funds in the LGIP. 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 overall credit quality of the pool is not rated. The Oregon Audits Division of the Secretary of State's Office audits the Pool annually. The Division's report on the LGIP as of and for the year ended June 30, 2016 was unqualified.

**Custodial Credit Risk**

At June 30, 2016, the book balance of the District's bank deposits (checking accounts) is \$47,705 and the bank balance is \$98,809. The difference is due to transactions in process. Of the bank deposits balances \$250,000 is insured by federal depository insurance.

Cash and investments at June 30, 2016 were comprised of the following:

<u>Type of Deposit</u>	<u>Total Balance</u>
Insured demand deposits with financial institutions	\$ 47,705
Local Government Investment Pool	802,253
Petty cash	50
<b>Total cash and investments</b>	<b>\$ 850,008</b>

## Capital Assets

The components of the District's fixed assets and changes to the fixed assets are as follows:

	Cost July 1, 2015	Additions	Deletions	Cost June 30, 2016
Construction in progress	\$ 15,574			\$ 15,574
Buildings	1,284,644			1,284,644
Water system	3,637,147	\$ 8,580		3,645,727
Equipment	34,822	65,989		100,811
Office equipment	5,339			5,339
Accumulated depreciation:				
Buildings	(423,097)	(43,498)		(466,595)
Water system	(1,877,312)	(86,948)		(1,964,260)
Equipment	(36,922)	(3,600)		(40,522)
Office equipment	(4,570)	(513)		(5,083)
<b>Totals</b>	<b>\$ 2,635,625</b>	<b>\$ (59,990)</b>	<b>\$ 0</b>	<b>\$ 2,575,635</b>

## Long-term Debt

The Safe Drinking Water loan has an interest rate of 3.53% and payments are due December 1 of each year.

	Balance July 1, 2015	2015/16 Principal Payments	Balance June 30, 2016
Water Treatment Plan Loan:	\$ 538,933	\$ (40,945)	\$ 497,988

Future maturities of loan principal and interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2016-2017	\$ 42,390	\$ 17,579
2017-2018	43,887	16,083
2018-2019	45,436	14,533
2019-2020	47,040	12,930
2020-2021	48,700	11,269
2021-2026	270,535	29,311
	<u>\$ 497,988</u>	<u>\$ 101,705</u>

## **Defined Benefit Pension Plan**

### **Plan Description**

The Oregon Public Employees Retirement System (OPERS) is a cost-sharing multiple-employer defined benefit plan. Employees of the District are provided with pensions through OPERS. All the benefits of OPERS are established by the Oregon legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. OPERS issues a publicly available financial report. This report can be obtained at the PERS website: [http://www.oregon.gov/pers/Pages/section/financial\\_reports/financials.aspx](http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx).

### **Benefits provided under Chapter 238-Tier One/Tier/Two**

#### *Pension Benefits*

The OPERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

#### *Death Benefits*

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

1. Member was employed by a OPERS employer at the time of death.
2. Member died within 120 days after termination of OPERS-covered employment.
3. Member died as a result of injury sustained while employed in a OPERS-covered job, or
4. Member was on an official leave of absence from a OPERS-covered job at the time of death.

#### *Disability Benefits*

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including OPERS judge members) for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

### *Benefit Changes after Retirement*

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2016 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

### **Benefits provided under Chapter 238A-OPSRP Pension Program**

#### *Pension Benefits*

The ORS 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.

This portion of the OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

**Police and Fire:** 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

**General Service:** 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

#### *Death Benefits*

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

#### *Disability Benefits*

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

### *Benefit Changes after Retirement*

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2016 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

## Contributions

OPERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation, as subsequently modified by 2015 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2015. The state of Oregon and certain schools, community colleges, and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced.

Employer contributions for the year ended June 30, 2016 were \$23,988, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2016 were: (1) Tier 1/Tier 2 – 19.20%, (2) OPSRP general service - 11.06%, and (3) OPSRP uniformed - 15.17%.

## Actuarial assumptions

The employer contribution rates effective July 1, 2015, through June 30, 2017, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year). (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

Valuation Date	December 31, 2013 rolled forward to June 30, 2015
Experience Study Report	2014, published September 18, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years.
Asset Valuation Method	Market value of assets
Actuarial Assumptions:	
Inflation rate	2.75 percent
Investment Rate of Return	7.75 percent
Projected Salary Increases	3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service.
Mortality	Health retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.

	<p><b>Active members:</b> Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p><b>Disabled retirees:</b> Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.</p>
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Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

**Discount rate**

The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

**Long-term expected rate of return**

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	7.20%	4.50%
Short-Term Bonds	8.00%	3.70%
Intermediate-Term Bonds	3.00%	4.10%
High Yield Bonds	1.80%	6.66%
Large Cap US Equities	11.65%	7.20%
Mid Cap US Equities	3.88%	7.30%
Small Cap US Equities	2.27%	7.45%
Developed Foreign Equities	14.21%	6.90%
Emerging Foreign Equities	5.49%	7.40%



Private Equity	20.00%	8.26%
Opportunity Funds/Absolute Return	5.00%	6.01%
Real Estate (Property)	13.75%	6.51%
Real Estate (REITS)	2.50%	6.76%
Commodities	7.71%	6.07%
Assumed Inflation – Mean		2.75%

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

**Property Tax Limitation**

The State of Oregon has a constitutional limit on property taxes for governmental operations. Under the limitation, tax revenue is separated into those for public schools and those for local governments other than public schools. The limitation specifies a maximum rate for all local government operations of \$10.00 per \$1,000 of real market value, while schools are similarly limited to a \$5.00 maximum rate. Local government taxes in the District currently do not exceed the \$10.00 rate limit; however, this limitation may affect the availability of future tax revenues for the District.

In May 1997, voters approved Measure 50 which rolled back assessed values to 90% of 1995-96 and limits future increases of taxable assessed values to 3% per year, except for major improvements. Tax rates are now fixed and not subject to change. Voters may approve local initiatives above the fixed rate provided a majority approves at either (i) a general election in an even numbered year, or (ii) at any other election in which at least 50% of registered voters cast a ballot.

**Compensated Absences Payable**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure of the governmental fund that will pay it. At June 30, 2016, the District's liability for vacation pay and compensatory time is estimated at \$17,729. Under the accrual basis of accounting this liability is accrued on the financial statements. No expenditure is reported for these amounts. Sick leave pay can only be taken in the event of illness and is not paid upon separation of service. The total amount of sick leave pay is estimated at \$17,740.

**Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for risk of loss including workers' compensation, property damage, general liability, automobile liability and employee dishonesty coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

**SUPPLEMENTARY INFORMATION**

**NESKOWIN REGIONAL WATER DISTRICT**  
**SCHEDULE OF RECEIPTS, CASH EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND - CASH BASIS**

*Fiscal year ended June 30, 2016*

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Cash Receipts</b>				
Water revenue	\$ 380,200	\$ 380,200	\$ 403,225	\$ 23,025
Property taxes				
Current	48,555	48,555	48,082	(473)
Prior	2,300	2,300	2,227	(73)
Interest	4,200	4,200	5,412	1,212
Miscellaneous	4,200	4,200	2,545	(1,655)
Service installation	2,000	2,000	789	(1,211)
<b>Total receipts</b>	<u>441,455</u>	<u>441,455</u>	<u>462,280</u>	<u>20,825</u>
<b>Cash Expenditures</b>				
Schedule – page 27	<u>474,255</u>	<u>474,255</u>	<u>403,591</u>	<u>70,664</u>
<b>Excess of receipts over (under) cash expenditures</b>	(32,800)	(32,800)	58,689	91,489
<b>Other Financing Sources (Uses)</b>				
Operating transfers in				
Operating transfers out	<u>(19,200)</u>	<u>(19,200)</u>	<u>(19,200)</u>	<u>0</u>
<b>Excess of Receipts and Sources over (under) Expenditures and Other (Uses)</b>	(52,000)	(52,000)	39,489	91,489
Cash balance - July 1, 2015	<u>52,000</u>	<u>52,000</u>	<u>66,813</u>	<u>14,813</u>
<b>Cash Balance - June 30, 2016</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 106,302</u>	<u>\$ 106,302</u>

**NESKOWIN REGIONAL WATER DISTRICT**  
**SCHEDULE OF CASH EXPENDITURES - BUDGET AND ACTUAL**  
**GENERAL FUND CASH BASIS**

*Fiscal year ended June 30, 2016*

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Personal services:</b>				
General Manager	\$ 92,000	\$ 92,000	\$ 80,563	\$ 11,437
Operator	63,000	63,000	53,687	9,313
Office Manager	20,000	20,000	19,869	131
Maintenance Worker 2	35,000	35,000	35,190	(190)
Part Time Operator	5,000	5,000	1,942	3,058
Comp./ vacation time payoff	9,900	9,900	10,382	(482)
Social security and Medicare	17,205	17,205	15,425	1,780
Workers comp/accident insurance	5,200	5,200	4,614	586
PERS	28,650	28,650	23,988	4,662
Health insurance	52,000	52,000	49,953	2,047
Unemployment tax	200	200	244	(44)
<b>Total personal services</b>	<u>328,155</u>	<u>328,155</u>	<u>295,857</u>	<u>32,298</u>
<b>Materials and services:</b>				
Office supplies and expenses	5,200	5,200	5,727	(527)
Telephone	6,500	6,500	4,982	1,518
Office rent	7,650	7,650	7,650	0
Insurance and bond	16,000	16,000	13,270	2,730
Legal and auditing	6,500	6,500	5,900	600
Memberships	3,000	3,000	3,527	(527)
Refunds	300	300	214	86
Bank charges	750	750	712	38
Vehicle maintenance	14,000	14,000	11,394	2,606
Miscellaneous	1,000	1,000	2,038	(1,038)
Repair and maintenance	30,000	30,000	28,057	1,943
Workshops and seminars	2,500	2,500	995	1,505
Plant supplies and tools	5,000	5,000	3,681	1,319
Chlorine and chemicals	3,000	3,000	2,081	919
Electricity	15,000	15,000	12,665	2,335
Water testing	2,000	2,000	2,141	(141)
Waste water charges	2,700	2,700	2,700	0
<b>Total materials and services</b>	<u>121,100</u>	<u>121,100</u>	<u>107,734</u>	<u>13,366</u>
<b>Capital outlay</b>	0	0	0	0
<b>Operating contingencies</b>	<u>25,000</u>	<u>25,000</u>	<u>0</u>	<u>25,000</u>
<b>Total cash expenditures</b>	<u>\$ 474,255</u>	<u>\$ 474,255</u>	<u>\$ 403,591</u>	<u>\$ 70,664</u>

**NESKOWIN REGIONAL WATER DISTRICT**  
**SCHEDULE OF RECEIPTS, CASH EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND - CASH BASIS**

*Fiscal year ended June 30, 2016*

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Cash Receipts</b>				
Current taxes	\$ 55,907	\$ 55,907	\$ 59,353	\$ 3,446
Prior taxes	6,000	6,000	2,635	(3,365)
<b>Total receipts</b>	<u>61,907</u>	<u>61,907</u>	<u>61,988</u>	<u>81</u>
<b>Cash Expenditures</b>				
Loan principal	40,945	40,945	40,945	0
Interest payments	19,024	19,024	19,024	0
<b>Total cash expenditures</b>	<u>59,969</u>	<u>59,969</u>	<u>59,969</u>	<u>0</u>
<b>Excess of receipts over (under) expenditures</b>	1,938	1,938	2,019	81
<b>Cash balance – July 1, 2015</b>	<u>118,000</u>	<u>118,000</u>	<u>116,883</u>	<u>(1,117)</u>
<b>Cash Balance – June 30, 2016</b>	<u>\$ 119,938</u>	<u>\$ 119,938</u>	<u>\$ 118,902</u>	<u>\$ 1,036</u>

**NESKOWIN REGIONAL WATER DISTRICT**  
**SCHEDULE OF RECEIPTS, CASH EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**SYSTEM DEVELOPMENT FUND - CASH BASIS**

*Fiscal year ended June 30, 2016*

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Cash Receipts</b>				
System development charges	\$ 37,675	\$ 37,675	\$ 41,859	\$ 4,184
Total receipts	<u>37,675</u>	<u>37,675</u>	<u>41,859</u>	<u>4,184</u>
<b>Cash Expenditures</b>				
Capital outlay	324,921	324,921	12,230	312,691
Total cash expenditures	<u>324,921</u>	<u>324,921</u>	<u>12,230</u>	<u>312,691</u>
Excess of receipts over (under) expenditures	(287,246)	(287,246)	29,629	316,875
Cash balance – July 1, 2015	<u>287,246</u>	<u>287,246</u>	<u>279,711</u>	<u>(7,535)</u>
<b>Cash Balance - June 30, 2016</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 309,340</u>	<u>\$ 309,340</u>

**NESKOWIN REGIONAL WATER DISTRICT**  
**SCHEDULE OF RECEIPTS, CASH EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**CAPITAL IMPROVEMENT FUND - CASH BASIS**

*Fiscal year ended June 30, 2016*

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Cash Receipts</b>				
Current taxes	\$ 61,387	\$ 61,387	\$ 60,801	\$ (586)
Previously levied taxes	4,000	4,000	2,734	(1,266)
Miscellaneous revenue	0	0	19,370	19,370
<b>Total receipts</b>	<u>65,387</u>	<u>65,387</u>	<u>82,905</u>	<u>17,518</u>
<b>Cash Expenditures</b>				
Capital outlay	<u>295,387</u>	<u>295,387</u>	<u>27,185</u>	<u>268,202</u>
<b>Total cash expenditures</b>	<u>295,387</u>	<u>295,387</u>	<u>27,185</u>	<u>268,202</u>
<b>Excess of receipts over (under) expenditures</b>	(230,000)	(230,000)	55,720	285,720
<b>Cash balance – July 1, 2015</b>	<u>230,000</u>	<u>230,000</u>	<u>236,623</u>	<u>6,623</u>
<b>Cash Balance - June 30, 2016</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 292,343</u>	<u>\$ 292,343</u>

**NESKOWIN REGIONAL WATER DISTRICT**  
**SCHEDULE OF RECEIPTSS, CASH EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**TRUCK AND EQUIPMENT FUND - CASH BASIS**

*Fiscal year ended June 30, 2016*

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Cash Receipts</b>				
Total receipts	\$ 0	\$ 0	\$ 0	\$ 0
<b>Cash Expenditures</b>				
Capital outlay	78,400	78,400	48,423	29,977
Reserve for membrane modules	44,500	44,500	28,800	15,700
Total cash expenditures	<u>122,900</u>	<u>122,900</u>	<u>77,223</u>	<u>45,677</u>
Excess of receipts over (under) cash expenditures	(122,900)	(122,900)	(77,223)	45,677
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	19,200	19,200	19,200	0
Operating transfers out				
Excess of Receipts and Sources over (under) Cash Expenditures and Other (Uses)	(103,700)	(103,700)	(58,023)	45,677
Cash balance – July 1, 2015	<u>103,700</u>	<u>103,700</u>	<u>81,143</u>	<u>(22,557)</u>
<b>Cash Balance - June 30, 2016</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,120</u>	<u>\$ 23,120</u>



**NESKOWIN REGIONAL WATER DISTRICT**  
**STATEMENT OF PROPERTY TAX TRANSACTIONS**  
*Fiscal year ended June 30, 2016*

Tax Year	Taxes Receivable July 1, 2015	2015-2016 Levy	Collections	Interest Discounts Adjustments	Taxes Receivable June 30, 2016
2015-16		\$ 178,679	\$ (168,911)	\$ (4,448)	\$ 5,320
2014-15	\$ 5,103		(2,421)	(5)	2,677
2013-14	3,007		(932)	(8)	2,067
2012-13	1,957		(984)	(7)	966
Prior Years	1,453		(637)	(25)	791
	<u>\$ 11,520</u>	<u>\$ 178,679</u>	<u>\$ (173,885)</u>	<u>\$ (4,493)</u>	<u>\$ 11,821</u>

**NESKOWIN REGIONAL WATER DISTRICT  
SCHEDULE OF LONG-TERM DEBT**

*For the fiscal year ended June 30, 2016*

**Safe Drinking Water Financing Program**

**Water Treatment Plant Upgrade Project**

<b>Payment Date</b>	<b>Principal Payment</b>	<b>Interest Rate</b>	<b>Interest Payment</b>
December 1, 2016	\$ 42,390.39	3.53%	\$ 17,578.99
December 1, 2017	43,886.77	3.53%	16,082.61
December 1, 2018	45,435.97	3.53%	14,533.41
December 1, 2019	47,039.86	3.53%	12,929.52
December 1, 2020	48,700.37	3.53%	11,269.01
December 1, 2021	50,419.49	3.53%	9,549.89
December 1, 2022	52,199.30	3.53%	7,770.08
December 1, 2023	54,041.94	3.53%	5,927.44
December 1, 2024	55,949.62	3.53%	4,019.76
December 1, 2025	57,924.62	3.53%	2,044.71
<b>Total Requirements</b>	<b>\$ 497,988.33</b>		<b>\$ 101,705.42</b>

**NESKOWIN REGIONAL WATER DISTRICT  
COMMENTS AND DISCLOSURES  
REQUIRED BY STATE REGULATIONS**

*June 30, 2016*

**Independent Auditor's Report Required by Oregon State Regulations**

I have audited the basic financial statements of the Neskowin Regional Water District, Neskowin, Oregon, as of and for the year ended June 30, 2016, and have issued my report dated January 2, 2017. I conducted my audit in accordance with auditing standards generally accepted in the United States of America.

**Compliance**

As part of obtaining reasonable assurance about whether the Neskowin Regional Water District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, 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, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, my audit was not directed primarily toward obtaining knowledge of such noncompliance. As such, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion.

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

Deposit of public funds with financial institutions (ORS Chapter 295).

Budgets legally required (ORS Chapter 294).

Insurance and fidelity bonds in force or required by law.

Authorized investment of surplus funds (ORS Chapter 294).

Public contracts and purchasing (ORS Chapters 279A, 279B and 279C).

In connection with my testing, nothing came to my attention that caused me to believe the District was not in substantial compliance with certain provisions of laws, regulations, contracts, 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*.

## **OAR 162-10-0230 Internal Control**

In planning and performing my audit, I considered the Neskowin Regional Water District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Neskowin Regional Water District'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

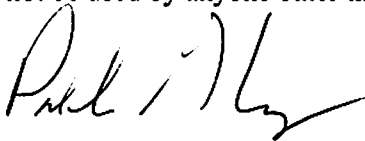
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

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. I consider the following deficiency in the District's internal control to be a significant deficiency:

### **Inadequate Segregation of Accounting Duties**

The District does not have sufficient staff to adequately segregate accounting duties. The smaller size of the District allows the record keeping and cash handling functions to be performed by the same individual. The District has adopted financial controls that are relevant to smaller government units. There is a substantial cost benefit by not increasing staffing levels at this time and the District recognizes the need for extra vigilance on the part of the District staff and the Board.

This report is intended solely for the information and use of the Board of Directors and Management of Neskowin Regional Water District and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



Patrick G. Carney  
Certified Public Accountant