

City Council Action Item Cover Sheet

DATE: May 2, 2018

Agenda Item:

FY 16/17 Audit

Question Before Council:

None. Presentation by Auditors

Person/Group Initiating Request:

Judy Richter

Item Summary/Background:

Audit attached



Summary of Revenues and Expenditures

Please refer to instructions on next page.

Municipality name: <u>City of Yachats</u>		Reporting period: From <u>07/01/2016</u>
Address line 1: <u>P.O Box 345</u>		To <u>06/30/2017</u>
Address line 2: _____		Report type: <u>Audit</u> <input checked="" type="checkbox"/>
City, state, ZIP: <u>Yachats</u> <u>OR</u> <u>97498</u>		Opinion issued: <u>Unmodified</u> <input checked="" type="checkbox"/>
Check if new address: <input type="checkbox"/>		Basis of accounting: <u>GAAP</u> <input checked="" type="checkbox"/>
If this is the final report, please enter the last date of operations: _____		

B. Financial statement audit – Reported deficiencies	
1. Regarding internal controls over financial reporting, how many significant deficiencies and material weaknesses were reported? <u>2</u>	3. How were deficiencies communicated? Check all that apply. <input checked="" type="checkbox"/> Report issued in accordance with Government Auditing Standards <input type="checkbox"/> Communication in accordance with Statements on Auditing Standards AU-C 265 "Communicating Internal Control Related Matters Identified in an Audit" <input checked="" type="checkbox"/> Other (specify communication): <u>OMS Report</u> <input type="checkbox"/> No deficiencies
2. Of those control deficiencies reported, how many resulted in the following: Accounting errors/Misstatements: <u>1</u> Noncompliance: <u>1</u>	Per OAR 162-010-0230, a copy must be filed with Secretary of State.

C. Summary of revenues and expenditures	
Revenues and/or receipts	Expenditures and/or disbursements
a. Revenues from government-wide statement of activities: <u>\$ 4,736,353</u>	a. Expenditures from government-wide statement of activities: <u>\$ 2,372,658</u>
b. Fiduciary fund additions: <u>\$ 0</u>	b. Fiduciary fund deductions: <u>\$ 0</u>
c. Gross revenues subtotal (a + b): <u>\$ 4,736,353</u>	c. Gross expenditures subtotal (a + b): <u>\$ 2,372,658</u>
d. Revenues of component units: <u>\$ 252,253</u>	d. Component unit expenditures reported with primary government: <u>\$ 246,020</u>
e. Taxes, assessments and other collections to be distributed to other governments: <u>\$ 0</u>	e. Turnovers to other municipal corporations: <u>\$ 0</u>
f. Exempt revenue subtotal (d + e): <u>\$ 252,253</u>	f. Exempt expenditures subtotal (d + e): <u>\$ 246,020</u>
g. Net revenues (c – f): <u>\$ 4,484,100</u>	g. Net expenditures (c – f): <u>\$ 2,126,638</u>

D. Filing fee

E. Submitted by	
Auditor name: <u>Teresa Hanford</u>	Municipal license number: <u>1612</u>
Firm name: <u>Hanford & Associates, LLC</u>	Date: <u>04/30/2018</u>
Municipal contact name, title: <u>Teresa Hanford, Managing Member</u>	Municipal phone: <u>(509) 290-2200</u>

Submit: Click the "Submit" button on the right to submit this form via email. Save a copy for your records.

Submit

Within 30 days of delivering the audit report to the municipal corporation, one copy of this summary must be filed with the Secretary of State, Audits Division, and one copy must be delivered to the municipal corporation. If deficiencies are communicated in a separate letter or in a report issued in accordance with *Government Auditing Standards*, a copy of that communication must also be filed. (OAR 162-010-0230)

Instructions

Section A: Municipal corporation information

Type information or use drop-down menu to complete this section. Indicate new address by checking the box.

- **Report type:** Select Audit or Review
- **Opinion issued:** Select from unmodified, qualified, adverse, or disclaimer. If any opinion unit received other than unmodified, please identify that opinion type.
- **Basis of accounting:** Identify whether GAAP, cash, or modified cash basis statements are presented.

Section B: Financial statement audit – Reported deficiencies

B.1. How many significant deficiencies and material weaknesses were communicated?

Include the total number of *material weaknesses* and *significant deficiencies* reported in accordance with AU-C 265, ORS 297.466, and OAR 162-010-0230. Do not count "other matters" communicated.

If none were reported, insert a zero.

B.2. Of those control deficiencies reported, how many resulted in accounting errors/misstatements or noncompliance?

Most deficiencies relate to internal controls over financial reporting. Some control deficiencies might also directly result in accounting errors and misstatements or non-compliance. If any of the findings communicated resulted in accounting errors and misstatements or noncompliance, indicate the number of deficiencies included in the total for B.1 that also pertain to those categories.

B.3. How were deficiencies communicated?

Select the format used to communicate deficiencies to those charged with governance. Check all that apply. If no material weaknesses or significant deficiencies were communicated select No Deficiencies.

NOTE: If deficiencies are communicated (including other matters), the auditor shall file a copy of the communication with the Secretary of State within 30 days of delivering the report to the municipal corporation. (OAR 162-010-0230)

Section C: Summary of revenues and expenditures

Revenues/receipts and expenditures/disbursements information is derived from amounts reported for government-wide and fiduciary activities and on the basis of accounting used in the audited or reviewed financial statements.

Section D: Filing fee

The filing fee is based on net expenditures; section C, line g. Enter the fee based on the chart below:

Net expenditures over	Net expenditures do not exceed	Fee
\$ 0	\$ 50,000	\$ 20
\$ 50,000	\$ 150,000	\$ 40
\$ 150,000	\$ 500,000	\$ 150
\$ 500,000	\$ 1,000,000	\$ 200
\$ 1,000,000	\$ 5,000,000	\$ 250
\$ 5,000,000	\$ 10,000,000	\$ 300
\$ 10,000,000	\$ 50,000,000	\$ 350
\$ 50,000,000		\$ 400

ORS 297.485(1):

Net expenditures and/or disbursements

The filing fee shall be determined by the total **expenditures** made by the municipal corporation for any and all purposes during the calendar or fiscal year audited, except that **expenditures** for principal of bonded debt, principal of short-term loans, principal of warrants redeemed which were issued during prior audit periods, transfers or loans between funds and turnovers of taxes or other trust moneys to other municipal corporations shall not be included in the **total expenditures** upon which the amount of the fee is based.

Section E: Submitted by

Include the name of the licensed municipal auditor who performed the engagement and is submitting this form. Also include their title, firm name, and date this summary form was completed.

To submit: • Click the "Submit" button on page one to submit this form via email

• Save and email the completed form to municipalfilings.sos@oregon.gov or

• Print a hardcopy and mail to: Audits Division, 255 Capitol St NE, Ste 500, Salem, Oregon 97310-0720

Financial Statements
June 30, 2017
City of Yachats

**CITY OF YACHATS
Lincoln County, Oregon**

**OFFICERS AND MEMBERS OF THE GOVERNING BOARD
June 30, 2017**

City Council

Gerald Stanley, Mayor
P.O. Box 220
Yachats, Oregon, 97498

Greg Scott, Council President
P.O. Box 118
Yachats, Oregon, 97498

James Tooke
P.O. Box 656
Yachats, Oregon, 97498

Barbara Frye
P.O. Box 333
Yachats, Oregon, 97498

Max Glenn
P.O. Box 345
Yachats, Oregon, 97498

Shannon Beaucaire
City Manager
P.O. Box 345
Yachats, Oregon 97498

Address of Registered Office
P.O. Box 345
Yachats, Oregon 97498

CITY OF YACHATS
Lincoln County, Oregon
Annual Financial Report
For the Year Ended June 30,2017

TABLE OF CONTENTS

INTRODUCTORY SECTION

City Officials	P. 3
----------------	------

FINANCIAL SECTION

Independent Auditor's Report	P. 7-9
------------------------------	--------

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis	P. 11-17
--------------------------------------	----------

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements	
Statement of Net Position	P. 20
Statement of Activities	P. 22-23

Fund Financial Statements	
Balance Sheet- Governmental Funds	P. 26-27
Reconciliation of Govt. Funds Balance Sheet to Statement of Net Position	P. 28
Statement of Revenues, Expenditures and Changes in Fund Bal.- Govt. Funds	P. 30-31
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	P. 32
Statement of Net Position- Proprietary Funds	P. 34
Statement of Revenues, Expenses and Changes in Fund Net Position- Proprietary Funds	P. 35
Statement of Cash Flows- Proprietary Funds	P. 36-37

Notes to the Basic Financial Statements	P. 38-64
---	----------

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability	P. 66
Schedule of Contributions- Oregon Public Employees Retirement System	P. 67
Statement of Revenues, Expenditures and Changes in Fund Balances- Budget to Actual	
General Fund	P. 68
Street Fund	P. 69
Highway 101 Fund	P. 70
City Amenities Fund	P. 71
Blended Component Unit- Urban Renewal District	P. 72

SUPPLEMENTARY INFORMATION

Combining Balance Sheet- All Non-Major Governmental Funds	
Governmental Funds	P. 74
Special Revenue Funds	P. 75
Debt Service Funds	
Combining Statement of Revenues, Expenditures and Changes in Fund Balance- All Non-Major Governmental Funds	
Governmental Funds	P. 76
Special Revenue Funds	P. 77
Debt Service Funds	
Statement of Revenues, Expenditures and Changes in Fund Balance- Budget to Actual	
Capital Expenditure Reserve Funds	P. 78
Debt Service Reserve Funds	P. 79
Non-Major Governmental Funds- Special Revenue Funds	
Visitor Amenities Fund	P. 80
South Tank Fund	P. 81
System Development Charges Fund	P. 82
Storm Drain Fund	P. 83
Statement of Revenues, Expenses and Changes in Net Position- Budget to Actual-	
Major Proprietary Funds	
Water Fund	P. 84
Sewer Fund	P. 85
REPORTS ON LEGAL AND OTHER REGULATORY REQUIREMENTS	P. 86-94

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Mayor and City Council City of Yachats, Oregon

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate blended component unit, each major fund, and the aggregate remaining fund information of City of Yachats, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City'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 opinions 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 auditors' 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 opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities each major fund, and the aggregate remaining fund information of City of Yachats, Oregon, as of June 30, 2017, and the respective changes in financial position and, where applicable, 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 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 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 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 the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison schedules presented as Required Supplementary Information, as listed in the table of contents, are the responsibility of management and were 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 our opinion, the budgetary comparison schedules are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Yachats, Oregon's basic financial statements. The supplementary and other information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and related 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 our opinion, the supplementary information, as listed in the table of contents, is fairly statement in all material respects in related to the basic financial statements as a whole.

Other Information

The listing of City Council members and Mayor containing their mailing addresses, located before the table of contents, and the other information, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 30, 2018, on our consideration of City of Yachats, Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 results of that testing, and not to provide an opinion on 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 City of Yachats, Oregon's internal control over financial reporting and compliance. Other Reporting Required by Oregon Minimum Standards

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated April 30, 2018 on our consideration of City of Yachats, Oregon'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 our testing of compliance and the results of that testing and not to provide an opinion on compliance.

A handwritten signature in black ink that reads "Teresa Hanford".

Hanford & Associates, LLC
Richland, Washington
April 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis presents the highlights of financial activities and financial position for the City of Yachats. The analysis focuses on significant financial issues, major financial activities, resulting changes in financial position, and budget changes and variances from the budget. Please read in conjunction with the City's financial statements.

Report Layout

The City's basic financial statements are comprised of government-wide financial statements, fund financial statements, and notes to the basic financial statements.

The Statement of Net Position and Statement of Activities included in the government-wide financial statements focus on a City-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the City.

The fund financial statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's major governmental funds are presented in their own column and the remaining funds are combined into a column titled other Governmental Funds. Budgetary comparison statements are presented for the General Fund, Street Fund, Capital Expenditure Reserve Fund, Debt Service Fund, Highway 101 Fund, City Amenities Fund, (the City's major funds), and the Urban Renewal District (presented as a major fund and blended component unit). Statements for the City's proprietary funds follow the governmental funds and include net position, revenues, expenses, and changes in fund net position, and cash flows.

The notes to the basic financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition presented in the government-wide and fund financial statements. They are an integral part of the basic financial statements and should be read in conjunction with them.

The required supplementary information includes the management discussion and analysis and budgetary comparison schedules for the General Fund and major special revenue funds.

Other supplementary information including combining schedules for nonmajor governmental funds and fund schedules of budgetary information for funds not previously presented, including proprietary funds.

Analysis of the Government's Overall Condition

The current and short-term financial condition of Yachats is good. Visitors continue to choose Yachats as a destination, attracted by our proximity to the Pacific Ocean, Cape Perpetua extensive trail systems and interesting dining options. Effective January 1, 2016, Yachats increased the Transient Lodging Tax Rate from 7 % to 9%. The majority of the rate increase flowed to the Visitor Amenity Fund, as required by Oregon statutes. The remainder of the tax increase was reflected in the City's General Fund. The higher tax rate was in effect for the entire 2016-17 fiscal year, compared to 6 months in the previous fiscal year. Since Yachats has no general obligation property tax revenue, Transient Lodging Tax revenue allows the General Fund to support the budgets for the Commons (community center), Library, Museum and minimal repairs to our Streets.

Yachats had been reluctant to increase Water and Sewer rates since the real estate and economic recession in the mid-2000s. Costs of operating our facilities continued to rise over the years, reducing the ability to set aside funds for projects needed to expand our supply and storage capacity for water. Recent years have experienced water usage restrictions implemented in the late summer and early fall month which coincide with the highest occupancy rates for our tourist economy: The City studied the issues and implemented system-wide rate increases effective February 1, 2016, with annual increases based on a local cost index. Yachats also conducted a study of our management organization and was able to eliminate the position of Public Works Director (PWD) while upgrading the position of City Recorder to City Manager, who assumed the PWD duties. The rate increases were in effect for 5 months in fiscal year 2015-16 and a full 12 months in fiscal 2016-17. These changes have put the Water and Sewer Funds on track to help contribute to the costs of future projects. Over the longer term, additional revenue will be needed to fund much-needed infrastructure projects.

Yachats implemented an Urban Renewal District (URD) in 2005 to help generate funds for future projects. The URD got off to a slow start due to the real estate recession. Recent improvements in the local real estate market have increased construction activity within the URD boundaries, generating higher tax revenue. The City amended the original project list during the current fiscal year, to reflect changing priorities for the Highway 101 Construction Project and adjust to liquidation of the Oregon DEQ loans after loan maturity in 2029. As the URD continues to mature, it will become an even greater contributor to providing the funds needed for infrastructure projects. Financial Highlights:

- Budgeted General Fund revenues were increased during the year to reflect the additional visitor activity experienced earlier in the fiscal year. The General Fund transfer to the Visitor Amenities Fund was increased proportionally, additional funds were transferred to the Storm Drain Fund and internal personnel costs were reallocated to accurately reflect how city staff were utilized across funds.
- The full-year impact of the Water/Sewer rate increase, including a modest Capital Project Fee, imposed during the prior fiscal year, increased future project transfers into the Capital Reserve Fund by approximately 25%. At the same time, Capital Project spending was redirected towards the Highway 101 Project to ensure that adequate funds were available to complete the project in the core downtown area.
- The Systems Development Fund exceeded budget and prior years as building activity increased after a long real estate recession on the central Oregon coast.
- The Highway 101 Project Fund delivered less than budgeted revenue and significantly less spending than originally expected. Design challenges, right-of-way issues, storm drain improvements and other challenges effectively delayed the project into later periods. The project was finally completed subsequent to year end.
- For the Water Fund, the rate change delivered the remaining \$25,000 additional revenue for the first full year it was in effect. Materials and Services expenses were under budget, due to renewed focus on vendor expense control and revisions to the chart of accounts which allowed better visibility into our invoice costs. The improved financial performance of the Water Fund allowed additional funds to be set aside for reserves.
- Construction of the South Water Reservoir was delayed until fiscal year 2017-18. The Project was originally expected to be completed in the current fiscal year.
- The Sewer Fund experienced the same revenue increases as the Water Fund, due to the fiscal 2015-16 midyear rate increase. Expenses for Materials and Services were under budget, allowing additional funds to be set aside for reserves.
- The Urban Renewal Fund generated tax increment revenue above budget and in excess of the

prior year. New construction activity within the URD has finally started to increase, after having been severely impacted by the real estate recession of the 2000s. Yachats' Urban Renewal Plan is significantly behind the original projections created in 2005 but has finally started to mature and generate increasing revenue. The City amended the plan in the current fiscal year to adequately reflect changed priorities, address project timeliness and react to needed modifications in how loans had been repaid while the URD was impacted by the real estate recession.

The following tables outline the City's government-wide statement of net position and statement of activities as of and for the years ended June 30, 2017; then 2016:

	Statement of Net Position								
	30-Jun-17			30-Jun-16			Change		
	Governmental	Business Type	Total	Governmental	Business Type	Total	Governmental	Business Type	Total
Assets									
Cash and Investments	\$ 2,765,334	\$ 43,856	\$ 2,809,190	\$ 590	\$ 642,279	\$ 3,232,755	\$ 2,764,744	\$ (598,423)	\$ 2,166,321
Other Assets	\$ 497,815	\$ 118,481	\$ 616,296	\$ 502,462	\$ 122,577	\$ 625,039	\$ (4,647)	\$ (4,096)	\$ (8,743)
Capital Assets, net	\$ 7,746,653	\$ 8,774,079	\$ 16,520,732	\$ 5,051,710	\$ 8,908,207	\$ 13,959,917	\$ 2,694,943	\$ (134,128)	\$ 2,560,815
Total Assets	\$ 11,009,802	\$ 8,936,416	\$ 19,946,218	\$ 8,144,648	\$ 9,673,063	\$ 17,817,711	\$ 2,865,154	\$ (736,647)	\$ 2,128,507
Deferred Outflows of Resources									
Deferred amounts related to pensions	\$ 277,945	\$ 185,297	\$ 463,242	\$ 65,827	\$ 43,884	\$ 109,711	\$ 212,118	\$ 141,413	\$ 353,531
Current Liabilities	\$ 1,187,236	\$ 410,843	\$ 1,598,079	\$ 334,156	\$ 552,377	\$ 886,533	\$ 853,080	\$ (141,534)	\$ 711,546
Long-term Liabilities	\$ 5,116,983	\$ 512,000	\$ 5,628,983	\$ 512,400	\$ 5,440,819	\$ 5,953,219	\$ 4,604,583	\$ (4,928,819)	\$ (324,236)
Total Liabilities	\$ 6,304,219	\$ 922,843	\$ 7,227,061	\$ 846,556	\$ 5,993,196	\$ 6,839,752	\$ 5,457,663	\$ (5,070,353)	\$ 387,310
Deferred Inflows of Resources									
Deferred amounts related to pensions	\$ 19,426	\$ 12,951	\$ 32,377	\$ 93,443	\$ 38,920	\$ 132,363	\$ (74,017)	\$ (25,969)	\$ (99,986)
Net Position:									
Invested in Capital Assets, net of related debt	\$ 2,794,750	\$ 8,133,158	\$ 10,927,908	\$ 4,520,416	\$ 3,089,235	\$ 7,609,651	\$ (1,725,666)	\$ 5,043,923	\$ 3,318,257
Restricted	\$ 2,039,007	\$ -	\$ 2,039,007	\$ -	\$ 542,875	\$ 542,875	\$ 2,039,007	\$ (542,875)	\$ 1,496,132
Unrestricted	\$ 130,346	\$ 52,761	\$ 183,107	\$ 2,750,060	\$ 52,761	\$ 2,802,821	\$ (2,619,714)	\$ -	\$ (2,619,714)
Total Net Position	\$ 4,964,103	\$ 8,185,919	\$ 13,150,022	\$ 7,270,476	\$ 3,684,871	\$ 10,955,347	\$ (2,306,373)	\$ 4,501,048	\$ 2,194,675

Statement of Activities									
30-Jun-17			30-Jun-16			Change			
Governmental	Business Type	Total	Governmental	Business Type	Total	Governmental	Business Type	Total	
Revenues									
Program revenues									
Charges for services	\$ 153,244	\$ 1,184,285	\$ 1,337,529	\$ 206,291	\$ 1,052,737	\$ 1,259,028	\$ (53,047)	\$ 131,548	\$ 78,501
Operating Grants and Contributions	\$ -	\$ -	\$ -	\$ 2,443	\$ -	\$ 2,443	\$ (2,443)	\$ -	\$ (2,443)
Capital Grants and Contributions	\$ 1,000,000	\$ 103,575	\$ 1,103,575				\$ 1,000,000	\$ 103,575	\$ 1,103,575
General Revenues						\$ -	\$ -	\$ -	\$ -
Taxes	\$ 1,725,804	\$ -	\$ 1,725,804	\$ 1,510,746	\$ -	\$ 1,510,946	\$ 215,058	\$ -	\$ 214,858
Intergovernmental	\$ 358,682	\$ -	\$ 358,682	\$ 52,833	\$ -	\$ 52,833	\$ 305,849	\$ -	\$ 305,849
Interest	\$ 32,070	\$ 221	\$ 32,291	\$ 33,172	\$ 900	\$ 34,072	\$ (1,102)	\$ (679)	\$ (1,781)
Other	\$ 178,472	\$ -	\$ 178,472	\$ 31,798	\$ -	\$ 31,789	\$ 146,674	\$ -	\$ 146,683
Total Revenues	\$ 3,448,272	\$ 1,288,081	\$ 4,736,353	\$ 1,837,483	\$ 1,053,637	\$ 2,891,120	\$ 1,610,789	\$ 234,444	\$ 1,845,233
Expense									
Governmental activities	\$ 1,056,452	\$ -	\$ 1,056,452	\$ 1,200,180	\$ -	\$ 1,200,180	\$ (143,728)	\$ -	\$ (143,728)
Business-type Activities	\$ -	\$ 1,316,206	\$ 1,316,206	\$ -	\$ 1,306,780	\$ 1,306,780	\$ -	\$ 9,426	\$ 9,426
Total Expenses	\$ 1,056,452	\$ 1,316,206	\$ 2,372,658	\$ 1,200,180	\$ 1,306,780	\$ 2,506,960	\$ (143,728)	\$ 9,426	\$ (134,302)
Excess (deficiency) of revenues over (under) expenditures	\$ 2,391,820	\$ (28,125)	\$ 2,363,695	\$ 637,303	\$ (253,143)	\$ 384,160	\$ 1,754,517	\$ 225,018	\$ 1,979,535
Transfers, net	\$ 287,533	\$ (287,533)	\$ -	\$ (357,600)	\$ 357,600	\$ -	\$ 645,133	\$ (645,133)	\$ -
Change in net position	\$ 2,679,352	\$ (315,658)	\$ 2,363,694	\$ 279,703	\$ 104,457	\$ 384,160	\$ 2,399,649	\$ (420,115)	\$ 1,979,534
Beginning net position, as adjusted	\$ 2,284,749	\$ 8,501,577	\$ 10,786,326	\$ 6,990,773	\$ 3,580,414	\$ 10,571,187	\$ (4,706,024)	\$ 4,921,163	\$ 215,139
Ending net position	\$ 4,964,103	\$ 8,185,919	\$ 13,150,022	\$ 7,270,476	\$ 3,684,871	\$ 10,955,347	\$ (2,306,373)	\$ 4,501,048	\$ 2,194,675

Analysis of the Balances and Transactions of Major Individual Funds

The balances of the major funds and all transactions are within the budget as adopted or amended. Other than the normal, day-to-day activities, most of the major changes are described elsewhere in this discussion.

Significant Capital Asset and Long-term Debt Activity

There were no major construction projects during the fiscal year that required a bond issue or a loan. The City maintains sufficient reserves to meet all bond and loan terms and made all current payments on time. The loan payments for the Waste Water Treatment System Improvements continue to be funded with money from various sources such as Transient Rental Tax, Prepared Food and Beverage Tax, Urban Renewal Contributions, System Development Charges, and user fees. The voters have authorized the City to issue up to 5.9 million dollars in General Obligation Bonds to repay the loans for that project; however, there has not yet been any need to issue those bonds since the other sources have generated sufficient funds to make the payments. The City made major progress on the Highway 101 Construction Project during the year. The City-funded portion of the project included placing utilities underground throughout the project boundary at a cost of approximately \$750,000. This portion of the work was conducted in the initial stages of the project and was substantially complete by June 30, 2017. The overall project was completed in subsequent to year end. The City's total out-of-pocket costs, including the underground utilities, was approximately \$1.1 Million and was funded internally without borrowing.

Capital assets used by the City in its Governmental and Proprietary Funds are shown in the following table:

Capital Assets Used by Governmental and Proprietary Activities
For the Year Ended June 30, 2017

	Governmental Activities	Business-type Activities	Total Government
Land and improvements	\$ 2,104,379	\$ 113,035	\$ 2,217,414
Buildings and improvements	\$ 1,927,495	\$ 66,663	\$ 1,994,158
Streets/Hwy 101 improvement	\$ 2,767,950	\$ -	\$ 2,767,950
Vehicles and equipment	\$ 631,396	\$ 319,508	\$ 950,904
Books and periodicals	\$ 253,148	\$ -	\$ 253,148
Software	\$ 62,285	\$ -	\$ 62,285
Water reservoir	\$ -	\$ 399,205	\$ 399,205
Wastewater treatment plant	\$ -	\$ 7,471,230	\$ 7,471,230
Water Plant & System	\$ -	\$ 3,728,768	\$ 3,728,768
Total assets	\$ 7,746,653	\$ 12,098,409	\$ 19,845,062
Less: accumulated depreciation	\$ -	\$ (3,324,330)	\$ (3,324,330)
Capital assets, net	\$ 7,746,653	\$ 8,774,079	\$ 16,520,732

Component Unit

Included in the financial report is information for the Urban Renewal District. The District began activity during August of 2007. The District operates within a written agreement with the City that clearly defines District activities and establishes District support of the City. The District's compilation report is available at the City of Yachats' Commons.

Financial information for the component unit of the District is found in the financial statements blended with the City's financial activity. Summary information follows:

COMPONENT UNIT			
	2017		2017
Current Assets	<u>\$68,236</u>	Revenues	<u>\$ 252,253</u>
		Expenses	<u>\$ (1,020)</u>
Current Liabilities	<u>\$0</u>	Other Financing Sources (Uses)	<u>\$(245,000)</u>
		Net Change in Fund Balance	<u>\$ 6,233</u>
		Beginning Fund Balance	<u>\$ 62,003</u>
Fund Balance	<u>\$68,236</u>	Ending Fund Balance	<u>\$ 68,236</u>

Economic Factors and Next Year's Budget

Water and Sewer revenue will increase over 2017, reflecting the local cost index application. Significant capital expenditures will occur to complete the Highway 101 Improvement Project and the South Water Reservoir Yachats has planned for the expenditures and has adequate reserves or loans available to complete the projects.

Requests for Information

The financial report is designed to present the user (citizens, taxpayers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. Current and previous audit reports are available on the City's document library (<https://yachatsoregon.org/documents>). Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City Manager, City of Yachats, PO Box 345, Yachats, Oregon 97498.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF YACHATS
Statement of Net Position
June 30, 2017

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and investments	\$ 2,765,334	\$ 43,856	\$ 2,809,189
Accounts receivable	\$ 2,222	\$ 88,487	\$ 90,709
Food and beverage taxes receivable	\$ 81,910	\$ -	\$ 81,910
Intergovernmental receivable	\$ -	\$ -	\$ -
Property taxes receivable	\$ 15,234	\$ -	\$ 15,234
Transient room taxes receivable	\$ 236,175	\$ -	\$ 236,175
Assessments receivable	\$ 162,275	\$ -	\$ 162,275
Prepaid items	\$ -	\$ 3,589	\$ 3,589
Inventory	\$ -	\$ 26,405	\$ 26,405
Capital assets, net	\$ 7,746,653	\$ 8,774,079	\$ 16,520,732
Total assets	\$ 11,009,802	\$ 8,936,416	\$ 19,946,218
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	\$ 277,945	\$ 185,297	\$ 463,242
LIABILITIES			
Accounts payable	\$ 4,527	\$ 486	\$ 5,013
Accrued interest payable	\$ 112,910	\$ 16,460	\$ 129,370
Accrued compensated absences	\$ 62,034	\$ -	\$ 62,034
Net pension liability	\$ 549,881	\$ 366,556	\$ 916,438
Deferred Revenue	\$ 89,963	\$ -	\$ 89,963
Loans Payable			
Due within one year	\$ 29,000	\$ -	\$ 29,000
Due in more than one year	\$ 504,000	\$ -	\$ 504,000
Bonds payable:			
Due within one year	\$ 338,920	\$ 27,340	\$ 366,260
Due in more than one year	\$ 4,612,983	\$ 512,000	\$ 5,124,983
Total liabilities	\$ 6,304,219	\$ 922,843	\$ 7,227,061
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	\$ 19,426	\$ 12,951	\$ 32,377
Total deferred inflows of resources	\$ 19,426	\$ 12,951	\$ 32,377
NET POSITION			
Invested in capital assets	\$ 2,794,750	\$ 8,086,643	\$ 10,881,393
Restricted	\$ 2,039,007	\$ 46,515	\$ 2,085,522
Unrestricted	\$ 130,346	\$ 52,761	\$ 183,107
Total net position	\$ 4,964,103	\$ 8,185,919	\$ 13,150,022

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CITY OF YACHATS
Statement of Activities
June 30, 2017

Program Revenues			
Functions / Programs	Expenses	Charges for Services	Capital Grants & Contributions
Governmental activities			
General government	\$ 463,965	\$ 24,669	\$ -
Public works	\$ 129,047	\$ 83,134	\$ 1,000,000
Public Safety	\$ 3,275	\$ -	\$ -
Culture and recreation	\$ 147,738	\$ 45,441	\$ -
Interest expense	\$ 312,427	\$ -	\$ -
Total governmental activities	\$ 1,056,452	\$ 153,244	\$ 1,000,000
Business-type activities			
Water	\$ 709,110	\$ 607,039	\$ 39,234
Sewer	\$ 607,096	\$ 577,246	\$ 64,341
Total business-type activities	\$ 1,316,206	\$ 1,184,285	\$ 103,575
Total government	\$ 2,372,658	\$ 1,337,529	\$ 1,103,575
General revenues			
Taxes			
Property taxes, levied for general purposes			
Property taxes, levied for debt service			
Transient room taxes			
Food & beverage taxes			
Franchise and public service tax			
Intergovernmental			
Interest and investment earnings			
Other revenues (Expenses)			
Transfers, net			
Total general revenues and transfers			
Change in net position			
NET POSITION - BEGINNING			
ENDING NET POSITION			

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (439,296)	\$ -	\$ (439,296)
\$ 954,087	\$ -	\$ 954,087
\$ (3,275)	\$ -	\$ (3,275)
\$ (102,297)	\$ -	\$ (102,297)
\$ (312,427)	\$ -	\$ (312,427)
\$ 96,792	\$ -	\$ 96,792
\$ -	\$ (62,837)	\$ (62,837)
\$ -	\$ 34,491	\$ 34,491
\$ -	\$ (28,346)	\$ (28,346)
\$ 96,792	\$ (28,346)	\$ 68,446
\$ 294,721	\$ -	\$ 294,721
\$ 40,607	\$ -	\$ 40,607
\$ 954,188	\$ -	\$ 954,188
\$ 323,548	\$ -	\$ 323,548
\$ 112,740	\$ -	\$ 112,740
\$ 358,682	\$ -	\$ 358,682
\$ 32,070	\$ 221	\$ 32,291
\$ 178,472	\$ -	\$ 178,472
\$ 287,533	\$ (287,533)	\$ -
\$ 2,582,560	\$ (287,312)	\$ 2,295,248
\$ 2,679,352	\$ (315,658)	\$ 2,363,694
\$ 2,284,749	\$ 8,501,577	\$ 10,786,326
\$ 4,964,103	\$ 8,185,919	\$ 13,150,022

FUND FINANCIAL STATEMENTS

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**CITY OF YACHATS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017**

	General Fund	Street Fund	Capital Expenditure Fund	Debt Service Reserve Fund
ASSETS				
Cash and Investments	\$ 252,006	\$ 71,533	\$ 1,672,008	\$ 576,759
Intergovernmental receivables	\$ -	\$ -	\$ -	\$ -
Property taxes receivable	\$ 11,563	\$ -	\$ -	\$ 3,671
Transient room taxes and receivables	\$ 236,175	\$ -	\$ -	\$ -
Food and beverage taxes receivable	\$ -	\$ -	\$ 81,910	\$ -
Assessments receivables	\$ -	\$ -	\$ 162,275	\$ -
Other receivables	\$ -	\$ -	\$ 2,222	\$ -
Total Assets	\$ 499,744	\$ 71,533	\$ 1,918,415	\$ 580,429
LIABILITIES				
Accounts payable	\$ 5,543	\$ -	\$ 3,051	\$ -
Misc. payable/deposits	\$ 75	\$ -	\$ -	\$ -
Accrued payroll taxes	\$ (7,748)	\$ -	\$ -	\$ -
Deferred Revenue	\$ 10,865	\$ -	\$ 76,446	\$ 2,652
Total liabilities	\$ 8,735	\$ -	\$ 79,497	\$ 2,652
FUND BALANCES				
Restricted				
Debt Services	\$ -	\$ -	\$ -	\$ 577,777
Urban renewal	\$ -	\$ -	\$ -	\$ -
Streets	\$ -	\$ 71,533	\$ -	\$ -
Construction, improvements and equipment	\$ -	\$ -	\$ 1,838,919	\$ -
Assigned	\$ -	\$ -	\$ -	\$ -
Unassigned	\$ 491,009	\$ -	\$ -	\$ -
Total fund Balances	\$ 491,009	\$ 71,533	\$ 1,838,919	\$ 577,777
Total liabilities and fund Balances	\$ 499,744	\$ 71,533	\$ 1,918,415	\$ 580,429

Highway 101	City Amenities Fund	Urban Renewal District Component Unit	Other Governmental Funds	Total Governmental Funds
\$ (499,558)	\$ (17,125)	\$ 68,236	\$ 641,475	\$ 2,765,333
\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ 15,234
\$ -	\$ -	\$ -	\$ -	\$ 236,175
\$ -	\$ -	\$ -	\$ -	\$ 81,910
\$ -	\$ -	\$ -	\$ -	\$ 162,275
\$ -	\$ -	\$ -	\$ -	\$ 2,222
\$ (499,558)	\$ (17,125)	\$ 68,236	\$ 641,475	\$ 3,263,149
\$ -	\$ (2,106)	\$ -	\$ 5,212	\$ 11,700
\$ -	\$ 500	\$ -	\$ -	\$ 575
\$ -	\$ -	\$ -	\$ -	\$ (7,748)
\$ -	\$ -	\$ 0	\$ -	\$ 89,963
\$ -	\$ (1,606)	\$ 0	\$ 5,212	\$ 94,490
\$ -	\$ -	\$ -	\$ -	\$ 577,777
\$ -	\$ -	\$ 68,236	\$ -	\$ 68,236
\$ -	\$ -	\$ -	\$ -	\$ 71,533
\$ (499,558)	\$ -	\$ -	\$ -	\$ 1,339,361
\$ -	\$ (15,519)	\$ -	\$ 636,263	\$ 620,745
\$ -	\$ -	\$ -	\$ -	\$ 491,009
\$ (499,558)	\$ (15,519)	\$ 68,236	\$ 636,263	\$ 3,168,660
\$ (499,558)	\$ (17,125)	\$ 68,236	\$ 641,475	\$ 3,263,149

CITY OF YACHATS
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
June 30, 2017

TOTAL FUND BALANCES	\$ 3,168,660
 <i>Capital assets, pension liabilities, and deferred outflows are not financial resources or obligations and therefore are not reported in the Governmental funds:</i>	
Cost of capital assets	\$ 7,746,653
Net pension liability	\$ (549,881)
Deferred outflows of resources related to pensions	\$ 277,945
 <i>Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due. These liabilities consist of:</i>	
Accrued Interest payable	\$ (112,910)
Accrued compensated absences payable	\$ (62,034)
Bonds Payable	\$ (533,000)
Loans Payable	\$ (4,951,903)
 Other Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	
Deferred inflows of resources related to pensions	<u>\$ (19,426)</u>
 TOTAL NET POSITION	 <u>\$ 4,964,103</u>

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CITY OF YACHATS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
June 30, 2017

	<u>General Fund</u>	<u>Street Fund</u>	<u>Capital Expenditure Reserve Fund</u>	<u>Debt Service Reserve Fund</u>
REVENUES				
Property Taxes	\$ 43,278	\$ -	\$ -	\$ 40,607
Other Taxes and assessments	\$ 1,044,486	\$ -	\$ 345,990	\$ -
Intergovernmental	\$ 17,138	\$ 43,875	\$ -	\$ -
Licenses and permits	\$ 24,669	\$ -	\$ -	\$ -
USFS contract	\$ -	\$ -	\$ -	\$ -
Charges for services	\$ -	\$ -	\$ -	\$ -
Investment revenue	\$ 15,645	\$ 173	\$ 7,033	\$ 3,902
Sale of Inventory	\$ -	\$ -	\$ -	\$ -
Other Revenue	\$ 9,963	\$ -	\$ 15,000	\$ -
Total Revenues	\$ 1,155,179	\$ 44,048	\$ 368,023	\$ 44,509
EXPENDITURES				
Current				
General government	\$ 395,932	\$ -	\$ -	\$ -
Public Safety	\$ 3,275	\$ -	\$ -	\$ -
Public Works	\$ -	\$ 88,024	\$ -	\$ -
Culture and recreation	\$ -	\$ -	\$ -	\$ -
Debt Services				
Principle	\$ -	\$ -	\$ -	\$ 346,837
Interest	\$ -	\$ -	\$ -	\$ 214,292
Capital outlay	\$ -	\$ -	\$ 266,605	\$ -
Total expenditures	\$ 399,207	\$ 88,024	\$ 266,605	\$ 561,129
Excess (deficiency) of revenues over (under) expenditure	\$ 755,971	\$ (43,976)	\$ 101,418	\$ (516,621)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ -	\$ 79,777	\$ 629,352	\$ 510,000
Operating transfers out	\$ (677,497)	\$ (3,867)	\$ (335,000)	\$ -
Total Other financing sources (uses)	\$ (677,497)	\$ 75,910	\$ 294,352	\$ 510,000
Net Change in fund balances	\$ 78,474	\$ 31,934	\$ 395,770	\$ (6,621)
BEGINNING FUND BALANCES	\$ 412,534	\$ 39,599	\$ 1,443,150	\$ 584,397
ENDING FUND BALANCE	\$ 491,009	\$ 71,533	\$ 1,838,919	\$ 577,777

Highway 101	City Amenities Fund	Urban Renewal District Component Unit	Other Governmental Funds	Total
\$ -	\$ -	\$ 251,444	\$ -	\$ 335,328
\$ -	\$ -	\$ -	\$ -	\$ 1,390,476
\$ 1,000,000	\$ 1,050	\$ -	\$ 296,619	\$ 1,358,682
\$ -	\$ -	\$ -	\$ -	\$ 24,669
\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ 45,545	\$ -	\$ 83,134	\$ 128,679
\$ 2,249	\$ -	\$ 809	\$ 2,259	\$ 32,070
\$ -	\$ 260	\$ -	\$ -	\$ 260
\$ -	\$ 153,249	\$ -	\$ -	\$ 178,212
<u>\$ 1,002,249</u>	<u>\$ 200,104</u>	<u>\$ 252,253</u>	<u>\$ 382,011</u>	<u>\$ 3,448,375</u>
		\$ 1,020		\$ 1,020
\$ -	\$ -	\$ -	\$ -	\$ 395,932
\$ -	\$ -	\$ -	\$ -	\$ 3,275
\$ -	\$ 41,023	\$ -	\$ -	\$ 129,047
\$ -	\$ 105,629	\$ -	\$ 120,131	\$ 225,759
\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ 346,837
\$ -	\$ -	\$ -	\$ -	\$ 214,292
\$ 2,358,029	\$ -	\$ -	\$ 95,864	\$ 2,720,498
<u>\$ 2,358,029</u>	<u>\$ 146,652</u>	<u>\$ 1,020</u>	<u>\$ 215,995</u>	<u>\$ 4,036,661</u>
\$ (1,355,780)	\$ 53,452	\$ 251,233	\$ 166,017	\$ (588,286)
\$ 421,000	\$ 240,222	\$ -	\$ 396,515	\$ 2,276,866
\$ -	\$ (314,720)	\$ (245,000)	\$ (413,249)	\$ (1,989,333)
<u>\$ 421,000</u>	<u>\$ (74,498)</u>	<u>\$ (245,000)</u>	<u>\$ (16,734)</u>	<u>\$ 287,533</u>
\$ (934,780)	\$ (21,046)	\$ 6,233	\$ 149,283	\$ (300,753)
\$ 435,222	\$ 5,527	\$ 62,003	\$ 486,980	\$ 3,469,413
<u>\$ (499,558)</u>	<u>\$ (15,519)</u>	<u>\$ 68,236</u>	<u>\$ 636,263</u>	<u>\$ 3,168,660</u>

CITY OF YACHATS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
June 30, 2017

NET CHANGE IN FUND BALANCE	\$	(300,753)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report pension contributions as expenditures.

However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expenses.	\$	(52,179)
---	----	----------

Property taxes receivable in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	\$	
---	----	--

Governmental funds report capital outlay as expenditures.

However, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expenses in the Statement of Activities.	\$	2,845,616
--	----	-----------

Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due. These liabilities consist of:

Change in accrued interest payable	\$	(98,135)
Change in compensated absences payable	\$	(62,034)
Change in long-term debt payable	\$	346,837

CHANGE IN NET POSITION	\$	<u>2,679,352</u>
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PROPRIETARY FUNDS

CITY OF YACHATS
STATEMENT OF NET POSITION
Proprietary Funds
AS OF JUNE 30, 2017

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary</u>
ASSETS			
Current assets			
Cash and investments	\$ (18,404)	\$ 62,260	\$ 43,856
Accounts receivable	\$ 38,435	\$ 50,052	\$ 88,487
Prepaid items	\$ 3,589	\$ -	\$ 3,589
Inventory	\$ 10,759	\$ 15,646	\$ 26,405
Total current assets	<u>\$ 34,378</u>	<u>\$ 127,958</u>	<u>\$ 162,337</u>
Noncurrent assets			
Capital assets, net	\$ 2,516,719	\$ 6,257,360	\$ 8,774,079
Total assets	<u>\$ 2,551,097</u>	<u>\$ 6,385,318</u>	<u>\$ 8,936,416</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	\$ 96,354	\$ 88,943	\$ 185,297
Total deferred outflows of resources	<u>\$ 96,354</u>	<u>\$ 88,943</u>	<u>\$ 185,297</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 126	\$ 360	\$ 486
Accrued interest payable	\$ 14,920	\$ 1,540	\$ 16,460
Net pension liability	\$ 190,626	\$ 175,931	\$ 366,556
Revenue bonds payable - current portion	\$ 27,340	\$ -	\$ 27,340
Total current liabilities	<u>\$ 233,012</u>	<u>\$ 177,831</u>	<u>\$ 410,843</u>
Noncurrent liabilities			
Revenue bonds payable	\$ 512,000	\$ -	\$ 512,000
Total noncurrent liabilities	\$ 512,000	\$ -	\$ 512,000
Total liabilities	<u>\$ 745,012</u>	<u>\$ 177,831</u>	<u>\$ 922,843</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	\$ 6,735	\$ 6,216	\$ 12,951
Total deferred inflows of resources	<u>\$ 6,735</u>	<u>\$ 6,216</u>	<u>\$ 12,951</u>
NET POSITION			
Invested in capital assets, net of related debt	\$ 1,863,428	\$ 6,223,215	\$ 8,086,643
Restricted	\$ 30,869	\$ 15,646	\$ 46,515
Unrestricted	\$ 1,408	\$ 51,353	\$ 52,761
Total net position	<u>\$ 1,895,705</u>	<u>\$ 6,290,214</u>	<u>\$ 8,185,919</u>

CITY OF YACHATS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary</u>
OPERATING REVENUES			
Charges for services	\$ 607,039	\$ 577,246	\$ 1,184,285
Total operating revenues	<u>\$ 607,039</u>	<u>\$ 577,246</u>	<u>\$ 1,184,285</u>
OPERATING EXPENSES			
Public works			
Personal services	\$ 354,959	\$ 288,754	\$ 643,714
Materials and services	\$ 221,462	\$ 167,903	\$ 389,365
Depreciation	\$ 87,263	\$ 150,439	\$ 237,702
Total operating expenses	<u>\$ 663,685</u>	<u>\$ 607,096</u>	<u>\$ 1,270,781</u>
Operating income (loss)	\$ (56,646)	\$ (29,850)	\$ (86,496)
NON-OPERATING REVENUES (EXPENSES)			
Investment revenue	\$ 54	\$ 167	\$ 221
Debt service	\$ (45,425)	\$ -	\$ (45,425)
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	\$ (133,032)	\$ (154,501)	\$ (287,533)
Total non-operating revenues (expenses)	<u>\$ (178,403)</u>	<u>\$ (154,334)</u>	<u>\$ (332,737)</u>
Income before Contributions, Extraordinary and Special Items	\$ (235,049)	\$ (184,184)	\$ (419,233)
Capital Contributions	\$ 39,234	\$ 64,341	\$ 103,575
Change in net position	\$ (195,815)	\$ (119,843)	\$ (315,658)
BEGINNING NET POSITION	<u>\$ 2,091,520</u>	<u>\$ 6,410,057</u>	<u>\$ 8,501,577</u>
ENDING NET POSITION	<u>\$ 1,895,705</u>	<u>\$ 6,290,214</u>	<u>\$ 8,185,919</u>

CITY OF YACHATS
STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended June 30, 2017

	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 616,977	\$ 571,147	\$ 1,188,124
Cash payments for goods and services	\$ (223,191)	\$ (170,697)	\$ (393,888)
Cash payments to employees	\$ (297,707)	\$ (186,919)	\$ (484,627)
Net cash provided by (used by) operating activities	\$ 96,079	\$ 213,530	\$ 309,609
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers (out)	\$ (133,032)	\$ (154,501)	\$ (287,533)
Net cash provided by (used by) noncapital financing activities	\$ (133,032)	\$ (154,501)	\$ (287,533)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition, disposal, and adjustments of fixed assets	\$ (39,234)	\$ (64,341)	\$ (103,575)
Payment on long term obligations	\$ (33,271)	\$ -	\$ (33,271)
Proceeds from refunding	\$ 22,066	\$ -	\$ 22,066
Net cash provided by (used for) capital and related financing activities	\$ (50,439)	\$ (64,341)	\$ (114,780)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	\$ 55	\$ 167	\$ 222
Net cash provided by (used for) investing activities	\$ 55	\$ 167	\$ 222
Increase (decrease) in cash and investments	\$ (87,337)	\$ (5,145)	\$ (92,482)
CASH AND INVESTMENTS, BEGINNING OF YEAR	\$ 68,933	\$ 67,405	\$ 136,338
CASH AND INVESTMENTS, END OF YEAR	\$ (18,404)	\$ 62,260	\$ 43,857

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income (loss)	\$	(56,646)	\$	(29,850)	\$	(86,496)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities						
Depreciation	\$	87,263	\$	150,439	\$	237,702
Accounts receivable	\$	9,795	\$	(6,099)	\$	3,696
Deferred outflows	\$	(73,534)	\$	(67,879)	\$	(141,413)
Payables	\$	(1,585)	\$	(2,794)	\$	(4,379)
Net pension liability	\$	117,283	\$	175,931	\$	293,213
Deferred inflows	\$	13,503	\$	(6,216)	\$	7,287
Total adjustments	\$	152,724	\$	243,381	\$	396,105
Net cash provided by operating activities	\$	96,079	\$	213,530	\$	309,609

NOTES TO THE BASIC FINANCIAL STATEMENTS

Notes to the basic financial statement consist of a summary of significant accounting policies and all additional information necessary for a fair presentation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America.

City of Yachats
Lincoln County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units as required by Oregon law for Cities. The more significant of the City's accounting principles are described below.

A. Reporting Entity and Nature of Operations

The City of Yachats (City) was organized under the general laws of the State of Oregon. Control of the City is vested in its Mayor and Council Members who are elected to office by voters within the City. Administrative functions are delegated to individuals who report to and are responsible to the Mayor and Council. The chief administrative officer is the City Administrator.

The accompanying financial statements present all activities, funds, and the component unit for which the City is financially accountable. The criteria used in making this determination includes appointment of a voting majority, imposition of will, financial benefit or burden on the primary government, and fiscal dependency on the primary government.

The City Council serves as the governing board of the Yachats Urban Renewal District. Therefore, the accounts of the district are included in the financial statements of the City.

Complete financial statements for the Yachats Urban Renewal District may be obtained from the City's finance department.

B. Basis of Presentation

The Statement of Net Position and the Statement of Activities display information about the City. These statements include the governmental financial activities as well as the business-type activities of the City. Governmental activities are financed primarily through property taxes, transient room taxes, food and beverage taxes, intergovernmental revenues, and charges for services. The food and beverage taxes, however, are generally dedicated by the City to service the Sewer Project's debt incurred. The business-type activities are financed primarily through charges for services.

C. Measurement Focus and Basis of Accounting - Government Wide

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City receives value without giving equal value in exchange, include property and transient room taxes, grants, entitlements and donations. Under the accrual basis of accounting, revenue from property, transient room, special assessments, and food and beverage taxes are recognized in the fiscal year for which all eligibility requirements have been satisfied.

D. Fund Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this method revenues are recognized when they become both measurable and available to pay liabilities of the current period. The City's primary sources of revenue, property taxes, transient room taxes, special assessments, and food and beverage taxes, are considered available if collected within 60 days following year-end.

Special Assessments are considered program revenues as required by GAAS. Expenditures are recorded when the related fund liability is incurred, except principal and interest on long-term debt. Principal and interest on general long-term debt are recorded as fund liabilities when due. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

The fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. The City currently has only governmental and proprietary funds. The emphasis of fund financial statements is on major funds, each of which is displayed in a separate column. All non-major funds are aggregated and reported as other governmental funds.

Governmental Funds

Governmental funds are used to account for most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition and/or construction of general fixed assets (capital project funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for another other fund.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided to outside parties (enterprise funds). Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the funds' on-going operations. The primary operating revenues are charges to customers. Operating expenses include cost of sales, personnel costs, administration expenses and depreciation.

All proprietary funds are accounted for using a flow of economic resources measurement focus.

With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet.

The accrual basis of accounting is utilized by proprietary fund types where revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Funds

The City reports the following *major governmental funds*:

- **General Fund** - This fund accounts for all revenues and expenditures except for those required to be accounted for in another fund. The principal revenue sources are transient room taxes and property taxes.
- **Street Fund** - This fund accounts for state highway gas tax revenues, utilized for maintenance, repair, improvements, and construction of City streets.
- **Capital Expenditure Reserve Fund**- This fund is a capital expenditure fund that accounts for resources to be used for purchase of capital assets to be used by either governmental or proprietary funds. Also, transfers out are utilized to service existing sewer debt. The primary revenue sources for this fund are food and beverage taxes, special assessment program revenue, earnings on investments, intergovernmental grants, and transfers from other funds.
- **Debt Service Reserve Fund**- This is a debt service fund which accounts for money held in reserve for debt service as required by various loan covenants.
- **Highway 101 Fund**- This fund is a special revenue fund funded primarily by transfers in and an ODOT grant to be utilized for improvements to, and adjacent to, State Highway 101 within the City.
- **City Amenities Fund**- This is a special revenue fund which accounts for the various amenities provided by the City. This includes the library and parks and commons which accounts for resources primarily derived from transfers in to be utilized to enhance, facilitate, and improve recreational areas within the City.
- **Urban Renewal District** - This fund is a blended component unit of the City that receives property taxes to pay for projects and programs to improve the Urban Renewal District.

The City reports the following non-major governmental funds:

- **System Development Charges Fund**- This is a special revenue fund which accounts for acquisition and construction of improvements and expansion of infrastructure assets.
- **Storm Drain Systems Fund**- This is a special revenue fund which is primarily funded by transfers in from other funds for the purpose of public works obligation.

- **Visitor Amenities Fund-** This fund is a Special Revenue Fund that is supported primarily by transfers in to be utilized for enhancements, facilitations, and continued improvements to the City's tourism programs and revenue sources.
- **South Tank Fund-** This is a special revenue fund that is supported through state sources.

The City reports the following Major Proprietary Funds:

- **Water Operating Fund-** This fund accounts for activities of the Water Department.
- **Sewer Operating Fund-** This fund accounts for activities of the Sewer Department.

The City does not report any non-major proprietary funds.

E. Budgets

A budget is prepared and legally adopted for each governmental fund type in accordance with legal requirements set forth in the Oregon Local Budget Law. The resolutions authorizing appropriations for each fund sets the maximum legal level of expenditure. Appropriations are adopted in the categories of personal services, materials and services, capital outlay, debt service, interfund transfers, and contingencies by fund. Appropriations lapse at year end.

Unexpected additional revenues may be added to the budget through the adoption of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and approval by the City Council. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the City Council. Budget amounts shown in the financial statements include the original budget amounts plus any approved appropriation transfers and supplemental budgets. All funds are budgeted using the cash basis of accounting.

The budget comparison schedules prepared for individual accounts are presented on the cash basis method of accounting. Under this method revenue is recorded when received and disbursements are recorded when obligations are paid. The cash basis method of accounting is not consistent with generally accepted accounting principles (GAAP) but is in compliance with Oregon Local Budget Law.

The City does not expect next year's operating budget to be substantially different from the current 2016-2017 budget. The only exception expected is a year-end supplementary budget to account for funds received in February 2018 for work on the Highway 101 project.

Oregon Local Budget Law establishes standard procedures relating to the preparation, adoption, and execution of the annual budget. The budgetary fiscal period coincides with the annual reporting period (July 1 through June 30). Appropriated budgets are adopted by the executive body and, accordingly, used as a management control device for all funds. The City follows these procedures in establishing the budgetary data reflected in the budgetary comparison schedules:

1. The budget officer submits to the budget committee a proposed operating budget for the fiscal year commencing the following July 1. The operating budget included proposed expenses and the means of financing them, along with estimates for the current year, and actual data for the

two preceding years. The budget is prepared by fund, function, and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year. The resolution authorizing appropriations for each fund sets the level by which disbursements cannot legally exceed appropriations. The City has appropriated by personal services, materials and services, capital outlay, special payments, debt service, transfers, and operating contingency.

The original budget document contains more specific, detailed information for these disbursements categories.

2. The Budget Committee submits to the City Council an approved operating budget for the ensuing fiscal year.
3. Public hearings are conducted to obtain taxpayer and other interested parties' comments.
4. Prior to July 1, the budget is legally adopted, and expenditures are appropriated through the passage of a resolution. The City Council does have the authority to make certain limited changes in the budget figures approved by the Budget Committee when it adopts the budget.
5. Any revisions of appropriations, whether within a fund or between funds, require Board approval in the form of a resolution or ordinance by the Board. Supplemental budgets are prepared and adopted in the same manner as the regular budget in order to have the budget authority to make disbursements from unanticipated receipts. The presented budgetary information has been amended by resolutions and supplemental budget.
6. Budgets are adopted for each fund on the cash basis in compliance with Oregon Local Budget Law, under which revenues and related assets are recognized when received rather than when earned, and expenses are recognized when paid, rather than when the obligation is incurred, which is not intended to be in accordance with generally accepted accounting principles.
7. Formal budget integration is employed for all the funds. All annual appropriations lapse at fiscal year-end.

We reviewed the preparation, adoption, and execution of the budget for the current year and the preparation and adoption of the ensuing year's budget.

Based on the results of our tests, the City has complied with statutory requirements for the current and ensuing year's budgets.

The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations.

F. Cash and Investments

Investments, included in cash and investments, are carried at cost which approximates fair value. For purposes of the statement of cash flows, the proprietary funds consider cash and cash equivalents to include the cash and investment common pool. These amounts have the general characteristics of demand deposit accounts in that all funds may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty.

State statutes authorize the City to invest in banker's acceptances, time certificates of deposit, repurchase agreements, obligations of the U. S. Treasury and its agencies, the Oregon State Treasury's Local Government Investment Pool (LGIP), and demand deposits. The City's investments are entirely with the LGIP. The LGIP is stated at cost, which approximates fair value. Fair value of the LGIP is the same as the City's value in the pool shares.

The Oregon State Treasury administers the LGIP. It is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the State that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon legislature established the Oregon Short-Term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment options of the LGIP.

G. Accounts Receivable and Revenues

Property Taxes Receivable - Property taxes are levied and become a lien against the property as of July 1 each year and are payable in three installments on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

Transient Room Taxes Receivable - Transient room taxes are recognized as revenues when earned, and receivables at year end were \$236,175. Of the City's General Fund revenues of \$1,155,179 for the year ended June 30, 2017, \$954,188 or 83% was received from Transient Lodging Tax Revenues. Of the total Transient Lodging Tax Revenues approximately 60% were received from three motels within the City.

Also, the City collects revenues from a Food and Beverage Tax in the Capital Expenditure Reserve Fund that totaled \$323,548 for the 2016-2017 fiscal year, of which \$81,910 was included in accounts receivable at year end.

The City recognized L.I.D. Special Assessment program revenues of \$184,717 for 2016-2017 year of which \$162,275 was a year-end receivable.

An East Hillside Local Improvement City (L.I.D.) was formed during previous fiscal years to facilitate funding and construction of a residential development within the City. Primarily, these funds were used for completion of necessary infrastructure (such as a water, sewer, and electrical system, etc.). The City funded substantial portions of these L.I.D. capital construction costs. The costs of these improvements were assessed to the individual property owners who, in turn, are reimbursing the City over a period of up to fifteen years the amounts expended for these developments. Receivables for these L.I.D. assessments are recorded in the government-wide financial statements as specific program revenue when earned. Some of the property owners elected not to sign agreements with the City to pay the total assessment over the fifteen-year period. The City holds liens on all of the assessed properties.

Receivables for federal and state grants, and state, county, and local shared revenue, are recorded when due from other governments.

H. Inventories

The inventory of materials and supplies in the proprietary funds is stated at cost on the first-in, first-out basis.

I. Capital Assets

Capital assets are recorded at original or estimated original historical cost. Donated capital assets are recorded at their estimated fair market value at the time received. The City defines capital assets as assets with an initial cost of at least \$5,000 and an estimated initial useful life extending beyond a single reporting period. Interest incurred during construction is not capitalized. Maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets used in the proprietary funds are depreciated using the straight-line method over the following useful lives:

Vehicles, furniture, and equipment	10 years
Buildings	20 years
Water plant and systems	30 years
Sewer plant and systems	50 years

Upon disposal of such assets, the accounts are relieved of the related costs and accumulated depreciation and resulting gains or losses are reflected in income.

Capital assets used by governmental activities are not supported by a detailed capital asset depreciation schedule and no depreciation has been recorded on these assets (NOTE 4). While the City does not depreciate general governmental capital assets, they set aside financial reserves for City major capital improvements and replacements to ensure fiscal responsibility such as reflected in the Capital Expenditure Reserve Fund's \$1,672,008 cash balance at June 30, 2017. In lieu of governmental capital asset depreciation, the City is intending to ensure there are sufficient resources to replace or repair the asset at the end of its useful life.

Since the depreciated value is based on historical cost at acquisition, ultimate replacement or repair costs could end up costing considerably more than the resources set aside attempting to fund assets' depreciation of value.

The City of Yachats uses an approach based on estimated replacement costs. The replacement cost is periodically revised to reflect the effect of inflation. The City's approach to adequately eventually accumulate funds to replace capital assets at current fair value costs, rather than historical acquisition amounts, is conceptually more so reflective of actual future obligations the City is likely to incur when it is necessary to replace the respective capital assets. Along with this process and approach, the City maintains a Finance Committee with the objective of continually monitoring long-term financing needs of the City, identifying potential financial problems, and preparing recommendations in order for the City Council to address and appropriately act on them.

J. Long-term Debt

In the government-wide financial statements long-term debt is reported as a liability in the Statement of Net Position.

K. Retirement Plans

Substantially all of the City's employees are participants in the Oregon Public Employees Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged to expenses/expenditures as funded. Due to a pending lawsuit by others against the PERS program as a whole the City began reserving monies (initially during the previous 2013-2014 fiscal year) which are being set aside within respective City investment accounts to self-fund potential future liability resulting from the ultimate outcome which is unknown at the time of the audit report date. (See NOTE 7 on pages 55 through 62).

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expenditure/expense) until then. The City has one item that qualifies for reporting in this category. It is the deferred amounts relating to pensions. This amount is deferred and recognized as an outflow of resources in the period when the City's recognizes pension expense/expenditures. Deferred outflows are included in the government-wide Statement of Net Position and the proprietary funds Statement of Net Position, if applicable.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualify for reporting in this category. The City reports deferred amounts related to pensions. This amount is deferred and recognized as an inflow of resources in the period when the City's recognizes pension income. Deferred inflows are included in the government-wide Statement of Net Position and the proprietary funds Statement of Net Position, if applicable.

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 Oregon Public Employees Retirement System (OPERS) and additions to/deductions from OPERS's fiduciary net position have been determined on the same basis as they are reported by OPERS. 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.

M. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation benefits. All unused vacation pay is accrued when earned in the government-wide financial statements, and a liability for these amounts is reported in the basic financial statements of the governmental activities.

	Balance at 7/1/2016	Additions	Used	Balance at 6/30/2017
Compensated absences payable	\$77,628	\$60,036	\$75,630	\$62,034

N. Net Position

Net position comprises the various net earnings from operations, non-operating revenues, expenses and contributions of capital. Net position is classified in the following categories:

1. **Invested in capital assets** - Consists of net assets that are invested in buildings, equipment, and other capital assets of the City.
2. **Restricted** - Consists of external constraints placed on net position use by creditors, grantors, contributors, laws or regulations of other governments, constraints imposed by law through constitutional provisions, or enabling legislation.
3. **Unrestricted net position** - Consists of all other net assets that are not included in the other categories previously mentioned.

O. Fund Equity

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund-type Definitions. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications – non-spendable, restricted, committed, assigned, and unassigned.

- **Non-spendable fund balance** represents amounts that are not in a spendable form or because they are legally or contractually required to be maintained intact.
- **Restricted fund balance** represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation). Also, these are amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by granters or creditors.
- **Committed fund balance** represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.

- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body.
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

The details of the fund balances are included in the Balance Sheet of Governmental Funds. As noted in NOTE 1 D, restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by Council or the Assignment has been changed by an authorized City official. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned becomes zero, then Assigned and Committed Fund Balances are used in that order, as applicable.

P. Interfund Transactions

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. This includes interfund transfers occurring within governmental activities and interfund receivables and payables.

Q. 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 the reported amounts of assets and liabilities and 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 these estimates.

NOTE 2- CASH AND CASH EQUIVALENTS

Cash and investments at June 30, 2017 consisted of the following:

Petty Cash	\$ 100
Cash in checking accounts (book balances)	\$ 1,162,215
Cash in Local Government Investment Pool	\$ 1,646,873

Cash and investments are reported on the combined balance sheet as follows:

Total Cash and investments	\$ 2,809,188
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Cash and investments by funds at June 30, 2017:

Major Governmental Funds

General Fund	\$ 252,006
Street Fund	\$ 71,533
Capital Expenditure Reserve Fund	\$ 1,672,008
Debt Service Reserve Fund	\$ 576,758
Highway 101 Fund	\$ (499,558)
City Amenities Fund	\$ (17,125)
Urban Renewal District Fund	\$ 68,236

Non Major Governmental Funds

Visitor Amenities Fund	\$ 195,095
South Tank Fund	\$ 211,843
System Development Charges Fund	\$ 149,074
Storm Drain Fund	\$ 85,318
United States Forest Service Fund (USFS)	\$ 146

Total Governmental Funds	\$ 2,765,334
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Proprietary/Business Type Funds

Water Fund	\$ (18,404)
Sewer Fund	\$ 62,260

Total Proprietary/Enterprise Funds	\$ 43,856
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Total Cash and Investments	\$ 2,809,189
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Note 3 - DEPOSITS AND INVESTMENTS

A. Deposits

Deposits with financial Institutions

The Governmental Accounting Standards Board has adopted accounting principles generally accepted in the United States of America (GAAP), which include standards to categorize deposits to give an indication of the level of custodial credit risk assumed by the City at June 30, 2017. If bank deposits at year end are not entirely insured or collateralized with securities held by the City or by its agent in the City's name, the City must disclose the custodial credit risk (below) that exists.

Deposits with financial institutions are comprised of bank demand deposits. For the fiscal year ended June 30, 2017, the carrying amounts of the City deposits in various financial institutions were \$1,200,636. All deposits are held in the name of the City. At June 30, 2017, the City's deposits were covered by federal depository insurance and certifications of participation.

All deposits are held in the name of the City. At June 30, 2017 the City's deposits were covered by federal depository insurance and certifications of participation.

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 City does not have a formal deposit policy for custodial credit risk.

Effective July 1, 2008, House Bill 2901 created a shared liability structure for participating bank depositories in Oregon. Barring any exceptions, a qualifying bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of the quarter-end public fund deposits if they are adequately capitalized, or 110% of the quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public bank depositories is available to repay the deposits of public funds of governmental entities.

B. Investments

The City has invested funds in the State Treasurer's Oregon Short-term Fund Local Government Investment Pool during fiscal year 2016-2017. The Oregon Short-term Fund is the local government investment pool for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). Local Government Investment Pool (LGIP) is an external investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. The amounts invested in the pool are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 40.

In addition, the Oregon State Treasury LGIP distributes investment income on an amortized cost basis and participants' equity in the pool is determined by the amount of participant deposits, adjusted for withdrawals and distributed income. Accordingly, the adjustment to fair value would not represent an expendable increase in the City's cash position.

Investments in the Oregon State Treasury LGIP are made under the provisions of ORS 194.180. These funds are held in the City's name and are not subject to collateralization requirements or ORS 295.015. Investments are stated at amortized cost, which approximated fair value.

Credit Risk. State Statutes authorize the City 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. The City has no formal investment policy that further restricts its investment choices.

Concentration of Credit Risk. The City is required to provide information about the concentration of credit risk associated with its investments in one issuer that represents 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 City has no such investments.

Interest Rate Risk. The City has no formal investment policy that explicitly limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for governmental activities of the City for the year ended June 30, 2017 was as follows:

Description	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITY CAPITAL ASSETS				
Land and improvements	\$ 1,976,457	\$ 127,922	\$ -	\$ 2,104,379
Building and improvements	\$ 1,780,788	\$ 146,707	\$ -	\$ 1,927,495
Streets/HWY 101 Improvement	\$ 409,921	\$ 2,358,029	\$ -	\$ 2,767,950
Vehicles and Equipment	\$ 631,396	\$ -	\$ -	\$ 631,396
Software	\$ -	\$ 62,285	\$ -	\$ 62,285
Books and Periodicals	\$ 253,148	\$ -	\$ -	\$ 253,148
Total Governmental Capital Assets	\$ 5,051,710	\$ 2,694,943	\$ -	\$ 7,746,653
BUSINESS TYPE ACTIVITY CAPITAL ASSETS				
Capital assets not depreciated				
Land	\$ 113,035	\$ -	\$ -	\$ 113,035
Capital assets being depreciated				
Building and improvements	\$ 66,663	\$ -	\$ -	\$ 66,663
Vehicles and equipment	\$ 310,544	\$ 8,964	\$ -	\$ 319,508
Water plant and system	\$ 3,694,016	\$ 34,752	\$ -	\$ 3,728,768
Water reservoir	\$ 399,205	\$ -	\$ -	\$ 399,205
Wastewater treatment plant/system	\$ 7,411,371	\$ 59,859	\$ -	\$ 7,471,230
Total capital assets being depreciated	\$ 11,881,799	\$ 103,575	\$ -	\$ 11,985,374
Less accumulated depreciation				
Buildings and improvements	\$ 56,634	\$ 2,053	\$ -	\$ 58,687
Vehicles and equipment	\$ 290,537	\$ 5,172	\$ -	\$ 295,709
Water plant and system	\$ 1,535,092	\$ 73,938	\$ -	\$ 1,609,030
Water reservoir	\$ 166,118	\$ 7,984	\$ -	\$ 174,102
Wastewater treatment plant/system	\$ 1,038,376	\$ 148,426	\$ -	\$ 1,186,802
Total Accumulated Depreciation	\$ 3,086,757	\$ 237,573		\$ 3,324,330
Business-type activities cap. assets, net	\$ 8,908,077	\$ (133,998)	\$ -	\$ 8,774,079
TOTAL NET CAPITAL ASSETS	\$ 13,959,787	\$ 2,560,945	\$ -	\$ 16,520,732

Acquisitions of capital assets during 2016-2017 totaled \$2,694,943 in governmental activities and \$103,575 for business type activities.

As discussed in NOTE 1, the City does not maintain a detailed capital asset depreciation schedule for the governmental activities. Therefore, no depreciation has been charged to governmental activities. Depreciation expense in the amount of \$237,702 was charged to the business-type activities for the fiscal year.

NOTE 5 - LONG-TERM DEBT

In the following table, long-term debt information is presented separately with respect to governmental and business type activities. The table presents current year changes in those obligations and the current portion due for each.

General Obligations Bonds

12/10/92 Water Bond	\$ 780,000	2034	5%	\$ 531,294.00	\$ -	\$ 531,294.00	\$ -	\$ -	\$ -
3/17/2017 Water Refunding Bond	\$ 533,000	2031	3%	\$ -	\$ 533,000.00	\$ -	\$ -	\$ 533,000.00	\$ 29,000.00

Loans

6/17/05 DEQ	\$6,671,721	2029	2.9%	\$ 4,848,724.00	\$ -	\$ -	\$ 311,993.00	\$ 4,536,731.00	\$ 321,106.00
5/27/09 OECD Loans	\$ 519,343	2033	3.0-4.75%	\$ 432,878.00	\$ -	\$ -	\$ 17,706.00	\$ 415,172.00	\$ 17,814.00
Total Governmental activities				\$ 5,812,896.00	\$ 533,000.00	\$ 531,294.00	\$ 329,699.00	\$ 5,484,903.00	\$ 367,920.00

Business-type activities

Revenue Bonds

12/10/93 Water Bond	\$ 80,700	2033-34	5%	\$ 55,582	\$ -	\$ 55,582.00	\$ -	\$ -	\$ -
12/10/93 Water Bond	\$ 216,000	2033-34	5%	\$ 146,536	\$ -	\$ 146,536.00	\$ -	\$ -	\$ -
1/26/98 Water Bond	\$ 396,000	2037-38	4.875%	\$ 301,949	\$ -	\$ 301,949.00	\$ -	\$ -	\$ -
3/17/2017 Water Revenue Refunding Bond	\$ 512,000	2032	3%	\$ -	\$ 512,000.00	\$ -	\$ -	\$ 512,000	\$ 27,340
Total Business-type activities				\$ 504,067	\$ 512,000.00	\$ 504,067.00	\$ -	\$ 512,000	\$ 27,340

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

Revenue bonds are obligations that will be paid from revenue generated by the respective water or sewer business type activities of the City.

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	General Obligation		Revenue Bonds		Loans	
	Principal	Interest	Principal	Interest	Principal	Fees
2018	\$ 29,000	\$ 15,555	\$ 27,340	\$ 15,510	\$ 338,920	\$ 170,659
2019	\$ 30,000	\$ 14,670	\$ 28,186	\$ 14,664	\$ 348,412	\$ 158,939
2020	\$ 31,000	\$ 13,755	\$ 29,058	\$ 13,792	\$ 358,190	\$ 146,846
2021	\$ 31,000	\$ 12,825	\$ 29,957	\$ 12,893	\$ 368,263	\$ 134,374
2022	\$ 32,000	\$ 11,880	\$ 30,884	\$ 11,967	\$ 378,617	\$ 121,643
2023-2028	\$ 214,000	\$ 49,650	\$ 206,432	\$ 50,670	\$ 2,532,446	\$ 436,266
2029-2033	\$ 166,000	\$ 10,110	\$ 160,143	\$ 11,258	\$ 591,212	\$ 40,713
2034-2038					\$ 35,843	\$ 1,703
Total	\$ 533,000	\$ 128,445	\$ 512,000	\$ 130,756	\$ 4,951,903	\$ 1,211,142

NOTE 6 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2017 were as follows:

	Transfers In	Transfers Out
Major Governmental Funds		
General Fund	\$ -	\$ 677,497
Street Fund	\$ 79,777	\$ 3,867
Capital Expenditure Fund	\$ 629,352	\$ 335,000
Debt Service Reserve	\$ 510,000	\$ -
Highway 101	\$ 421,000	\$ -
City Amenities	\$ 240,222	\$ 314,720
Urban Renewal City (component unit)	-	\$ 245,000
<i>Total Major Governmental Funds</i>	<u>\$ 1,880,351</u>	<u>\$ 1,576,084</u>
Nonmajor Governmental Funds		
Visitor Amenities	\$ 362,315	\$ 258,249
South Tank	\$ 4,000	\$ -
System Development Charges	\$ -	\$ 155,000
Storm Drains	\$ 30,200	\$ -
<i>Total Nonmajor Governmental Funds</i>	<u>\$ 396,515</u>	<u>\$ 413,249</u>
Total Governmental Funds	<u>\$ 2,276,866</u>	<u>\$ 1,989,333</u>
Proprietary Funds		
Water Fund	-	\$ 133,032
Sewer Fund	-	\$ 154,501
Total Proprietary Funds		<u>\$ 287,533</u>
Total	<u>\$ 2,276,866</u>	<u>\$ 2,276,866</u>

Transfers are routinely made for the following purposes:

- To move revenues from the fund in which statute or budget requires them to be collected to the fund from which statute or budget requires them to be expended;
- To move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due
- To move unrestricted revenues collected in the General Fund to finance various programs and activities accounted for in other funds in accordance with budgetary authorizations;
- To move revenues collected from restricted sources to other funds to pay for direct expenses
- To move monies to start a new fund.

During fiscal year 2017 all transfers reported above were made for one of these purposes.

NOTE 7 - PENSION PLANS

Plan Description

Employees of the City are provided with pensions through the Oregon Public Employees Retirement System (OPERS) a cost-sharing multiple-employer defined benefit pension plan, the Oregon Legislature has delegated authority to the Public Employees Retirement Board to administer and manage the system. All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Pension Program, established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. OPERS issues a publicly available Comprehensive Annual Financial Report and Actuarial Valuation that can be obtained at http://www.oregon.gov/pers/pages/section/financial_reports/financials.aspx.

Benefits Provided

1. Tier One/Tier Two Retirement Benefit ORS Chapter 238

Pension Benefits

The PERS 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 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. 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 30 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:

- the member was employed by a PERS employer at the time of death,
- the member died within 120 days after termination of PERS-covered employment,
- the member died as a result of injury sustained while employed in a PERS-covered job, or
- the member was on an official leave of absence from a PERS-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 PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 determining the monthly benefit.

Benefit Changes

After Retirement Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 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.

2. OPSRP Pension Program (OPSRP DB)

Pension Benefits

The Pension Program (ORS Chapter 238A) provides benefits to members hired on or after August 29, 2003. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

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 2015 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.

OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member 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, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Recordkeeping

OPERS contracts with VOYA Financial to maintain IAP participant records.

Contributions

PERS 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. Employer contributions for the year ended June 30, 2017 were \$560,623, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2017 were 15.78 percent for Tier One/Tier Two General Service Member, 8.1 percent for OPSRP Pension Program General Service Members.

Pension Assets, Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the City reported a liability of \$916,469 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to June 30, 2016. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was 0.00610478 percent, which was decreased from its proportion of 0.00614149 measured as of June 30, 2015.

For the year ended June 30, 2017, the City's recognized pension expense (income) of \$155,127. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 30,321.00	\$ -
Changes in assumptions	\$ 195,461.00	\$ -
Net difference between projected and actual earnings on investments	\$ 181,056.00	\$ -
Changes in proportionate share	\$ 1,682.00	\$ 1,976.00
Differences between employer contributions and employer's proportionate share of system contributions	\$ -	\$ 30,401.00
Total (prior to post-MD contributions)	\$ 408,520.00	\$ 32,377.00
Contributions subsequent to the MD	\$ 54,721.00	\$ -
Net Deferred Outflow/(inflow) of Resources	\$ 463,241.00	\$ 32,377.00

Amounts reported as deferred outflows or inflows of resources related to pensions will be recognized in pension expense/ (income) as follows:

Year ended June 30	Deferred Outflow/(inflow) of Resources (prior to post-measurement date contributions)
2018	\$ 118,853.00
2019	\$ 64,125.00
2020	\$ 131,980.00
2021	\$ 101,840.00
2022	\$ 14,042.00
Thereafter	\$ -
Total	\$ 430,840.00

The employer contribution rates effective July 1, 2015, through June 30, 2017, were set using the entry age normal 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.

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2014
Measurement Date	June 30, 2016
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.50 percent
Long-Term Expected Rate of Return	7.50 percent
Discount Rate	7.50 percent
Projected Salary Increases	3.50 percent overall payroll growth
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and grade COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision, blend based on service
Mortality	<p>Health retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.</p> <p>Active Members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.</p>

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.

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/Strategy	Assumed Asset Allocation		
	Low Range	High Range	Target
Cash	0.0%	3.0%	0.0%
Debt Securities	15.0%	25.0%	20.0%
Public Equity	32.5%	42.5%	37.5%
Private Equity	13.5%	21.5%	17.5%
Real Estate	9.5%	15.5%	12.5%
Alternative Equity	0.0%	12.5%	12.5%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			100.0%

Asset Class	Target Allocation	Compounded Annual Return (Geometric)
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.31%	6.99%
Micro Cap US Equities	1.31%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Foreign Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equities	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds- Diversified	2.50%	4.64%
Hedge Fund- Event-driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
Total	100%	

Assumed Inflation - Mean

2.50%

Depletion Date Projection

GASB 68 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's

Fiduciary Net Position is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASB 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for PERS:

- PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 68 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan’s funded position.

Based on these circumstances, it is our independent actuary’s opinion that the detailed depletion date projections outlined in GASB 68 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

Discount Rate

The discount rate used to measure the total pension liability was 7.5 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.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5percent) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's Proportionate Share of the Net Pension Liability	\$ 1,479,792	\$ 916,469	\$ 445,630

Pension Plan Fiduciary Net Position

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

Changes in Plan Provisions Subsequent to Measurement Date

There were no changes subsequent to the measurement date.

Postemployment Health Insurance Plan Retirement Health Insurance Account (RHIA)

As a member of Oregon Public Employees Retirement System (OPERS) the City contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other postemployment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund.

Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, OR 97281-3700.

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating governments are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently 0.53% of annual covered payroll for Tier I and Tier II employees and 0.45% for OPSRP employees. The OPERS Board of Trustees sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

The City's contributions to RHIA for the years ended June 30, 2017, 2016 and 2015 were \$2,529.59, \$2,447.56, and \$2,963.34.

NOTE 8 - RISK MANAGEMENT AND CONCENTRATIONS

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance to defray these and other risks of loss including excess liability, workers' compensation, boiler and machinery, public official bond and employee dishonesty and contractor's license bond coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The City's transient room and food and beverage tax revenues are the largest sources of income for both the General Fund and Capital Expenditures Reserve Fund. (see NOTE 1G on page 21 for details.)

Over the past four or five years, the City has experienced substantial increases in the number of vacation rental properties licensed with the City. The City also has continued to incur current efforts ramping up marketing ideas, calling specific attention to vacation rental opportunities in Yachats, Oregon. The City continued these efforts during the 2016-2017 fiscal period. So far this work-in progress marketing strategy has shown positive results.

NOTE 9- RELATED PARTY TRANSACTIONS

During the 2016-2017 fiscal year, a council member and spouse contributed \$15,000 to the City. This council member was instrumental in providing volunteer services to the City implementing computerized systems for certain tax resources of the City (Transient Room and Food and Beverage.) The same council member received \$6,425.24 of expense reimbursements during the fiscal year.

The City reimburses the Mayor and council members for expenses occurred on its behalf. During the fiscal year ended June 30, 2017, reimbursements totaled \$361.00 for the Mayor and two other council members along with the aforementioned council member.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

On March 8, 2005 voters in the City approved a bond measure. This measure authorizes the City of issue up to \$5.9 million to construct, expand and improve the City's sewer system. As of the audit report date, the City has not issued these bonds.

Bonds issued by a city for water; sanitary or storm sewers; sewage disposal plants; hospitals; infirmaries; gas, power, or lighting purposes; the acquisition, establishment, construction, or reconstruction of any off-street motor vehicle parking facility; or bonds issued pursuant to applications to pay assessments for improvements in installments under statutory or city charter authority are not subject to the debt limitation imposed by Oregon Revised Statutes 287.004.

The City is researching past System Development Charges (SDC's) apportionments and Interfund transfers and/or loans to ensure viability and compliance with all applicable requirements, including State Revised Statutes. A possibility exists, the outcome of which is undeterminable by the City as of the audit report date, that certain material interfund loans or transfers exist, such as to/from the Capital Expenditures Reserve Fund to/from the SDC Fund, both of which are Governmental Funds, for monies transferred or loaned during

previous fiscal years to finance improvements and capital construction to the City's Local Improvement District.

NOTE 11- SUBSEQUENT EVENTS

Professional standards require evaluation and disclosure of significant events affecting the City that take place subsequent to the current fiscal year ended June 30, 2017. For the audit period ending June 30, 2017 the City reported a negative fund balance in the Highway 101 fund. This negative fund balance was the result of timing between when work was performed on the Highway 101 project and when the available funding from the Oregon Department of Transportation (ODOT) was measurable and available. The funding for the project became available in February 2018. This funding, had it been measurable and available during the financial reporting period would have reduced the negative fund balance by \$490,144.

REQUIRED SUPPLEMENTARY INFORMATION

City of Yachats, Oregon
Statement of Proportionate Share of Net Pension Liability
For the Last Three Fiscal Years Ended June 30, 2017

<u>Year Ended June 30,</u>	<u>City's proportion of net pension liability (asset)</u>	<u>City's proportionate share of the net pension liability (asset)</u>	<u>City's covered payroll</u>	<u>City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll</u>	<u>Plan fiduciary net position as a percentage of total net pension liability</u>
2017	0.00610478%	\$ 916,469	\$501,735.31	182.66%	91.90%
2016	0.00614149%	352,611	\$564,784.87	62.43%	103.60%
2015	0.00610478%	(136,338)	\$536,654.79	-25.41%	91.97%

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

City of Yachats, Oregon
Schedule of Contributions-Oregon Public Employees Retirement System
For the Last Three Fiscal Years Ended June 30, 2017

<u>Year Ended June 30,</u>	<u>Statutorily required contribution</u>	<u>Contributions in relation to the statutorily required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>City's covered payroll</u>	<u>Contributions as a percent of covered payroll</u>
2017	\$ 54,729.29	\$ 54,729.29	\$	\$ 560,623.00	9.76%
2016	\$ 49,732.00	\$ 49,732.00	\$	\$ 501,735.31	9.91%
2015	\$ 43,269.00	\$ 43,269.00	\$	\$ 564,784.87	7.66%

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

City of Yachats, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Property taxes	40,611	40,611	43,278	2,667
Other taxes	839,900	839,900	1,044,486	204,586
Intergovernmental	25,869	25,869	-	(25,869)
Licenses and permits	26,700	26,700	24,669	(2,031)
Investment revenue	12,000	12,000	15,645	3,645
Other local revenue	4,000	4,000	5,551	1,551
State revenue	4,000	4,000	17,138	13,138
Miscellaneous	14,629	14,629	4,412	(10,217)
Total revenues	967,709	967,709	1,155,179	187,470
EXPENDITURES				
General government				
Personal services	235,194	235,194	174,689	(60,505)
Materials and services	225,342	225,342	224,518	(824)
Capital expenditures	1,000	1,000	-	(1,000)
Total general government	461,536	461,536	399,207	(62,329)
Contingency	24,830	58,830	-	(58,830)
Total expenditures	486,366	520,366	399,207	(121,159)
Excess (deficiency) of revenues over (under) expenditures	481,343	447,343	755,971	308,628
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	(654,313)	(620,313)	(612,015)	8,298
Total other financing sources (uses)	(654,313)	(620,313)	(612,015)	8,298
Net change in fund balance	(172,970)	(172,970)	143,956	316,926
BEGINNING FUND BALANCE	172,970	172,970	412,534	239,564
ENDING FUND BALANCE	-	-	556,491	556,491

City of Yachats, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
Street Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final
	Original	Final	Amounts	Budget
REVENUES				
Intergovernmental	41,666	41,666	43,875	2,209
Other revenue	-	-	173	173
Total revenues	<u>41,666</u>	<u>41,666</u>	<u>44,048</u>	<u>2,382</u>
EXPENDITURES				
Public works				
Personal services	18,753	18,753	54,333	35,580
Materials and services	28,302	28,302	33,691	5,389
Capital outlay	115,700	115,700	-	(115,700)
Total expenditures	<u>162,755</u>	<u>162,755</u>	<u>88,024</u>	<u>(74,731)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(121,089)</u>	<u>(121,089)</u>	<u>(43,976)</u>	<u>77,113</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	79,777	79,777	79,777	
Operating transfers out	(3,867)	(3,867)	(3,867)	
Total other financing sources (uses)	<u>75,910</u>	<u>75,910</u>	<u>75,910</u>	
Net change in fund balance	<u>(45,179)</u>	<u>(45,179)</u>	<u>31,934</u>	<u>77,113</u>
BEGINNING FUND BALANCE	<u>45,180</u>	<u>45,180</u>	<u>39,599</u>	<u>(5,581)</u>
ENDING FUND BALANCE	<u>1</u>	<u>1</u>	<u>71,533</u>	<u>71,532</u>

City of Yachats, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
Highway 101 Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
ODOT grant	520,000	520,000	1,000,000	480,000
Investment Revenue	-	-	2,249	2,249
Total Revenues	<u>520,000</u>	<u>520,000</u>	<u>1,002,249</u>	<u>482,249</u>
Expenditures				
Reserved for future expenditures	48,575	48,575	-	(48,575)
Capital expenditures	1,735,000	1,735,000	2,358,029	623,029
Total expenditures	<u>1,783,575</u>	<u>1,783,575</u>	<u>2,358,029</u>	<u>574,454</u>
Excess (deficiency) of revenues over (under) expenditures	(1,263,575)	(1,263,575)	(1,355,780)	(92,205)
Other financing sources (uses)				
Operating transfers in	825,000	825,000	421,000	(404,000)
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>825,000</u>	<u>825,000</u>	<u>421,000</u>	<u>(404,000)</u>
Net change in Fund balance	<u>(438,575)</u>	<u>(438,575)</u>	<u>(934,780)</u>	<u>(496,205)</u>
Beginning fund balance	<u>438,575</u>	<u>438,575</u>	<u>435,222</u>	<u>(3,353)</u>
Ending fund balance	<u>-</u>	<u>-</u>	<u>(499,558)</u>	<u>(499,558)</u>

City of Yachats, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
City Amenities Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Intergovernmental	6,000	6,000	1,050	(4,950)
Charges for Services	41,300	41,300	45,545	4,245
Sale of Inventory	300	300	260	(40)
Other Revenue	2,900	2,900	153,249	150,349
Total revenues	50,500	50,500	200,104	149,604
EXPENDITURES				
General government				
Personal services	16,954	16,954	18,866	18,866
Materials and services	96,988	96,988	127,786	127,786
Capital expenditures	17,500	17,500		
Total expenditures	131,442	131,442	146,652	146,652
Excess (deficiency) of revenues over (under) expenditures	<u>(80,942)</u>	<u>(80,942)</u>	<u>53,452</u>	<u>2,952</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	240,222	200,222	240,222	40,000
Operating transfers out	<u>(164,720)</u>	<u>(124,720)</u>	<u>(314,720)</u>	<u>(190,000)</u>
Total other financing sources (uses)	75,502	75,502	(74,498)	(150,000)
Net change in fund balance	(5,440)	(5,440)	(21,046)	(147,048)
BEGINNING FUND BALANCE	5,440	5,440	5,527	87
ENDING FUND BALANCE	-	-	(15,519)	(15,519)

City of Yachats, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
Blended Component Unit- Urban Renewal District
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Property taxes	242,836	242,836	251,444	8,608
Other local sources			-	-
Investment revenue			809	809
Total revenues	<u>242,836</u>	<u>242,836</u>	<u>252,253</u>	<u>9,417</u>
EXPENDITURES				
General government				-
Personal services	14,629	14,629	-	(14,629)
Materials and services	2,125	2,125	1,020	(1,105)
Reserved for future expenditures	26,638	26,638	-	(26,638)
Total expenditures	<u>43,392</u>	<u>43,392</u>	<u>1,020</u>	<u>(42,372)</u>
Excess (deficiency) of revenues over (under) expenditures	199,444	199,444	251,233	51,789
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>(264,132)</u>	<u>(264,132)</u>	<u>(245,000)</u>	<u>19,132</u>
Net change in fund balance	(64,688)	(64,688)	6,233	70,921
BEGINNING FUND BALANCE	<u>64,688</u>	<u>64,688</u>	<u>62,003</u>	<u>(2,685)</u>
ENDING FUND BALANCE	<u>-</u>	<u>-</u>	<u>68,236</u>	<u>68,236</u>

SUPPLEMENTARY INFORMATION

City of Yachats, Oregon
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2017

	Combined Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
Assets		
Cash and investments	\$ 641,475	\$ 641,475
Unsegregated tax collections	-	-
Property taxes receivable	-	-
Total assets	\$ 641,475	\$ 641,475
Liabilities		
Accounts payable	\$ 5,212	\$ 5,212
Deferred revenue	-	-
Total Liabilities	\$ 5,212	\$ 5,212
Fund Balances		
Assigned	\$ 636,263	\$ 636,263
Total fund balances	\$ 636,263	\$ 636,263
Total liabilities and fund balances	\$ 641,475	\$ 641,475

City of Yachats, Oregon
Combining Balance Sheet
Non-Major Special Revenue Funds
June 30, 2017

	Visitor Amenities Fund	South Tank Fund	System Development Charges Fund	Storm Drain	USFS	Total
Assets						
Cash and investments	195,095	211,843	149,074	85,318	146	641,475
Liabilities						
Accounts Payable	-	-	-	5,066	146	5,212
Fund Balances						
Assigned	195,095	211,843	149,074	80,252	-	636,264
Total fund balances	195,095	211,843	149,074	80,252	-	636,264
Total liabilities and fund balances	195,095	211,843	149,074	85,318	146	641,475

City of Yachats, Oregon
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
June 30, 2017

	Combined Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES		
Intergovernmental	296,619	296,619
Charges for services	83,134	83,134
Investment revenue	2,259	2,259
Total revenues	<u>382,011</u>	<u>382,011</u>
EXPENDITURES		
Current		
Public works	-	-
Culture and recreation	42,110	42,110
Debt service	-	-
Principal	-	-
Interest and fees	-	-
Capital outlay	<u>173,885</u>	<u>173,885</u>
Total expenditures	<u>215,995</u>	<u>215,995</u>
Excess (deficiency) of revenues over (under) expenditures	<u>166,017</u>	<u>166,017</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers in	396,515	396,515
Operating transfers (out)	<u>(413,249)</u>	<u>(413,249)</u>
Total other financing sources (uses)	<u>(16,734)</u>	<u>(16,734)</u>
Net change in fund balances	149,283	149,283
BEGINNING FUND BALANCE	<u>486,980</u>	<u>486,980</u>
ENDING FUND BALANCE	<u><u>636,263</u></u>	<u><u>636,263</u></u>

City of Yachats, Oregon
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Special Revenue Funds
June 30, 2017

	Visitor Amenities Fund	South Tank Fund	System Development Charges Fund	Storm Drain	Total
REVENUES					
Intergovernmental		\$ 296,619		\$ -	\$ 296,619
Charges for services			\$ 83,134	\$ -	\$ 83,134
Investment revenue	\$ 1,129		\$ 1,129	\$ -	\$ 2,259
Total revenues	\$ 1,129	\$ 296,619	\$ 84,263	\$ -	\$ 382,011
EXPENDITURES					
Current					
Public works	\$ -	\$ -	\$ -	\$ -	\$ -
Culture and recreation	\$ 120,131	\$ -	\$ -	\$ -	\$ 120,131
Debt service					
Principal	\$ -	\$ -	\$ -	\$ -	\$ -
Interest and fees	\$ -	\$ -	\$ -	\$ -	\$ -
Capital outlay	\$ -	\$ 88,777	\$ -	\$ 7,087	\$ 95,864
Total expenditures	\$ 120,131	\$ 88,777	\$ -	\$ 7,087	\$ 215,995
Excess (deficiency) of revenues over (under) expenses	<u>\$ (119,002)</u>	<u>\$ 207,842</u>	<u>\$ 84,263</u>	<u>\$ (7,087)</u>	<u>\$ 166,017</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	\$ 362,315	\$ 4,000	\$ -	\$ 30,200	\$ 396,515
Operating transfers (out)	\$ (258,249)	\$ -	\$ (155,000)	\$ -	\$ (413,249)
Total other financing sources (uses)	<u>\$ 104,066</u>	<u>\$ 4,000</u>	<u>\$ (155,000)</u>	<u>\$ 30,200</u>	<u>\$ (16,734)</u>
Net change in fund balances	\$ (14,936)	\$ 211,842	\$ (70,737)	\$ 23,113	\$ 149,283
BEGINNING FUND BALANCE	\$ 210,031	\$ -	\$ 219,810	\$ 57,139	\$ 486,980
ENDING FUND BALANCE	<u>\$ 195,095</u>	<u>\$ 211,842</u>	<u>\$ 149,074</u>	<u>\$ 80,252</u>	<u>\$ 636,263</u>

City of Yachats, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
Capital Expenditure Reserve Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Food and beverage tax revenue	313,904	313,904	323,548	9,644
LID assessment	13,742	13,742	22,442	8,700
Anticipated Grants	10,000	10,000	15,000	5,000
Investment revenue	4,882	4,882	7,033	2,151
Total revenues	342,528	342,528	368,023	25,495
EXPENDITURES				
Capital outlay	750,180	710,180	266,605	(443,575)
Reserved for future expenditures	984,657	1,024,657	-	(1,024,657)
Total expenditures	1,734,837	1,734,837	266,605	(1,468,232)
Excess (deficiency) of revenues over (under) expenditures	(1,392,309)	(1,392,309)	101,418	1,493,727
OTHER FINANCING SOURCES (USES)				
Operating transfers in	459,120	459,120	629,352	170,232
Operating transfers out	(335,000)	(335,000)	(335,000)	-
Proceeds from Debt Refinancing	-	-	-	-
Total other financing sources (uses)	124,120	124,120	294,352	170,232
Net change in fund balance	(1,268,190)	(1,268,190)	395,770	1,663,960
BEGINNING FUND BALANCE	1,268,190	1,268,190	1,443,150	174,960
ENDING FUND BALANCE	-	-	1,838,919	1,838,919

City of Yachats, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
Debt Service Reserve Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Property Taxes	42,584	42,584	40,607	(1,977)
Investment Revenue	-	-	3,902	3,902
Total Revenues	<u>42,584</u>	<u>42,584</u>	<u>44,509</u>	<u>1,925</u>
Expenditures				
Debt Service Principal	348,593	348,593	346,837	(1,756)
Debt Service Interest	<u>208,628</u>	<u>208,628</u>	<u>214,292</u>	<u>5,664</u>
Total expenditures	<u>557,221</u>	<u>557,221</u>	<u>561,129</u>	<u>3,908</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(514,637)</u>	<u>(514,637)</u>	<u>(516,620)</u>	<u>(1,983)</u>
Other financing sources (uses)				
Operating transfers in	415,000	415,000	415,000	-
Operating transfers out	-	-	-	-
Contribution from URD	<u>114,132</u>	<u>114,132</u>	<u>95,000</u>	<u>(19,132)</u>
Total other financing sources (uses)	<u>529,132</u>	<u>529,132</u>	<u>510,000</u>	<u>(19,132)</u>
Net change in Fund balance	<u>14,495</u>	<u>14,495</u>	<u>(6,620)</u>	<u>(21,115)</u>
Beginning fund balance	<u>499,208</u>	<u>499,208</u>	<u>584,397</u>	<u>85,189</u>
Ending fund balance	<u>513,703</u>	<u>513,703</u>	<u>577,777</u>	<u>64,074</u>

City of Yachats, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
Visitor Amenities Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Charges for Services	-	-	-	-
Investment Revenue	482	482	1,129	647
Total Revenues	<u>482</u>	<u>482</u>	<u>1,129</u>	<u>647</u>
Expenditures				
Culture and Recreation	373,950	379,015	320,131	(58,884)
Reserved for future expenditures	79,916	80,851	-	(80,851)
Total expenditures	<u>453,866</u>	<u>459,866</u>	<u>320,131</u>	<u>(139,735)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(453,384)</u>	<u>(459,384)</u>	<u>(319,002)</u>	<u>140,382</u>
Other Financing Sources (uses)				
Operating transfers in	296,833	296,833	296,833	
Operating transfers out	<u>(58,249)</u>	<u>(52,249)</u>	<u>(58,249)</u>	<u>(6,000)</u>
Net change in fund balance	(214,800)	(214,800)	(80,418)	134,382
Beginning fund balance	<u>214,800</u>	<u>214,800</u>	<u>210,031</u>	<u>(4,769)</u>
Ending fund balance	<u>-</u>	<u>-</u>	<u>129,613</u>	<u>129,613</u>

City of Yachats, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
South Tank Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Intergovernmental	<u>1,400,000</u>	<u>1,400,000</u>	<u>296,619</u>	<u>(1,103,381)</u>
Total revenues	<u>1,400,000</u>	<u>1,400,000</u>	<u>296,619</u>	<u>(1,103,381)</u>
				-
EXPENDITURES				
Capital Outlay	<u>1,371,668</u>	<u>1,371,668</u>	<u>88,776</u>	<u>(1,282,892)</u>
Contingency	<u>178,332</u>	<u>178,332</u>		<u>(178,332)</u>
Total expenditures	<u>1,550,000</u>	<u>1,550,000</u>	<u>88,776</u>	<u>(1,461,224)</u>
				-
Excess (deficiency) of revenues over (under) expenditures	<u>(150,000)</u>	<u>(150,000)</u>	<u>207,843</u>	<u>357,843</u>
				-
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>150,000</u>	<u>150,000</u>	<u>4,000</u>	<u>(146,000)</u>
Operating transfers out	<u>-</u>	<u>-</u>		<u>-</u>
				-
Total other financing sources (uses)	<u>150,000</u>	<u>150,000</u>	<u>4,000</u>	<u>(146,000)</u>
				-
Net change in fund balance	<u>-</u>	<u>-</u>	<u>211,843</u>	<u>211,843</u>
				-
BEGINNING FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
				-
ENDING FUND BALANCE	<u>-</u>	<u>-</u>	<u>211,843</u>	<u>211,843</u>

City of Yachats, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
System Development Charges Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Charges for Services	302,824	302,824	83,134	(219,690)
Investment revenue	1,742	1,742	1,129	(613)
Total revenues	<u>304,566</u>	<u>304,566</u>	<u>84,263</u>	<u>(220,303)</u>
EXPENDITURES				
Capital outlay	195,114	195,114	-	(195,114)
Total Expenditures	<u>195,114</u>	<u>195,114</u>	<u>-</u>	<u>(195,114)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>109,452</u>	<u>109,452</u>	<u>84,263</u>	<u>(25,189)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(155,000)</u>	<u>(155,000)</u>	<u>(155,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(155,000)</u>	<u>(155,000)</u>	<u>(155,000)</u>	<u>-</u>
Net change in fund balance	<u>(45,548)</u>	<u>(45,548)</u>	<u>(70,737)</u>	<u>(25,189)</u>
BEGINNING FUND BALANCE	<u>45,547</u>	<u>45,547</u>	<u>219,810</u>	<u>174,263</u>
ENDING FUND BALANCE	<u>(1)</u>	<u>(1)</u>	<u>149,074</u>	<u>149,075</u>

City of Yachats, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget to Actual
Storm Drain Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Public works				
Personal Services	20,000	20,000	-	(20,000)
Materials and services	11,000	11,000	-	(11,000)
Capital Outlay	-	-	7,087	7,087
Total Expenditures	31,000	31,000	7,087	(23,913)
Other Financing Sources (Uses)				
Operating transfers in	30,200	30,200	30,200	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	30,200	30,200	30,200	-
Net Changes in fund balance	30,200	30,200	23,113	(7,087)
Beginning fund Balance	800	800	57,139	56,339
Ending Funding Balance	-	-	80,252	80,252

City of Yachats, Oregon
Statement of Revenues, Expenses and Changes in Net Position-Budget to Actual
Water Fund
For the Year Ended June 30, 2017

Charges for services	650,953	650,953	607,039	(43,914)
Investment Revenues	300	300	54	(246)
Total Revenues	<u>651,253</u>	<u>651,253</u>	<u>607,093</u>	<u>(44,160)</u>
Expenses				
Public Works				
Personal services	291,408	291,408	354,959	63,551
Materials and services	178,183	178,183	221,462	43,279
Debt service	39,980	39,980	45,425	5,445
Capital expenditures	1,500	1,500	-	(1,500)
Contingencies	71,566	71,566	-	(71,566)
Total Expenses	<u>582,637</u>	<u>582,637</u>	<u>621,846</u>	<u>39,209</u>
Excess(deficiency) of revenues over (under) expenses	68,616	68,616	(14,753)	(83,369)
Other Financing Sources (Uses)				
Operating transfers out	<u>(133,032)</u>	<u>(133,032)</u>	<u>(133,032)</u>	<u>-</u>
Net change in Net Position	(64,416)	(64,416)	(147,785)	(83,369)
BEGINNING NET POSITION	<u>64,416</u>	<u>64,416</u>	<u>2,091,520</u>	<u>2,027,104</u>
ENDING NET POSITION	<u>-</u>	<u>-</u>	<u>1,943,734</u>	<u>1,943,734</u>

City of Yachats, Oregon
Statement of Revenues, Expenses and Changes in Net Position-Budget to Actual
Sewer Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Charges for services	575,000	575,000	577,246	2,246
Investment revenue	600	600	167	(433)
Other local revenue	38,353	38,353	-	(38,353)
Total revenues	613,953	613,953	577,413	(36,540)
Expenses				
Public works				-
Personnel services	305,099	305,099	288,754	(16,345)
Materials and services	179,753	179,753	167,903	(11,850)
Capital expenditures	2,500	2,500	-	(2,500)
Contingencies	71,300	71,300	-	(71,300)
Total Expenses	558,652	558,652	456,657	(101,995)
Excess (deficiency) of revenues over (under) expenses	55,301	55,301	120,756	65,455
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(154,501)	(154,501)	(154,501)	-
Net Change in Net Position	(99,200)	(99,200)	(33,745)	65,455
BEGINNING NET POSITION	99,200	99,200	6,410,057	6,310,857
ENDING NET POSITION	-	-	6,376,312	6,376,312

REPORTS ON LEGAL AND OTHER REGULATORY REQUIREMENTS



**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***

Independent Auditor's Report

Honorable Mayor and City
Council Members City of Yachats
P.O. Box 345
Yachats, Oregon 97498

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Yachats, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Yachats internal control over financial reporting 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of findings and responses, we identified a certain deficiency that we considered to be a material weakness and a significant deficiency.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency 2017-02 described in the accompanying Schedule of Findings and Responses to be material weaknesses.

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. We consider the deficiency 2017-01 described in the accompanying Schedule of Findings and Responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Yachats' financial statements are free of 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*.

Responses to Findings

City of Yachats response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the City of Yachats' response and, accordingly, we express no opinion on them.

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 entity'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.

A handwritten signature in black ink that reads "Teresa Hanford".

Hanford & Associates, LLC
Richland, Washington
April 30, 2018



Schedule of Findings and Responses

Findings – Financial Statement Audit

Significant Deficiency in Internal Control Over Financial Reporting

2017-01 Preparation of Financial Statements

Criteria:

Management is responsible for maintaining its accounting records in accordance with Generally Accepted Accounting Principles (GAAP) and Government Accounting Standards Board (GASB). A complete system of internal control determines the systems adequacy for preparing the financial statements.

An adequate system of internal controls is the responsibility of the government's management. The preparation of the financial statements in accordance with GAAP and GASB requires internal controls over both 1) recording, processing and summarizing accounting data (i.e. maintaining internal books and records) and 2) reporting government-wide and fund/accounting financial statements including the related footnotes and supplemental schedules for external reporting.

Condition:

The City of Yachats has elected not to have an internal control system designed to provide for the preparation of the financial statements and related footnotes being audited.

As is the case with many small to medium sized Oregon entities, the City of Yachats has relied on its independent external auditors to assist in the preparation of the financial statements and notes as a part of the external financial reporting process. The City's ability to prepare financial statements in accordance with GAAP and GASB reporting standards is based, in part, on its external auditors, who cannot be considered a part of the City's internal control structure.

As auditors, we were requested to draft the financial statements and the accompanying notes as well as assist to making the appropriate adjustments to convert the City's financial data into appropriate GAAP reporting.

Cause:

This condition was caused by the City's decision to outsource the preparation of the annual financial statements to the external auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Effect:

As a result of this condition, the City lacked internal controls over the preparation of the financial statements in accordance with GAAP and GASB. The City relied, in part, on its external auditors who



cannot be considered a part of the City's internal control structure. While this is not uncommon for small to medium sized Oregon entities, the lack of controls impacted the City during the accounting system transition resulting in a fund structure not compliant with GAAP or GASB reporting standards.

Recommendation:

We recommend the City ensure members of management responsible for the accounting and reporting function receive and maintain appropriate training to ensure they are able to apply GAAP and GASB principles in preparing the financial statements, even if the City continues to outsource some of the

actual preparation of these statements to its independent external auditors.

Management's Response:

The City has evaluated the cost v. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP and GASB and determined that it is in the best interests of the government to outsource this task to its qualified accountant and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation on a continuous timely basis.

Material Weakness in Internal Control Over Financial Reporting

2017-02 Governmental Accounting Requirements

Criteria:

Management is responsible for maintaining its accounting records in accordance with Generally Accepted Accounting Principles (GAAP) and Government Accounting Standards Board (GASB). A complete system of internal control determines the systems adequacy for preparing the financial statements.

GASB is the standard setting body for state and local governments. GASB requires the City to maintain separate fund categories, as applicable:

- Governmental Funds – used to account for activities primarily supported by taxes, grants, and similar revenue resources;
- Proprietary Funds – used to account for activities that receive significant support from fees and charges; and
- Fiduciary Funds – used to account for resources that a government holds as a trustee or agent on behalf of an outside party and that cannot be used to support the government's own programs.

Governmental funds are further categorized by fund type:

- General Fund – main operating fund used to account for resources not accounted for and reported in another fund;
- Special Revenue Fund – used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects;



- Capital Projects Fund – used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays;
- Debt Service Fund – used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest; and
- Permanent Funds – used to account for and report resources that are restricted to the extent that only the earnings, and not principal may be used for the benefit of the government.

Condition:

During the FY 2017 year the City transitioned to a new accounting system. During this transition, the previous fund structure was eliminated, and a new structure was designed. This new structure was not compliant with governmental fund accounting and resulted in the financial data requiring restatement. This resulted in significant time and resources from City staff.

Cause:

City personnel responsible for the new financial structure did not have the training necessary to ensure compliance with GAAP and GASB reporting requirements.

Effect:

Significant time and resources from City staff were required to restate the financial data, which also resulted in the delayed completion of the audit and increased audit costs.

The current fund structure does not properly segregate restricted revenues to ensure that monies are spent in accordance with their restricted purpose.

If the fund structure in the accounting system remains, City personnel will need to restate the financial data on an annual basis to comply with GAAP and GASB requirements, which increases the administrative burden to City personnel.

Recommendation:

We recommend the City ensure members of management responsible for the accounting and reporting function receive and maintain appropriate training to ensure they are able to apply GAAP and GASB principles in preparing the financial statements. We further recommend the City consider structuring its accounting system to comply with fund reporting requirements.

Management's Response:

Management has reviewed the structure recommended by the audit management and agrees that structuring the accounting system to comply with fund reporting requirements to be compliant with governmental fund accounting minimizes the need for staff time and resources to restate financial data, thereby delaying the completion of the audit and resulting in increased audit costs.



Independent Auditor's Report Required by Oregon State Regulations

We have audited the basic financial statements of the City of Yachats as of and for the year ended June 30, 2017 and have issued our report thereon dated April 30, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State.

Compliance

As part of obtaining reasonable assurance about whether the City of Yachats, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162 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 statement amounts:

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Highway revenues used for public highways, roads and streets.**
- **Programs funded from outside sources.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials. The City does not have any elected officials collecting or receiving money.**

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. In connection with our testing nothing came to our attention that caused us to believe the City of Yachats, Oregon 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 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations* except as follows:

1. The City was out of compliance with Oregon budget law, with the following exceptions:
 - a. Could not determine whether the City was in compliance with the following requirements due to a significant change in fund structure effective January 1, 2017:
 - i. Whether the estimate of beginning cash balances by fund for the ensuing year (2017-2018 budget) was reasonable.



- ii. Whether the excess of actual revenues over actual expenditures in second preceding year equaled beginning balance in first preceding year for the 2017-2018 budget.
- b. The City's 2017-2018 budget document did not comply with:
 - i. ORS 294.361(2)(a), which requires the budget to include, as a resource, the balance of cash, cash equivalents and investments that will remain in each fund on the last day of the current budget period.
 - ii. ORS 294.388(1), which requires estimates of expenditures and other requirements for the ensuing year or budget period. The estimates must be reconciled so that the total amount of expenditures and other requirements in each fund equals the total amount of resources in the fund for the same period.
 - iii. ORS 294.388(2)-(4), which requires the budget to be prepared by organizational unit or program, with specified object classifications for personal services, materials and services, capital outlay, transfers, general operating contingency, and debt service.
- c. The following funds reported a negative cash balance for the year ended June 30, 2017, as audit procedures could not determine compliance with exceeding appropriations due to the restructuring of the funds that occurred January 1, 2017:
 - i. Highway 101 Fund – (\$490,144)
 - ii. City Amenities Fund – (\$15,519)

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the City of Yachats, Oregon'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 City of Yachats, Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Yachats, Oregon's internal control.



We noted certain matters that are found in the schedule of findings and response on pages 88 through 91 of this report.

This report is intended solely for the information and use of the board of directors/council members/commissioners and management of City of Yachats, Oregon and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

A handwritten signature in black ink that reads "Teresa Hanford".

Hanford & Associates, LLC
Richland, Washington
April 30, 2018