



Staff Report

For City Council Meeting - 8/4/2021

Subject - New Business - Annual Audit Report

Synopsis: Oregon law requires local governments to file annual financial reports to the Secretary of State Audits Division. The City hired Accuity Certified Public Accountants to prepare the required audit reports. Accuity's objective was to provide a professional opinion as to whether the basic financial statements were fairly presented, in all material respects, in conformity with the modified cash basis of accounting and to report on the fairness of the basic financial statements. The audit was conducted in accordance with auditing standards generally accepted in the United States. Due to the emergency situation and timeline in acquiring Accuity, they considered the City of Gearhart's internal control over financial reporting as the basis for designing their auditing procedures for the purpose of expressing their opinion on the City's financial statements. They have identified no deficiencies in internal controls that they consider to be material weaknesses. They also stated that the financial statement disclosures are neutral, consistent and clear. The required submission to the State was completed on June 29, 2021.

Recommended Motion: N/A

Legal Analysis: N/A

Financial Analysis: N/A

Respectfully Submitted,


Justine Hill
City Treasurer



CITY OF GEARHART
Clatsop County, Oregon

ANNUAL FINANCIAL REPORT

June 30, 2020



Accuity

Where accuracy meets integrity

CERTIFIED PUBLIC ACCOUNTANTS

436 1st Avenue W • PO Box 1072
Albany, Oregon 97321 • (541) 223-5555

**CITY OF GEARHART
Clatsop County, Oregon**

CITY OFFICIALS

June 30, 2020

MAYOR

Paulina Cockrum
P.O. Box 2405
Gearhart, Oregon 97138

CITY COUNCIL

Kerry Smith
707 F Street
Gearhart, Oregon 97138

Reita Fackerell
776 Summit
Gearhart, Oregon 97138

Brent Warren
P.O. Box 2295
Gearhart, Oregon 97138

Daniel Jesse
1389 Sea Ridge Lane
Gearhart, Oregon 97138

CITY ADMINISTRATOR

Chad Sweet
89447 Manion Drive
Warrenton, Oregon 97146

CITY ATTORNEY

Peter Watts
1969 Willamette Falls Dr, Suite 260
West Linn, Oregon 97068

CITY OF GEARHART
Clatsop County, Oregon

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

The Honorable Paulina Cockrum, Mayor
and Members of the City Council
City of Gearhart
Gearhart, Oregon 97138

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Gearhart, Clatsop County, Oregon, as of and for the year ended June 30, 2020, 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 the modified cash basis of accounting described in Note I; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the 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 modified cash basis financial position of the business-type activities, each major fund other than the General Fund, and the aggregate remaining fund information of the City of Gearhart, Clatsop County, Oregon as of June 30, 2020, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended on the basis of accounting described in Note I.

Basis of Accounting

We draw attention to Note I of the financial statements, which describes the basis of accounting. The City of Gearhart prepares its financial statements on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Other Information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gearhart's basic financial statements. The budgetary comparison information and combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The aforementioned information 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.

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

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated June 25, 2021 on our tests of the City's compliance with certain provisions of laws and regulations 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.

Accuity, LLC

By: 

Glen O. Kearns, CPA

Albany, Oregon
June 25, 2021

BASIC FINANCIAL STATEMENTS

CITY OF GEARHART
Clatsop County, Oregon

STATEMENT OF NET POSITION - MODIFIED CASH BASIS

June 30, 2020

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 838,769	\$ 83,243	\$ 922,012
Restricted assets			
Cash and cash equivalents	477,950	1,278,508	1,756,458
Capital assets not being depreciated	28,025	54,650	82,675
Capital assets being depreciated, net	446,120	10,069,660	10,515,780
Total assets	1,790,864	11,486,061	13,276,925
LIABILITIES			
Current liabilities			
Bail trust liability	21,440	-	21,440
Long-term debt, current portion	610,000	-	610,000
Total current liabilities	631,440	-	631,440
Noncurrent liabilities			
Long-term debt, less current portion	4,004,478	-	4,004,478
Total liabilities	4,635,918	-	4,635,918
NET POSITION			
Net investment in capital assets	(4,140,333)	10,124,310	5,983,977
Restricted for:			
Special projects	422,271	-	422,271
Debt service	55,679	-	55,679
System development	-	1,278,508	1,278,508
Unrestricted	817,329	83,243	900,572
Total net position	\$ (2,845,054)	\$ 11,486,061	\$ 8,641,007

The accompanying notes are an integral part of these financial statements.

CITY OF GEARHART
Clatsop County, Oregon

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For the Year Ended June 30, 2020

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Governmental activities						
General government	\$ 766,077	\$ 248,405	\$ -	\$ (517,672)	\$ -	\$ (517,672)
Public safety	883,952	256,699	32,945	(594,308)	-	(594,308)
Highways and streets	182,535	66,207	-	(116,328)	-	(116,328)
Parks and recreation	54,637	-	5,925	(48,712)	-	(48,712)
Unallocated depreciation	96,724	-	-	(96,724)	-	(96,724)
Interest on long-term debt	205,825	-	-	(205,825)	-	(205,825)
Total governmental activities	<u>\$ 2,189,750</u>	<u>\$ 571,311</u>	<u>\$ 38,870</u>	<u>(1,579,569)</u>	<u>-</u>	<u>(1,579,569)</u>
Business-Type activities						
Water	<u>\$ 1,109,114</u>	<u>\$ 911,485</u>	<u>\$ -</u>	<u>-</u>	<u>(197,629)</u>	<u>(197,629)</u>
General revenues						
Property taxes levied for general purposes				647,531	-	647,531
Property taxes levied for debt service				745,038	-	745,038
Transient room taxes				339,473	-	339,473
State highway tax				107,266	-	107,266
Alcohol and cigarette taxes				37,013	-	37,013
Franchise fees				106,602	-	106,602
State revenue sharing				28,919	-	28,919
Investment earnings				31,779	25,516	57,295
Miscellaneous				5,608	-	5,608
Total general revenues				<u>2,049,229</u>	<u>25,516</u>	<u>2,074,745</u>
Change in net position				469,660	(172,113)	297,547
Net position - beginning, as restated				<u>(3,314,714)</u>	<u>11,658,174</u>	<u>8,343,460</u>
Net position - ending				<u>\$ (2,845,054)</u>	<u>\$ 11,486,061</u>	<u>\$ 8,641,007</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GEARHART
Clatsop County, Oregon

BALANCE SHEET - MODIFIED CASH BASIS

GOVERNMENTAL FUNDS

June 30, 2020

	General Fund	Special Revenue Funds		Fire Apparatus Reserve Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
		Gearhart Road District General Fund	State Street Fund				
ASSETS							
Cash and cash equivalents	\$ 304,212	\$ 167,488	\$ 194,123	\$ 215,359	\$ 55,679	\$ 379,858	\$ 1,316,719
LIABILITIES							
Bail trust liability	\$ 21,440	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,440
FUND BALANCES							
Restricted	2,199	167,488	194,123	-	55,679	58,461	477,950
Committed	57,560	-	-	215,359	-	321,397	594,316
Unassigned	223,013	-	-	-	-	-	223,013
Total fund balances	282,772	167,488	194,123	215,359	55,679	379,858	1,295,279
Total liabilities and fund balances	\$ 304,212	\$ 167,488	\$ 194,123	\$ 215,359	\$ 55,679	\$ 379,858	\$ 1,316,719

The accompanying notes are an integral part of these financial statements.

CITY OF GEARHART
Clatsop County, Oregon

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES

June 30, 2020

Total fund balances		\$ 1,295,279
Capital assets used in governmental activities are not financial resources and are therefore not reported in the governmental funds:		
Cost	1,571,779	
Accumulated depreciation	<u>(1,097,634)</u>	474,145
Long-term liabilities are not due or payable in the current period and are therefore not reported in the governmental funds. 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:		
Bonds payable	(4,820,000)	
Bond premiums, net	<u>205,522</u>	<u>(4,614,478)</u>
Net position of governmental activities		\$ <u>(2,845,054)</u>

The accompanying notes are an integral part of these financial statements

CITY OF GEARHART
Clatsop County, Oregon

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

MODIFIED CASH BASIS - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2020

	Special Revenue Funds						Total Governmental Funds
	General Fund	Gearhart Road District General Fund	State Street Fund	Fire Apparatus Reserve Fund	Debt Service Fund	Nonmajor Governmental Funds	
REVENUES							
Property taxes	\$ 570,762	\$ 34,018	\$ -	\$ -	\$ 745,038	\$ -	\$ 1,349,818
Intergovernmental	248,543	-	107,266	-	-	28,919	384,728
Licenses, fees, and permits	293,014	-	-	-	-	-	293,014
Franchise fees	149,353	-	-	-	-	-	149,353
Grants and contributions	5,925	-	-	-	-	32,945	38,870
Transient room taxes	339,473	-	-	-	-	-	339,473
Fines and forfeitures	66,767	-	-	-	-	-	66,767
Investment earnings	10,033	3,140	3,883	3,596	3,693	7,434	31,779
Miscellaneous	5,608	-	-	-	-	-	5,608
Total revenues	<u>1,689,478</u>	<u>37,158</u>	<u>111,149</u>	<u>3,596</u>	<u>748,731</u>	<u>69,298</u>	<u>2,659,410</u>
EXPENDITURES							
Current							
General government	752,388	-	-	-	-	-	752,388
Public safety	801,625	-	-	-	-	59,881	861,506
Highways and streets	-	17,458	122,788	-	-	-	140,246
Parks and recreation	28,905	-	-	-	-	-	28,905
Debt service	-	-	-	-	795,825	-	795,825
Capital outlay	30,573	-	-	15,658	-	120,522	166,753
Total expenditures	<u>1,613,491</u>	<u>17,458</u>	<u>122,788</u>	<u>15,658</u>	<u>795,825</u>	<u>180,403</u>	<u>2,745,623</u>
Excess (deficiency) of revenues over (under) expenditures	<u>75,987</u>	<u>19,700</u>	<u>(11,639)</u>	<u>(12,062)</u>	<u>(47,094)</u>	<u>(111,105)</u>	<u>(86,213)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	35,000	-	40,000	75,000
Transfers out	<u>(75,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(75,000)</u>
Total other financing sources (uses)	<u>(75,000)</u>	<u>-</u>	<u>-</u>	<u>35,000</u>	<u>-</u>	<u>40,000</u>	<u>-</u>
Net change in fund balances	987	19,700	(11,639)	22,938	(47,094)	(71,105)	(86,213)
Fund balances - beginning, as restated	<u>281,785</u>	<u>147,788</u>	<u>205,762</u>	<u>192,421</u>	<u>102,773</u>	<u>450,963</u>	<u>1,381,492</u>
Fund balances - ending	<u>\$ 282,772</u>	<u>\$ 167,488</u>	<u>\$ 194,123</u>	<u>\$ 215,359</u>	<u>\$ 55,679</u>	<u>\$ 379,858</u>	<u>\$ 1,295,279</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GEARHART
Clatsop County, Oregon

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020

Net change in fund balances		\$ (86,213)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlay as expenditures; however, in the statement of activities, the costs of these assets are allocated over their estimated useful lives and are reported as depreciation expense.</p>		
Expenditures for capital assets	62,597	
Less current year depreciation	<u>(69,371)</u>	(6,774)
<p>Long-term debt proceeds are reported as other financing sources in the governmental funds. In the statement of net position, however, issuing long-term debt increases liabilities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position.</p>		
Debt principal paid	590,000	
Amortization of bond premiums	<u>(27,353)</u>	<u>562,647</u>
Change in net position		\$ <u>469,660</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GEARHART
Clatsop County, Oregon

STATEMENT OF NET POSITION - MODIFIED CASH BASIS

PROPRIETARY FUNDS

June 30, 2020

	Business-Type Activities - Enterprise Funds			Totals
	Water Operating	Water Reserve	Water Construction	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 83,243	\$ -	\$ -	\$ 83,243
Restricted assets				
Cash and cash equivalents	-	1,274,602	3,906	1,278,508
Capital assets not being depreciated	54,650	-	-	54,650
Capital assets being depreciated, net	10,069,660	-	-	10,069,660
Total assets	10,207,553	1,274,602	3,906	11,486,061
NET POSITION				
Net capital assets	10,124,310	-	-	10,124,310
Restricted for:				
System development	-	1,274,602	3,906	1,278,508
Unrestricted	83,243	-	-	83,243
Total net position	\$ 10,207,553	\$ 1,274,602	\$ 3,906	\$ 11,486,061

The accompanying notes are an integral part of these financial statements.

CITY OF GEARHART
Clatsop County, Oregon

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
MODIFIED CASH BASIS

PROPRIETARY FUNDS

For the Year Ended June 30, 2020

	Business-Type Activities - Enterprise Funds			Totals
	Water Operating	Water Reserve	Water Construction	
Operating revenues				
Water charges	\$ 911,485	\$ -	\$ -	\$ 911,485
Total operating revenues	<u>911,485</u>	<u>-</u>	<u>-</u>	<u>911,485</u>
Operating expenses				
Payroll and related costs	229,903	-	-	229,903
Plant and well operations	558,975	-	-	558,975
Depreciation	320,236	-	-	320,236
Total operating expenses	<u>1,109,114</u>	<u>-</u>	<u>-</u>	<u>1,109,114</u>
Operating income (loss)	<u>(197,629)</u>	<u>-</u>	<u>-</u>	<u>(197,629)</u>
Nonoperating revenues (expenses)				
Investment earnings	1,801	23,640	75	25,516
Total nonoperating revenues (expenses)	<u>1,801</u>	<u>23,640</u>	<u>75</u>	<u>25,516</u>
Income (loss) before contributions and transfers	(195,828)	23,640	75	(172,113)
Transfers in	-	100,000	-	100,000
Transfers out	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
Change in net position	(295,828)	123,640	75	(172,113)
Total net position - beginning, as restated	<u>10,503,381</u>	<u>1,150,962</u>	<u>3,831</u>	<u>11,658,174</u>
Total net position - ending	<u>\$ 10,207,553</u>	<u>\$ 1,274,602</u>	<u>\$ 3,906</u>	<u>\$ 11,486,061</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GEARHART
Clatsop County, Oregon

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS

PROPRIETARY FUNDS

For the Year Ended June 30, 2020

	Business-Type Activities - Enterprise Funds			
	Water	Water	Water	Totals
	Operating	Reserve	Construction	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 911,485	\$ -	\$ -	\$ 911,485
Cash payments for payroll and related costs	(229,903)	-	-	(229,903)
Cash payments for operating expenses	(558,975)	-	-	(558,975)
Net cash provided (used) by operating activities	122,607	-	-	122,607
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers from (to) other funds for capital purchases	(100,000)	100,000	-	-
Net cash provided (used) by capital and related financing activities	(100,000)	100,000	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings	1,801	23,640	75	25,516
Net cash provided (used) by investing activities	1,801	23,640	75	25,516
Net increase (decrease) in cash and cash equivalents	24,408	123,640	75	148,123
Cash and cash equivalents - beginning	58,835	1,150,962	3,831	1,213,628
Cash and cash equivalents - ending	\$ 83,243	\$ 1,274,602	\$ 3,906	\$ 1,361,751
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (197,629)	\$ -	\$ -	\$ (197,629)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	320,236	-	-	320,236
Net cash provided (used) by operating activities	\$ 122,607	\$ -	\$ -	\$ 122,607

The accompanying notes are an integral part of these financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Gearhart have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 City's accounting principles are described below.

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. *Governmental Activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

B. Reporting Entity

The City of Gearhart is located along the north Oregon coast in Clatsop County just north of the City of Seaside and is a full-service City providing police and fire protection, building, planning, water, and administrative services. The City operates under the 1987 Charter. The government of the City consists of an elected mayor and four council members. The mayor serves a two-year term and the council members serve four-year terms. The city council appoints the city administrator, an additional officer of the City.

The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

1. Blended Component Unit - Gearhart Road District

The aforementioned road district served the area within the existing city limits of the City of Gearhart. Board members for the district consist of all the members of the Gearhart City Council. The component unit has not issued separate financial statements or filed the appropriate in-lieu of reports.

C. Basis of Presentation - Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from all governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

Exceptions to this general rule are payments and other charges between the government's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It accounts for all financial resources of the City except those required to be accounted for in another fund.

Special Revenue Funds

General Road District Fund – The General Road District Fund accounts for ad valorem taxes levied by Clatsop County and are generally restricted for use on the City's streets.

State Street Fund – The State Street Fund accounts for Oregon gasoline tax apportionments and expenditures for those street improvements specified by Oregon Revised Statutes.

Capital Projects Fund

Fire Apparatus Reserve Fund – The Fire Apparatus Reserve Fund accounts for transfers from the General Fund for the purpose of acquiring major acquisitions for the fire department.

Debt Service Fund

Debt Service Fund – The Debt Service Fund accounts for the repayments of the City's governmental long-term debt. The primary source of revenue is property taxes. The primary use of revenue is the repayment of principal and interest on long-term debt.

The City reports the following major proprietary funds:

Enterprise Funds

Water Operating Fund – The Water Operating Fund accounts for the operation and maintenance of the City's water system.

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

Water Reserve Fund – The Water Reserve Fund accounts for transfers from the Water Operating Fund for the purpose of funding future water capital construction projects.

Additionally, the City reports the following nonmajor governmental funds:

Special Revenue Funds

State Revenue Sharing Fund – The State Revenue Sharing Fund accounts for Oregon revenue sharing apportionments and expenditures for those items specified by provision.

Public Works Equipment Reserve Fund – The Public Works Equipment Reserve Fund accounts for transfers from the General Fund for the purpose of acquiring major public works equipment.

Capital Projects Funds

Police Car Reserve Fund – The Police Car Reserve Fund accounts for transfers from the General Fund for the purpose of acquiring capital assets for the police department.

Building Reserve Fund – The Building Reserve Fund accounts for transfers from the General Fund for the purpose of building construction and improvements.

Hazard Mitigation Reserve Fund – The Hazard Mitigation Reserve Fund accounts for transfers from the General Fund for the purpose of funding hazard mitigation projects in the City.

The City reports the following nonmajor proprietary fund:

Enterprise Fund

Water Construction Fund – The Water Construction Fund accumulates resources restricted to expenditure on water system construction, reconstruction, major upgrades, equipment, and other long-term investments in the City’s water collection, storage, and distribution systems.

Certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Transfers between the funds included in governmental activities are eliminated, so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus within the limitations of the modified cash basis of accounting, as described below.

Governmental fund financial statements are reported using the current financial resources measurement focus. Only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available expendable financial resources during a given period. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing source.

In the government-wide financial statements, proprietary funds, and the fund financial statements, governmental activities are presented using the modified cash basis of accounting. This basis recognizes assets, liabilities, fund balance/net position, revenues, and expenditures when they result from cash transactions, with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements would use the modified accrual basis of accounting and the government-wide financial statements would be presented on the accrual basis of accounting.

F. Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

G. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on the cash basis of accounting. The City budgets all funds in accordance with the requirements of state law.

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Annual appropriated budgets are adopted for the general, special revenue, capital projects, and enterprise funds.

The City begins its budgeting process by appointing budget committee members. The budget officer prepares a budget, which is reviewed by the budget committee. The budget is then published in proposed form and is presented at public hearings to obtain taxpayer comments and approval from the budget committee. The city council legally adopts the budget by resolution prior to the beginning of the City's fiscal year. The council resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Total personnel services, materials and services, debt service, capital outlay, and contingency for each fund are the levels of control established by the resolution. The detailed budget document, however, is required to contain more specific detailed information for the aforementioned expenditure categories and management may revise the detailed line-item budgets within appropriation categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriation resolution. The city council may adopt supplemental budgets less than 10% of a fund's original budget at a regular council meeting. A supplemental budget greater than 10% of a fund's original budget requires hearings before the public, publication 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. During the year, there were no supplemental budgets. The City does not use encumbrances and appropriations lapse at year-end.

Budget amounts shown in the financial statements reflect the original budget amounts.

H. Assets, Liabilities, Deferred Inflows/Deferred Outflows and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

State statutes authorize the City to invest in legally issued general obligations of the United States, the agencies and instrumentalities of the United States and the states of Oregon, Washington, Idaho, or California, certain interest-bearing bonds, time deposit open accounts, certificates of deposit, and savings accounts in banks, mutual savings banks, and savings and loan associations that maintain a head office or a branch in this state in the capacity of a bank, mutual savings bank, or savings and loan association, and share accounts and savings accounts in credit unions in the name of, or for the benefit of, a member of the credit union pursuant to a plan of deferred compensation.

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NOTES TO BASIC FINANCIAL STATEMENTS

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3. Capital Assets

Capital assets resulting from cash transactions, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost where no historical records exist.

The costs of normal maintenance or repairs that do not add to the value of an asset or materially extend its life are charged to expenditures as incurred and are not capitalized. Major capital outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Machinery and equipment	5-50
Buildings	15-40
Infrastructure	15-50
Water System	10-70

4. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

5. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted fund balances to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF GEARHART
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

6. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The city council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council (Council) has by resolution authorized the City Manager to assign fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to remove or revise a commitment.

The City reports fund equity in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance - amounts that are in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. board of directors). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts that City intends to use for a specific purpose. Intent can be expressed by the board of directors or by an official or body to which the city council delegates authority.
- Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City has not formally adopted a minimum fund balance policy.

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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

I. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Under state law, county governments are responsible for extending authorized property tax levies, computing tax rates, billing and collecting all property taxes, and making periodic remittances of collection to entities levying taxes. Property taxes are levied and become a lien as of July 1 on property values assessed as of June 30. Property taxes are payable in three installments, which are due on November 15, February 15, and May 15.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 water fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Excess of Expenditures Over Appropriations

During the year ended June 30, 2020, the City expended funds in excess of amounts appropriated as follows:

Fund	Function	Appropriations	Expenditures	Excess
General Fund	Administrative department	\$ 63,191	\$ 462,175	\$ 398,984
General Fund	Building department	\$ 374	\$ 176,524	\$ 176,150
General Fund	Municipal court	\$ 12,682	\$ 39,932	\$ 27,250
State Street	Personnel services	\$ 33,082	\$ 48,111	\$ 15,029

B. Contingency Expenditures

During the year ended June 30, 2020, the City expended funds directly from contingency, which is in violation of Oregon Budget Law.

CITY OF GEARHART
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

C. Reserve Fund Review

Oregon Revised Statutes require the review of all reserve funds at minimum every ten years. The City has not reviewed its reserve funds since inception, which is in violation of Oregon Budget Law.

D. Restrictive Debt Covenant Violation

The City was not in compliance with the debt covenant requiring submission of the City's audited financial statements to Electronic Municipal Market Access (EMMA) for its General Obligation Bonds, Series 2011 and Series 2015, and did not timely file notice of its failure to provide the aforementioned information on or before the date specified in the prior continuing disclosure requirements.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The City of Gearhart maintains a cash and cash equivalents pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the fund financial statements as cash and cash equivalents. Additionally, several funds held separate cash accounts. Interest earned on pooled cash and investments is allocated to participating funds based upon their combined cash and investment balances. Investments, including amounts held in pooled cash and investments, are stated at fair value. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, investments with a remaining maturity of more than one year at the time of purchase are stated at fair value. The City participates in an external investment pool (State of Oregon Local Government Investment Pool). The Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The State's investment policies are governed by the Oregon Revised Statutes (ORS) and the Oregon Investment Council (OIC).

The State Treasurer is the investment officer for the OIC and is responsible for all funds in the State Treasury. These funds are invested exercising reasonable care, skill, and caution. Investments in the Pool are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which established diversification percentages and specifies the types and maturities of investments. The portion of the external investment pool which belongs to local government investment participants is reported in an Investment Trust Fund in the State's Comprehensive Annual Financial Report (CAFR). A copy of the State's CAFR may be obtained at the Oregon State Treasury, 350 Winter St. N.E., Salem, Oregon 97310-0840.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity.

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June 30, 2020

Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset.

The classification of securities within the fair value hierarchy is based on the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

- *Level 1* - Unadjusted quoted prices for identical investments in active markets.
- *Level 2* - Observable inputs other than quoted market prices; and,
- *Level 3* - Unobservable inputs.

There were no transfers of assets or liabilities among the three levels of the fair value hierarchy for the year ended June 30, 2020.

Fair values of assets measured on a recurring basis at June 30, 2020 are as follows:

	Level 2
Investments:	
Oregon Local Government Investment Pool	\$ 2,450,745

Credit Risk

Oregon statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and the Local Government Investment Pool.

The City has not adopted an investment policy regarding credit risk; however, investments comply with state statutes.

Investments

As of June 30, 2020, the City had the following investments:

	Credit Quality Rating	Maturities	Fair Value
Oregon Local Government Investment Pool	Unrated	-	\$ 2,450,745

Interest Rate Risk

The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increases in interest rates.

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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

Concentration of Credit Risk

The City does not have a formal policy that places a limit on the amount that may be invested in any one insurer. 100 percent of the City's investments are in the Oregon Local Government Investment Pool.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City does not have a policy that limits the amount of investments that can be held by counterparties.

Custodial Credit Risk - Deposits

This is the risk that, in the event of a bank failure, the City's deposits may not be returned. All City deposits not covered by Federal Depository Insurance Corporation (FDIC) insurance are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon, organized in accordance with ORS 295. The PFCP is a shared liability structure for participating bank depositories.

Barring any exceptions, a bank depository is required to pledge collateral valued at a minimum of 10% of their quarter-end public fund deposits if they are considered well capitalized, 25% of their quarter-end public fund deposits if they are considered adequately capitalized, or 110% of their quarter-end public fund deposits if they are considered undercapitalized or assigned to pledge 110% by the Office of the State Treasurer.

In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities.

The City holds a noninterest-bearing account at Columbia Bank, for which deposits are insured up to \$250,000. At June 30, 2020 the City had deposits of \$250,000 insured by FDIC insurance and \$5,766 collateralized by the PFCP.

Deposits

The City's deposits and investments at June 30, 2020 are as follows:

Cash on hand	\$ 250
Checking accounts	227,475
Total investments	<u>2,450,745</u>
Total deposits and investments	<u>\$ 2,678,470</u>

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NOTES TO BASIC FINANCIAL STATEMENTS

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Cash and investments by fund:

Governmental activities - unrestricted	
General Fund	\$ 302,013
Fire Apparatus Reserve Fund	215,359
Nonmajor governmental funds	<u>321,397</u>
Total governmental activities - unrestricted	<u>838,769</u>
Business-type activities - unrestricted	
Water Operating Fund	<u>83,243</u>
Subtotal unrestricted cash and investments	<u>922,012</u>
Governmental activities - restricted	
General Fund	2,199
Gearhart Road District General Fund	167,488
State Street Fund	194,123
Debt Service Fund	55,679
Nonmajor governmental funds	<u>58,461</u>
Total governmental activities - restricted	<u>477,950</u>
Business-type activities - restricted	
Water Reserve Fund	1,274,602
Water Construction Fund	<u>3,906</u>
Total business-type activities - restricted	<u>1,278,508</u>
Subtotal restricted cash and investments	<u>1,756,458</u>
Total cash and investments	<u><u>\$ 2,678,470</u></u>

Restricted cash is for 911, roads and streets, debt service payments, special projects, and future system development improvements.

B. Capital Assets

Capital assets are reported on the statement of net position as follows:

	Governmental Activities	Business-Type Activities
Capital assets not being depreciated	\$ 28,025	\$ 54,650
Capital assets being depreciated, net	<u>446,120</u>	<u>10,069,660</u>
Total capital assets	<u><u>\$ 474,145</u></u>	<u><u>\$ 10,124,310</u></u>

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NOTES TO BASIC FINANCIAL STATEMENTS

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For the governmental activities, depreciation was not charged to specific functions or programs of the City. Capital assets of the City's governmental activities are for the use of the entire City and are therefore unallocated.

Depreciation expense was charged to functions/programs of the City as follows:

- Governmental activities
 - Unallocated depreciation expense
- Business-type activities
 - Water

Capital asset transactions for the year ended June 30, 2020 for activity resulting from the modified cash basis was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 28,025	\$ -	\$ -	\$ 28,025
Capital assets being depreciated				
Administrative buildings	44,785	-	(2,885)	41,900
Police equipment	125,143	42,109	-	167,252
Shop equipment	251,938	20,488	-	272,426
Fire equipment and buildings	978,452	-	-	978,452
Infrastructure	83,724	-	-	83,724
Total capital assets being depreciated	1,484,042	62,597	(2,885)	1,543,754
Less accumulated depreciation for				
Administrative buildings	(44,785)	-	2,885	(41,900)
Police equipment	(105,132)	(14,968)	-	(120,100)
Shop equipment	(176,401)	(15,841)	-	(192,242)
Fire equipment and buildings	(675,129)	(34,633)	-	(709,762)
Infrastructure	(29,701)	(3,929)	-	(33,630)
Total accumulated depreciation	(1,031,148)	(69,371)	2,885	(1,097,634)
Total capital assets being depreciated, net	452,894	(6,774)	-	446,120
Governmental activities capital assets, net	\$ 480,919	\$ (6,774)	\$ -	\$ 474,145

(Continued)

CITY OF GEARHART
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

	Beginning Balance	Increases	Decreases	Ending Balance
(Continued)				
Business-type activities				
Capital assets not being depreciated				
Land	\$ 54,650	\$ -	\$ -	\$ 54,650
Capital assets being depreciated				
Buildings	21,305	-	(2,885)	18,420
Machinery and equipment	63,330	-	-	63,330
Water system	<u>12,907,815</u>	<u>-</u>	<u>-</u>	<u>12,907,815</u>
Total capital assets being depreciated	<u>12,992,450</u>	<u>-</u>	<u>(2,885)</u>	<u>12,989,565</u>
Less accumulated depreciation for				
Buildings	(15,694)	(667)	2,885	(13,476)
Machinery and equipment	(60,894)	(2,435)	-	(63,329)
Water system	<u>(2,525,966)</u>	<u>(317,134)</u>	<u>-</u>	<u>(2,843,100)</u>
Total accumulated depreciation	<u>(2,602,554)</u>	<u>(320,236)</u>	<u>2,885</u>	<u>(2,919,905)</u>
Total capital assets being depreciated, net	<u>10,389,896</u>	<u>(320,236)</u>	<u>-</u>	<u>10,069,660</u>
Business-type activities capital assets, net	<u>\$ 10,444,546</u>	<u>\$ (320,236)</u>	<u>\$ -</u>	<u>\$ 10,124,310</u>
	<u>Capital Assets</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>	
Governmental activities				
Land	\$ 28,025	\$ -	\$ 28,025	
Administrative buildings	41,900	(41,900)	-	
Police equipment	167,252	(120,100)	47,152	
Shop equipment	272,426	(192,242)	80,184	
Fire equipment and buildings	978,452	(709,762)	268,690	
Infrastructure	<u>83,724</u>	<u>(33,630)</u>	<u>50,094</u>	
Total governmental activities capital assets	<u>1,571,779</u>	<u>(1,097,634)</u>	<u>474,145</u>	
Business-type activities				
Land	\$ 54,650	\$ -	\$ 54,650	
Buildings	18,420	(13,476)	4,944	
Machinery and equipment	63,330	(63,329)	1	
Water system	<u>12,907,815</u>	<u>(2,843,100)</u>	<u>10,064,715</u>	
Total business-type activities capital assets	<u>13,044,215</u>	<u>(2,919,905)</u>	<u>10,124,310</u>	
Total capital assets	<u>\$ 14,615,994</u>	<u>\$ (4,017,539)</u>	<u>\$ 10,598,455</u>	

CITY OF GEARHART
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

C. Long-Term Liabilities

1. Changes in Long-Term Liabilities

The following is a summary of long-term liabilities arising from cash transactions for the year:

	Interest Rate	Original Amount	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds							
Refunding, Series 2011	4.02%	\$ 4,000,000	\$ 2,750,000	\$ -	\$ (180,000)	\$ 2,570,000	\$ 185,000
Refunding, Series 2015	2.35%	4,195,000	2,660,000	-	(410,000)	2,250,000	425,000
Total bonds		<u>8,195,000</u>	<u>5,410,000</u>	<u>-</u>	<u>(590,000)</u>	<u>4,820,000</u>	<u>610,000</u>
Bond premiums							
Refunding, Series 2011		(157,516)	(101,401)	-	7,088	(94,313)	-
Refunding, Series 2015		(207,344)	(131,474)	-	20,265	(111,209)	-
Total bond premiums		<u>(364,860)</u>	<u>(232,875)</u>	<u>-</u>	<u>27,353</u>	<u>(205,522)</u>	<u>-</u>
Total Governmental Activities		<u>\$ 7,830,140</u>	<u>\$ 5,177,125</u>	<u>\$ -</u>	<u>\$ (562,647)</u>	<u>\$ 4,614,478</u>	<u>\$ -</u>

The City paid \$205,825 in interest on long-term liabilities during the year ended June 30, 2020 from governmental activities.

2. General Obligation Bonds

General obligation bonds are direct obligations that pledge the full faith and credit of the City and are payable from ad valorem debt service levy proceeds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The Debt Service Fund has traditionally been used to liquidate long-term debt.

3. Governmental Activities - General Obligation Bonds, Series 2011

On May 25, 2011, the City issued general obligation bonds in the amount of \$4,000,000 for the purposes of funding capital construction and capital improvements, which are pledged as collateral. The interest rate is fixed at 4.02%. Interest is due semiannually on March 1 and September 1. The bonds mature on March 1, 2031 and were issued at a premium of \$157,516.

4. Governmental Activities - General Obligation Bonds, Refunding Series 2015

On March 16, 2005, the City issued general obligation bonds of \$7,000,000 (par value) to refund a portion of the outstanding general obligation bonds. On May 28, 2015, the City issued general obligation bonds in the amount of \$4,195,000 for the purposes of refunding outstanding Series 2005 general obligation bonds of the City and to pay the cost of issuance of the series 2015 bonds. The interest rate is fixed at 2.35%. Interest is due semiannually on March 1 and September 1. The bonds mature on March 1, 2025 and were issued at a premium of \$207,344.

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NOTES TO BASIC FINANCIAL STATEMENTS

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5. Debt Capacity

The City's legal annual debt service limit (as defined by Oregon Revised Statutes 478.410) as of June 30, 2020 was approximately \$17,744,757. The City's legal debt service limit is 3.00% of the Real Market Value of property within the City.

6. Governmental Activities - Future Maturities of Long-Term Liabilities

Year Ending June 30	General obligation bonds, Series 2011			General obligation bonds, Series 2015		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 185,000	\$ 110,382	\$ 295,382	\$ 425,000	\$ 71,375	\$ 496,375
2022	195,000	102,982	297,982	440,000	58,625	498,625
2023	205,000	94,206	299,206	445,000	48,725	493,725
2024	210,000	84,982	294,982	465,000	37,600	502,600
2025	220,000	75,532	295,532	475,000	19,000	494,000
2026-2030	1,270,000	223,770	1,493,770	-	-	-
2031	285,000	11,894	296,894	-	-	-
	<u>\$ 2,570,000</u>	<u>\$ 703,748</u>	<u>\$ 3,273,748</u>	<u>\$ 2,250,000</u>	<u>\$ 235,325</u>	<u>\$ 2,485,325</u>

7. Default Risk

The general obligation bonds contain events of default; the lender may take whatever action may appear necessary or desirable to enforce or to protect any of the rights of the lender, either at law or in equity, or in bankruptcy or otherwise, if the following events occur:

- Failure by the City to pay bond principal, interest, or premium when due.
- Failure by the City to observe and perform any required covenant, condition, or agreement.
- The City is adjudged insolvent by a court of competent jurisdiction, admits in writing its inability to pay its debts as they become due, or files a petition of bankruptcy.

D. Operating Lease

The City leases office space under a non-cancelable operating lease. The modular building lease expires on May 30, 2020 and the current monthly rent is \$738. Lease payments for the year ended June 30, 2020 were \$6,811. Minimum future lease payments required by this lease is as follows:

Year Ending June 30	Amount
2021	\$ 8,855
2022	1,476
Total	<u>\$ 10,331</u>

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

E. Interfund Transfers

The City's interfund transfers during the year consisted of the following:

	Fire Apparatus Reserve	Nonmajor Governmental Funds	Water Reserve Fund	Total
Transfers out:				
Governmental activities				
General Fund	\$ 35,000	\$ 40,000	\$ -	\$ 75,000
Business-type activities				
Water Operating Fund	-	-	100,000	100,000
Total	<u>\$ 35,000</u>	<u>\$ 40,000</u>	<u>\$ 100,000</u>	<u>\$ 175,000</u>

The principal purposes of the interfund transfers in were to transfer resources into reserve funds for future expenditures.

F. Constraints on Fund Balances

Constraints on fund balances reported on the balance sheet are as follows:

	General Fund	Special Revenue Funds			Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
		General Road Fund	State Street Fund	Fire Apparatus Reserve Fund			
Fund balances							
Restricted for:							
Roads and streets	\$ -	\$ 167,488	\$ 194,123	\$ -	\$ -	\$ 58,461	\$ 420,072
Debt service	-	-	-	-	55,679	-	55,679
911	2,199	-	-	-	-	-	2,199
Committed to:							
Footpaths and bicycle trails	7,115	-	-	-	-	-	7,115
Capital projects	3,600	-	-	215,359	-	274,552	493,511
Hazard mitigation	-	-	-	-	-	46,845	46,845
Unassigned	<u>269,858</u>	-	-	-	-	-	<u>269,858</u>
Total fund balances	<u>\$ 282,772</u>	<u>\$ 167,488</u>	<u>\$ 194,123</u>	<u>\$ 215,359</u>	<u>\$ 55,679</u>	<u>\$ 379,858</u>	<u>\$ 1,295,279</u>

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. There was no significant reduction in insurance coverage from the previous year. There were no insurance settlements exceeding insurance coverage in any of the past three years.

B. Retirement Plans

1. Oregon Public Employees Retirement System

General Information about the Pension Plan

Name of Pension Plan

The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple-employer defined benefit plan.

Description of Benefit Terms

Plan Benefits – PERS Pension (Chapter 238)

Plan benefits of the System are established by the legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A

PERS Pension

The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

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 (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

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).

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

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:

- Member was employed by a PERS employer at the time of death
- Member died within 120 days after termination of PERS-covered employment
- Member died as a result of injury sustained while employed in a PERS-covered job, or
- 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 a either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining monthly benefit.

Benefit Changes after Retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA in fiscal year 2015 and beyond will vary based on the amount of the annual benefit, in accordance with *Moro* decision.

OPSRP Pension Program (OPSRP DB)

Pension Benefits

The ORS Chapter 238A Defined Benefit Pension Program 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: police and fire - 1.8 percent is multiplied by the number of years of service and the final average salary.

Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement. General Service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

CITY OF GEARHART
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

A member of the 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 the 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. The cap on the COLA in fiscal year 2015 and beyond will vary based on the amount of the annual benefit, in accordance with *Moro* decision.

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, 2017 actuarial valuation, which became effective July 1, 2019. The State of Oregon and certain schools, community colleges, and political subdivisions have made unfunded actuarial liability payments, and their rates have been reduced.

Employer contributions for the year ended June 30, 2020 were \$114,465.

Pension Plan Comprehensive Annual Financial Report (CAFR)

Oregon PERS produces an independently audited CAFR which can be found at:

<https://www.oregon.gov/pers/Documents/Financials/CAFR/2019-CAFR.pdf>.

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Oregon PERS and additions to/ deductions from Oregon PERS' fiduciary net position have been determined on the same basis as they are reported by Oregon PERS. 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.

Actuarial Valuations

The employer contribution rates effective July 1, 2019, through June 30, 2021, were set using the entry age normal actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years.

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an actuarially determined amount for funding a disability benefit component, and (c) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial liabilities being amortized over 16 years.

Actuarial Methods and Assumptions:

Valuation Date	December 31, 2017
Measurement Date	June 30, 2019
Experience Study	2016, published July 26, 2017
<i>Actuarial Assumptions:</i>	
Actuarial Cost Method	Entry age normal
Inflation Rate	2.50 percent
Long-term Expected Rate of Return	7.20 percent
Discount Rate	7.20 percent
Projected Salary Increases	3.50 percent

CITY OF GEARHART
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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

Cost of living adjustment (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/.15%) in accordance with <i>Moro</i> decision; blend based on service.
Mortality	<p>Health retirees and beneficiaries: RP-2014 healthy annuitant, sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation.</p> <p>Active members: RP-2014 Employees, sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation.</p> <p>Disabled retirees: RP-2014 Disabled retirees, sex-distinct, generational with Unisex, Social Security Data Scale.</p>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts 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 on the 2016 Experience Study, which reviewed experience for the four-year period ended December 31, 2016.

Discount Rate

The discount rate used to measure the total pension liability was 7.20 percent. 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 Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2017 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.

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

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.

For more information on the Plan’s portfolio, assumed asset allocation, and the long-term expected rate of return for each major asset class, calculated using both arithmetic and geometric means, see PERS’ audited financial statements at:

<https://www.oregon.gov/pers/Documents/Financials/CAFR/2019-CAFR.pdf>

<u>Asset Class</u>	<u>Low Range</u>	<u>High Range</u>	<u>OIC Target</u>
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%

C. Individual Account Program (IAP)

Plan Description

Employees of the City are provided with pensions through OPERS. All the benefits of OPERS are established by the Oregon legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003. Chapter 238A created the Oregon Public Service Retirement Plan (OPSRP), which consists of the Defined Benefit Pension Program and the Individual Account Program (IAP).

Membership includes public employees hired on or after August 29, 2003. PERS members retain their existing defined benefit plan accounts, but member contributions are deposited into the member’s IAP account. OPSRP is part of OPERS and is administered by the OPERS Board.

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

Pension Benefits

Participants in OPERS defined benefit pension plans also participate in their defined contribution plan. 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 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.

Contributions

Member contributions are set by statute at 6 percent of salary and are remitted by participating employers. The contributions are either deducted from member salaries or paid by the employers on the members' behalf. The City has not opted to pick-up the contributions on behalf of its employees.

Actuarial Methods and Assumptions

Assets are valued at their market value. Gains and losses between odd-year valuations are amortized as a level percentage of combined valuation payroll over 20 years from the odd-year valuation in which they are first recognized. The assumed rate of return on investments is 7.2% compounded annually. The assumed consumer price inflation rate used is 2.5% per year.

Additional disclosures related to Oregon PERS not applicable to specific employers are available by contacting PERS at the following address: PO Box 23700 Tigard, OR 97281-3700, or can be found at:

<https://www.oregon.gov/pers/Documents/Financials/CAFR/2019-CAFR.pdf>.

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

D. Restatement

The City's previously issued financial statements have been restated as follows:

Government-wide basis	Governmental Activities	Business-type Activities
Net position - beginning, as originally reported	\$ 1,759,638	\$ 6,350,947
To reclass bonds payable to governmental	(5,410,000)	5,410,000
To record bond premiums, net	232,875	-
To reclass Debt Service Fund to governmental	102,773	(102,773)
Net position - beginning, as restated	\$ (3,314,714)	\$ 11,658,174
Report basis	General Fund	911 Emergency
Fund balance - beginning, as originally reported	\$ 279,586	\$ 2,199
To close fund into General Fund for reporting	2,199	(2,199)
Fund balance - beginning, as restated	\$ 281,785	\$ -
Report basis	Water Operating	
Net position - beginning, as originally reported	\$ 5,093,381	
To reclass bonds payable to governmental	5,410,000	
Net position - beginning, as restated	\$ 10,503,381	
Budget basis	General Fund	911 Emergency
Fund balance - beginning, as originally reported	\$ 279,586	\$ 2,199
To close fund into General Fund for reporting	2,199	(2,199)
Fund balance - beginning, as restated	\$ 281,785	\$ -

CITY OF GEARHART
Clatsop County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

E. New Pronouncements

The Governmental Accounting Standards Board (GASB) issued [Statement No. 95](#), *Postponement of the Effective Dates of Certain Authoritative Guidance*. The Statement is intended to provide relief to governments and other stakeholders in light of the COVID-19 pandemic.

The guidance postpones by one year the effective dates of certain provisions in the pronouncements as follows:

GASB Statement No. 84, *Fiduciary Activities* – This statement established criteria and guidance for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes, as well as the reporting requirements for these fiduciary funds.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Borrowing and Direct Placements* – This statement addresses the information that is disclosed in the notes to government financial statements related to debt, including borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

The Statement postpones the effective dates of the following pronouncements by 18 months:

GASB Statement No. 87, *Leases* – This statement addresses the accounting and financial reporting for leases by governments, requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases.

The City will implement applicable new GASB pronouncements no later than the required fiscal year. Management has not determined the effect on the financial statements for implementing any of the above pronouncements.

The GASB provides other COVID-19 related resources on its website:

<https://www.gasb.org/COVID19>.

F. Subsequent Events

Management has evaluated subsequent events through June 25, 2021, which was the date that the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CITY OF GEARHART
Clatsop County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Modified Cash Basis	
REVENUES					
Property taxes	\$ 592,000	\$ (21,238)	\$ 570,762	\$ -	\$ 570,762
Charges for services	356,530	(145,000)	211,530	-	211,530
Licenses, fees, and permits	281,000	12,014	293,014	-	293,014
Franchise fees	25,000	124,353	149,353	-	149,353
State liquor taxes	24,000	3,038	27,038	-	27,038
State cigarette taxes	27,000	(17,025)	9,975	-	9,975
Grants and contributions	1	5,924	5,925	-	5,925
Transient room taxes	375,000	(35,527)	339,473	-	339,473
Fines and forfeitures	25,000	41,767	66,767	-	66,767
Investment earnings	3,000	7,033	10,033	-	10,033
Miscellaneous	22,001	(16,393)	5,608	-	5,608
Total revenues	<u>1,730,532</u>	<u>(41,054)</u>	<u>1,689,478</u>	<u>-</u>	<u>1,689,478</u>
EXPENDITURES					
Current					
Administrative department	398,984	63,191	462,175	-	462,175
Building department	176,150	374	176,524	-	176,524
Police department	488,799	(92,659)	396,140	-	396,140
Municipal court	27,250	12,682	39,932	-	39,932
Fire department	458,741	(93,188)	365,553	-	365,553
Planning department	136,900	(65,500)	71,400	-	71,400
Parks department	54,708	(25,803)	28,905	-	28,905
Non-departmental	56,000	(13,711)	42,289	-	42,289
Capital outlay	68,000	(37,427)	30,573	-	30,573
Contingency	40,000	(40,000)	-	-	-
Total expenditures	<u>1,905,532</u>	<u>(292,041)</u>	<u>1,613,491</u>	<u>-</u>	<u>1,613,491</u>
Excess (deficiency) of revenues over (under) expenditures	(175,000)	250,987	75,987	-	75,987
OTHER FINANCING SOURCES (USES)					
Transfers out	(75,000)	-	(75,000)	-	(75,000)
Net change in fund balance	(250,000)	250,987	987	-	987
Fund balance - beginning, as restated	250,000	31,785	281,785	-	281,785
Fund balance - ending	<u>\$ -</u>	<u>\$ 282,772</u>	<u>\$ 282,772</u>	<u>\$ -</u>	<u>\$ 282,772</u>

CITY OF GEARHART
Clatsop County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

GEARTHART ROAD DISTRICT GENERAL FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Adjustments	Modified Cash Basis
REVENUES					
Property taxes	\$ 33,000	\$ 1,018	\$ 34,018	\$ -	\$ 34,018
Investment earnings	<u>1,500</u>	<u>1,640</u>	<u>3,140</u>	<u>-</u>	<u>3,140</u>
Total revenues	<u>34,500</u>	<u>2,658</u>	<u>37,158</u>	<u>-</u>	<u>37,158</u>
EXPENDITURES					
Current					
Materials and services	<u>144,500</u>	<u>(127,042)</u>	<u>17,458</u>	<u>-</u>	<u>17,458</u>
Total expenditures	<u>144,500</u>	<u>(127,042)</u>	<u>17,458</u>	<u>-</u>	<u>17,458</u>
Excess (deficiency) of revenues over (under) expenditures	(110,000)	129,700	19,700	-	19,700
Fund balance - beginning	<u>110,000</u>	<u>37,788</u>	<u>147,788</u>	<u>-</u>	<u>147,788</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 167,488</u>	<u>\$ 167,488</u>	<u>\$ -</u>	<u>\$ 167,488</u>

CITY OF GEARHART
Clatsop County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

STATE STREET FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Modified Cash Basis	
REVENUES					
State highway taxes	\$ 85,000	\$ 22,266	\$ 107,266	\$ -	\$ 107,266
Investment earnings	3,500	383	3,883	-	3,883
Total revenues	<u>88,500</u>	<u>22,649</u>	<u>111,149</u>	<u>-</u>	<u>111,149</u>
EXPENDITURES					
Current					
Personnel services	33,082	15,029	48,111	-	48,111
Materials and services	215,418	(140,741)	74,677	-	74,677
Total expenditures	<u>248,500</u>	<u>(125,712)</u>	<u>122,788</u>	<u>-</u>	<u>122,788</u>
Excess (deficiency) of revenues over (under) expenditures	(160,000)	148,361	(11,639)	-	(11,639)
Fund balance - beginning	<u>160,000</u>	<u>45,762</u>	<u>205,762</u>	<u>-</u>	<u>205,762</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 194,123</u>	<u>\$ 194,123</u>	<u>\$ -</u>	<u>\$ 194,123</u>

CITY OF GEARHART
Clatsop County, Oregon

COMBINING BALANCE SHEET - MODIFIED CASH BASIS

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2020

	Special Revenue Funds		Capital Projects Funds			Total Nonmajor Governmental Funds
	State Revenue Sharing Fund	Public Works Equipment Reserve Fund	Police Car Reserve Fund	Building Reserve Fund	Hazard Mitigation Reserve Fund	
ASSETS						
Cash and cash equivalents	\$ 58,461	\$ 89,771	\$ 56,935	\$ 127,846	\$ 46,845	\$ 379,858
FUND BALANCES						
Restricted:						
Special projects	\$ 58,461	\$ -	\$ -	\$ -	\$ -	\$ 58,461
Committed for:						
Capital projects	-	89,771	56,935	127,846	-	274,552
Hazard mitigation	-	-	-	-	46,845	46,845
Total fund balances	\$ 58,461	\$ 89,771	\$ 56,935	\$ 127,846	\$ 46,845	\$ 379,858

CITY OF GEARHART
Clatsop County, Oregon

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2020

	Special Revenue Funds		Capital Projects Funds			Total Nonmajor Governmental Funds
	State Revenue Sharing Fund	Public Works Equipment Reserve Fund	Police Car Reserve Fund	Building Reserve Fund	Hazard Mitigation Reserve Fund	
REVENUES						
State revenue sharing	\$ 28,919	\$ -	\$ -	\$ -	\$ -	\$ 28,919
Grants and contributions	-	-	-	-	32,945	32,945
Investment earnings	840	2,007	1,095	2,775	717	7,434
Total revenues	29,759	2,007	1,095	2,775	33,662	69,298
EXPENDITURES						
Current						
General government	25,732	-	-	-	34,149	59,881
Capital outlay	-	20,488	44,056	55,978	-	120,522
Total expenditures	25,732	20,488	44,056	55,978	34,149	180,403
Excess (deficiency) of revenues over (under) expenditures	4,027	(18,481)	(42,961)	(53,203)	(487)	(111,105)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	15,000	10,000	15,000	40,000
Net change in fund balances	4,027	(18,481)	(27,961)	(43,203)	14,513	(71,105)
Fund balances - beginning	54,434	108,252	84,896	171,049	32,332	450,963
Fund balances - ending	\$ 58,461	\$ 89,771	\$ 56,935	\$ 127,846	\$ 46,845	\$ 379,858

**CITY OF GEARHART
Clatsop County, Oregon**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

STATE REVENUE SHARING FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Modified Cash Basis	
REVENUES					
State revenue sharing	\$ 25,000	\$ 3,919	\$ 28,919	\$ -	\$ 28,919
Investment earnings	100	740	840	-	840
Total revenues	<u>25,100</u>	<u>4,659</u>	<u>29,759</u>	<u>-</u>	<u>29,759</u>
EXPENDITURES					
Current					
Materials and services	<u>30,100</u>	<u>(4,368)</u>	<u>25,732</u>	<u>-</u>	<u>25,732</u>
Excess (deficiency) of revenues over (under) expenditures	(5,000)	9,027	4,027	-	4,027
Fund balance - beginning	<u>5,000</u>	<u>49,434</u>	<u>54,434</u>	<u>-</u>	<u>54,434</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 58,461</u>	<u>\$ 58,461</u>	<u>\$ -</u>	<u>\$ 58,461</u>

CITY OF GEARHART
Clatsop County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

PUBLIC WORKS EQUIPMENT RESERVE FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Modified Cash Basis	
REVENUES					
Investment earnings	\$ 300	\$ 1,707	\$ 2,007	\$ -	\$ 2,007
EXPENDITURES					
Capital outlay	137,300	(116,812)	20,488	-	20,488
Excess (deficiency) of revenues over (under) expenditures	(137,000)	118,519	(18,481)	-	(18,481)
OTHER FINANCING SOURCES (USES)					
Transfers in	30,000	(30,000)	-	-	-
Net change in fund balance	(107,000)	88,519	(18,481)	-	(18,481)
Fund balance - beginning	107,000	1,252	108,252	-	108,252
Fund balance - ending	\$ -	\$ 89,771	\$ 89,771	\$ -	\$ 89,771

**CITY OF GEARHART
Clatsop County, Oregon**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FIRE APPARATUS RESERVE FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Modified Cash Basis	
REVENUES					
Investment earnings	\$ 2,000	\$ 1,596	\$ 3,596	\$ -	\$ 3,596
EXPENDITURES					
Capital outlay	217,000	(201,342)	15,658	-	15,658
Excess (deficiency) of revenues over (under) expenditures	(215,000)	202,938	(12,062)	-	(12,062)
OTHER FINANCING SOURCES (USES)					
Transfers in	35,000	-	35,000	-	35,000
Net change in fund balance	(180,000)	202,938	22,938	-	22,938
Fund balance - beginning	180,000	12,421	192,421	-	192,421
Fund balance - ending	\$ -	\$ 215,359	\$ 215,359	\$ -	\$ 215,359

**CITY OF GEARHART
Clatsop County, Oregon**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

POLICE CAR RESERVE FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Modified Cash Basis	
REVENUES					
Investment earnings	\$ 300	\$ 795	\$ 1,095	\$ -	\$ 1,095
EXPENDITURES					
Capital outlay	74,300	(30,244)	44,056	-	44,056
Excess (deficiency) of revenues over (under) expenditures	(74,000)	31,039	(42,961)	-	(42,961)
OTHER FINANCING SOURCES (USES)					
Transfers in	15,000	-	15,000	-	15,000
Net change in fund balance	(59,000)	31,039	(27,961)	-	(27,961)
Fund balance - beginning	59,000	25,896	84,896	-	84,896
Fund balance - ending	\$ -	\$ 56,935	\$ 56,935	\$ -	\$ 56,935

CITY OF GEARHART
Clatsop County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

BUILDING RESERVE FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Modified Cash Basis	
REVENUES					
Investment earnings	\$ 840	\$ 1,935	\$ 2,775	\$ -	\$ 2,775
EXPENDITURES					
Capital outlay	174,606	(118,628)	55,978	-	55,978
Excess (deficiency) of revenues over (under) expenditures	(173,766)	120,563	(53,203)	-	(53,203)
OTHER FINANCING SOURCES (USES)					
Transfers in	10,000	-	10,000	-	10,000
Net change in fund balance	(163,766)	120,563	(43,203)	-	(43,203)
Fund balance - beginning	163,766	7,283	171,049	-	171,049
Fund balance - ending	\$ -	\$ 127,846	\$ 127,846	\$ -	\$ 127,846

CITY OF GEARHART
Clatsop County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

HAZARD MITIGATION FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Modified Adjustments Cash Basis	
REVENUES					
Grants and contributions	\$ -	\$ 32,945	\$ 32,945	\$ -	\$ 32,945
Investment earnings	200	517	717	-	717
Total revenues	<u>200</u>	<u>33,462</u>	<u>33,662</u>	<u>-</u>	<u>33,662</u>
EXPENDITURES					
Current					
Materials and services	<u>47,200</u>	<u>(13,051)</u>	<u>34,149</u>	<u>-</u>	<u>34,149</u>
Excess (deficiency) of revenues over (under) expenditures	(47,000)	46,513	(487)	-	(487)
OTHER FINANCING SOURCES (USES)					
Transfers in	<u>15,000</u>	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>
Net change in fund balance	(32,000)	46,513	14,513	-	14,513
Fund balance - beginning, as restated	<u>32,000</u>	<u>332</u>	<u>32,332</u>	<u>-</u>	<u>32,332</u>
Fund balance - ending	<u><u>\$ -</u></u>	<u><u>\$ 46,845</u></u>	<u><u>\$ 46,845</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 46,845</u></u>

CITY OF GEARHART
Clatsop County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

DEBT SERVICE FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Modified Cash Basis	
			Adjustments		
REVENUES					
Property taxes	\$ 794,234	\$ (49,196)	\$ 745,038	\$ -	\$ 745,038
Investment earnings	2,000	1,693	3,693	-	3,693
Total revenues	<u>796,234</u>	<u>(47,503)</u>	<u>748,731</u>	<u>-</u>	<u>748,731</u>
EXPENDITURES					
Debt service	<u>886,234</u>	<u>(90,409)</u>	<u>795,825</u>	<u>-</u>	<u>795,825</u>
Excess (deficiency) of revenues over (under) expenditures	(90,000)	42,906	(47,094)	-	(47,094)
Fund balance - beginning	<u>90,000</u>	<u>12,773</u>	<u>102,773</u>	<u>-</u>	<u>102,773</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 55,679</u>	<u>\$ 55,679</u>	<u>\$ -</u>	<u>\$ 55,679</u>

**CITY OF GEARHART
Clatsop County, Oregon**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

WATER OPERATING FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Adjustments	Modified Cash Basis
REVENUES					
Charges for services	\$ 900,000	\$ 11,485	\$ 911,485	\$ -	\$ 911,485
Investment earnings	2,000	(199)	1,801	-	1,801
Total revenues	<u>902,000</u>	<u>11,286</u>	<u>913,286</u>	<u>-</u>	<u>913,286</u>
EXPENDITURES					
Current					
Personnel services	268,185	(38,282)	229,903	-	229,903
Materials and services	668,500	(109,525)	558,975	-	558,975
Capital outlay	72,001	(72,001)	-	-	-
Depreciation	-	-	-	320,236	320,236
Contingency	13,314	(13,314)	-	-	-
Total expenditures	<u>1,022,000</u>	<u>(233,122)</u>	<u>788,878</u>	<u>320,236</u>	<u>1,109,114</u>
Excess (deficiency) of revenues over (under) expenditures	(120,000)	244,408	124,408	(320,236)	(195,828)
OTHER FINANCING SOURCES (USES)					
Transfers out	<u>(180,000)</u>	<u>80,000</u>	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Net change in fund balance	(300,000)	324,408	24,408	(320,236)	(295,828)
Fund balance - beginning	<u>300,000</u>	<u>10,203,381</u>	<u>58,835</u>	<u>10,444,546</u>	<u>10,503,381</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 10,527,789</u>	<u>\$ 83,243</u>	<u>\$ 10,124,310</u>	<u>\$ 10,207,553</u>

CITY OF GEARHART
Clatsop County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

WATER RESERVE FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Adjustments	Modified Cash Basis
REVENUES					
Investment earnings	\$ 15,000	\$ 8,640	\$ 23,640	\$ -	\$ 23,640
EXPENDITURES					
Capital outlay	1,363,314	(1,363,314)	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(1,348,314)	1,371,954	23,640	-	23,640
OTHER FINANCING SOURCES (USES)					
Transfers in	150,000	(50,000)	100,000	-	100,000
Net change in fund balance	(1,198,314)	1,321,954	123,640	-	123,640
Fund balance - beginning	1,198,314	(47,352)	1,150,962	-	1,150,962
Fund balance - ending	\$ -	\$ 1,274,602	\$ 1,274,602	\$ -	\$ 1,274,602

CITY OF GEARHART
Clatsop County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

WATER CONSTRUCTION FUND

For the Year Ended June 30, 2020

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	Adjustments	Modified Cash Basis
REVENUES					
Investment earnings	\$ 800	\$ (725)	\$ 75	\$ -	\$ 75
EXPENDITURES					
Capital outlay	54,279	(54,279)	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(53,479)	53,554	75	-	75
Fund balance - beginning	53,479	(49,648)	3,831	-	3,831
Fund balance - ending	\$ -	\$ 3,906	\$ 3,906	\$ -	\$ 3,906

**AUDIT COMMENTS AND DISCLOSURES REQUIRED BY
STATE REGULATIONS**



**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS**

The Honorable Paulina Cockrum, Mayor
and Members of the City Council
City of Gearhart
Gearhart, Oregon 97138

We have audited the basic financial statements of the City of Gearhart as of and for the year ended June 30, 2020 and have issued our report thereon dated June 25, 2021. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the City of Gearhart'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 Oregon Administrative Rules 162-010-0000 through 162-010-0320 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)

Programs funded from outside sources

Insurance and fidelity bonds in force or required by law

Highway revenues used for public highways, roads, and streets

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 City was not in substantial compliance with certain provisions of laws, contracts, and grants, including the provisions of Oregon Revised Statutes, as specified in Oregon Administrative Rules 162-010-0000 through 162-010-0320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except as follows:

A. Excess of Expenditures Over Appropriations

During the year ended June 30, 2020, the City expended funds in excess of amounts appropriated as follows:

<u>Fund</u>	<u>Function</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	Administrative department	\$ 63,191	\$ 462,175	\$ 398,984
General Fund	Building department	\$ 374	\$ 176,524	\$ 176,150
General Fund	Municipal court	\$ 12,682	\$ 39,932	\$ 27,250
State Street	Personnel services	\$ 33,082	\$ 48,111	\$ 15,029

B. Contingency Expenditures

During the year ended June 30, 2020, the City expended funds directly from contingency, which is in violation of Oregon Budget Law.

C. Reserve Funds Not Reviewed

Oregon Revised Statutes require the review of all reserve funds at minimum every ten years. The City has not reviewed its reserve funds since inception, which is in violation of Oregon Budget Law.

D. Restrictive Debt Covenant Violation

The City was not in compliance with the debt covenant requiring submission of the City’s audited financial statements to Electronic Municipal Market Access (EMMA) for its General Obligation Bonds, Series 2011 and Series 2015, and did not timely file notice of its failure to provide the aforementioned information on or before the date specified in the prior continuing disclosure requirements.

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



Accuity, LLC

Albany, Oregon
June 25, 2021