

**CITY OF JOHN DAY  
CITY COUNCIL MINUTES  
JOHN DAY, OREGON**

**December 11, 2012**

**Adjourned Meeting**

**COUNCILORS PRESENT:**

Ron Lundbom, Mayor  
Steve Schuette, Council President  
Donn Willey, Councilor  
Doug Gochnour, Councilor  
Gene Officer, Councilor  
Don Caldwell, Councilor

**COUNCILORS ABSENT:**

Chris Labhart, Councilor

**STAFF PRESENT:**

Peggy Gray, City Manager

**GUESTS PRESENT:**

Anna Bass, Oster Professional Group, John Day  
Amy Walker, Oster Professional Group, John Day  
Kent Bailey, Guyer & Associates, Baker City

**Agenda Item No. 1 – Open and Note Attendance**

The John Day City Council meeting opened at 7:00 p.m. Mayor Ron Lundbom noted that all Councilors were present with the exception of Councilor Chris Labhart who was absent and excused.

**Agenda Item No. 2 – Approval of City Council Minutes of November 13, 2012**

The minutes of the November 13, 2012 adjourned meeting were included in the agenda packets and presented for the Council's approval. **Councilor Donn Willey made a motion that the minutes of November 13, 2012 be approved as presented; Councilor Doug Gochnour seconded the motion. The motion passed unanimously.**

**Agenda Item No. 3 - Appearance of Interested Citizens**

Mayor Ron Lundbom thanked those in attendance and asked everyone to please sign in. He asked if there were any additional items that anyone would like to add to the agenda. There were none presented.

**Agenda Item No. 4 – Discuss for Approval the Fiscal Year 2012 Audit by Guyer & Associates**

Mayor Lundbom welcomed Anna Bass and Amy Walker of the Oster Professional Group and introduced the City’s auditor Kent Bailey of Guyer & Associates. Mr. Bailey thanked the Council for selecting Guyer & Associates as their auditor and walked the City Council through the audit report beginning with the opinion page as follows:

- Page 1 - first paragraph states his firm audited the financial statements of governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of John Day as of and for the year ended June 30, 2012. Mr. Bailey stated the second paragraph states the standards by which they performed the audit and they believe their audit provides a reasonable basis for their opinions. Mr. Bailey stated the third paragraph, and most important states “In our opinion the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2012 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.
- Page 3 – Mr. Bailey hit on the Financial Highlights section of the page. He stated the City’s total net assets decreased by \$175,716; the comparative number of a year ago net assets decreased by \$160,583 or a decrease of 2.7 percent. Compared to this year’s decrease of 3.1 percent, Mr. Bailey stated that is in total taking into account the depreciation expense, the depreciation expense for the City totaled \$359,730. Mr. Bailey explained that on a cash basis we were in the black, but on an operating basis taking into allowance the depreciation, the City was in the hole.
- Page 4 – under asset totals the City’s assets decreased by \$276,891 from the previous year; liabilities decrease from the previous year by \$101,175. Net equity declined from \$5,694,105 to \$5,518,389 resulting in a decrease of \$175,716. Mr. Bailey reminded the Council that depreciation is the biggest piece of that loss, it wasn’t a cash loss. Working capital position improves, while our equity declines. That will reverse over time because right now the depreciation expense is level; however, the bond principal will go up over time. Mr. Bailey stated those are going to cross and go back the other way over time, which is a positive thing.

Councilor Doug Gochnour asked about the City’s depreciation expense stating that it is based on the expected life of the asset; citing the backhoe as an example. If we expense that out over 15 years, does the depreciation zero out even if the City continues to use it? Mr. Bailey stated that was correct and directed the Council to page 32 of the audit report. Under capital assets it states buildings and infrastructure are depreciated on a 40-60 year schedule; machinery and equipment are 3- 20 year schedule. Mr. Bailey stated even though the asset still has value in most cases; it will be depreciated zero over the life of the equipment.

- Page 5 – Summary of the revenues for the City, total revenues for the Governmental Activities were \$1,108,483; expenditures were \$1,251,673 resulting in a decrease of \$143,190. Prior that number was \$134,063. Depreciation for the Governmental Activities was \$167,000, so basically it was a “hold your own year” without the depreciation. In the Business-type Activities revenues were \$1,030,795; expenditures were \$1,063,321 resulting in a decrease of \$32,526. Last year the number was a decrease of \$26,520. Depreciation for the Business-type Activities was \$191,746. The City actually had a cash increase of approximately \$160,000; the City improved their position there; however, Mr. Bailey reminded the Council that we have to fund that depreciation because someday you will have to replace those assets.
- Page 8 – Long term debt - total debt from 2011 was \$2,881,790 to \$2,766,249 in 2012. Resulting in a decrease of \$115,541. Mr. Bailey referred to the economic factors at the bottom of the page

stating the County's 2012 jobless rate is 11.4%; last year's jobless rate was 11.5%. So it tells you that not a lot changed in a year and it is indicative of the financial position of the City, it pretty much just treaded water and that is what the economy did as well.

- Page 12 – Net assets – the unrestricted assets in the Governmental Activities were \$242,875; Business-type Activities - Net Assets are \$2,556,725. Total Assets for Business-type Activities are \$5,260,061. Mr. Bailey said he points that out because if you compare it to a “for profit” entity, utilities are considered properly leveraged at 50/50. We are at 49% equity and 51% debt, so we are pretty close to that standard and that is pretty reasonable ratio. Comparing the June 30, 2012 to June 30, 2011 we had \$1,376,436 cash in 2012 compared to \$1,444,777 from June 2011, we had a slight decline of cash in the amount of \$68,341. We had other receivables from property taxes with a slight increase of \$1,886 and other receivables of \$146,929 compared to \$135,140 in the prior year. Again, indicating that the City's position stayed roughly the same. Mr. Bailey directed the Council to the bottom of the page to the unrestricted net assets of the City; we have \$1,129,536 in 2012 which is an increase of \$25,363 from the prior year which indicates again we are just treading water, but in the way economic times are, that's not a bad thing to be able to just tread water and continue to go forward.
- Page 14-15 – Total governmental activities expenses were \$1,251,673; compared to last year's expenses of \$1,227,541; an increase of \$24,132 or an increase of 1.96%, not much of an increase in the expenditure side. Net expense this year for governmental activities was \$479,860 compared to last year's \$618,000; so the net that has to be picked up by the taxpayer went down. General revenues (i.e. property taxes intergovernmental payments, grants, interest etc.) totaled \$319,247, when you include the transfers the governmental activities ended up being \$143,190 in the hole; compared to last year's \$134,000 and that again takes in the allowance for depreciation. The total general revenues for 2012 was \$324,317 compared to prior year total of \$329,077; which is 1.45%, Mr. Bailey reminded the council that expenses went up by 1.96%. So expenses went up and revenues went down, you hope that this would be reversed but the combination of those two items is what caused the decline in the fund balance in 2012. In the business-type activities we had \$1,063,321 of expenses, in the prior year they were \$1,033,356; expenses increased by \$29,965 or an increase of 2.89%. In the revenue side; revenues went up by \$40,775, people purchased more water than the prior year. The bottom line including the depreciation allowance, this year's business-type activities net loss is \$32,526 compared to the prior year's net loss of \$26,520. Pretty close but both years having a net loss.
- Page 16-17 – Mr. Bailey stated in the general fund the unassigned total fund balance is \$156,584 increased from last year of \$3,680 or an increase of 2.4%. Mr. Bailey stated again you can see not a lot of change, everything just maintained a status quo. Mr. Bailey stated the total fund balance went down from \$563,940 in 2011 to \$484,116 in 2012 resulting in a loss of \$79,824. Mr. Bailey stated that was because we expended more in the 911 Fund and that is what caused the decline in the governmental activities area.
- Page 19 – Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets. Total net assets of governmental activities are \$2,961,664.
- Page 24 – 25 – Statement of Net Assets; Proprietary Funds. The current assets increased about \$55,000. They went from \$700,999 in 2011 to \$755,833 in 2012. The unrestricted net assets went from \$573,355 in 2011 to \$708,231 in 2012. A nice increase in the fund balance; however, we are servicing a lot of assets with over \$8 million in the ground. That's a small contingency when you consider the amount of assets we have to take care of should something break.
- Page 26 – 27 Statement of Revenues, Expenses, and Changes in Fund Net Assets; Proprietary Funds. The water fund had an income of \$549,602, expenditures of \$480,610 resulting in a gain of \$71,494 before the interest expense. When you subtract the interest expense, we have a net loss of \$17,635; when you add the transfers, the total net loss is \$23,597 compared to \$35,109 in the prior year. The sewer fund had an income of \$444,177, expenditures of \$455,058 resulting in

a net loss of \$10,881 before the interest expense; the bottom line resulted in a net loss of \$11,512. Mr. Bailey stated both of the City's proprietary funds had a net loss and he stated he knew the Council had long discussions at their Budget Committee meeting about raising utility rates and whether to raise rates annually or wait a couple of years. He says combined (water and sewer) we lost \$35,000 this year and lost \$26,000 in the prior year; what that says is that we didn't take in enough money to replace the assets they were out. Mr. Bailey gave examples of how much to raise the utility rates, the first example was to look at the current CPI; another way would be to look at the operating expenses. This year the operating expense was \$935,668 and the prior year they were \$901,833 that was an increase of \$33,835 or an increase of 3.7%. If just wanted to keep your revenues up, you should look at a 3.7% rate increase. Another way would be to look at your loss for the year was \$35,109 that loss is 3.5% of revenue. He stated he would pick a number around 3.5% to cover our expenses as they stand today.

- Page 28 – 29 Statement of Cash Flows, Proprietary Funds. Net cash provided (used) by operating activities. The water fund provided \$198,593; sewer fund provided \$50,149. This is cash to pay down debt or to pay other operating expenses. The water fund had a net increase in cash of \$27,857; the sewer fund had a net increase in cash of \$19,560. That washes out all the accruals, all of the depreciation and gets you down to the cash that you can put in your back pocket, however, Mr. Bailey reminded the Council that when you talk about a \$8 million plant, that is cutting it pretty close.
- Page 35 – PERS – Mr. Bailey stated this is going to be the hard part when you put together next year's budget. He stated the City's PERS rate is projected to go up to 13.29% for Tier 1 and Tier 2; currently we're paying 8.62%, which is an increase of 54% in our cost for PERS. The OPSRP payroll currently paying 4.46% will go to 9.14%; police and fire currently paying 7.17%, that number will go up to 11.87%. That will be effective July 1, 2013. Mr. Bailey stated if you want to look forward instead of looking in the rearview mirror, this is something you will need to consider when you look at your utility rate increase to help cover these costs. Councilor Gochnour asked how these rates compare to the school's rate. Mr. Bailey stated these rates are lower and the PERS rates are different in each district; however, he has seen them as high as 20%.
- Page 39 – Increases in capital assets. Governmental Activities - total additions this year \$136,783; depreciation expense was \$167,984; which is why governmental funds capital assets actually declined by \$31,201. Business activities we added \$2,738 in equipment; depreciation expense was \$191,746, which is why we had the decline.
- Page 40 – shows the breakdown of where the depreciation was charged.
- Page 80 – Independent Auditors Report required by Oregon State Regulations. Mr. Bailey noted they did not find any compliance issues and stated the City was in compliance with all of the statutory requirements of the State of Oregon; which is a positive thing.
- Page 84 –Internal Control Report; Mr. Kent stated the City received a clean opinion. He stated this is just as important, if not, more important than the actual opinion because this states that the processes the City has in place to process the accounting information, to handle the people's money and to record it on the books are adequate for the City the size of John Day and that your people complied with the policies that we have in place to make sure it is done right.
- Mr. Bailey stated there are two recommendations they came up with that he needed to talk about. Last year they came up with three recommendations which were all implemented within the last year. Mr. Bailey presented a letter to the City Council and explained the purpose of the letter as follows:
  - The first thing in the letter states what the auditor's responsibility is under GAP and that the City engaged Guyer & Associates in August 2012.
  - If there are significant findings we make them available to you in this letter.

- Mr. Bailey stated they are required to inform the Council if they encountered any difficulties in dealing with management in performing and completing their audit. Mr. Bailey stated they did not have any; but if there were; this is where they would be required to tell the council about it.
- Under the Corrected and Uncorrected Misstatements sections; Mr. Bailey stated they did find some in the drafting of the financial statements, they have been corrected and there were no adjustments posted as the result of the audit. This means that the financial statements that the Council receives on a monthly basis; are accurate; which is important because it states that the information the Council was given throughout the year was good information.
- There were no disagreements with management
- Mr. Bailey informed the Council that the City Manager Peggy Gray and Anna Bass of Oster Professional have signed a letter taking ownership of the financial statements.
- No consultations with other accountants
- There were no significant deficiencies or material weaknesses
- Two items were identified but nothing significant were found under “Other Audit Findings or Issues” for the City Council to consider:
  1. Currently the City’s senior accounts clerk has the ability to make unauthorized adjustments for revenues from transactions such as building permits, licenses, fines and other user fees. These unauthorized adjustments could be posted to expense accounts instead of as an adjustment on the City’s bank account on the general ledger. This coupled with a lack of segregation of duties increases the potential risk of loss. The auditor recommend the City consider two actions: first require all adjustments to be approved by the City Manager and processed by the Finance Director and restrict the access to the credit memos by other staff. This would reduce the risk an error would go undetected for a long period of time unlikely.
  2. In ORS 366.514(1) requires City’s expend reasonable amounts as necessary to provide footpaths and bicycle trails, including curb cuts or ramps as part of a project. ORS 366.514(3) sets the minimum amount to be set aside for this purpose at 1% of the amounts received from the department. In ORS 366.514(2) there are three exemptions that can exempt a project from having these pathways but not the City in general. The auditor believes the City is currently in compliance but lacks the documentation from year to year to prevent the possible repayment to the State if funds remain unspent after ten years. The auditor recommends the City develop documentation to support there is no accumulation of any unspent funds.

Mayor Lundbom asked the City Council if they had any questions. There were none presented. Mr. Bailey asked the Council to please call him directly if they had any other questions at a later date.

Councilor Doug Gochnour asked Mr. Bailey if this audit report is good compared to other small towns. Mr. Bailey responded yes, he thought Peggy does a good job and Anna does a good job and stated he thought the relationship the City has with Oster Professional Group is really working well. Mr. Bailey also stated the Council has done a good job of managing. He stated the economy isn’t great, none of us are going gangbusters, and you guys treaded water last year. He thought that was important, he stated you are going to have to raise rates in the water and sewer funds. It’s a lot easier to raise it a little bit each year instead of a lot at one time. City Manager Gray thanked Mr. Bailey and stated if the department heads were here, she would thank them. They did a really good job on keeping the expenditures down this past year.

**Councilor Donn Willey made a motion to accept the Independent Auditors' Report and Financial Statements for the year ended June 30, 2012. Councilor Don Caldwell seconded the motion, the motion passed unanimously.**

**Agenda Item No. 5 – Discuss for Adoption Resolution No. 12-696-20, a Resolution to declare accounts uncollectible and take off the books as receivable**

Mayor Lundbom introduced Resolution No. 12-696-20, a resolution to declare accounts uncollectible and take off the books as receivable. City Manager Gray stated these are closed accounts and these people have been sent certified letters with the City receiving no response from them. She asked the Council declare the accounts uncollectible so that we can remove them off the books as a receivable.

**Councilor Don Caldwell moved to adopt Resolution No. 12-696-20. Councilor Steve Schuette seconded the motion; the motion passed unanimously.**

**Agenda Item No. 6 – Review and Accept the Abstract of Votes for the November 6, 2012 General Election**

The Abstract of Votes for the November 6, 2012 General Election for the City of John Day was presented to the City Council. City Manager Gray stated the City had three council positions running unopposed. Councilors Gochmour, Schuette and Willey were reelected to their positions and they will be sworn in at the first council meeting in January 2013.

**Councilor Donn Willey moved to accept the Abstract of Votes for the November 6, 2012 General Election. Councilor Gene Officer seconded the motion, the motion passed unanimously.**

**Agenda Item No. 7 – Discuss Canceling the December 25, 2012 City Council meeting due to the Christmas Holiday**

The next regular meeting of the John Day City Council will fall on Christmas day, December 25<sup>th</sup>. City Manager Gray stated it has been the tradition of the John Day City Council to cancel the second council meeting in December.

**Councilor Donn Willey moved to cancel the December 25, 2012 John Day City Council meeting due to the Christmas holiday. Councilor Doug Gochmour seconded the motion. The motion passed unanimously.**

**Agenda Item No. 8 – Other Business and Upcoming Meetings**

1. Mayor Lundbom gave a report on the League of Oregon Cities training he attended in Bend on December 5<sup>th</sup> and 6<sup>th</sup>. The first training was Government 101 basically he learned about ethics to executive sessions to conflicts of interest. He got to meet Sean O'Day, the LOC's legal counsel and Paul Nolte, former LOC's legal counsel and former city attorney for the City of Ashland. Mayor Lundbom stated he was really surprised and learned a lot; he learned that he should encourage all our councilors to attend these trainings. He learned that there are over 240,000 people elected, appointed or volunteer city officials and only 7,000 have attended the training. Kirk Mylander of CIS is pre-loss

and very sharp. Day two was all about ethics and very interesting; he said the Oregon Ethics Commission encouraged us to call them with any questions, anytime, if you have a question regarding ethics before you do anything. Mayor Lundbom said the trainings were very well done and well worth the money. The City received a scholarship from LOC to help offset the training cost.

2. The November 16 -30, 2012 LOC Bulletins were included in the council packets.
3. Included in the Council packets were invitations to the JDVFD Christmas party and the City of John Day's Annual Christmas Potluck.
4. A support letter signed by Mayor Lundbom was included in the council packet supporting Grant School District #3 USDA's Community Facilities Grant application to assist with the cost of rubberizing the surface of the track.
5. Included in the council packet were thank you letters from the Timber Trucker's Light Parade Committee and Bill Deist.
6. The October 2012 Statement of Revenue and Expenditure Budget to Actual Reports were given to the City Council.
7. The quarterly staff report was included in the council packets.

### **Adjourn**

**There being no further business before the Council, Councilor Don Caldwell made a motion to adjourn the meeting. Councilor Donn Willey seconded the motion and the motion passed unanimously. The meeting was adjourned at 8:12 p.m.**

Respectfully Submitted:

Peggy Gray  
City Manager

ACCEPTED BY THE CITY COUNCIL, JANUARY 8, 2013.

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Mayor Ron Lundbom