

Financial Statements
June 30, 2018
City of Yachats

**CITY OF YACHATS
LINCOLN COUNTY, OREGON**

OFFICERS AND MEMBERS OF THE GOVERNING BOARD
June 30, 2018

City Council

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Yachats, Oregon, 97498

Greg Scott, Council President
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Yachats, Oregon, 97498

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**CITY OF YACHATS
LINCOLN COUNTY, OREGON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

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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, 2018, 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, aggregate blended component unit, each major fund, and the aggregate remaining fund information of the City of Yachats, Oregon, as of June 30, 2018, 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 stated, in all material respects in relation 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 December 31, 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

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 31, 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 cursive script that reads "Teresa Hanford".

Hanford & Associates, LLC
Richland, Washington
December 31, 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, Capital Expenditure Reserve Fund, Visitors Amenities Fund, Street 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 2017-18 and 2016-17 fiscal years, compared to 6 months in the 2015-16 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. The City is looking to examine ways to diversify and increase resources over the long-term to continue to support these budgets.

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 months 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 years 2016-17 and 2017-18. 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. 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 various revenue lines for expenditure.
- The Highway 101 Project was completed, and the construction of the South Water Reservoir is expected to be complete by the year end.
- New construction activity within the Urban Renewal District 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 continues to review water conservation needs, particularly in the summer, as well as, the needs of maintaining our infrastructure (water, sewer, streets).

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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, 2018; then 2017:

	Statement of Net Position								
	30-Jun-18			30-Jun-17			Change		
	Governmental	Business Type	Total	Governmental	Business Type	Total	Governmental	Business Type	Total
Assets									
Cash and Investments	\$ 3,261,222	\$ 188,136	\$ 3,449,358	\$ 2,765,334	\$ 43,856	\$ 2,809,190	\$ 495,888	\$ 144,280	\$ 640,168
Other Assets	\$ 521,148	\$ 117,118	\$ 638,266	\$ 497,815	\$ 118,481	\$ 616,296	\$ 23,333	\$ (1,363)	\$ 21,970
Capital Assets, net	\$ 9,756,125	\$ 8,843,741	\$ 18,599,866	\$ 7,746,653	\$ 8,774,079	\$ 16,520,732	\$ 2,009,472	\$ 69,662	\$ 2,079,134
Total Assets	\$ 13,538,494	\$ 9,148,995	\$ 22,687,489	\$ 11,009,802	\$ 8,936,416	\$ 19,946,218	\$ 2,528,692	\$ 212,579	\$ 2,741,271
Deferred Outflows of Resources									
Deferred amounts related to pensions	\$ 134,582	\$ 89,722	\$ 224,304	\$ 277,945	\$ 185,297	\$ 463,242	\$ (143,363)	\$ (95,575)	\$ (238,938)
Current Liabilities	\$ 1,235,103	\$ 327,597	\$ 1,562,700	\$ 1,187,236	\$ 410,843	\$ 1,598,079	\$ 47,867	\$ (83,246)	\$ (35,379)
Long-term Liabilities	\$ 4,738,571	\$ 456,474	\$ 5,195,045	\$ 5,116,983	\$ 512,000	\$ 5,628,983	\$ -	\$ -	\$ -
Total Liabilities	\$ 5,973,674	\$ 784,071	\$ 6,757,745	\$ 6,304,219	\$ 922,843	\$ 7,227,061	\$ (330,545)	\$ (138,772)	\$ (469,317)
Deferred Inflows of Resources									
Deferred amounts related to pensions	\$ 50,551	\$ 33,701	\$ 84,252	\$ 19,426	\$ 12,951	\$ 32,377	\$ 31,125	\$ 20,750	\$ 51,875
Net Position:									
Invested in Capital Assets, net of related debt	\$ 4,103,513	\$ 8,297,809	\$ 12,401,322	\$ 2,794,750	\$ 8,133,158	\$ 10,927,908			
Restricted	\$ 2,436,100	\$ 58,496	\$ 2,494,596	\$ 2,039,007	\$ -	\$ 2,039,007	\$ 397,093	\$ 58,496	\$ 455,589
Unrestricted	\$ 1,098,427	\$ 64,636	\$ 1,163,063	\$ 130,346	\$ 52,761	\$ 183,107	\$ 968,081	\$ 11,875	\$ 979,956
Total Net Position	\$ 7,638,040	\$ 8,420,942	\$ 16,058,982	\$ 4,964,103	\$ 8,185,919	\$ 13,150,022	\$ 2,673,937	\$ 235,023	\$ 2,908,960

Statement of Activities									
30-Jun-18			30-Jun-17			Change			
Governmental	Business Type	Total	Governmental	Business Type	Total	Governmental	Business Type	Total	
Revenues									
Program revenues									
Charges for services	\$ 52,128	\$ 1,284,848	\$ 1,336,976	\$ 153,244	\$ 1,184,285	\$ 1,337,529	\$ (101,116)	\$ 100,563	\$ (553)
Operating Grants and Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Grants and Contributions	\$ -	\$ 312,641	\$ 312,641	\$ 1,000,000	\$ 103,575	\$ 1,103,575	\$ (1,000,000)	\$ 209,066	\$ (790,934)
General Revenues									
Taxes	\$ 1,919,877	\$ -	\$ 1,919,877	\$ 1,725,804	\$ -	\$ 1,725,804	\$ 194,073	\$ -	\$ 194,073
Intergovernmental	\$ 1,547,683	\$ -	\$ 1,547,683	\$ 358,682	\$ -	\$ 358,682	\$ 1,189,001	\$ -	\$ 1,189,001
Interest	\$ 44,062	\$ -	\$ 44,062	\$ 32,070	\$ 221	\$ 32,291	\$ 11,992	\$ (221)	\$ 11,771
Other	\$ -	\$ -	\$ -	\$ 178,472	\$ -	\$ 178,472	\$ (178,472)	\$ -	\$ (178,472)
Total Revenues	\$ 3,563,750	\$ 1,597,489	\$ 5,161,239	\$ 3,448,272	\$ 1,288,081	\$ 4,736,353	\$ 115,478	\$ 309,408	\$ 424,886
Expense									
Governmental activities	\$ 1,161,212	\$ -	\$ 1,161,212	\$ 1,056,452	\$ -	\$ 1,056,452	\$ 104,760	\$ -	\$ 104,760
Business-type Activities	\$ -	\$ 1,118,406	\$ 1,118,406	\$ -	\$ 1,316,206	\$ 1,316,206	\$ -	\$ (197,800)	\$ (197,800)
Total Expenses	\$ 1,161,212	\$ 1,118,406	\$ 2,279,618	\$ 1,056,452	\$ 1,316,206	\$ 2,372,658	\$ 104,760	\$ (197,800)	\$ (93,040)
Excess (deficiency) of revenues over (under) expenditures									
	\$ 2,402,538	\$ 479,083	\$ 2,881,621	\$ 2,391,820	\$ (28,125)	\$ 2,363,695	\$ 10,718	\$ 507,208	\$ 517,926
Transfers, net	\$ 271,400	\$ (271,400)	\$ -	\$ 287,533	\$ (287,533)	\$ -	\$ (16,133)	\$ 16,133	\$ -
Change in net position	\$ 2,673,938	\$ 207,683	\$ 2,881,621	\$ 2,679,352	\$ (315,658)	\$ 2,363,694	\$ (5,414)	\$ 523,341	\$ 517,927
Beginning net position, as adjusted	\$ 4,964,103	\$ 8,213,259	\$ 13,177,362	\$ 2,284,749	\$ 8,501,577	\$ 10,786,326	\$ 2,679,354	\$ (288,318)	\$ 2,391,036
Ending net position	\$ 7,638,041	\$ 8,420,942	\$ 16,058,982	\$ 4,964,103	\$ 8,185,919	\$ 13,150,022	\$ 2,673,940	\$ 235,023	\$ 2,908,963

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

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 South Tank Reservoir Project during the year and the project will be complete by year-end. This 250,000-gallon tank in the southern part of the City supports the City's goal of improving water storage capacity for conservation and emergency needs. This project is funded with a loan from the Oregon Infrastructure Finance Authority. Construction costs are funded with loan draws during the construction period and loan payments commence after completion of the project in fiscal 2018-19. The City-funded portion of the sewer line was approximately \$170,000 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, 2018

	Governmental Activities	Business-type Activities	Total Government
Land and improvements	\$ 3,346,444	\$ 113,035	\$ 3,459,479
Buildings and improvements	\$ 1,974,264	\$ 232,597	\$ 2,206,861
Streets/Hwy 101 improvement	\$ 3,457,651	\$ -	\$ 3,457,651
Vehicles and equipment	\$ 631,396	\$ 459,059	\$ 1,090,455
Books and periodicals	\$ 253,148	\$ -	\$ 253,148
Software	\$ 93,222	\$ -	\$ 93,222
Water reservoir	\$ -	\$ 399,205	\$ 399,205
Wastewater treatment plant	\$ -	\$ 7,478,387	\$ 7,478,387
Water Plant & System	\$ -	\$ 3,728,768	\$ -
Total assets	\$ 9,756,125	\$ 12,411,051	\$ 22,167,175
	\$ -	\$ -	\$ -
Less: accumulated depreciation	\$ -	\$ (3,567,310)	\$ (3,567,310)
	\$ -	\$ -	\$ -
Capital assets, net	\$ 9,756,125	\$ 8,843,741	\$ 18,599,866

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' City Hall.

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	
	2018	2018
Current Assets	<u>\$207,433</u>	Revenues \$ 281,735
		Expenses \$ (1,538)
Current Liabilities	<u>\$0</u>	Other Financing Sources (Uses) <u>\$ (141,000)</u>
		Net Change in Fund Balance \$ 139,197
		Beginning Fund Balance \$ 68,236
Fund Balance	<u>\$207,433</u>	Ending Fund Balance <u>\$ 207,433</u>

Economic Factors and Next Year's Budget

Water and Sewer revenue will increase over 2018-2019, reflecting the local cost index application. Capital expenditures will occur to complete the South Water Reservoir, repairs to the Museum and expansion of the Library. 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, 2018

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and investments	\$ 3,261,222	\$ 188,136	\$ 3,449,358
Accounts receivable	\$ 22,448	\$ 87,122	\$ 109,570
Food and beverage taxes receivable	\$ 100,787	\$ -	\$ 100,787
Intergovernmental receivable	\$ -	\$ -	\$ -
Property taxes receivable	\$ 4,638	\$ -	\$ 4,638
Transient room taxes receivable	\$ 251,797	\$ -	\$ 251,797
Assessments receivable	\$ 141,477	\$ -	\$ 141,477
Prepaid items	\$ -	\$ 3,589	\$ 3,589
Inventory	\$ -	\$ 26,405	\$ 26,405
Capital assets, net	\$ 9,756,125	\$ 8,843,741	\$ 18,599,866
Total assets	\$ 13,538,494	\$ 9,148,993	\$ 22,687,487
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	\$ 134,582	\$ 89,722	\$ 224,304
LIABILITIES			
Accounts payable	\$ 157,881	\$ 1,610	\$ 159,491
Accrued interest payable	\$ 112,910	\$ 16,460	\$ 129,370
Accrued compensated absences	\$ 75,577	\$ -	\$ 75,577
Net pension liability	\$ 420,361	\$ 280,240	\$ 700,601
Deferred Revenue	\$ 89,963	\$ 1,100	\$ 91,063
Loans Payable			
Due within one year	\$ 348,412	\$ -	\$ 348,412
Due in more than one year	\$ 4,264,571	\$ -	\$ 4,264,571
Bonds payable:			
Due within one year	\$ 30,000	\$ 28,186	\$ 58,186
Due in more than one year	\$ 474,000	\$ 456,474	\$ 930,474
Total liabilities	\$ 5,973,674	\$ 784,071	\$ 6,757,745
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	\$ 50,551	\$ 33,701	\$ 84,252
Total deferred inflows of resources	\$ 50,551	\$ 33,701	\$ 84,252
NET POSITION			
Invested in capital assets	\$ 4,103,513	\$ 8,297,809	\$ 12,401,322
Restricted	\$ 2,436,100	\$ 58,496	\$ 2,494,596
Unrestricted	\$ 1,098,427	\$ 64,636	\$ 1,163,063
Total net position	\$ 7,638,040	\$ 8,420,942	\$ 16,058,982

**CITY OF YACHATS
STATEMENT OF ACTIVITIES
JUNE 30, 2018**

Functions / Programs	Program Revenues		
	Expenses	Charges for Services	Capital Grants & Contributions
Governmental activities			
General government	\$ 487,995	\$ 3,818	\$ -
Public works	\$ 105,130	\$ -	\$ -
Public Safety	\$ 3,846	\$ -	\$ -
Culture and recreation	\$ 179,322	\$ 48,310	\$ -
Interest expense	\$ 217,117	\$ -	\$ -
Total governmental activities	\$ 993,410	\$ 52,128	\$ -
Business-type activities			
Water	\$ 528,011	\$ 657,968	\$ 143,127
Sewer	\$ 590,395	\$ 626,880	\$ 169,514
Total business-type activities	\$ 1,118,406	\$ 1,284,848	\$ 312,641
Total government	\$ 2,111,816	\$ 1,336,976	\$ 312,641
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
\$ (484,177)	\$ -	\$ (484,177)
\$ (105,130)	\$ -	\$ (105,130)
\$ (3,846)	\$ -	\$ (3,846)
\$ (131,012)	\$ -	\$ (131,012)
\$ (217,117)	\$ -	\$ (217,117)
<u>\$ (941,282)</u>	<u>\$ -</u>	<u>\$ (941,282)</u>
\$ -	\$ 273,084	\$ 273,084
\$ -	\$ 205,999	\$ 205,999
<u>\$ -</u>	<u>\$ 479,083</u>	<u>\$ 479,083</u>
\$ (941,282)	\$ 479,083	\$ (462,199)
\$ 323,592	\$ -	\$ 323,592
\$ 43,010	\$ -	\$ 43,010
\$ 1,077,991	\$ -	\$ 1,077,991
\$ 356,539	\$ -	\$ 356,539
\$ 118,745	\$ -	\$ 118,745
\$ 1,547,683	\$ -	\$ 1,547,683
\$ 44,062	\$ -	\$ 44,062
\$ (167,802)	\$ -	\$ (167,802)
\$ 271,400	\$ (271,400)	\$ -
<u>\$ 3,615,220</u>	<u>\$ (271,400)</u>	<u>\$ 3,343,820</u>
\$ 2,673,938	\$ 207,683	\$ 2,881,621
<u>\$ 4,964,103</u>	<u>\$ 8,213,259</u>	<u>\$ 13,177,362</u>
\$ 7,638,040	\$ 8,420,942	\$ 16,058,982

FUND FINANCIAL STATEMENTS

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**CITY OF YACHATS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Capital Expenditure Fund</u>	<u>Debt Service Reserve Fund</u>
ASSETS				
Cash and Investments	\$ 436,660	\$ 77,870	\$ 1,456,559	\$ 596,048
Intergovernmental receivables	\$ -	\$ -	\$ -	\$ -
Property taxes receivable	\$ 598	\$ -	\$ -	\$ 623
Transient room taxes and receivables	\$ 251,797	\$ -	\$ -	\$ -
Food and beverage taxes receivable	\$ -	\$ -	\$ 100,787	\$ -
Assessments receivables	\$ -	\$ -	\$ 141,477	\$ -
Other receivables	\$ 20,226	\$ -	\$ 2,222	\$ -
Total Assets	<u>\$ 709,281</u>	<u>\$ 77,870</u>	<u>\$ 1,701,045</u>	<u>\$ 596,671</u>
LIABILITIES				
Accounts payable	\$ 12,101	\$ 240	\$ 70,532	\$ -
Misc. payable/deposits	\$ 75	\$ -	\$ -	\$ -
Accrued payroll taxes	\$ (4,966)	\$ -	\$ -	\$ -
Deferred Revenue	\$ 10,865	\$ -	\$ 76,446	\$ 2,652
Total liabilities	<u>\$ 18,075</u>	<u>\$ 240</u>	<u>\$ 146,978</u>	<u>\$ 2,652</u>
FUND BALANCES				
Restricted				
Debt Services	\$ -	\$ -	\$ -	\$ 594,019
Urban renewal	\$ -	\$ -	\$ -	\$ -
Streets	\$ -	\$ 77,630	\$ -	\$ -
Construction, improvements and equipment	\$ -	\$ -	\$ 1,554,067	\$ -
Assigned	\$ -	\$ -	\$ -	\$ -
Unassigned	\$ 691,207	\$ -	\$ -	\$ -
Total fund Balances	<u>\$ 691,207</u>	<u>\$ 77,630</u>	<u>\$ 1,554,067</u>	<u>\$ 594,019</u>
Total liabilities and fund Balances	<u>\$ 709,282</u>	<u>\$ 77,870</u>	<u>\$ 1,701,045</u>	<u>\$ 596,671</u>

Highway 101	Visitor Amenities Fund	South Tank Fund	Urban Renewal District Component Unit	Other Governmental Funds	Total Governmental Funds
\$ 2,951	\$ 119,446	\$ 40,401	\$ 204,015	\$ 327,272	\$ 3,261,222
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ 3,418	\$ -	\$ 4,638
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 251,797
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,787
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 141,477
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,448
\$ 2,951	\$ 119,446	\$ 40,401	\$ 207,433	\$ 327,272	\$ 3,782,372

\$ -	\$ -	\$ 75,843	\$ -	\$ 3,756	\$ 162,472
\$ -	\$ -	\$ -	\$ -	\$ 300	\$ 375
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,966)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,963
\$ -	\$ -	\$ 75,843	\$ -	\$ 4,056	\$ 247,844

\$ -	\$ -	\$ -	\$ -	\$ -	\$ 594,019
\$ -	\$ -	\$ -	\$ 207,433	\$ -	\$ 207,433
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 77,630
\$ 2,951	\$ -	\$ -	\$ -	\$ -	\$ 1,557,018
\$ -	\$ 119,446	\$ (35,442)	\$ -	\$ 323,216	\$ 407,220
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 691,207
\$ 2,951	\$ 119,446	\$ (35,442)	\$ 207,433	\$ 323,216	\$ 3,534,528

\$ 2,951	\$ 119,446	\$ 40,401	\$ 207,433	\$ 327,272	\$ 3,782,372
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**CITY OF YACHATS
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
JUNE 30, 2018**

TOTAL FUND BALANCES	\$ 3,534,528
 <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	\$ 9,745,313
Net pension liability	\$ (420,361)
Deferred outflows of resources related to pensions	\$ 134,582
 <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	\$ (75,577)
Bonds Payable	\$ (504,000)
Loans Payable	\$ (4,612,983)
 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>\$ (50,551)</u>
TOTAL NET POSITION	<u>\$ 7,638,040</u>

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CITY OF YACHATS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
JUNE 30, 2018

	General Fund	Street Fund	Capital Expenditure Reserve Fund	Debt Service Reserve Fund
REVENUES				
Property Taxes	\$ 41,857	\$ -	\$ -	\$ 43,010
Other Taxes and assessments	\$ 1,196,737	\$ -	\$ 439,341	\$ -
Intergovernmental	\$ 15,403	\$ 46,969	\$ 15,800	\$ -
Licenses and permits	\$ 53,462	\$ -	\$ -	\$ -
USFS contract	\$ -	\$ -	\$ -	\$ -
Charges for services	\$ -	\$ -	\$ -	\$ -
Investment revenue	\$ 26,534	\$ -	\$ -	\$ -
Sale of Inventory	\$ -	\$ -	\$ -	\$ -
Other Revenue	\$ 30,823	\$ -	\$ -	\$ -
Total Revenues	\$ 1,364,816	\$ 46,969	\$ 455,141	\$ 43,010
EXPENDITURES				
Current				
General government	\$ 486,457	\$ -	\$ -	\$ -
Public Safety	\$ 3,846	\$ -	\$ -	\$ -
Public Works	\$ -	\$ 83,472	\$ -	\$ -
Culture and recreation	\$ -	\$ -	\$ -	\$ -
Debt Services	\$ -	\$ -	\$ -	\$ -
Principle	\$ -	\$ -	\$ -	\$ 422,600
Interest	\$ -	\$ -	\$ -	\$ 217,117
Capital outlay	\$ -	\$ -	\$ 398,543	\$ -
Total expenditures	\$ 490,303	\$ 83,472	\$ 398,543	\$ 639,717
Excess (deficiency) of revenues over (under) expenditure	\$ 874,513	\$ (36,503)	\$ 56,598	\$ (596,707)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 120,000	\$ 46,600	\$ 683,500	\$ 612,949
Operating transfers out	\$ (772,151)	\$ (4,000)	\$ (1,024,949)	\$ -
Total Other financing sources (uses)	\$ (652,151)	\$ 42,600	\$ (341,449)	\$ 612,949
Net Change in fund balances	\$ 222,362	\$ 6,097	\$ (284,851)	\$ 16,242
BEGINNING FUND BALANCES	\$ 468,845	\$ 71,533	\$ 1,838,919	\$ 577,777
ENDING FUND BALANCE	\$ 691,207	\$ 77,630	\$ 1,554,068	\$ 594,019

Highway 101	Visitor Amenities Amenities Fund	South Tank Fund	Urban Renewal District Component Unit	Other Governmental Funds	Total
\$ -	\$ -	\$ -	\$ 281,735	\$ -	\$ 366,602
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,636,078
\$ 490,144	\$ -	\$ 994,780	\$ -	\$ 1,000	\$ 1,564,096
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,462
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ 178,996	\$ 178,996
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,534
\$ -	\$ -	\$ -	\$ -	\$ 293	\$ 293
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,823
\$ 490,144	\$ -	\$ 994,780	\$ 281,735	\$ 180,289	\$ 3,856,884
\$ -	\$ -	\$ -	\$ 1,538	\$ -	\$ 487,995
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,846
\$ -	\$ -	\$ -	\$ -	\$ 21,658	\$ 105,130
\$ -	\$ -	\$ -	\$ -	\$ 179,322	\$ 179,322
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 422,600
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 217,117
\$ 683,635	\$ -	\$ 1,242,065	\$ -	\$ -	\$ 2,324,243
\$ 683,635	\$ -	\$ 1,242,065	\$ 1,538	\$ 200,980	\$ 3,740,253
\$ (193,491)	\$ -	\$ (247,285)	\$ 280,197	\$ (20,691)	\$ 116,631
\$ 696,000	\$ 403,901	\$ -	\$ -	\$ 205,300	\$ 2,768,250
\$ -	\$ (479,550)	\$ -	\$ (141,000)	\$ (75,200)	\$ (2,496,850)
\$ 696,000	\$ (75,649)	\$ -	\$ (141,000)	\$ 130,100	\$ 271,400
\$ 502,509	\$ (75,649)	\$ (247,285)	\$ 139,197	\$ 109,409	\$ 388,031
\$ (499,558)	\$ 195,095	\$ 211,843	\$ 68,236	\$ 213,807	\$ 3,146,497
\$ 2,951	\$ 119,446	\$ (35,442)	\$ 207,433	\$ 323,216	\$ 3,534,528

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, 2018

NET CHANGE IN FUND BALANCE	\$	388,031
 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.		
	\$	(76,889)
 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.		
	\$	2,008,419
 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	\$	-
Change in compensated absences payable	\$	(13,543)
Change in long-term debt payable	\$	367,920
		<hr/>
CHANGE IN NET POSITION	\$	2,673,938
		<hr/>

PROPRIETARY FUNDS

**CITY OF YACHATS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF JUNE 30, 2018**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary</u>
ASSETS			
Current assets			
Cash and investments	\$ 68,875	\$ 119,261	\$ 188,136
Accounts receivable	\$ 33,090	\$ 54,029	\$ 87,119
Prepaid items	\$ 3,589	\$ -	\$ 3,589
Inventory	\$ 10,759	\$ 15,646	\$ 26,405
Total current assets	<u>\$ 116,313</u>	<u>\$ 188,936</u>	<u>\$ 305,249</u>
Noncurrent assets			
Capital assets, net	\$ 2,571,810	\$ 6,271,931	\$ 8,843,741
	\$ -		\$ -
Total assets	<u>\$ 2,688,123</u>	<u>\$ 6,460,867</u>	<u>\$ 9,148,990</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	\$ 46,655	\$ 43,066	\$ 89,722
Total deferred outflows of resources	<u>\$ 46,655</u>	<u>\$ 43,066</u>	<u>\$ 89,722</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 720	\$ 890	\$ 1,610
Deferred revenue	\$ 1,100	\$ -	\$ 1,100
Accrued interest payable	\$ 14,920	\$ 1,540	\$ 16,460
Net pension liability	\$ 145,725	\$ 134,515	\$ 280,240
Revenue bonds payable - current portion	\$ 28,186	\$ -	\$ 28,186
Total current liabilities	<u>\$ 190,651</u>	<u>\$ 136,945</u>	<u>\$ 327,597</u>
Noncurrent liabilities			
Revenue bonds payable	\$ 456,474	\$ -	\$ 456,474
Total noncurrent liabilities	\$ 456,474	\$ -	\$ 456,474
Total liabilities	<u>\$ 647,125</u>	<u>\$ 136,945</u>	<u>\$ 784,071</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	\$ 17,524	\$ 16,176	\$ 33,701
Total deferred inflows of resources	<u>\$ 17,524</u>	<u>\$ 16,176</u>	<u>\$ 33,701</u>
NET POSITION			
Invested in capital assets, net of related debt	\$ 2,025,879	\$ 6,271,931	\$ 8,297,809
Restricted	\$ 42,850	\$ 15,646	\$ 58,496
Unrestricted	\$ 1,400	\$ 63,236	\$ 64,636
Total net position	<u>\$ 2,070,129</u>	<u>\$ 6,350,813</u>	<u>\$ 8,420,942</u>

CITY OF YACHATS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary</u>
OPERATING REVENUES			
Charges for services	\$ 657,968	\$ 626,880	\$ 1,284,848
Total operating revenues	<u>\$ 657,968</u>	<u>\$ 626,880</u>	<u>\$ 1,284,848</u>
OPERATING EXPENSES			
Public works			
Personnel services	\$ 288,726	\$ 307,732	\$ 596,458
Materials and services	\$ 135,730	\$ 127,720	\$ 263,450
Depreciation	\$ 88,045	\$ 154,943	\$ 242,988
Total operating expenses	<u>\$ 512,501</u>	<u>\$ 590,395</u>	<u>\$ 1,102,896</u>
Operating income (loss)	\$ 145,467	\$ 36,485	\$ 181,952
NON-OPERATING REVENUES (EXPENSES)			
Investment revenue	\$ -	\$ -	\$ -
Debt service	\$ (15,510)	\$ -	\$ (15,510)
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	\$ (126,000)	\$ (145,400)	\$ (271,400)
Total non-operating revenues (expenses)	<u>\$ (141,510)</u>	<u>\$ (145,400)</u>	<u>\$ (286,910)</u>
Income before Contributions, Extraordinary and Special Items	\$ 3,957	\$ (108,915)	\$ (104,958)
Capital Contributions	\$ 143,127	\$ 169,514	\$ 312,641
Change in net position	\$ 147,084	\$ 60,599	\$ 207,683
BEGINNING NET POSITION	<u>\$ 1,923,045</u>	<u>\$ 6,290,214</u>	<u>\$ 8,213,259</u>
ENDING NET POSITION	<u>\$ 2,070,129</u>	<u>\$ 6,350,813</u>	<u>\$ 8,420,942</u>

**CITY OF YACHATS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 663,313	\$ 638,383	\$ 1,301,696
Cash payments for goods and services	\$ (118,458)	\$ (128,250)	\$ (246,708)
Cash payments to employees	\$ (288,726)	\$ (307,732)	\$ (596,458)
Net cash provided by (used by) operating activities	\$ 256,129	\$ 202,401	\$ 458,530
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers (out)	\$ (126,000)	\$ (145,400)	\$ (271,400)
Net cash provided by (used by) noncapital financing activities	\$ (126,000)	\$ (145,400)	\$ (271,400)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition, disposal, and adjustments of fixed assets	\$ -	\$ -	\$ -
Payment on long term obligations	\$ (42,850)	\$ -	\$ (42,850)
Proceeds from refunding	\$ -	\$ -	\$ -
Net cash provided by (used for) capital and related financing activities	\$ (42,850)	\$ -	\$ (42,850)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	\$ -	\$ -	\$ -
Net cash provided by (used for) investing activities	\$ -	\$ -	\$ -
Increase (decrease) in cash and investments	\$ 87,279	\$ 57,001	\$ 144,280
CASH AND INVESTMENTS, BEGINNING OF YEAR	\$ (18,404)	\$ 62,260	\$ 43,856
CASH AND INVESTMENTS, END OF YEAR	\$ 68,875	\$ 119,261	\$ 188,136
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (loss)	\$ 145,467	\$ 36,485	\$ 181,952
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities			
Depreciation	\$ 88,044	\$ 154,944	\$ 242,988
Accounts receivable	\$ (73,128)	\$ (64,212)	\$ (137,340)
Deferred outflows	\$ (46,655)	\$ (43,066)	\$ (89,722)
Payables	\$ 14,200	\$ 650	\$ 14,850
Net pension liability	\$ 145,725	\$ 133,778	\$ 279,503
Deferred inflows	\$ (17,524)	\$ (16,176)	\$ (33,701)
Total adjustments	\$ 110,661	\$ 165,918	\$ 276,579
Net cash provided by operating activities	\$ 256,129	\$ 202,401	\$ 458,530

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, 2018**

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 Manager.

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 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 Citystreets.
- **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.
- **South Tank Fund**- This is a special revenue fund that is supported through state sources.
- **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.
- **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.

- **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.

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 personnel 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 2017-2018 budget.

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 personnel 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 disbursement 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 \$251,797. Of the City's General Fund revenues of \$1,364,816 for the year ended June 30, 2018, \$1,040,059 or 76% 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 \$377,662 for the 2017-2018 fiscal year, of which \$100,787 was included in accounts receivable at year end.

The City recognized L.I.D. Special Assessment program revenues of \$25,294 for 2017-2018 year of which \$141,477 was a year-end receivable.

An East Hillside Local Improvement District (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 \$1,456,559 cash balance at June 30, 2018. 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 51 through 58).

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 7/1/2017	Additions	Used	Balance at 6/30/2018
Compensated absences payable	\$62,034	\$75,577	\$62,034	\$75,577

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, 2018 consisted of the following:

Petty Cash	\$	100
Cash in checking accounts (book balances)	\$	163,663
Cash in Local Government Investment Pool	\$	3,285,593

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

Total Cash and investments	\$ 3,449,356
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Cash and investments by funds at June 30, 2018:

Major Governmental Funds

General Fund	\$	436,660
Street Fund	\$	77,870
Capital Expenditure Reserve Fund	\$	1,456,559
Debt Service Reserve Fund	\$	596,048
Highway 101 Fund	\$	2,951
Visitor Amenities Fund	\$	119,446
South Tank Fund	\$	40,401
Urban Renewal District Fund	\$	204,015

Non Major Governmental Funds

City Amenities Fund	\$	(510)
System Development Charges Fund	\$	236,321
Storm Drain Fund	\$	91,460
United States Forest Service Fund (USFS)	\$	-
Total Governmental Funds	<u>\$</u>	<u>3,261,221</u>

Proprietary/Business Type Funds

Water Fund	\$	68,875
Sewer Fund	\$	119,261
Total Proprietary/Enterprise Funds	<u>\$</u>	<u>188,136</u>
Total Cash and Investments	<u>\$</u>	<u>3,449,356</u>

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, 2018. 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, 2018, the carrying amounts of the City deposits in various financial institutions were \$163,663. All deposits are held in the name of the City. At June 30, 2018, 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, 2018 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 2017-2018. 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, 2018 was as follows:

Description	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITY CAPITAL ASSETS				
Land and improvements	\$ 2,104,379	\$ 1,242,065	\$ -	\$ 3,346,444
Building and improvements	\$ 1,927,495	\$ 46,769	\$ -	\$ 1,974,264
Streets/HWY 101 Improvement	\$ 2,767,950	\$ 689,701	\$ -	\$ 3,457,651
Vehicles and Equipment	\$ 631,396	\$ -	\$ -	\$ 631,396
Software	\$ 62,285	\$ 30,937	\$ -	\$ 93,222
Books and Periodicals	\$ 253,148	\$ -	\$ -	\$ 253,148
Total Governmental Capital Assets	\$ 7,746,653	\$ 2,009,472	\$ -	\$ 9,756,125
BUSINESS TYPE ACTIVITY CAPITAL ASSETS				
Capital assets not depreciated				
Land	\$ 113,035	\$ -	\$ -	\$ 113,035
Capital assets being depreciated				
Building and improvements	\$ 66,663	\$ 165,934	\$ -	\$ 232,597
Vehicles and equipment	\$ 319,508	\$ 139,551	\$ -	\$ 459,059
Water plant and system	\$ 3,728,768	\$ -	\$ -	\$ 3,728,768
Water reservoir	\$ 399,205	\$ -	\$ -	\$ 399,205
Wastewater treatment plant/system	\$ 7,471,230	\$ 7,157	\$ -	\$ 7,478,387
Total capital assets being depreciated	\$ 11,985,374	\$ 312,642	\$ -	\$ 12,298,016
Less accumulated depreciation				
Buildings and improvements	\$ 58,687	\$ 2,038	\$ -	\$ 60,725
Vehicles and equipment	\$ 295,709	\$ 4,825	\$ -	\$ 300,534
Water plant and system	\$ 1,609,030	\$ 75,433	\$ -	\$ 1,684,463
Water reservoir	\$ 174,102	\$ 7,984	\$ -	\$ 182,086
Wastewater treatment plant/system	\$ 1,187,021	\$ 152,481	\$ -	\$ 1,339,502
Total Accumulated Depreciation	\$ 3,324,549	\$ 242,761	\$ -	\$ 3,567,310
Total Business-Type Capital Assets, Net	\$ 8,773,860	\$ 69,881	\$ -	\$ 8,843,741
Total Net Capital Assets	\$ 16,520,513	\$ 2,079,353	\$ -	\$ 18,599,866

Acquisitions of capital assets during 2017-2018 totaled \$2,009,472 in governmental activities and \$312,642 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 \$242,761 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.

	Issue Amount	Maturity Date	Interest Rate	Beginning Balance 6/30/2017	Issued	Refinanced	Reductions	Ending Balance 6/30/2018	Due in One Year
Governmental Activities									
General Obligations Bonds									
3/17/2017 Water Refunding Bond	\$ 533,000	2031	3%	\$ 533,000	\$ -	\$ -	\$ 29,000	\$ 504,000	\$ 30,000
Loans									
6/17/05 DEQ	\$ 6,671,721	2029	2.9%	\$ 4,536,731	\$ -	\$ -	\$ 321,106	\$ 4,215,625	\$ 330,485
5/27/09 IFA Loans	\$ 519,343	2033	3.0-4.75%	\$ 415,172	\$ -	\$ -	\$ 17,814	\$ 397,358	\$ 17,927
Total Governmental activities				\$ 5,484,903	\$ -	\$ -	\$ 367,920	\$ 5,116,983	\$ 378,412
Business-type activities									
Revenue Bonds									
3/17/2017 Water Revenue Refunding Bond	\$ 512,000	2032	3%	\$ 512,000	\$ -	\$ -	\$ 27,340	\$ 484,660	\$ 28,186
Total Business-type activities				\$ 512,000	\$ -	\$ -	\$ 27,340	\$ 484,660	\$ 28,186

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
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	\$ 504,000	\$ 112,890	\$ 484,660	\$ 115,246	\$ 4,612,983	\$ 1,040,483

NOTE 6 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2018 were as follows:

	Transfers In	Transfers Out
Major Governmental Funds		
General Fund	\$ 120,000	\$ 772,151
Street Fund	\$ 46,600	\$ 4,000
Capital Expenditure Fund	\$ 683,500	\$ 1,024,949
Debt Service Reserve	\$ 612,949	\$ -
Highway 101	\$ 696,000	\$ -
Visitor Amenities	\$ 403,901	\$ 479,550
South Tank	\$ -	\$ -
Urban Renewal City (component unit)	\$ -	\$ 141,000
<i>Total Major Governmental Funds</i>	<u>\$ 2,562,950</u>	<u>\$ 2,421,650</u>
Nonmajor Governmental Funds		
City Amenities	\$ 177,500	\$ 35,200
System Development Charges	\$ -	\$ 40,000
Storm Drains	\$ 27,800	\$ -
United States Forest Service	\$ -	\$ -
<i>Total Nonmajor Governmental Funds</i>	<u>\$ 205,300</u>	<u>\$ 75,200</u>
Total Governmental Funds	<u>\$ 2,768,250</u>	<u>\$ 2,496,850</u>
Proprietary Funds		
Water Fund	\$ -	\$ 126,000
Sewer Fund	\$ -	\$ 145,400
Total Proprietary Funds	<u>\$ -</u>	<u>\$ 271,400</u>
Total	<u>\$ 2,768,250</u>	<u>\$ 2,768,250</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 2018 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 (COLA) changes. The COLA is capped at 2.0 percent.

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, 2018 were \$52,206, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2017 were 13.86 percent for Tier One/Tier Two General Service Member, 7.56 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, 2018, the City reported a liability of \$700,601 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to June 30, 2017. 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, 2018, the City's proportion was .0051973200 percent, which was decreased from its proportion of 0.00610478 measured as of June 30, 2017.

For the year ended June 30, 2018, the City's recognized pension expense (income) of \$128,147 At June 30, 2018, 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	\$ 33,881	\$ -
Changes of assumptions	127,707	-
Net difference between projected and actual earnings on investments	7,218	-
Changes in proportion	1,188	62,978
Differences between employer contributions and proportionate share of contributions	2,103	21,274
Total (prior to post-MD contributions)	<u>172,097</u>	<u>84,252</u>
Contributions subsequent to the MD	<u>52,207</u>	<u>-</u>
Total	<u>\$ 224,304</u>	<u>\$ 84,252</u>

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

2019	\$	62,579.00
2020	\$	68,305.00
2021	\$	43,259.00
2022	\$	(30,987.00)
	\$	(3,104.00)
Thereafter	\$	-
Total	<u>\$</u>	<u>140,052.00</u>

Actuarial Assumptions

The employer contribution rates effective July 1, 2017, through June 30, 2019, were set using the entry age normal 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2015
Measurement Date	June 30, 2017
Experience Study Report	2014, published September 23, 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
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision, blend based on service
Mortality	<p>Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, 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 (8.5 percent) 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	\$ 1,193,952	\$ 700,601	\$ 288,068

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, 2018, 2017 and 2016 were \$2,004, \$2,529.59, and \$2,447.56.

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.)

The City has experienced continued increases in the number of licensed vacation rental properties, along with increased taxable revenue generated by the 8 hotel/motel businesses subject to the Transient Rental Tax. The transient rental tax revenue, net of the amount required to be attributed to visitor amenities by Oregon Budget Law, provides more than 75% of the City's General Fund.

NOTE 9- RELATED PARTY TRANSACTIONS

During the 2017-2018 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 \$1,243.22 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, 2018, reimbursements totaled \$183.86 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 researched 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. The City determined that LID Improvements funded from SDC's were to be returned to the SDC fund as collected from LID assessments.

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, 2018. For the audit period ending June 30, 2018, no subsequent events were identified for disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF YACHATS, OREGON
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE LAST THREE FISCAL YEARS ENDED JUNE 30, 2018

Year Ended June 30,	City's proportion of the net pension liability (asset)	City's proportionate share of the net pension liability (asset)	City's covered payroll	proportionate share of the net pension liability (asset) as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	0.00519732%	\$ 700,601	\$ 560,623	124.97%	82.10%
2017	0.00610478%	\$ 916,469	\$ 501,735	182.66%	83.10%
2016	0.00614149%	\$ 352,611	\$ 564,785	62.43%	80.53%
2015	0.00610478%	\$ (136,338)	\$ 536,655	-25.41%	91.90%

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 FOUR FISCAL YEARS ENDED JUNE 30, 2018

Year Ended June 30,	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	City's covered payroll	Contributions as a percent of covered payroll
2018	\$ 52,207.00	\$ 52,207.00	\$ -	\$ 522,201.62	10.00%
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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final
	Original	Final		
REVENUES				
Property taxes	40,000	40,000	41,857	1,857
Other taxes	928,000	1,115,891	1,196,737	80,846
Intergovernmental	21,000	21,000	15,403	(5,597)
Licenses and permits	27,500	27,500	53,462	25,962
Investment revenue	1,000	1,000	26,534	25,534
Other local revenue	3,000	3,000	30,823	27,823
State revenue	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>1,020,500</u>	<u>1,208,391</u>	<u>1,364,816</u>	<u>156,425</u>
EXPENDITURES				
General government				
Personnel services	103,000	114,000	103,143	(10,857)
Materials and services	368,800	427,290	387,160	(40,130)
Capital expenditures	-	-	-	-
Total general government	<u>471,800</u>	<u>541,290</u>	<u>490,303</u>	<u>(50,987)</u>
Contingency	18,000	-	-	-
Total expenditures	<u>489,800</u>	<u>541,290</u>	<u>490,303</u>	<u>(50,987)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>530,700</u>	<u>667,101</u>	<u>874,513</u>	<u>207,412</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	120,000	120,000	120,000	-
Operating transfers out	(633,750)	(772,151)	(772,151)	-
Total other financing sources (uses)	<u>(513,750)</u>	<u>(652,151)</u>	<u>(652,151)</u>	<u>-</u>
Net change in fund balance	16,950	14,950	222,362	207,412
BEGINNING FUND BALANCE	<u>260,000</u>	<u>260,000</u>	<u>468,845</u>	<u>208,845</u>
ENDING FUND BALANCE	<u>276,950</u>	<u>274,950</u>	<u>691,207</u>	<u>416,257</u>

CITY OF YACHATS, OREGON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET TO ACTUAL
STREET FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	44,000	44,000	46,969	2,969
Other revenue	100	100	-	(100)
Total revenues	<u>44,100</u>	<u>44,100</u>	<u>46,969</u>	<u>2,869</u>
EXPENDITURES				-
Public works				-
Personnel services	27,000	32,000	37,812	5,812
Materials and services	29,600	54,600	45,660	(8,940)
Capital outlay	-	-	-	-
Total expenditures	<u>56,600</u>	<u>86,600</u>	<u>83,472</u>	<u>(3,128)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,500)</u>	<u>(42,500)</u>	<u>(36,503)</u>	<u>5,997</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	16,600	46,600	46,600	-
Operating transfers out	<u>(4,000)</u>	<u>(4,000)</u>	<u>(4,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>12,600</u>	<u>42,600</u>	<u>42,600</u>	<u>-</u>
Net change in fund balance	100	100	6,097	5,997
BEGINNING FUND BALANCE	<u>62,000</u>	<u>62,000</u>	<u>71,533</u>	<u>9,533</u>
ENDING FUND BALANCE	<u><u>62,100</u></u>	<u><u>62,100</u></u>	<u><u>77,630</u></u>	<u><u>15,530</u></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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
ODOT grant	385,000	490,000	490,144	144
Investment Revenue	-	-	-	-
Total Revenues	<u>385,000</u>	<u>490,000</u>	<u>490,144</u>	<u>144</u>
Expenditures				
Reserved for future expenditures	-	-	-	-
Capital expenditures	<u>356,000</u>	<u>686,000</u>	<u>683,635</u>	<u>(2,365)</u>
Total expenditures	<u>356,000</u>	<u>686,000</u>	<u>683,635</u>	<u>(2,365)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>29,000</u>	<u>(196,000)</u>	<u>(193,491)</u>	<u>2,509</u>
Other financing sources (uses)				
Operating transfers in	46,000	696,000	696,000	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>46,000</u>	<u>696,000</u>	<u>696,000</u>	<u>-</u>
Net change in Fund balance	75,000	500,000	502,509	2,509
Beginning fund balance	<u>(75,000)</u>	<u>(500,000)</u>	<u>(499,558)</u>	<u>442</u>
Ending fund balance	<u>-</u>	<u>-</u>	<u>2,951</u>	<u>2,951</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	1,100,000	1,400,000	994,780	(405,220)
Investment Revenue	<u>300</u>	<u>300</u>	<u>-</u>	
Total revenues	<u>1,100,300</u>	<u>1,400,300</u>	<u>994,780</u>	<u>(405,520)</u>
				-
EXPENDITURES				
Personnel Services	20,000	20,000	22,245	
Capital Outlay	1,180,000	1,480,000	1,219,820	(260,180)
Contingency	<u>-</u>	<u>-</u>	<u>-</u>	
Total expenditures	<u>1,200,000</u>	<u>1,500,000</u>	<u>1,242,065</u>	<u>(257,935)</u>
				-
Excess (deficiency) of revenues over (under expenditures)	(99,700)	(99,700)	(247,285)	(147,585)
				-
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
				-
Net change in fund balance	(99,700)	(99,700)	(247,285)	(147,585)
				-
BEGINNING FUND BALANCE	<u>212,000</u>	<u>212,000</u>	<u>211,843</u>	<u>(157)</u>
				-
ENDING FUND BALANCE	<u>112,300</u>	<u>112,300</u>	<u>(35,442)</u>	<u>(147,742)</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for Services	-	-	-	-
Investment Revenue	-	-	-	-
Total Revenues	-	-	-	-
Expenditures				
Culture and Recreation	-	-	-	-
Reserved for future expenditures	-	72,901	-	(72,901)
Total expenditures	-	72,901	-	(72,901)
Excess (deficiency) of revenues over (under) expenditures	-	(72,901)	-	72,901
Other Financing Sources (uses)				
Operating transfers in	331,000	403,901	403,901	-
Operating transfers out	(479,550)	(479,550)	(479,550)	-
Net change in fund balance	(148,550)	(148,550)	(75,649)	72,901
Beginning fund balance	431,000	431,000	195,095	(235,905)
Ending fund balance	282,450	282,450	119,446	(163,004)

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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	249,000	249,000	281,735	32,735
Other local sources	-	-	-	-
Investment revenue	-	-	-	-
	-	-	-	-
Total revenues	<u>249,000</u>	<u>249,000</u>	<u>281,735</u>	<u>32,735</u>
EXPENDITURES				
General government				-
Personnel services	-	-	-	-
Materials and services	1,500	1,500	1,538	38
Reserved for future expenditures	-	-	-	-
	-	-	-	-
Total expenditures	<u>1,500</u>	<u>1,500</u>	<u>1,538</u>	<u>38</u>
Excess (deficiency) of revenues over (under) expenditures	247,500	247,500	280,197	32,697
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>(141,000)</u>	<u>(141,000)</u>	<u>(141,000)</u>	-
Net change in fund balance	106,500	106,500	139,197	32,697
BEGINNING FUND BALANCE	<u>60,000</u>	<u>60,000</u>	<u>68,236</u>	<u>8,236</u>
ENDING FUND BALANCE	<u><u>166,500</u></u>	<u><u>166,500</u></u>	<u><u>207,433</u></u>	<u><u>40,933</u></u>

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Notes to Required Supplementary Information

Changes in Benefit Terms

The 2013 Oregon Legislature made a series of changes to PERS that lowered projected future benefit payments from the System. These changes included reductions to future Cost of Living Adjustments (COLA) made through Senate Bills 822 and 861. Senate Bill 822 also required the contribution rates scheduled to be in effect from July 2013 to June 2015 to be reduced. The Oregon Supreme Court decision in *Moro v. State of Oregon*, issued on April 30, 2015, reversed a significant portion of the reductions the 2013 Oregon Legislature made to future System Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the total pension liability as of June 30, 2015 compared to June 30, 2014 total pension liability.

Changes of Assumptions

The PERS Board adopted assumption changes that were used to measure the June 30, 2016 total pension liability. The changes include the lowering of the long-term expected rate of return to 7.50 percent and lowering of the assumed inflation to 2.50 percent. In addition, the healthy mortality assumption was changed to reflect an updated mortality improvement scale for all groups, and assumptions were updated for merit increases, unused sick leave, and vacation pay were updated.

SUPPLEMENTARY INFORMATION

**CITY OF YACHATS, OREGON
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2018**

	Combined Nonmajor Special Revenue Funds		Total Nonmajor Governmental Funds
Assets			
Cash and investments	\$ 327,272		\$ 327,272
Unsegregated tax collections	-		
Property taxes receivable	-		
Total assets	\$ 327,272		\$ 327,272
Liabilities			
Accounts payable	\$ 4,056		\$ 4,056
Deferred revenue	-		
Total Liabilities	\$ 4,056		\$ 4,056
Fund Balances			
Assigned	\$ 323,216		\$ 323,216
Total fund balances	\$ 323,216		\$ 323,216
Total liabilities and fund balances	\$ 327,272		\$ 327,272

**CITY OF YACHATS, OREGON
 COMBINING BALANCE SHEET
 NON-MAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2018**

	City Amenities Fund	System Development Charges Fund	Storm Drain	USFS	Total
Assets					
Cash and investments	(510)	236,321	91,461	-	327,272
Liabilities					
Accounts Payable	(1,010)	-	5,066	-	4,056
Fund Balances					
Assigned	500	236,321	86,393	-	323,216
Total fund balances	500	236,321	86,393	-	323,216
Total liabilities and fund balances	(509)	236,321	91,459	-	327,272

CITY OF YACHATS, OREGON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Combined Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES		
Intergovernmental	1,000	1,000
Charges for services	178,996	178,996
Investment revenue	-	-
Sale of Inventory	293	293
Total revenues	<u>180,289</u>	<u>180,289</u>
EXPENDITURES		
Current		
Public works	21,658	21,658
Culture and recreation	179,322	179,322
Debt service	-	-
Principal	-	-
Interest and fees	-	-
Capital outlay	-	-
Total expenditures	<u>200,980</u>	<u>200,980</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,691)</u>	<u>(20,691)</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers in	205,300	205,300
Operating transfers (out)	<u>(75,200)</u>	<u>(75,200)</u>
Total other financing sources (uses)	<u>130,100</u>	<u>130,100</u>
Net change in fund balances	109,410	109,410
BEGINNING FUND BALANCE	<u>213,807</u>	<u>213,807</u>
ENDING FUND BALANCE	<u>323,216</u>	<u>323,216</u>

CITY OF YACHATS, OREGON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2018

	System Development				
	City Amenities	Charges Fund	Storm Drain	USFS	Total
REVENUES					
Intergovernmental	\$ 1,000	\$ -	\$ -	\$ -	\$ 1,000
Charges for services	\$ 51,748	\$ 127,248	\$ -	\$ -	\$ 178,996
Investment revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Sale of Inventory	\$ 293	\$ -	\$ -	\$ -	\$ 293
Total revenues	\$ 53,041	\$ 127,248	\$ -	\$ -	\$ 180,289
EXPENDITURES					
Current					
Public works	\$ -	\$ -	\$ 21,658	\$ -	\$ 21,658
Culture and recreation	\$ 179,322	\$ -	\$ -	\$ -	\$ 179,322
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Principal	\$ -	\$ -	\$ -	\$ -	\$ -
Interest and fees	\$ -	\$ -	\$ -	\$ -	\$ -
Capital outlay	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -
Total expenditures	\$ 179,322	\$ -	\$ 21,658	\$ -	\$ 200,980
Excess (deficiency) of revenues over (under) expenditures	\$ (126,281)	\$ 127,248	\$ (21,658)	\$ -	\$ (20,691)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	\$ 177,500	\$ -	\$ 27,800	\$ -	\$ 205,300
Operating transfers (out)	\$ (35,200)	\$ (40,000)	\$ -	\$ -	\$ (75,200)
	\$ -	\$ -	\$ -	\$ -	\$ -
Total other financing sources (uses)	\$ 142,300	\$ (40,000)	\$ 27,800	\$ -	\$ 130,100
Net change in fund balances	\$ 16,020	\$ 87,248	\$ 6,142	\$ -	\$ 109,410
BEGINNING FUND BALANCE	\$ (15,519)	\$ 149,075	\$ 80,252	\$ -	\$ 213,807
ENDING FUND BALANCE	\$ 501	\$ 236,322	\$ 86,394	\$ -	\$ 323,216

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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Food and beverage tax revenue	320,000	374,949	396,539	21,590
LID assessment	14,000	14,000	25,294	11,294
Anticipated Grants	15,000	15,000	15,800	800
Investment revenue	7,000	7,000	17,509	10,509
Total revenues	356,000	410,949	455,141	44,192
EXPENDITURES				
Capital outlay	770,900	927,900	398,543	(529,357)
Reserved for future expenditures	-	-	-	-
Total expenditures	770,900	927,900	398,543	(529,357)
Excess (deficiency) of revenues over (under) expenditures	(414,900)	(516,951)	56,598	573,549
OTHER FINANCING SOURCES (USES)				
Operating transfers in	683,500	683,500	683,500	-
Operating transfers out	(320,000)	(1,024,949)	(1,024,949)	-
Proceeds from Debt Refinancing	-	-	-	-
Total other financing sources (uses)	363,500	(341,449)	(341,449)	-
Net change in fund balance	(51,400)	(858,400)	(284,851)	573,549
BEGINNING FUND BALANCE	1,600,000	1,600,000	1,838,919	238,919
ENDING FUND BALANCE	1,548,600	741,600	1,554,068	812,468

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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	44,555	44,555	43,010	(1,545)
Investment Revenue	5,500	5,500	-	(5,500)
Total Revenues	<u>50,055</u>	<u>50,055</u>	<u>43,010</u>	<u>(7,045)</u>
Expenditures				
Debt Service Principal	403,302	403,302	422,600	19,298
Debt Service Interest	193,282	193,282	217,117	23,835
Total expenditures	<u>596,584</u>	<u>596,584</u>	<u>639,717</u>	<u>43,133</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(546,529)</u>	<u>(546,529)</u>	<u>(596,707)</u>	<u>-</u> <u>(50,178)</u>
Other financing sources (uses)				
Operating transfers in	463,000	517,949	517,949	-
Operating transfers out	-	-	-	-
Contribution from URD	95,000	95,000	95,000	-
Total other financing sources (uses)	<u>558,000</u>	<u>612,949</u>	<u>612,949</u>	<u>-</u>
Net change in Fund balance	11,471	66,420	16,242	(50,178)
Beginning fund balance	<u>584,000</u>	<u>584,000</u>	<u>577,777</u>	<u>(6,223)</u>
Ending fund balance	<u>595,471</u>	<u>650,420</u>	<u>594,019</u>	<u>(56,401)</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	1,000	1,000	1,000	-
Charges for Services	48,800	48,800	48,310	(490)
Sale of Inventory	-	-	293	293
Other Revenue	3,000	3,000	3,438	438
Total revenues	<u>52,800</u>	<u>52,800</u>	<u>53,042</u>	<u>242</u>
EXPENDITURES				
General government				
Personnel services	36,800	42,700	43,558	858
Materials and services	133,800	152,400	135,764	(16,636)
Contingencies	4,000	-	-	-
Capital expenditures	-	-	-	-
Total expenditures	<u>174,600</u>	<u>195,100</u>	<u>179,322</u>	<u>179,322</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(121,800)</u>	<u>(142,300)</u>	<u>(126,281)</u>	<u>16,019</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	157,000	177,500	177,500	-
Operating transfers out	(35,200)	(35,200)	(35,200)	-
Total other financing sources (uses)	<u>121,800</u>	<u>142,300</u>	<u>142,300</u>	<u>-</u>
Net change in fund balance	-	-	16,019	16,019
BEGINNING FUND BALANCE	<u>5,000</u>	<u>5,000</u>	<u>(15,519)</u>	<u>(20,519)</u>
ENDING FUND BALANCE	<u>5,000</u>	<u>5,000</u>	<u>500</u>	<u>(4,500)</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for Services	35,000	35,000	127,248	92,248
Investment revenue	2,000	2,000	-	(2,000)
				-
Total revenues	<u>37,000</u>	<u>37,000</u>	<u>127,248</u>	<u>90,248</u>
EXPENDITURES				
Current				
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Debt service				-
Principal	-	-	-	-
Interest and fees	-	-	-	-
Capital outlay	-	-	-	-
				-
Total Expenditures	-	-	-	-
				-
Excess (deficiency) of revenues over (under) expenditures	37,000	37,000	127,248	90,248
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	(40,000)	(40,000)	(40,000)	-
				-
Total other financing sources (uses)	<u>(40,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Net change in fund balance	(3,000)	(3,000)	87,248	90,248
BEGINNING FUND BALANCE	<u>260,000</u>	<u>260,000</u>	<u>149,074</u>	<u>(110,926)</u>
ENDING FUND BALANCE	<u>257,000</u>	<u>257,000</u>	<u>236,322</u>	<u>(20,678)</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment revenue	200	200	-	200
Total revenues	<u>200</u>	<u>200</u>	<u>-</u>	<u>200</u>
Expenditures				
Public works				
Personnel Services	4,800	14,800	14,546	(254)
Materials and services	8,000	13,000	7,113	(5,887)
Capital Outlay	-	-	-	-
Total Expenditures	<u>12,800</u>	<u>27,800</u>	<u>21,659</u>	<u>(6,141)</u>
Other Financing Sources (Uses)				-
Operating transfers in	12,800	27,800	27,800	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>12,800</u>	<u>27,800</u>	<u>27,800</u>	<u>-</u>
Net Changes in fund balance	200	200	6,141	5,941
Beginning fund Balance	<u>80,000</u>	<u>80,000</u>	<u>80,252</u>	<u>252</u>
Ending Funding Balance	<u><u>80,200</u></u>	<u><u>80,200</u></u>	<u><u>86,393</u></u>	<u><u>6,193</u></u>

CITY OF YACHATS, OREGON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION-BUDGET TO ACTUAL
WATER FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	629,000	629,000	657,968	28,968
Investment Revenues	-	-	-	-
Total Revenues	<u>629,000</u>	<u>629,000</u>	<u>657,968</u>	<u>28,968</u>
Expenditures				
Public Works				
Personnel services	338,500	338,500	288,726	(49,774)
Materials and services	147,000	164,500	135,730	(28,770)
Debt service	-	-	-	-
Capital expenditures	-	-	15,510	15,510
Contingencies	17,500	-	-	-
Total expenditures	<u>503,000</u>	<u>503,000</u>	<u>439,966</u>	<u>(63,034)</u>
Excess(deficiency) of revenues over (under expenditures)	126,000	126,000	218,002	92,002
Other Financing Sources (Uses)				
Operating transfers out	<u>(126,000)</u>	<u>(126,000)</u>	<u>(126,000)</u>	<u>-</u>
Net change in fund balance	-	-	92,002	92,002
Beginning fund balance	<u>17,000</u>	<u>17,000</u>	<u>1,923,045</u>	<u>1,906,045</u>
Ending fund balance	<u><u>17,000</u></u>	<u><u>17,000</u></u>	<u><u>2,015,047</u></u>	<u><u>1,998,047</u></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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	571,000	571,000	626,880	55,880
Investment revenue	400	400	-	(400)
Other local revenue	40,500	40,500	-	(40,500)
Total revenues	611,900	611,900	626,880	14,980
EXPENDITURES				
Public works				-
Personnel services	300,200	300,200	307,732	7,532
Materials and services	155,900	165,900	127,720	(38,180)
Capital expenditures	-	-	-	-
Contingencies	10,000	-	-	-
Total expenditures	466,100	466,100	435,452	(30,648)
Excess (deficiency) of revenues over (under) expenditures	145,800	145,800	191,428	45,628
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(145,400)	(145,400)	(145,400)	-
Net change in fund balance	400	400	46,028	45,628
BEGINNING FUND BALANCE	129,000	129,000	6,290,214	6,161,214
ENDING FUND BALANCE	129,400	129,400	6,336,242	6,206,842

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, aggregate blended component unit and the aggregate remaining fund information of the City of Yachats, Oregon, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 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 certain deficiencies that we considered to be significant deficiencies.

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.

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 2018-01 and 2018-02 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.



Schedule of Findings and Responses

Findings – Financial Statement Audit

Significant Deficiency in Internal Control Over Financial Reporting

2018-01 Preparation of Financial Statements

Criteria:

Management is responsible for maintaining an adequate and complete system of internal control to ensure the financial statements are free from material misstatement and error. 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.

Significant Deficiency in Internal Controls over Utility Billings

2018-02 Water & Sewer Charges for Services Internal Controls

Criteria:

Management is responsible for maintaining an adequate and complete system of internal control to ensure the financial statements are free from material misstatement and error.

An adequate system of internal control is the responsibility of the government's management. GAAP and GASB require 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's water and sewer fund charges for services represent one of the City's largest revenue sources. For fiscal year 2018, the City had \$1,284,848 in combined revenues from their water and sewer services, \$657,968 and \$626,880 from the water and sewer fund, respectively.

The City does not have updated formal policies or procedures over the water and sewer charges for services processes, nor does it have adequate segregation of duties or additional internal controls to ensure the system processes are adequately reviewed and result in accurate financial balances. The City currently has one position that is responsible for determining the water and sewer billing rates, calculating water and sewer billings, performing adjustments to customer accounts, maintaining discounts for low income customers and collecting customer payments.



While no material errors were identified, the control deficiency could result in a material misstatement to the financial statements due to the lack of review, lack of established process and lack of segregation of duties.

Cause:

The City is small and has few employees which inherently causes challenges in the segregation of duties. Additionally, the City has had turnover in management and employees resulting in the utility processes not recently being assessed.

Effect:

The system lacks adequate internal controls to ensure the one of the City's primary revenue sources is safeguarded and accurately reported. While no material errors were identified, the control deficiency could result in a material misstatement to the financial statements.

Recommendation:

We recommend the City establish an adequate system of internal control over the water and sewer services. This includes establishing a utility billing policy and procedure that accounts for periodic reviews and consistent documentation of utility billing rates, billings, and adjustments.

Additionally, the City does not have an established procedure for those who qualify for low income rates, we recommend the City establish a procedure over this process.

Management's Response:

The City is in the process of updating all of its internal control procedures, including water and sewer services. Updated procedures will include periodic reviews, updates to the low-income review process, documentation for billing rates, billings, and adjustments. The City is also in the process of researching the best option to review SDC methodologies and water and sewer rates to determine whether rates are sufficient to pay for operations and major reinvestments that will be required in the utility system's future. The second issue was to determine whether our rates are equitable in how they are structured to share the cost of supporting the various utility systems among the various types of utility users.

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

Hanford & Associates, LLC
Richland, Washington
December 31, 2018



Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Yachats, Oregon's (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Hanford & Associates, LLC
Richland, Washington
December 31, 2018

**CITY OF YACHATS, OREGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA Number	Pass-through entity identifying number	Provided to subrecipients	Total federal expenditures
Environmental Protection Agency (EPA) Drinking Water State Revolving Funds Program Cluster- <i>Loan funds Passed Through: Oregon Infrastructure Finance Authority</i> Capitalization Grants for Drinking Water State Revolving Funds	66.468	S14003	\$ -	\$ 1,242,065
			Total Environmental Protection Agency (EPA)	\$ 1,242,065
			Total Federal Assistance	\$ 1,242,065

See Notes to Schedule of Expenditures of Federal Awards

City of Yachats, Oregon
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Yachats under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Yachats, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Yachats.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

The City of Yachats has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

City of Yachats, Oregon
SCHEDULE OF FINDINGS & QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Section I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes X no
- Significant Deficiency(s) X yes ___ none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ___ yes X no
- Significant Deficiency(s) identified ___ yes X none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified.

Any audit findings disclosed that are required to be reported in accordance with [2 CFR 200.516\(a\)](#)? ___ yes X no

Identification of major federal programs:

CFDA No(s).	Names of Federal Program or Cluster
66.458	Capitalization Grants for Drinking Water State Revolving Fund

Dollar threshold used to distinguish between Type A and Type B Programs \$ 750,000

Auditee qualified as low-risk auditee? ___ yes X no

State Awards

The only major State program for the City of Yachats is the **Capitalization Grants for Drinking Water State Revolving Fund (66.458)**, which is a State match on a federal program. Therefore, this program has been included in the list of major federal programs above. This is the City's only Federal Program.

Section II – Financial Statement Findings

Significant Deficiency in Internal Control Over Financial Reporting

2018-01 Preparation of Financial Statements

Criteria:

Management is responsible for maintaining an adequate and complete system of internal control to ensure the financial statements are free from material misstatement and error. 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.

Significant Deficiency in Internal Controls over Utility Billings

2018-02 Water & Sewer Charges for Services Internal Controls

Criteria:

Management is responsible for maintaining an adequate and complete system of internal control to ensure the financial statements are free from material misstatement and error.

An adequate system of internal control is the responsibility of the government’s management. GAAP and GASB require 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’s water and sewer fund charges for services represent one of the City’s largest revenue sources. For fiscal year 2018, the City had \$1,284,848 in combined revenues from their water and sewer services, \$657,968 and \$626,880 from the water and sewer fund, respectively.

The City does not have updated formal policies or procedures over the water and sewer charges for services processes, nor does it have adequate segregation of duties or additional internal controls to ensure the system processes are adequately reviewed and result in accurate financial balances. The City currently has one position that is responsible for determining the water and sewer billing rates, calculating water and sewer billings, performing adjustments to customer accounts, maintaining discounts for low income customers and collecting customer payments.

While no material errors were identified, the control deficiency could result in a material misstatement to the financial statements due to the lack of review, lack of established process and lack of segregation of duties.

Cause:

The City is small and has few employees which inherently causes challenges in the segregation of duties. Additionally, the City has had turnover in management and employees resulting in the utility processes not recently being assessed.

Effect:

The system lacks adequate internal controls to ensure the one of the City’s primary revenue sources is safeguarded and accurately reported. While no material errors were identified, the control deficiency could result in a material misstatement to the financial statements.

Recommendation:

We recommend the City establish an adequate system of internal control over the water and sewer services. This includes establishing a utility billing policy and procedure that accounts for periodic reviews and consistent documentation of utility billing rates, billings, and adjustments.

Additionally, the City does not have an established procedure for those who qualify for low income rates, we recommend the City establish a procedure over this process.

Management’s Response:

The City is in the process of updating all of its internal control procedures, including water and sewer services. Updated procedures will include periodic reviews, updates to the low-income review process, documentation for billing rates, billings, and adjustments. The City is also in the process of researching the best option to review SDC methodologies and water and sewer rates to determine whether rates are sufficient to pay for operations and major reinvestments that will be required in the utility system’s future. The second issue was to determine whether our rates are equitable in how they are structured to share the cost of supporting the various utility systems among the various types of utility users.

Section III – Federal Award Findings and Questioned Costs

None reported.

Section IV – State Award Findings and Questioned Costs

None reported.

**CITY OF YACHATS, OREGON
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

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.

Status:

Due to cost constraints, the City will continue to have the auditors draft the financial statements and accompanying notes.

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.

Status:

The City mitigated this issue by reclassifying their financial reporting document to report funds in accordance with GAAP and GASB standards.



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, 2018 and have issued our report thereon dated December 31, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

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 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

- **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.**

In connection with our testing nothing came to our attention that caused us to believe the City of Yachats was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

OAR 162-10-0230 Internal Control

In planning and performing 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 84-88 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.



Hanford & Associates, LLC
Richland, Washington
December 31, 2018