

**PACIFIC CITY
JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

**FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013**



**12700 SW 72nd Ave.
Tigard, OR 97223**

PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

2012-2013
FINANCIAL REPORT

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PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

<u>BOARD OF DIRECTORS</u>	<u>TERM EXPIRES</u>
Carolyn McVicker, Chair	June 30, 2015
Anne Price, Vice Chair	June 30, 2013
Sean Lambert, Secretary	June 30, 2015
Dick Carter, Director	June 30, 2013
Doug Kellow, Director	June 30, 2013

All Directors receive mail at the Authority Office address listed below

REGISTERED AGENT

Tony Owen, Manager
P.O. Box 520
34005 Cape Kiwanda Drive
Pacific City, Oregon 97135

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PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

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October 29, 2013

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pacific City Joint Water-Sanitary Authority
Pacific City, Tillamook County, Oregon

Report on the Financial Statements

We have audited the accompanying basic financial statements of Pacific City Joint Water-Sanitary Authority, Tillamook County, Oregon, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the Pacific City Joint Water-Sanitary Authority's financial statements and, in our report dated September 28, 2012, we expressed an unqualified opinion on the respective basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the basic financial statements of Pacific City Joint Water-Sanitary Authority, as of June 30, 2013 and 2012, and the respective changes in financial position and where applicable, cash flows thereof for the years ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The Authority adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In 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.

The listing of board members containing their term expiration dates, 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.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated October 29, 2013, on our consideration of 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.



Roy R. Rogers, CFA
PAULY, ROGERS AND CO., P.C.

Pacific City Joint Water-Sanitary Authority

Management's Discussion and Analysis

FY 2013

As management of the Pacific City Joint Water-Sanitary Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our notes to the financial statements.

Financial Highlights

- Total assets of the Authority at June 30, 2013 were \$18,456,602 and include capital assets of \$17,135,547; current assets of \$1,241,696; and unamortized bond issue costs of \$79,359. Overall, total assets for the Authority decreased 1.6% from FY 2012.
- PCJWSA's assets exceeded its liabilities on June 30, 2013 by \$13,935,862 (net position). This amount reflects a decrease of \$131,525 or 1% from FY 2012 and a decrease of \$427,021 since FY 2011. For the fiscal year ended June 30 2013, unrestricted net position in the amount of \$491,807 includes \$291,169 in cash and investments that may be used to meet the Authority's obligations. This represents a 41.67% increase in year-end unrestricted net position of FY 2012.
- At June 30, 2013, capital assets less related debt were \$12,690,547, a decrease of 3.3% from FY 2012. Long-term debt total \$4,445,000 showing a reduction of .3% from FY 2012 and 5% since FY 2011. The reduction is primarily due to the Authority's schedule debt payment service payments on the Authority's outstanding debt. The Authority has not had any debt issuance since FY 2008.
- Operating revenues for FY 2013 were \$1,201,713, an increase of 18.8% from FY 2012 or \$190,383. The FY 2013 increase in operating revenues is attributable to rate increases implemented by the Authority.
- Total operating expenses for FY 2013 were \$1,814,079, reflecting an overall increase of 2.4%, \$42,025 from the previous year. Labor and benefits increased 1% due to an increase of fringe benefit costs; materials and services costs increased 2%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Pacific City Water-Sanitary Authority's basic financial statements. The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Authority's annual report consists of the Statement of Net Position, the Statement of Revenues, Expenditures and Changes in Net Position and the Statement of Cash Flows.

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

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

The Statement of Cash Flows is prepared using the direct method and is concerned solely with input and outlay of cash from operating activities, capital and related financing activities and investing activities. This statement also includes reconciliation to the Statements of Revenues, Expenditures and Changes in Net Position. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. It answers questions such as; "where did the cash come from, what was the cash used for, and what was the change in cash balance during the reporting period?"

The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

Financial Analysis

Net Position

Over time, net position may serve as a useful indicator of the Authority's financial position. As shown in the following table, the Authority's assets exceeded liabilities by \$13.9 million on June 30, 2013 and reflect a decrease of approximately a hundred thousand dollars or 1% under the Authority's net position at the close of FY 2012.

Investment in capital assets is by far the largest portion of the Authority's net position (\$12.7 million or 91.1% of total net position), and includes the Authority's investment in land, buildings, equipment, reservoirs, and pipelines. The Authority used these capital assets to provide water and wastewater services to customers; consequently, these assets are not available for future spending.

Net Position

	2013	2012	Difference 2012-2013	Percent Change	2011
Assets:					
Current Assets	\$ 446,809	\$ 304,855	\$ 141,954	47%	\$ 258,567
Current Restricted Assets	794,887	1,622,605	(827,718)	-51%	1,823,315
Non-Current Assets	79,359	86,569	(7,210)	-8%	93,779
Capital Assets	<u>17,135,547</u>	<u>16,741,016</u>	<u>394,531</u>	2%	<u>17,014,553</u>
Total Assets	<u>18,456,602</u>	<u>18,755,045</u>	<u>(298,443)</u>		<u>19,190,214</u>
Liabilities:					
Current Liabilities	27,062	182,179	(155,117)	-85%	105,604
Non-Current Liabilities	48,678	45,479	3,199	7%	51,727
Long Term Debt	<u>4,445,000</u>	<u>4,460,000</u>	<u>(15,000)</u>	0%	<u>4,670,000</u>
Total Liabilities	<u>4,520,740</u>	<u>4,687,658</u>	<u>(166,918)</u>		<u>4,827,331</u>
Net Position:					
Invested in Capital Asset	12,690,547	12,281,016	409,531	3%	12,344,553
Reserved for Debt Service	178,384	177,250	1,134	1%	177,056
Reserved for Capital Improvements	575,124	1,261,972	(686,848)	-54%	1,520,103
Unrestricted	<u>491,807</u>	<u>347,149</u>	<u>144,658</u>	42%	<u>321,171</u>
Total Net Position	<u>13,935,862</u>	<u>14,067,387</u>	<u>(131,525)</u>		<u>14,362,883</u>
Total Liabilities and Net Position	<u>\$ 18,456,602</u>	<u>\$ 18,755,045</u>	<u>\$ (298,443)</u>	-2%	<u>\$ 19,190,214</u>

Change in Net Position

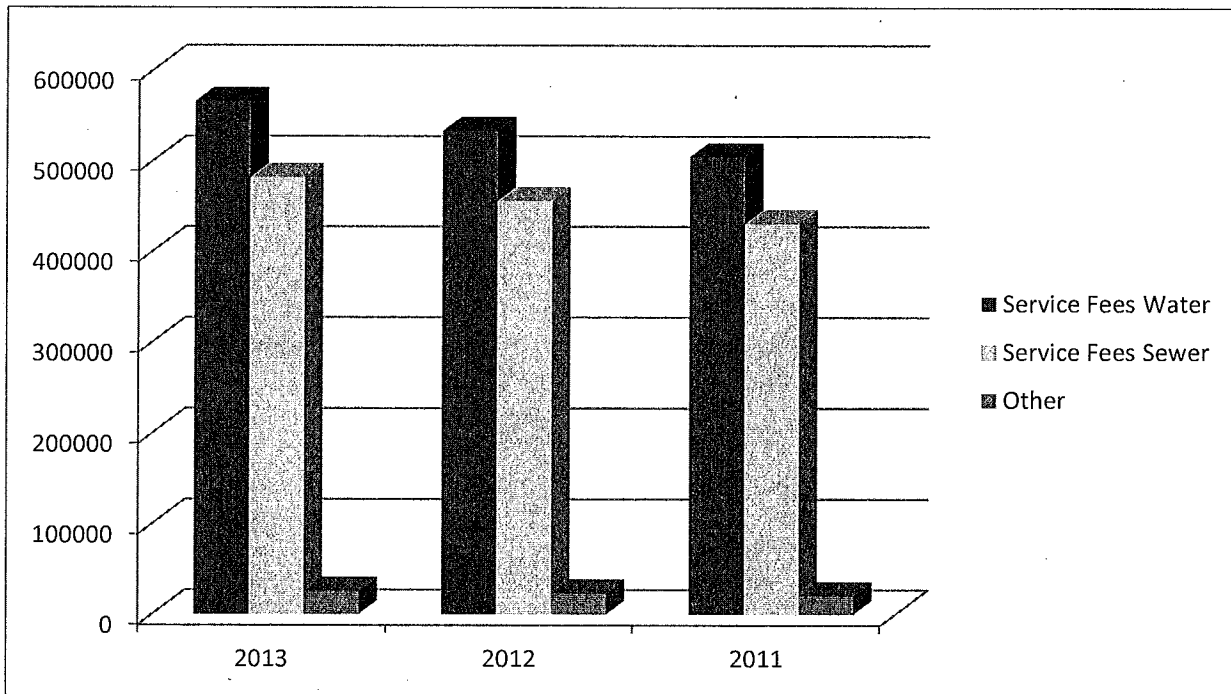
As shown in the next table the Authority's operating, non-operating and capital activities decreased total net position by \$132,000, a decrease of 1% from FY 2012 and 3% (\$427,000) since FY 2011.

Change in Net Position					
	<u>2013</u>	<u>2012</u>	<u>Difference 2012-2013</u>	<u>Percent Change</u>	<u>2011</u>
Operating Revenue:					
Service Fees	\$ 1,047,450	\$ 989,111	\$ 58,339	6%	\$ 935,458
Other Operating Revenues	<u>154,263</u>	<u>22,219</u>	<u>132,044</u>	594%	<u>27,917</u>
Total Operating Revenues	<u>1,201,713</u>	<u>1,011,330</u>	<u>190,383</u>	19%	<u>963,375</u>
Operating Expenses:					
Personal Services	576,035	572,915	3,120	1%	547,846
Materials and Services	345,463	352,428	(6,965)	-2%	381,041
Depreciation and Amortization	<u>892,581</u>	<u>846,711</u>	<u>45,870</u>	5%	<u>820,878</u>
Total Operating Expenses	<u>1,814,079</u>	<u>1,772,054</u>	<u>42,025</u>	2%	<u>1,749,764</u>
Net Income, (Loss) From Operations	(612,366)	(760,724)	148,358	-20%	(786,389)
Non-Operating Revenue, (Expenses)	<u>480,841</u>	<u>465,228</u>	<u>15,613</u>	3%	<u>474,024</u>
Change in Net Position	(131,525)	(295,496)	163,971	-55%	(312,365)
Beginning Net Position	<u>14,067,387</u>	<u>14,362,883</u>	<u>(295,496)</u>	-2%	<u>14,752,696</u>
Prior Period Adjustment	-	-	-		<u>(77,448)</u>
Ending Net Assets	<u>\$ 13,935,862</u>	<u>\$ 14,067,387</u>	<u>\$ (131,525)</u>	-1%	<u>\$ 14,362,883</u>

Operating Revenues

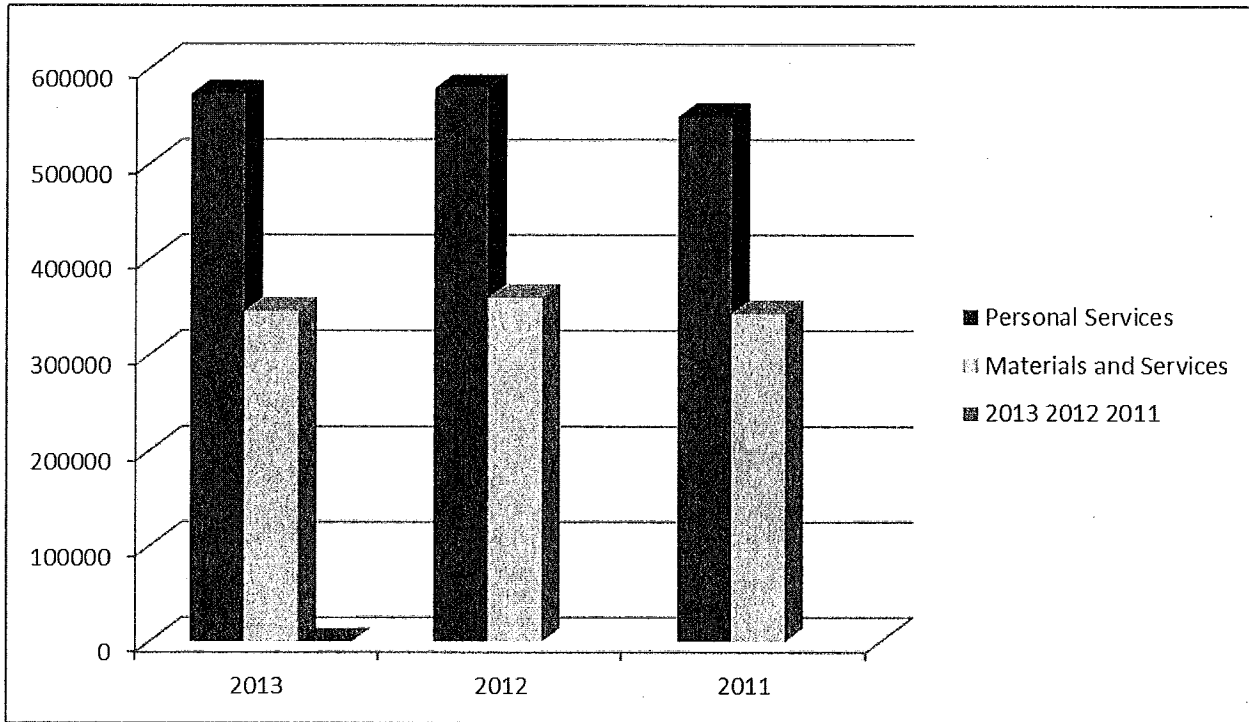
FY 2013 operating revenues increased to \$1.2 million or about 18.8% from FY 2012. The Authority sets rates annually and increases are based on cost of service and requirements needed to fund operations and capital improvements.

Other operating revenues are comprised of various miscellaneous fees and charges, including the monthly charge assessed for streetlights electricity, contracts for sludge hauling and laboratory testing, and sewer inspections.



Operating Expenses

In the materials and supplies expenses portion of the budget, the cost of bank charges, liability insurance, legal fees, and expected equipment maintenance was less than projected, resulting in an overall difference of 30.4% between budgeted and actual expenditures.

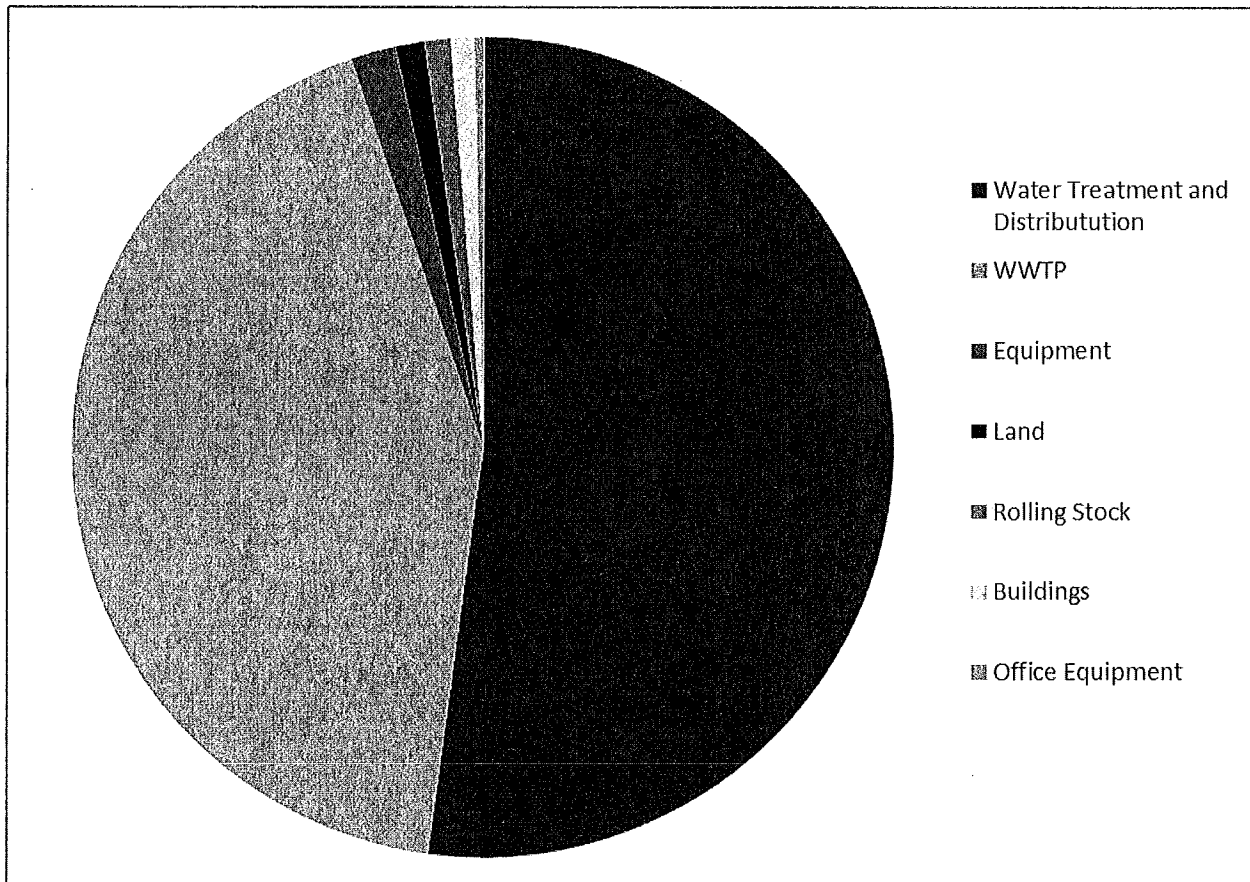


Capital Assets

As of June 30, 2013, the Authority had \$17,135,547 invested in a broad range of capital assets, including land, buildings, water treatment and water distribution systems, wastewater treatment and collection systems, and equipment. These amounts are net of depreciation. See the notes to the financial statements for additional information on capital assets.

Major capital events during the current fiscal year included the following:

- Airport Lift Station \$ 1,184,897



Debt Administration

As of June 30, 2013, the Authority owed \$4,445,000 for a General Obligation Bond approved by voters in November 2007.


Economic Factors and Next Year's Budget and Rates

The total amount of appropriations in the 2013-2014 Fiscal Year's budget is as follows:

Enterprise Fund Appropriations:	\$ 1,454,500
Debt Service Fund Appropriations:	\$ 555,000
Water SDC/CIC Fund Appropriations:	\$ 1,926,484
Sewer SDC/CIC Fund Appropriations:	<u>\$ 1,105,384</u>
For a total of	\$ 5,041,368

Requests for Information

This financial report is designed to provide a general overview of the Pacific City Joint Water-Sanitary Authority's finances for parties interested in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to P.O. Box 520, Pacific City, OR 97135.



Tony Owen, Authority Manager
Pacific City Joint Water-Sanitary Authority

PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

**STATEMENTS OF NET POSITION
June 30, 2013 and 2012**

	2013	2012
ASSETS:		
Current		
Cash and Equivalents	\$ 291,169	\$ 165,452
Utility Billing Accounts Receivable	94,273	85,815
Prepaid Expenses	7,352	-
Materials Inventory	54,015	53,588
Total Current Assets	446,809	304,855
Restricted Assets		
Debt Service Fund		
Cash and Investments	170,780	169,646
Taxes Receivable	39,571	39,571
Water SDC/CIC Reserve Fund		
Cash and Investments	530,560	291,906
Utility Billing Accounts Receivable	7,645	11,673
Sewer SDC/CIC Reserve Fund		
Cash and Investments	39,499	1,107,008
Utility Billing Accounts Receivable	6,832	2,801
Total Restricted Assets	794,887	1,622,605
Non-Current		
Unamortized Bond Issue Costs	79,359	86,569
Capital Assets		
Non-Depreciable	304,404	304,404
Depreciable	26,807,919	25,528,017
Less: Accumulated Depreciation	(9,976,776)	(9,091,405)
Net Capital Assets	17,135,547	16,741,016
Total Assets	\$ 18,456,602	\$ 18,755,045
LIABILITIES AND NET POSITION:		
Current Liabilities		
Accounts Payable	\$ 26,917	\$ 182,034
Payable from Restricted Assets		
Matured Coupons Payable	145	145
Total Current Liabilities	27,062	182,179
Noncurrent Liabilities		
Accrued Compensated Absences	48,678	45,479
Note, Bonds Payable, Less Current Portion	4,445,000	4,460,000
Total Noncurrent Liabilities	4,493,678	4,505,479
Total Liabilities	4,520,740	4,687,658
Net Position		
Invested in Capital Assets, Net of Related Debt	12,690,547	12,281,016
Restricted for Debt Service	178,384	177,250
Restricted for Capital Improvements	575,124	1,261,972
Unrestricted	491,807	347,149
Total Net Position	13,935,862	14,067,387
Total Liabilities and Net Position	\$ 18,456,602	\$ 18,755,045

See accompanying notes to basic financial statements.

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

**STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN NET POSITION**

For the Years Ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Service Fees - Sewer	\$ 565,591	\$ 533,211
Service Fees - Water	481,859	455,900
Streetlight Assessments	9,565	9,557
Miscellaneous Charges	7,486	4,725
Tap Fees/Inspections	2,675	1,855
Reimbursements	134,537	6,082
Total Operating Revenues	1,201,713	1,011,330
OPERATING EXPENDITURES:		
Personal Services	576,035	572,915
Materials and Services	345,463	352,428
Depreciation/Amortization	892,581	846,711
Total Operating Expenses	1,814,079	1,772,054
Operating Income (Loss)	(612,366)	(760,724)
NON-OPERATING INCOME (EXPENDITURES):		
Property Taxes	418,376	416,841
Earnings on Investments	8,523	9,714
System Development Charges	90,004	81,656
Capital Improvements Charges	168,842	169,405
Interest Expense on Bonds and Leases	(204,904)	(212,388)
Total Non-Operating Income	480,841	465,228
Net Income	(131,525)	(295,496)
Beginning Net Position	14,067,387	14,362,883
Ending Net Position	\$ 13,935,862	\$ 14,067,387

See accompanying notes to basic financial statements.

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

**STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and 2012**

	2013	2012
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 1,185,900	\$ 1,008,936
Cash Paid to Suppliers	(501,007)	(261,282)
Cash Paid to Employees	(572,836)	(581,015)
Net Cash Provided (Used) by Operating Activities	112,057	166,639
Cash Flows From Investing Activities		
Earnings on Investment	8,523	9,714
Net Cash Provided By Investing Activities	8,523	9,714
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(1,279,902)	(565,964)
Principal Payments on Long-term Debt	(15,000)	(210,000)
Interest Payments on Long-term Debt	(204,904)	(212,388)
Net Cash Used by Capital and Related Financing Activities	(1,499,806)	(988,352)
Cash Flows From Non-Capital Financing Activities		
Property Tax Contributions/Sale of Assets	418,376	416,841
Capital Improvements Charges	168,842	169,405
System Development Fees	90,004	81,656
Net Cash Provided By Non-Capital Financing Activities	677,222	667,902
Net Increase (Decrease) in Cash	(702,004)	(144,097)
Cash and Cash Equivalents, Beginning of Year	1,734,012	1,878,109
Cash and Cash Equivalents, End of Year	\$ 1,032,008	\$ 1,734,012
Detail of Cash:		
Unrestricted	\$ 291,169	\$ 165,452
Debt Service Fund	170,780	169,646
Water SDC/CIC Reserve Fund	530,560	291,906
Sewer SDC/CIC Reserve Fund	39,499	1,107,008
	\$ 1,032,008	\$ 1,734,012
Cash Paid for Interest	\$ 204,904	\$ 212,388
Operating Loss	\$ (612,366)	\$ (760,724)
Noncash Items included in Income		
Amortization of Bond Issue Costs	7,210	7,210
Depreciation Expense & Amortization	885,371	839,501
Decrease (Increase) In:		
Accounts Receivable	(8,461)	(7,356)
Taxes Receivable	-	4,962
Prepays	(7,352)	-
Materials Inventory	(427)	12,719
Increase (Decrease) In:		
Accounts Payable	(155,117)	78,427
Payroll Liabilities	-	(1,852)
Accrued Compensated Absences	3,199	(6,248)
Net Cash Provided By Operation	\$ 112,057	\$ 166,639

See accompanying notes to basic financial statements.

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PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the accounting policies are described below.

A. THE FINANCIAL REPORTING ENTITY

The Authority is a Municipal Corporation formed by the Tillamook County Board of Commissioners on July 1, 1998, under Oregon Revised Statutes Chapters 450 and 198. The Authority thereupon assumed the fixed assets, liabilities and fund balances of the Pacific City Water District and the Pacific City Sanitary District, both of which were legally and permanently dissolved at midnight on June 30, 1998.

The water system is comprised of approximately 30 miles of waterlines, three reservoirs with a total capacity of one million gallons of storage, six wells, and a surface water source for emergency needs. The sewer system is comprised of a wastewater treatment plant that consists of: headworks; blowers; generator; tertiary filtration; and eight concrete holding tanks for flow equalizing, aerating, digesting, clarifying and ultra violet disinfecting. The sewerage collection interceptor system includes approximately 20 miles of sewer line, and nine lift stations.

All of the organizations (a.k.a. component units) for which the Authority is financially accountable have been considered for inclusion in the basic financial statements. Component units as established by the Governmental Accounting Standards Board (GASB) Statement 61 are separate organizations that are included in the financial statements because of the significance of their operational financial relationships with the Authority. Financial accountability may be evidenced by an entity's ability to appoint the voting majority of the governing bodies of the organizations, and is either able to impose its will on those organizations, or there is a potential for the organizations to either provide specific financial benefits or impose specific burdens on the entity, or there is a fiscal dependency or intergovernmental relationship so close that exclusion of those organizations from the financial statements of the entity would render them incomplete or misleading. There are no component units.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounting records are maintained on a fund accounting basis for budgetary and legal purposes. For financial reporting purposes, the financial statements are presented as a single enterprise operation in the Basic financial statements. Financial operations are accounted for in the following budgetary funds:

Enterprise Fund – This fund accounts for general operating revenues and expenditures. The fund's principal source of revenue is water and sewer service user fees and other miscellaneous charges.

Debt Service Fund – This fund accounts for the resources and expenditures related to payment of the Authority's General Obligation (GO) Bonds. The principal source of revenue is property taxes.

Water SDC/CIC Reserve Fund – This fund accounts for water system projects and fixed asset purchases funded by system development charges (SDC) and capital improvement charges (CIC).

Sewer SDC/CIC Reserve Fund – This capital fund accounts for sewer system projects and fixed asset purchases funded by system development charges (SDC) and capital improvement charges (CIC).

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF ACCOUNTING

The basic financial statements are prepared on the accrual basis of accounting using the “economic resources” measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred, regardless of the timing of the related cash flow. Accordingly, all assets and liabilities are reflected within the balance sheet with the equity section representing “net total position”.

The budgetary financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. All revenues reported in the governmental funds are considered to be available if they are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

D. BUDGET

A budget is prepared and legally adopted for each fund on the accrual basis of accounting in the main program categories required by Oregon Local Budget Law. The budgets for all funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except for the following:

- Depreciation is not a budgeted expense;
- Interest, principal and bond issue costs on long-term debt are recorded as an expense when paid;
- Vested compensated absences are recorded as expenses only to the extent they are expected to be liquidated with expendable available financial resources;
- Capital outlay is recorded as expenses;
- Uncollected Property Taxes (Taxes Receivable) are not accrued;
- Inventory and insurance are expensed when purchased;
- Prepaid expenses are expensed when paid rather than when used.

The budget process each fiscal year begins with the establishment of a budget committee. Generally, recommendations are developed through late winter with the budget committee approving the budget in early spring. Public notices of the budget hearing are usually published in early spring with a public hearing being held approximately three weeks later. The Board of Directors may amend the budget prior to adoption – however, budgeted expenditures for each fund may not be increased by more than ten percent (10%) without specific alternative procedures. The budget is adopted and appropriations are made for the new fiscal year no later than June 30th of the preceding fiscal year.

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BUDGET (CONTINUED)

The expenditure budget for the Enterprise Fund (001) is appropriated at the following level:

- Personal Services
- Materials and Services
- Interfund Transfers
- Contingency

The expenditure budget for the Bonded Debt Fund (003) is appropriated at the following level:

- Debt Service: principal; interest; fees

The expenditure budgets for the Capital Outlay Funds 004 (Sanitary Sewer) and 005 (Water) are appropriated at the following levels:

- Debt Service
- Materials & Services
- Capital Outlay

Expenditures of the various funds were within authorized appropriations.

E. PROPERTY TAXES RECEIVABLE

Ad valorem property taxes are levied and become a lien on all taxable property as of July 1. Property taxes are payable on November 15. Collection dates are November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

Uncollected property taxes are shown in the balance sheets. Uncollected taxes are deemed by management to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established.

F. INVENTORIES

Inventories consisting of operating materials and supplies are reported at cost using the weighted average cost- pricing method, and increased when purchases are made and reduced when used for operations. In the budgetary statements inventory is expensed as purchased.

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. CAPITAL ASSETS

Purchased capital assets are stated at cost where historical records are available, and at estimated historical cost where no historical records exist. Maintenance and repairs are expensed as incurred. Replacements that improve or extend the lives of property are capitalized. Donated capital assets are stated at estimated fair value at the date of donation. Gains or losses realized from the sale of fixed assets are reflected in the statement of operations. Capital assets are defined as all individually purchased items and rehabilitation projects with an initial cost of \$1,000 or more, and an estimated useful life greater than one year. Depreciation of fixed assets has been recognized and reflected in the basic financial statements and is calculated using the straight-line method based upon the following estimated useful lives of the assets:

Utility Plant and Systems	33 to 50 years
Operations Equipment	5 to 10 years
Office Equipment	3 to 5 years

H. COMPENSATED ABSENCES

Accumulated employee vacation leave is recorded as a liability and as an expense as the benefits accrue. Sick pay benefits are not recorded in the basic financial statements since they are not paid upon termination (non-vesting).

I. RETIREMENT PLANS

Employees participate in an IRC section 457 deferred compensation plan. Contributions to the plan are made on a current basis as required by the plan and are charged to expense as incurred. This is more fully discussed in Note 5.

J. CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, all highly liquid investments with an original maturity of three months or less when purchased and all amounts in pooled accounts are considered to be cash equivalents.

K. 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 those estimates.

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. OPERATING REVENUES AND EXPENSES

Enterprise, or proprietary, funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are water and sewer service user fees and miscellaneous charges. Water and sewer service revenues are recorded when the monthly utility billings are generated.

Operating expenses for the enterprise fund, which includes the cost of sales and services and administrative expenses, are recorded when expenditures are made. Depreciation of capital assets is recorded at the end of each fiscal year as an operating expense. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

M. RESTRICTED ASSETS

Certain assets have been restricted for specified purposes as required by Oregon Revised Statutes or bond indentures.

2. CASH AND INVESTMENTS

The cash management policies are governed by state statutes. Statutes authorized investments in bankers acceptances, time certificates of deposit, repurchase agreements, obligations of the United States and its agencies and instrumentalities, and the Oregon State Treasurer's Local Government Investment Pool.

Cash and Investments (at fair value) at June 30, 2013 and 2012 consisted of:

Deposits with Financial Institutions	2013	2012
Petty Cash	\$ 300	\$ 300
Demand Deposits	197,031	194,640
Investments	834,677	1,539,072
Total Cash & Investments	<u>\$ 1,032,008</u>	<u>\$ 1,734,012</u>
Reported on Statement of Net Position as:		
Current Cash and Equivalents	\$ 291,169	\$ 165,452
Restricted Debt Service Cash	170,780	169,646
Restricted Water SDC/CIC Cash	530,560	291,906
Restricted Sewer SDC/CIC Cash	39,499	1,107,008
Total Cash & Investments	<u>\$ 1,032,008</u>	<u>\$ 1,734,012</u>

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

DEPOSITS:

Deposits with financial institutions are comprised of bank demand deposits and certificates of deposit. The total bank balance per the bank statements is \$265,933 of which all is covered by federal depository insurance. Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury. As of June 30, 2013, all deposits were deposited at an approved depository.

INVESTMENTS:

Investments are categorized as follows: (1) Insured or for which securities are held by us or our agent, (2) Uninsured for which the securities are held by the bank's trust department or agent in our name or (3) Uninsured for which securities are held by the bank in the bank or by its agent.

The investments at year-end could not be placed in one of the three categories. The carrying amount of investments approximates market value at June 30, 2013 and 2012 as follows:

	<u>2013</u>	<u>2012</u>
Oregon State Treasurer's Local Government Investment Pool, Variable Interest Rate	<u>\$ 834,677</u>	<u>\$ 1,539,072</u>

The State Treasurer's Local Government Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State's investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board (OSTFB), which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund was in compliance with all portfolio guidelines at June 30, 2013. Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. There is no material difference between the fair value of the Agency's position in the State Treasurer's Local Government Investment Pool and the value at June 30, 2013 and 2012. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. There are no investments held that have a maturity date beyond 3 months.

Credit Risk - Investments

Oregon Revised Statutes do not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

At June 30, 2013, all of the investments were in the State Treasurer's Investment Pool. State statutes do not limit the percentage of investments in this instrument.

3. ACCOUNTS RECEIVABLE

Utility Billing (UB) Accounts Receivable represents earned but uncollected user fees and charges. Delinquent UB receivables follow the property to which the service was provided. Renters or lessees are not billed for services, only the property owners. If any UB account is not paid within a 30-day period from the time the notice of delinquency is issued by office staff, a \$100 lock-off fee is assessed against the delinquent account and the water meter is turned off and padlocked until the account balance is paid in full. Therefore, management has not established an allowance for bad debts.

4. CHANGES IN CAPITAL ASSETS

The changes in Capital Assets for the year ended June 30, 2013 are summarized below:

	BALANCE 07/01/12	ADDITIONS	BALANCE 06/30/13
Capital Assets Not Being Depreciated			
Land	\$ 304,404	\$ -	\$ 304,404
Capital Assets Being Depreciated			
Vehicles & Equipment	870,170	33,582	903,752
Buildings & Improvements	249,480	-	249,480
Treatment Plant & Water Distribution	14,085,160	26,498	14,111,658
WW Treatment & Collection Systems	10,323,207	1,219,822	11,543,029
Total Capital Assets Being Depreciated	<u>25,528,017</u>	<u>1,279,902</u>	<u>26,807,919</u>
Accumulated Depreciation			
Vehicles & Equipment	68,186	8,316	76,502
Buildings & Improvements	686,338	104,043	790,381
Treatment Plant & Water Distribution	3,879,140	454,996	4,334,136
WW Treatment & Collection Systems	4,457,741	318,016	4,775,757
Less: Accumulated Depreciation	<u>9,091,405</u>	<u>885,371</u>	<u>9,976,776</u>
Capital Assets, Net	<u>\$ 16,741,016</u>		<u>\$ 17,135,547</u>

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

4. CHANGES IN CAPITAL ASSETS (CONTINUED)

The changes in Capital Assets for the year ended June 30, 2012 are summarized below:

	<u>BALANCE</u> 07/01/11	<u>ADDITIONS</u>	<u>BALANCE</u> 06/30/12
Capital Assets Not Being Depreciated			
Land	\$ 304,404	\$ -	\$ 304,404
Capital Assets Being Depreciated			
Vehicles & Equipment	836,809	33,361	870,170
Buildings & Improvements	249,459	21	249,480
Treatment Plant & Water Distribution	13,993,762	91,398	14,085,160
WW Treatment & Collection Systems	9,882,023	441,184	10,323,207
Total Capital Assets Being Depreciated	<u>24,962,053</u>	<u>565,964</u>	<u>25,528,017</u>
Accumulated Depreciation			
Vehicles & Equipment	59,870	8,316	68,186
Buildings & Improvements	587,380	98,958	686,338
Treatment Plant & Water Distribution	3,424,662	454,478	3,879,140
WW Treatment & Collection Systems	4,179,992	277,749	4,457,741
Less: Accumulated Depreciation	<u>8,251,904</u>	<u>839,501</u>	<u>9,091,405</u>
Capital Assets, Net	<u>\$ 17,014,553</u>		<u>\$ 16,741,016</u>

5. DEFERRED COMPENSATION

The Authority has decided not to participate the Oregon Public Employees Retirement Fund, which is a cost-sharing multiple employer defined benefit pension plan administered by the Oregon Public Employees Retirement System (PERS). In lieu, a deferred compensation plan has been made available to employees wherein they may execute an individual agreement for amounts earned by them to not be paid until a future date when certain circumstances are met. Additionally, employee contributions are matched up to 6% of their budgeted salary per year. The circumstances for withdrawal of contributions are: death, disability, resignation or retirement. Payment to the employee will be made over a period not to exceed 15 years. The deferred compensation plan is one which is authorized under IRC Section 457 and has been approved in its specifics by a private ruling from the Internal Revenue Service. All amounts of compensation deferred under the plan are held in trust by a separate plan administrator for the sole benefit of the participants. The contributions to the plan for the years ended June 30, 2013, 2012 and 2011 were \$48,371, \$48,389 and \$43,208, respectively, equal to the required contributions for each year.

Employees are able to purchase post-employment insurance coverage through the Authority, until age 65. However, the Authority has no liability as the employees are responsible for all premiums. The Actuary has determined, based upon the Authority's small impact on the total insurance pool, that no material implicit rate subsidy exists and therefore there is no OPEB obligation for implicit post-employment benefits.

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

6. LONG-TERM DEBT

The changes in Long-Term Debt for the year ended June 30, 2013 are summarized below:

The Authority has been issued a line of credit in the amount of \$200,000 at an interest rate of 1.75%.

General Obligation Bonds:

<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Outstanding 7/1/12</u>	<u>Issued</u>	<u>Matured and Redeemed</u>	<u>Outstanding 6/30/13</u>
August 1, 1977	Variable	445,000	\$ 145	\$ -	\$ -	\$ 145
October 4, 2007	3.85-4.8%	5,485,000	4,460,000	-	215,000 (1)	4,245,000
Line of Credit	1.75%		-	200,000	-	200,000
			<u>\$ 4,460,145</u>	<u>\$ 200,000</u>	<u>\$ 215,000</u>	<u>\$ 4,445,145</u>

General Obligation Principal and Interest Streams for Long-Term Debt:

<u>For the Fiscal Year Ended June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 199,688	\$ 199,688
2015	225,000	190,888	415,888
2016	235,000	181,570	416,570
2017	245,000	171,607	416,607
2018	255,000	160,980	415,980
2019-23	1,455,000	614,855	2,069,855
2024-28	1,830,000	228,000	2,058,000
Total	<u>\$ 4,245,000</u>	<u>\$ 1,747,588</u>	<u>\$ 5,992,588</u>

(1) The principal payment due in 2013-2014 was paid in 2012-2013

The changes in Long-Term Debt for the year ended June 30, 2012 are summarized below:

<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Outstanding 7/1/11</u>	<u>Issued</u>	<u>Matured and Redeemed</u>	<u>Outstanding 6/30/12</u>
August 1, 1977	Variable	445,000	\$ 145	\$ -	\$ -	\$ 145
October 4, 2007	3.85-4.8%	5,485,000	4,670,000	-	210,000	4,460,000
			<u>\$4,670,145</u>	<u>\$ -</u>	<u>\$ 210,000</u>	<u>\$4,460,145</u>

7. RISK MANAGEMENT

There is exposure to various risks of loss during the usual course of business. To mitigate the risk of loss, insurance policies have been purchased from Special Districts Association of Oregon, Old Republic Surety, and Inland Marine. There have been no significant changes in coverage nor have any settlements exceeded insurance coverage in the past three years.

PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. COMPENSATED ABSENCES

Activity for compensated absences, all of which are considered due within one year, for the year ended June 30, 2013 as follows:

Balance July 1, 2012	\$ 45,479
Additions	48,678
Deletions	<u>(45,479)</u>
Balance June 30, 2013	\$ <u>48,678</u>

Activity for compensated absences for the year ended June 30, 2012 is shown as follows:

Balance July 1, 2011	\$ 51,727
Additions	45,479
Deletions	<u>(51,727)</u>
Balance June 30, 2012	\$ <u>45,479</u>

PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

SUPPLEMENTARY INFORMATION

(Individual Fund and Other Financial Schedules)

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**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

**COMBINING BALANCE SHEET - ALL FUNDS (BUDGETARY BASIS)
June 30, 2013**

	ENTERPRISE FUND	DEBT SERVICE FUND	WATER SDC/CIC RESERVE FUND	SEWER SDC/CIC RESERVE FUND	TOTAL
ASSETS:					
Cash and Investments	\$ 291,169	\$ 170,780	\$ 530,560	\$ 39,499	\$ 1,032,008
Utility Billing A/R	94,273	-	7,645	6,832	108,750
Accounts Receivable	-	39,571	-	-	39,571
Prepaid	7,352	-	-	-	7,352
Total Assets	\$ 392,794	\$ 210,351	\$ 538,205	\$ 46,331	\$ 1,187,681
LIABILITIES AND FUND BALANCE:					
Current Liabilities:					
Accounts Payable/Retainage Payable	\$ 17,505	\$ -	\$ 98	\$ 9,314	\$ 26,917
Matured Coupons Payable	-	145	-	-	145
Deferred Taxes	-	31,822	-	-	31,822
Total Liabilities	17,505	31,967	98	9,314	58,884
Fund Balance:					
Restricted for Debt Service	-	178,384	-	-	178,384
Restricted for Capital Projects	-	-	538,107	37,017	575,124
Unrestricted	375,289	-	-	-	375,289
Total Fund Balance	375,289	178,384	538,107	37,017	1,128,797
Total Liabilities and Fund Balance	\$ 392,794	\$ 210,351	\$ 538,205	\$ 46,331	\$ 1,187,681

Reconciliation to Net Position:

Fund Balances Above	\$ 1,128,797
Less:	
Accrued Compensated Absences	(48,678)
Bond Payable	(4,445,000)
Plus:	
Net Capital Assets	17,135,547
Inventory	54,015
Deferred Taxes Receivable	31,822
Bond Issue Costs	79,359
Total Net Position	\$ 13,935,862

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
ALL FUNDS (BUDGETARY BASIS)
For the Year Ended June 30, 2013**

	ENTERPRISE FUND	DEBT SERVICE FUND	WATER SDC/CIC RESERVE FUND	SEWER SDC/CIC RESERVE FUND	TOTAL
REVENUES:	\$ 1,073,389	\$ 420,122	\$ 279,541	\$ 314,406	\$ 2,087,458
EXPENDITURES:					
Personal Services	572,836	-	-	-	572,836
Materials and Services	345,913	-	5,623	325	351,861
Capital Outlay	-	-	29,774	1,244,157	1,273,931
Debt Service	-	418,988	-	916	419,904
Total Expenditures	918,749	418,988	35,397	1,245,398	2,618,532
Net Change in Fund Balance	154,640	1,134	244,144	(930,992)	(531,074)
Beginning Fund Balance	220,649	177,250	293,963	968,009	1,659,871
Ending Fund Balance	\$ 375,289	\$ 178,384	\$ 538,107	\$ 37,017	\$ 1,128,797

Reconciliation to Changes in Net Position:

Change in Fund Balances Above	\$ (531,074)
Additions:	
Capital Additions	1,279,902
Bond Paid	215,000
Deletions:	
Depreciation	(885,371)
Accrued Compensated Absences	(3,199)
Inventory	427
Bond Issuance Costs	(7,210)
Loan	(200,000)
Net Income	<u>\$ (131,525)</u>

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the Year Ended June 30, 2013**

	<u>ENTERPRISE FUND</u>			
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
User Fees - Sewer	\$ 550,000	\$ 550,000	\$ 565,591	\$ 15,591
User Fees - Water	470,000	470,000	481,859	11,859
Streetlight Assessments	9,500	9,500	9,565	65
Miscellaneous/Lab Charges	8,500	8,500	7,486	(1,014)
Reimbursements	5,000	5,000	5,345	345
Inspections	4,000	4,000	375	(3,625)
Earnings on Investments	2,500	2,500	3,168	668
Total Revenues	1,049,500	1,049,500	1,073,389	23,889
EXPENDITURES:				
Personal Services:				
Authority Manager	89,300	89,300	89,224	76
Executive Assistant	55,200	55,200	55,200	-
Office Assistant	16,000	16,000	11,448	4,552
Operator II	49,300	49,300	20,600	20,600
Operator I	125,400	125,400	124,250	1,150
OIT	33,400	33,400	33,269	131
Utility Worker/Grounds	33,500	33,500	26,635	6,865
Overtime Allowance	15,000	15,000	6,541	8,459
Merit Reserves	15,000	15,000	4,595	10,405
Medical Insurance	160,000	160,000	135,898	24,102
Workers Compensation	13,000	13,000	(709)	13,709
Deferred Compensation	27,000	27,000	22,044	4,956
Payroll Taxes	48,000	48,000	35,741	12,259
Total Personal Services	680,100	680,100	572,836	107,264
Materials and Services:				
Access Fees	2,000	2,000	-	2,000
Accounting/Auditing	13,000	13,000	7,160	5,840
Advertising	3,000	3,000	1,045	1,955
Contract Services	9,000	9,000	12,246	(3,246)
Bank/Bond Expense	11,000	11,000	5,435	5,565
Director Fees/Training	1,700	1,700	1,200	500
Dues & Subscriptions	4,000	4,000	2,600	1,400
Employee Training	4,000	4,000	3,295	705
Elections	1,000	1,000	-	1,000
Electricity	77,700	77,700	59,409	18,291
Insurance	46,000	46,000	36,314	9,686
Legal Fees	10,000	10,000	5,218	4,782
Miscellaneous	1,000	1,000	717	283
Newsletter	3,500	3,500	1,268	2,232
Office Equipment R & M	15,000	15,000	17,131	(2,131)
Office Supplies	5,000	5,000	2,296	2,704
Postage/Freight	9,000	9,000	3,795	5,205

(1) Appropriation level

Continued on page 19

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the Year Ended June 30, 2013**

	ORIGINAL BUDGET	FINAL BUDGET		ACTUAL	VARIANCE TO FINAL BUDGET
EXPENDITURES (CONT.):					
Materials and Services (Cont.):					
Telephone	\$ 11,000	\$ 11,000		\$ 12,087	\$ (1,087)
Uniforms	4,000	4,000		416	3,584
Water Telemetry System	3,000	3,000		576	2,424
Monitoring	3,000	3,000		3,475	(475)
Lab Supplies	7,500	7,500		6,626	874
Chemicals	27,000	27,000		19,791	7,209
Testing	15,000	15,000		7,415	7,585
WWT Plant R & M	27,000	27,000		10,248	16,752
WW Collection System R & M	25,000	25,000		12,640	12,360
Wastewater Pumping	13,000	13,000		8,122	4,878
Solid Waste Disposal	5,000	5,000		2,918	2,082
Bio-Solids Management	12,000	12,000		9,173	2,827
Step System Pumping	7,000	7,000		859	6,141
Step System R & M	8,500	8,500		986	7,514
Water District/Trans R & M	30,000	30,000		20,490	9,510
Backflow Prevention	1,500	1,500		375	1,125
Water Pumping R & M	5,000	5,000		771	4,229
Water Treatment R & M	25,000	25,000		16,269	8,731
Water Conservation	5,000	5,000		2,765	2,235
Building R & M	15,000	15,000		8,984	6,016
Generator R & M	8,000	8,000		1,291	6,709
Backhoe R & M	4,000	4,000		1,590	2,410
NPDES Permit	2,500	2,500		4,046	(1,546)
Transportation	25,000	25,000		22,704	2,296
Community Events	3,000	3,000		1,375	1,625
Grounds R & M	8,000	8,000		4,792	3,208
Customer Assist Pymt Program	4,000	4,000		-	4,000
Horn Creek Lease	7,500	7,500		6,000	1,500
Total Materials and Services	527,400	527,400	(1)	345,913	181,487
Operating Contingency	40,000	40,000	(1)	-	40,000
Total Expenditures	1,247,500	1,247,500		918,749	328,751
Net Change in Fund Balance	(198,000)	(198,000)		154,640	352,640
Beginning Fund Balance	-	-		220,649	220,649
Ending Fund Balance	\$ -	\$ -		\$ 375,289	\$ 375,289

(1) Appropriation level

Continued from page 18

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the Year Ended June 30, 2013**

<u>DEBT SERVICE FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Property Taxes	\$ 394,000	\$ 394,000	\$ 418,376	\$ 24,376
Earnings on Investments	1,000	1,000	1,746	746
Total Revenues	395,000	395,000	420,122	25,122
EXPENDITURES:				
Debt Service:				
Bond Principal Payments	280,000	280,000	215,000	65,000
Bond Interest Payments	270,000	270,000	203,988	66,012
Total Expenditures	550,000	550,000 (1)	418,988	131,012
Net Change in Fund Balance	(155,000)	(155,000)	1,134	156,134
Beginning Fund Balance	155,000	155,000	177,250	22,250
Ending Fund Balance	\$ -	\$ -	\$ 178,384	\$ 178,384

(1) Appropriation level

PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
ACTUAL AND BUDGET (BUDGETARY BASIS)**
For the Year Ended June 30, 2013

WATER SDC/CIC RESERVE FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
Tap Fees	\$ 3,300	\$ 3,300	\$ 2,300	\$ (1,000)
Capital Improvement Charges	81,000	81,000	89,034	8,034
System Development Charges	146,090	146,090	58,436	(87,654)
Flex Lease Loan	1,000,000	1,000,000	-	(1,000,000)
Reimbursements	1,000	1,000	128,311	127,311
Earnings on Investments	500	500	1,460	960
Total Revenues	1,231,890	1,231,890	279,541	(952,349)
EXPENDITURES:				
Materials and Services	10,000	10,000 (1)	5,623	4,377
Capital Outlay:				
Equipment	55,000	55,000	4,598	50,402
Construction	1,126,890	1,126,890	(6,346)	1,133,236
Office/Lab Remodel	10,000	10,000	-	10,000
Computer Upgrades	15,000	15,000	5,050	9,950
Engineering/Legal	120,000	120,000	25,517	94,483
Service Installations	15,000	15,000	955	14,045
Vehicles	30,000	30,000	-	30,000
Total Capital Outlay	1,371,890	1,371,890 (1)	29,774	1,342,116
Debt Service:				
Flex-Lease	140,000	140,000 (1)	-	140,000
Total Expenditures	1,521,890	1,521,890	35,397	1,486,493
Net Change in Fund Balance	(290,000)	(290,000)	244,144	534,144
Beginning Fund Balance	290,000	290,000	293,963	3,963
Ending Fund Balance	\$ -	\$ -	\$ 538,107	\$ 538,107

(1) Appropriation level

**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the Year Ended June 30, 2013**

<u>SEWER SDC/CIC FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Capital Improvement Charges	\$ 81,000	\$ 81,000	\$ 79,808	\$ (1,192)
System Development Charges	78,850	78,850	31,568	(47,282)
Reimbursements/Refunds	-	-	881	881
Loan Proceeds	750,000	750,000	200,000	(550,000)
Earnings on Investments	4,000	4,000	2,149	(1,851)
Total Revenues	913,850	913,850	314,406	(599,444)
EXPENDITURES:				
Materials and Services	15,000	15,000 (1)	325	14,675
Capital Outlay:				
Equipment	185,000	185,000	126,209	58,791
Service Installations	15,000	15,000	-	15,000
Construction	1,318,850	1,318,850	947,711	371,139
Lift Station Improvements	30,000	30,000	34,467	(4,467)
Engineering	210,000	210,000	135,770	74,230
Computer Upgrades	10,000	10,000	-	10,000
Rolling Stock	30,000	30,000	-	30,000
Inflow and Infiltration	30,000	30,000	-	30,000
Total Capital Outlay	1,828,850	1,828,850 (1)	1,244,157	584,693
Debt Service:				
Loan Re-Payment	70,000	70,000	916	69,084
Total Debt Service	70,000	70,000 (1)	916	69,084
Total Expenditures	1,913,850	1,913,850	1,245,398	668,452
Net Change in Fund Balance	(1,000,000)	(1,000,000)	(930,992)	69,008
Beginning Fund Balance	1,000,000	1,000,000	968,009	(31,991)
Ending Fund Balance	\$ -	\$ -	\$ 37,017	\$ 37,017

(1) Appropriation level

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PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

OTHER INFORMATION

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PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED - DEBT SERVICE FUND
For the Year Ended June 30, 2013

Tax Year	Original Levy or Balance Uncollected 7/1/12	Deduct Discounts	Adjustments to Rolls	Add Interest	Cash Collections by County Treasurer	Balance Uncollected 6/30/13
Current:						
2012-2013	\$ 421,289	\$ 10,007	\$ (419)	\$ 296	\$ 392,911	\$ 18,248
Prior Years:						
2011-2012	18,049	(1)	309	765	9,669	9,455
2010-2011	9,845	-	321	850	4,861	6,155
2009-2010	8,147	-	297	1,732	6,846	3,330
2008-2009	2,737	-	295	728	2,503	1,257
Prior Years	793	1	355	32	53	1,126
Total Prior	39,571	-	1,577	4,107	23,932	21,323
Total	<u>\$ 460,860</u>	<u>\$ 10,007</u>	<u>\$ 1,158</u>	<u>\$ 4,403</u>	<u>\$ 416,843</u>	<u>\$ 39,571</u>

RECONCILIATION TO REVENUE:

Cash Collections by County Treasurer Above	\$ 416,843
Accrued at 6/30/12	(7,749)
Accrued at 6/30/13	<u>9,282</u>
Total Revenue	<u>\$ 418,376</u>

PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

SCHEDULE OF BOND AND INTEREST TRANSACTIONS AND BALANCES
 For the Year Ended June 30, 2013

DATE OF ISSUE	ORIGINAL AMOUNT	MATURED BONDS & COUPONS OUTSTANDING 7/1/2012	BONDS & COUPONS MATURING DURING THE YEAR	BONDS REDEEMED AND COUPONS PAID DURING THE YEAR	MATURED BONDS & COUPONS OUTSTANDING 6/30/2013
08/01/77	\$ 445,000	\$ 145	\$ -	\$ -	\$ 145
09/25/07	\$ 5,485,000	-	418,988	418,988	-
		<u>\$ 145</u>	<u>\$ 418,988</u>	<u>\$ 418,988</u>	<u>\$ 145</u>

PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

SCHEDULE OF BOND REDEMPTION AND INTEREST REQUIREMENTS
At June 30, 2013

ISSUE of 9/25/07

YEAR	Due June 1st	Interest
2013-2014	\$ -	(1) \$ 199,688
2014-2015	225,000	190,888
2015-2016	235,000	181,570
2016-2017	245,000	171,607
2017-2018	255,000	160,980
2018-2023	1,455,000	614,855
2023-2028	<u>1,830,000</u>	<u>228,000</u>
TOTALS	<u>\$ 4,245,000</u>	<u>\$ 1,747,588</u>

(1) The principal payment was paid in 2012-13.

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**PACIFIC CITY JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

Independent Auditors' Report Required by Oregon State Regulations

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October 29, 2013

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the Pacific City Joint Water-Sanitary Authority as of and for the year ended June 30, 2013, and have issued our report thereon dated October 29, 2013. 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 financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, 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.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

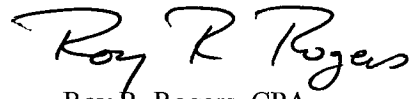
In connection with our testing, nothing came to our attention that caused us to believe the Pacific City Joint Water-Sanitary Authority was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified 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 internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal controls over financial reporting.

We noted matters involving the internal control structure and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, which are noted in our management letter dated October 29, 2013.

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

A handwritten signature in black ink that reads "Roy R. Rogers". The signature is written in a cursive style with a large, stylized "R" at the beginning.

Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.

**PACIFIC CITY
JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

COMMUNICATION TO THE GOVERNING BODY

FOR THE YEAR ENDED JUNE 30, 2013



**12700 SW 72nd Ave.
Tigard, OR 97223**



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October 29, 2013

To the Board of Directors
Pacific City Joint Water-Sanitary Authority
Tillamook County, Oregon

We have audited the basic financial statements Pacific City Joint Water-Sanitary Authority for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Purpose of the Audit

Our audit was conducted using sampling, inquiries and analytical work to opine on the fair presentation of the financial statements and compliance with:

- generally accepted accounting principles and auditing standards
- the Oregon Municipal Audit Law and the related administrative rules

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the Authority and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Authority or to acts by management or employees acting on behalf of the Authority. We also communicated any internal control related matters that are required to be communicated under professional standards.

Results of Audit

1. Audit opinion letter - an unmodified opinion on the financial statements has been issued. This means we have given a “clean” opinion with no reservations.
2. State minimum standards – We found no exceptions or issues requiring comment.
3. Management letter – We issued a separate management letter dated October 29, 2013 detailing significant deficiencies in internal control.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013, except for the implementation of GASB 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were Management’s estimate of Accounts Receivable and Capital Asset Depreciation, which are based on estimated collectability of receivables and useful lives of assets. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements or determined that their effects are immaterial. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. There were immaterial uncorrected misstatements noted during the audit which were discussed with management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors’ report. We are pleased to report that no such disagreements arose during the course of our audit.

Pauly, Rogers and Co., P.C.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to our retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information within Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Information

With respect to the other information accompanying the financial statements, we read the information to identify if any material inconsistencies or misstatement of facts existed with the audited financial statements. Our results noted no material inconsistencies or misstatement of facts.

Other Matters – Future Accounting and Auditing Issues

In order to keep you aware of new auditing standards issued by the American Institute of Certified Public Accounts and accounting statements issued by the Governmental Accounting Standards Board (GASB), we have prepared the following summary of the more significant upcoming issues:

GASB 65

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, reclassifies certain items previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources. Certain items previously reported as assets and liabilities will be reported as outflows of resources or inflows of resources. The term “deferred” will only be used when referring to deferred inflows and outflows of resources. As a result, “deferred revenue” will become “unearned revenue” and “deferred costs” will become “prepaid costs”. The implementation date for this statement is fiscal periods beginning after December 15, 2012.

GASB 66

GASB Statement No. 66, *Technical Corrections*, resolves conflicting guidance that resulted from the issuance of GASB Statement No. 54 and GASB Statement 62. It amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of a government's risk financing activities to the general fund and the internal services fund type. It also amends GASB 62 by modifying the specific guidance on accounting for operating lease payments that vary from a straight-line basis, the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and servicing fees relating to the mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. The implementation date for this statement is fiscal periods beginning after December 15, 2012.

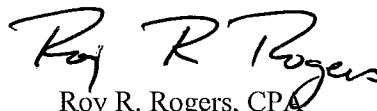
GASB 67

GASB Statement No. 67, *Financial Reporting for Pension Plans*, amends the requirements of GASB Statement No. 25 as they relate to pension plans administered through trusts that meet certain criteria, establishes standards for financial reporting by defined benefit pension plans administered through qualified trusts, and amends note disclosure and required supplemental information requirements for defined benefit and defined contribution pension plans administered through qualified trusts. The implementation date for this statement is fiscal periods beginning after June 15, 2013.

GASB 68

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have certain characteristics. This statement will impact the government-wide financial statements for most entities with net position being reduced by an actuarially determined amount. The implementation date for this statement is fiscal periods beginning after June 15, 2014.

This information is intended solely for the use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.



Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.

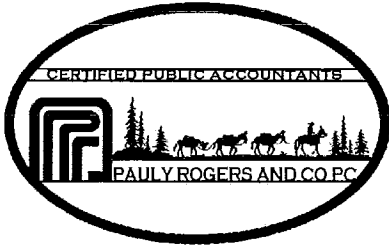
**PACIFIC CITY
JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON**

MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2013



**12700 SW 72nd Ave.
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October 29, 2013

Pacific City Joint Water Sanitary Authority
Tillamook County, Oregon

In planning and performing our audit of the basic financial statements of Pacific City Joint Water Sanitary Authority as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the internal control over financial reporting (internal control) as a basis for designing 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider 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 Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

1. To prevent unintentional or intentional errors or irregularities, no one employee should have access to both physical assets and the related accounting records or to all phases of the transaction. We noted instances where duties are not adequately segregated. Because of a limited number of available personnel, it may not always be possible to adequately segregate certain incompatible duties. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not promptly be detected. We believe the Board should review these risks to determine what additional controls they want to implement. The following areas were identified during our audit as lacking adequate segregation:
 - a. During our review of utility billings, it was noted that the Executive Assistant receives cash, posts payments, prepares the daily deposit, reconciles cash, and has unlimited general ledger access. To properly segregate duties, we recommend that one person receive cash and prepare the daily deposit and a different person use a duplicate listing to post the payments into the system.
 - b. It was noted during our testing that the Authority Manager and Executive Assistant have unlimited access within the accounting system. We recommend evaluating duties within the accounting system and limiting access based upon segregation of duties. Another alternative is increase fidelity insurance coverage to compensate for the inability to add additional staff or segregate duties.

Best Practices – Not Significant Deficiencies

1. Governing Board Monitoring

An integral part of internal controls is the monitoring of financial activities by those charged with the governance (elected officials). This can be accomplished by asking specifically designed questions to senior staff, by reviewing financial statements and projections and by comparing financial results to pre-established benchmarks. While elected officials participate in the budget adoption process and receive staff prepared financial statements, these only partially fulfill the monitoring function.

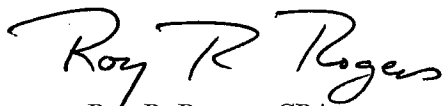
We recommend that the Board articulate their monitoring practices and record in the minutes when those activities occur.

Since monitoring activities, including benchmarking, are unique to each entity, we are available to assist the Board in establishing checklists, questions and benchmarks that are customized for your use.

2. Fidelity Insurance Coverage

In reviewing fidelity insurance coverage, we noticed that the Authority often carries cash and investment balances in excess of the insurance coverage amount. We recommend that the Board examine this exposure risk and make a determination as to the amount of insurance coverage they feel is prudent in regard to their oversight.

This communication is intended solely for the information and use of management and the Board and is not intended to be, and should not be, used by anyone other than these specified parties.



Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.