



**CITY OF LOWELL  
LANE COUNTY, OREGON**

**ANNUAL FINANCIAL REPORT**

**For the Year Ended June 30, 2017**

CITY OF LOWELL

CITY OFFICIALS

June 30, 2017

ELECTED OFFICIALS

<u>Name and Address</u>	<u>Position</u>	<u>Term Expires</u>
Don Bennett, Mayor 540 Sunridge Lane Lowell, Oregon 97452	Position 1	December 31, 2018
Patricia Jo Angelini 239 S Pioneer Street Lowell, Oregon 97452	Position 2	December 31, 2020
Jim Burford 160 Wetlau Dr. Lowell, Oregon 97452	Position 3 Council President	December 31, 2020
Maggie Osgood PO Box 6 Lowell, Oregon 97452	Position 4	December 31, 2018
Gail Harris P.O. Box 328 Lowell, Oregon 97452	Position 5	December 31, 2020

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Appointed</u>
Jared Cobb	City Administrator	June 30, 2015
Milo Mecham	Legal Counsel Attorney at Law	

Mailing Address

City of Lowell  
107 East Third Street  
P.O. Box 490  
Lowell, Oregon 97452  
(541) 937-2157 • Facsimile (541) 937-2936

CITY OF LOWELL

ANNUAL FINANCIAL REPORT  
TABLE OF CONTENTS

For the Year Ended June 30, 2017

Page

INDEPENDENT AUDITOR'S REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS ..... i-viii

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

Statement of Net Position (Modified Cash Basis) ..... 1  
Statement of Activities (Modified Cash Basis)..... 2

Fund Financial Statements

Balance Sheet – Governmental Funds (Modified Cash Basis)..... 3  
Reconciliation of Balance Sheet of Governmental funds  
to the Statement of Net Position ..... 4  
Statement of Revenues, Expenditures, and Changes  
in Fund Balances – Governmental Funds (Modified Cash Basis)..... 5  
Reconciliation of Statement of Revenues, Expenditures and changes in Fund Balances  
of Governmental funds to Statement of Activities ..... 6  
Balance Sheet – Proprietary Funds (Modified Cash Basis) ..... 7  
Statement of Revenues, Expenses, and Changes  
in Fund Net Position – Proprietary Funds (Modified Cash Basis) ..... 8  
Statement of Cash Flows - Propriety Funds (Modified Cash Basis)..... 9

Notes to the Basic Financial Statements .....10-22

SUPPLEMENTARY INFORMATION

Combining Balance Sheet - Nonmajor Governmental Funds (Modified Cash Basis) ..... 23  
Combining Statement of Revenues, Expenditures and Changes  
in Fund Balances - Nonmajor Governmental Funds (Modified Cash Basis) ..... 24

Budgetary Comparison Schedules of Revenues, Expenditures and Changes  
in Fund Balances - Budget and Actual (Cash Basis):

General Fund..... 25  
Street Fund..... 26  
SDC Fund ..... 27  
Debt Reserve Fund..... 28  
Personnel Liability Fund ..... 29  
Blackberry Jam Festival Fund ..... 30  
Utility Deposit Fund..... 31  
Equipment Fund ..... 32  
Water Operating Fund ..... 33  
Water Reserve Fund ..... 34  
Sewer Operating Fund ..... 35  
Sewer Reserve Fund..... 36

CITY OF LOWELL  
ANNUAL FINANCIAL REPORT  
TABLE OF CONTENTS (CONTINUED)  
For the Year Ended June 30, 2017

Page

REPORT OF THE INDEPENDENT AUDITORS REQUIRED BY THE STATE OF OREGON MINIMUM STANDARDS FOR AUDITS OF OREGON MUNICIPAL CORPORATIONS .....	37-38
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	39-43

***INDEPENDENT AUDITOR'S REPORT***

# Emerald CPA Group, LLP

450 Country Club Road, Suite 155  
Eugene OR 97401

## INDEPENDENT AUDITOR'S REPORT

Mayor and Members of the City Council  
City of Lowell  
Lane County, Oregon

### Report on the Financial Statements

We have audited the accompanying-modified cash basis-financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the 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 as described in note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each minor fund and the aggregate remaining fund Information-modified cash basis-of the City of Lowell, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with the modified cash-basis of accounting.

## **Other Matters**

### Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Management's Discussion and Analysis on pages i-vii is presented as additional information and is not a required part of the basic financial statements. We have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The combining statements of remaining aggregate fund information and the budgetary schedules presented as supplementary information on pages 23-36 are for the purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Report on Other Legal and Regulatory Requirements**

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Other Reporting Required by Oregon Minimum Standards*

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated January 31, 2017, on our consideration of the City's internal control over financial reporting and on tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-320. 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.

***Emerald CPA Group LLP***

Eugene, Oregon  
January 31, 2018



**MANAGEMENT'S DISCUSSION & ANALYSIS**

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2017**

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The management of the City of Lowell, Oregon presents this narrative overview and analysis to facilitate both a short and a long-term analysis of the financial activities of the City for the fiscal year ended June 30, 2017. This Management's Discussion and Analysis (MD&A) is based on currently known facts, decisions, and conditions that existed as of the date of the independent auditor's report. Please read it in conjunction with the City's financial statements which follow this section.

**Financial Highlights**

- The City's Total Assets as of June 30, 2017 are \$8,833,030, a decrease of \$134,356 over the previous year primarily as a result of capital asset depreciation.
- The City's Total Liabilities are \$1,708,217 a decrease of \$22,775 over the previous year, primarily as a result of debt principle payments.
- The Net Position of the City (assets minus liabilities) as of June 30, 2017 is \$7,196,394, a decrease of \$175,383 from the previous year, primarily as a result of a decrease in the capital assets (depreciation) from the water and sewer funds.
- The City's governmental funds reported combined ending balances of \$3,848,405, a decrease of \$15,400 over the previous fiscal year. All but \$222,798 is restricted for specific purposes or for future expense.
- The City's proprietary funds reported combined ending net position of \$3,276,408 down \$38,931 from the previous fiscal year.

**Overview of the Financial Statements**

The following discussion and analysis is intended to serve as an introduction to the City's basic financial statements and other required supplementary information. The City's basic financial statements are comprised of four components:

1. Government-wide financial statements
2. Fund Financial statements
3. Notes to the basic financial statements
4. Supplementary information

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, fees, and inter-governmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2017**

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The governmental activities of the City include the following:

- General Government
- Public Works, Streets
- Infrastructure Systems Development
- Debt Reserve
- Blackberry Jam Festival
- Equipment Reserve Fund

The Business-type activities of the City include the following:

- Water Utility
- Sewer Utility

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: Governmental funds and Proprietary funds.

**Governmental funds.** Governmental funds are used to account for activities where the emphasis is placed on available financial resources, rather than upon net income determination. Therefore, unlike the government-wide financial statements, governmental fund financial statements focus on the acquisition and use of current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial decisions. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations can be found on pages 4 and 6 in the basic financial statements.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for each of those funds.

The City adopts an annual appropriated budget for all governmental funds. To demonstrate compliance with the budget, budgetary comparison statements have been provided on pages 25-36.

**Proprietary funds.** Proprietary funds are used to account for activities where the emphasis is placed on net income determination. The City maintains one type of proprietary fund known as enterprise fund. Enterprise funds are used to report the same functions presented

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2017**

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as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water utility and sewer utility operations and for reserves

for water and sewer utility capital improvements. The water and sewer funds, both of which are considered to be major funds of the City, are combined with their associated reserve fund in the basic financial statements.

The City also adopts an annual appropriated budget for all proprietary funds. The proprietary fund financial statements can be found on pages 7-9 in the basic financial statements. To demonstrate compliance with the budget, budgetary comparison statements have been provided for the enterprise funds on pages 33 through 36.

**Notes to the basic financial statements.** The notes, contained on pages 10-22, provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. They are an integral part of the basic financial statements and should be read in conjunction with them.

**Supplementary information.** The combining statements and schedules referred to earlier, contained on pages 23 through 36, follow the notes in this report.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$7,124,813 at the close of the most recent fiscal year.

The largest portion of the City's net position (88.6%) reflects its investment in capital assets (e.g. land, buildings, improvements, equipment, and infrastructure, net of accumulated depreciation), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2017**

**City of Lowell – Net Position**

	Governmental Activities			
	2017	2016	Change	%
<b>Assets</b>				
Current and other assets	\$ 724,930	\$ 733,875	\$ (8,945)	-1.2%
Capital assets (net)	3,129,930	3,147,180	(17,250)	-0.5%
<b>Total Assets</b>	<b>\$ 3,854,860</b>	<b>\$ 3,881,055</b>	<b>\$ (26,195)</b>	<b>-0.7%</b>
<b>Liabilities and deferred inflows</b>				
Current and other liabilities	\$ 6,455	\$ -	\$ 6,455	-
Noncurrent liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>6,455</b>	<b>-</b>	<b>6,455</b>	<b>-</b>
<b>Net position</b>				
Net investment in capital assets	3,129,930	3,147,180	(17,250)	-0.5%
Restricted	495,677	509,972	(14,295)	-2.8%
Unrestricted	222,798	223,903	(1,105)	-0.5%
<b>Total net position</b>	<b>\$ 3,848,405</b>	<b>\$ 3,881,055</b>	<b>\$ (32,650)</b>	<b>-0.8%</b>

	Business-type Activities				Total	
	2017	2016	Change	%	2017	2016
<b>Assets</b>						
Current and other assets	\$ 217,077	\$ 127,862	\$ 89,215	69.8%	\$ 942,007	\$ 861,737
Capital assets (net)	4,761,093	4,958,469	(197,376)	-4.0%	7,891,023	8,105,649
<b>Total Assets</b>	<b>\$ 4,978,170</b>	<b>\$ 5,086,331</b>	<b>\$ (108,161)</b>	<b>-2.1%</b>	<b>\$ 8,833,030</b>	<b>\$ 8,967,386</b>
<b>Liabilities and deferred inflows</b>						
Current and other liabilities	\$ 31,070	\$ 100,299	\$ (69,229)	0.1%	\$ 37,525	\$ 100,299
Noncurrent liabilities	1,670,692	1,670,693	(1)	0.0%	1,670,692	1,670,693
<b>Total Liabilities</b>	<b>1,701,762</b>	<b>1,770,992</b>	<b>(69,230)</b>	<b>-3.9%</b>	<b>1,708,217</b>	<b>1,770,992</b>
<b>Net position</b>						
Net investment in capital assets	3,090,401	3,227,957	(137,556)	-4.3%	6,220,331	6,375,137
Restricted	-	-	-	-	495,677	509,972
Unrestricted	186,007	87,382	98,625	####	408,805	311,285
<b>Total net position</b>	<b>\$ 3,276,408</b>	<b>\$ 3,315,339</b>	<b>\$ (38,931)</b>	<b>-1.2%</b>	<b>\$ 7,124,813</b>	<b>\$ 7,196,394</b>

The entire balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors within the fund they are located. The City's current and other assets equal \$942,007 an increase of \$80,270 from the previous year. The City's total non-current liabilities equal \$37,525, a decrease of \$62,775 from the previous fiscal year.

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2017**

**City of Lowell – Statement of Activities**

	Governmental Activities			
	2017	2016	Change	%
<b>Revenues</b>				
Charges for services	\$ 64,349	\$ 39,547	\$ 24,802	62.7%
Operating grants and contributions	20,140	15,626	4,514	28.9%
Capital grants and contributions	-	-	-	#DIV/0!
Property taxes	134,981	131,105	3,876	3.0%
Francise fees	95,459	74,085	21,374	28.9%
Interest income	7,782	3,628	4,154	114.5%
Transfers	(91,924)	(60,126)	(31,798)	52.9%
Utility deposits	-	(3,484)	3,484	-100.0%
Miscellaneous	75,076	104,535	(29,459)	-28.2%
<b>Total revenues</b>	<b>305,863</b>	<b>304,916</b>	<b>947</b>	<b>0.3%</b>
<b>Expenses</b>				
General government	223,034	280,159	(57,125)	-20.4%
Highways and streets	96,103	42,499	53,604	126.1%
Culture and recreation	19,376	23,087	(3,711)	-16.1%
Water	-	-	-	-
Sewer	-	-	-	-
<b>Total expenses</b>	<b>338,513</b>	<b>345,745</b>	<b>(7,232)</b>	<b>-2.1%</b>
Change in net position	(32,650)	(40,829)	8,179	-20.0%
Beginning net position	3,881,055	3,921,884	(40,829)	-1.0%
<b>Ending net position</b>	<b>\$ 3,848,405</b>	<b>\$ 3,881,055</b>	<b>\$ (32,650)</b>	<b>-0.8%</b>

	Business-type Activities				Total Government-Wide	
	2017	2016	Change	%	2017	2016
<b>Revenues</b>						
Charges for services	\$ 605,236	\$ 519,527	\$ 85,709	16.5%	\$ 669,585	\$ 559,074
Operating grants and contributions	-	-	-	-	20,140	15,626
Capital grants and contributions	-	-	-	0.0%	-	-
Property taxes	-	-	-	-	134,981	131,105
Francise fees	-	-	-	0.0%	95,459	74,085
Interest income	-	-	-	0.0%	7,782	3,628
Transfers	91,924	60,126	31,798	-	-	-
Utility deposits	-	-	-	-	-	(3,484)
Miscellaneous	309	5,930	(5,621)	-94.8%	75,385	110,465
<b>Total revenues</b>	<b>697,469</b>	<b>585,583</b>	<b>111,886</b>	<b>19.1%</b>	<b>1,003,332</b>	<b>890,499</b>
<b>Expenses</b>						
General government	-	-	-	-	223,034	280,159
Highways and streets	-	-	-	-	96,103	42,499
Culture and recreation	-	-	-	-	19,376	23,087
Water	348,683	344,914	3,769	1.1%	348,683	344,914
Sewer	387,717	375,223	12,494	3.3%	387,717	375,223
<b>Total expenses</b>	<b>736,400</b>	<b>720,137</b>	<b>16,263</b>	<b>2.3%</b>	<b>1,074,913</b>	<b>1,065,882</b>
Change in net position	(38,931)	(134,554)	95,623	-71.1%	7,196,394	7,371,777
Beginning net position	3,315,339	3,449,893	(134,554)	-3.9%	7,196,394	7,371,777
<b>Ending net position</b>	<b>\$ 3,276,408</b>	<b>\$ 3,315,339</b>	<b>\$ (38,931)</b>	<b>-1.2%</b>	<b>\$ 7,124,813</b>	<b>\$ 7,196,394</b>

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2017**

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**Fund-based Financial Analysis**

As previously discussed, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$733,875, all of which is unrestricted for use within the respective funds. Those ending fund balance are accounted for as follows:

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>%</u>
General Fund	\$ 184,077	\$ 123,608	\$ 60,469	48.9%
Personnel Liabilities Fund	-	23,968	(23,968)	-100.0%
Street Fund	126,877	123,466	3,411	2.8%
SDC Fund	316,946	279,526	37,420	13.4%
Equipment Fund	17,195	30,188	(12,993)	-43.0%
BBJ Festival Fund	21,526	17,763	3,763	21.2%
Debt Service Fund	51,854	106,980	(55,126)	-51.5%
Utility Deposit Fund	-	28,376	(28,376)	-100.0%
Total Governmental Funds	<u>\$ 718,475</u>	<u>\$ 733,875</u>	<u>\$ (15,400)</u>	-2.1%

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>%</u>
Water Operating Fund	\$ 1,597,381	\$ 1,598,059	\$ (678)	-0.04%
Water Reserve Fund	11,814	7,876	3,938	50.00%
Sewer Operating Fund	1,662,118	1,705,884	(43,766)	-2.57%
Sewer Reserve Fund	5,095	3,520	1,575	44.74%
Total	<u>\$ 3,276,408</u>	<u>\$ 3,315,339</u>	<u>\$ (38,931)</u>	-1.17%

**Budgets**

For the year ending June 30, 2017, in the General Fund, expenditures for the court exceeded budgeted amounts by \$813.

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2017**

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**Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017 was \$7,891,023 (net of accumulated depreciation). This investment in capital assets includes land, right-of-way, buildings and improvements, improvements other than buildings (such as parks and park improvements), equipment, and infrastructure (streets, water, storm water, and wastewater). Additional information on the City's capital assets can be found on pages 16-17 of the annual financial report.

**Long-term Debt.** At the end of the current fiscal year, the City had total debt of \$1,670,692. None of this debt is paid with general obligation bonds. All of it consists of long term loans payable by revenue generated by Water and Sewer Utilities, Water and Sewer System Development Charges, Reimbursement District Assessments and/or existing Debt Reserve for business activities long-term portion of debt of \$1,670,692 and a current portion of \$61,527.

The decrease over the previous year (\$59,820) reflects principal payment on long-term debt. Additional information on the City's long term debt can be found on pages 17-19 of the annual financial report.

**Economic Factors and Next Year's Budget and Rates**

In preparing the budget for FY 2017-18 the City considered various economic factors and used the following assumptions:

**Property Taxes**

The City has forecasted a 3% increase in assessed value for properties within the city limits, with a collection rate of 95%.

**Population**

The City's 2017 population estimate, provided by the Population Research Center at Portland State University, is 1,070. It is assumed that during the upcoming fiscal year the City's population will continue to increase by approximately 1.6% per year. This assumption affects the estimates for SDC fees, building permit fees, state shared revenues (i.e. gasoline tax), water and sewer services.

**Personnel Services**

The personnel services budget includes a 5.0% step increase for employees that receive a satisfactory performance evaluation. No cost-of-living adjustment was included.

**Medical Benefits**

It was assumed that medical benefit premiums will increase approximately 5%. The City budgets 100% of the health care premium cost for employees.



**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2017**

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**Retirement Benefits**

The City's total employer contribution rate to the Public Employee Retirement System (PERS) is 9.38% of employee salaries for the Oregon Public Service Retirement Plan (OPSRP) General Service Plan. The City does not pick up the employee's share of 6% PERS contribution.

**Risk Management**

The City's insurance carrier, CIS, provides an annual not-to-exceed rate estimate which is used for budgeting purposes. These are provided below along with the budgeted contingency and capital improvement and replacement reserves:

- Property insurance will decrease by 7.3%.
- Automobile insurance will increase by 6.5%.
- Liability insurance will increase by 3.8%.
- Worker's compensation insurance rates will increase by 7.5%.
- Budgeted operating contingency is \$193,948, which represents 1.5 months of operating expenses. Reserves for capital replacement and improvements are \$255,181 and reserves for future expenditures, which includes expenditures for capital projects and new development, are \$238,694.

**Requests for Information**

The financial report is designed to provide a general overview of the City's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Jared Cobb  
City Administrator  
City of Lowell  
P. O. Box 490  
Lowell, OR 97452

***BASIC FINANCIAL STATEMENTS***

**CITY OF LOWELL**  
**Statement of Net Position**  
**Modified Cash Basis**  
**June 30, 2017**

	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and equivalents	\$ 724,930	\$ 217,077	\$ 942,007
Capital Assets			
Land and construction in progress	1,978,040	105,687	2,083,727
Infrastructure	1,295,704	-	1,295,704
Buildings and improvements	252,538	9,066,196	9,318,734
Equipment and Furniture, net of depreciation	71,437	114,157	185,594
Less: Accumulated depreciation	<u>(467,789)</u>	<u>(4,524,947)</u>	<u>(4,992,736)</u>
Net Capital assets	<u>3,129,930</u>	<u>4,761,093</u>	<u>7,891,023</u>
Total Assets	<u>\$ 3,854,860</u>	<u>\$ 4,978,170</u>	<u>\$ 8,833,030</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 2,686	\$ -	\$ 2,686
Undistributed court funds	3,769	-	3,769
Due to other governmental agencies	-	31,070	31,070
Utility deposits	-	-	-
Long-term liabilities			
Due within one year	-	61,527	61,527
Bonds, capital leases and contracts	-	-	-
Due in more than one year	-	1,609,165	1,609,165
Bonds, capital leases and contracts	<u>-</u>	<u>1,609,165</u>	<u>1,609,165</u>
Total liabilities	<u>6,455</u>	<u>1,701,762</u>	<u>1,708,217</u>
<b>NET POSITION</b>			
Net investment in capital assets	3,129,930	3,090,401	6,220,331
Restricted for:			
Streets	126,877	-	126,877
Capital projects (SDC funds)	316,946	-	316,946
Debt Service	51,854	-	51,854
Unrestricted	222,798	186,007	408,805
Total net position	<u>\$ 3,848,405</u>	<u>\$ 3,276,408</u>	<u>\$ 7,124,813</u>

The accompanying notes are an integral part of these financial statements

**CITY OF LOWELL**  
**Statement of Activities**  
**Modified Cash Basis**  
**For the Year Ended June 30, 2017**

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
<b>Primary government</b>						
Governmental Activities						
General Government	\$ 223,034	\$ 37,100	\$ 11,119	\$ (174,815)	\$ -	\$ (174,815)
Highways and Streets	96,103	4,273	-	(91,830)	-	(91,830)
Culture and Recreation	19,376	22,976	9,021	12,621	-	12,621
Total governmental activities	<u>338,513</u>	<u>64,349</u>	<u>20,140</u>	<u>(254,024)</u>	<u>-</u>	<u>(254,024)</u>
Business-type activities:						
Water FD	348,683	274,459	-	-	(74,224)	(74,224)
Sewer FD	387,717	330,777	-	-	(56,940)	(56,940)
Total business-type activities	<u>736,400</u>	<u>605,236</u>	<u>-</u>	<u>-</u>	<u>(131,164)</u>	<u>(131,164)</u>
Total primary government	<u>\$ 1,074,913</u>	<u>\$ 669,585</u>	<u>\$ 20,140</u>	<u>(254,024)</u>	<u>(131,164)</u>	<u>(385,188)</u>
<b>General revenues:</b>						
Taxes:						
Property taxes, levied for general purposes				134,981	-	134,981
Franchise taxes				95,459	-	95,459
Unrestricted investment earnings				7,782	-	7,782
Miscellaneous				75,076	309	75,385
Transfers				(91,924)	91,924	-
Total general revenues and transfers				<u>221,374</u>	<u>92,233</u>	<u>313,607</u>
Change in net position				(32,650)	(38,931)	(71,581)
Net position - beginning				<u>3,881,055</u>	<u>3,315,339</u>	<u>7,196,394</u>
Net position - ending				<u>\$ 3,848,405</u>	<u>\$ 3,276,408</u>	<u>\$ 7,124,813</u>

The accompanying notes are an integral part of these financial statements

**CITY OF LOWELL**  
**Balance Sheet**  
**Modified Cash Basis**  
**Governmental Funds**  
**June 30, 2017**

	<u>General Fund</u>	<u>Street Fund</u>	<u>SDC Fund</u>	<u>Debt Reserve Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 190,532	\$ 126,877	\$ 316,946	\$ 51,854	\$ 38,721	\$ 724,930
Total assets	<u>\$ 190,532</u>	<u>\$ 126,877</u>	<u>\$ 316,946</u>	<u>\$ 51,854</u>	<u>\$ 38,721</u>	<u>\$ 724,930</u>
<b>LIABILITIES, AND FUND BALANCES</b>						
Liabilities:						
Undistributed court funds	\$ 2,686	\$ -	\$ -	\$ -	\$ -	\$ 2,686
Payable to other governments	3,769	-	-	-	-	3,769
Total liabilities	<u>6,455</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,455</u>
Fund Equity:						
Restricted for						
Streets	-	126,877	-	-	-	126,877
SDC	-	-	316,946	-	-	316,946
Debt service	-	-	-	51,854	-	51,854
Assigned for:						
Blackberry Jam Festival	-	-	-	-	21,526	21,526
Capital projects	-	-	-	-	17,195	17,195
Unassigned	184,077	-	-	-	-	184,077
Total fund balances	<u>184,077</u>	<u>126,877</u>	<u>316,946</u>	<u>51,854</u>	<u>38,721</u>	<u>718,475</u>
Total liabilities and fund balances	<u>\$ 190,532</u>	<u>\$ 126,877</u>	<u>\$ 316,946</u>	<u>\$ 51,854</u>	<u>\$ 38,721</u>	<u>\$ 724,930</u>

The accompanying notes are an integral part of these financial statements

**CITY OF LOWELL**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of**  
**Net Position**  
**Modified Cash Basis**  
**June 30, 2017**

Total fund balance, governmental funds \$ 718,475

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 3,129,930

Net Position of Governmental Activities in the Statement of Net Position \$ 3,848,405

The accompanying notes are an integral part of these financial statements

**CITY OF LOWELL**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Modified Cash Basis**  
**For the Year Ended June 30, 2017**

	<u>General Fund</u>	<u>Street Fund</u>	<u>SDC Fund</u>	<u>Debt Reserve Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Property Taxes	\$ 134,981	\$ -	\$ -	\$ -	\$ -	\$ 134,981
Fees and fines	4,273	-	33,992	-	-	38,265
Licenses and permits	82,543	864	-	-	-	83,407
Intergovernmental	28,764	63,960	-	-	-	92,724
Investment earnings	6,506	1,264	-	-	13	7,783
Miscellaneous	14,096	4,346	-	-	-	18,442
Blackberry Jam Festival receipts	-	-	-	-	22,187	22,187
Total revenues	<u>271,163</u>	<u>70,434</u>	<u>33,992</u>	<u>-</u>	<u>22,200</u>	<u>397,789</u>
<b>EXPENDITURES</b>						
Current:						
General government	97,112	-	-	-	-	97,112
Community Development	35,264	-	-	-	-	35,264
Public Safety	21,000	-	-	-	-	21,000
Tourism	3,096	-	-	-	-	3,096
Highways and Streets	-	64,898	-	-	-	64,898
Culture and recreation	45,947	-	-	-	18,436	64,383
Municipal Court	14,268	-	-	-	-	14,268
Capital Outlay	-	2,251	-	-	18,993	21,244
Total Expenditures	<u>216,687</u>	<u>67,149</u>	<u>-</u>	<u>-</u>	<u>37,429</u>	<u>321,265</u>
Excess (deficiency) of revenues over expenditures	<u>54,476</u>	<u>3,285</u>	<u>33,992</u>	<u>-</u>	<u>(15,229)</u>	<u>76,524</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	10,421	3,126	3,428	-	6,000	22,975
Transfers out	(4,428)	(3,000)	-	(55,126)	(52,345)	(114,899)
Total other financing sources and uses	<u>5,993</u>	<u>126</u>	<u>3,428</u>	<u>(55,126)</u>	<u>(46,345)</u>	<u>(91,924)</u>
Net change in fund balances	60,469	3,411	37,420	(55,126)	(61,574)	(15,400)
Fund balances - beginning	123,608	123,466	279,526	106,980	100,295	733,875
Fund balances - ending	<u>\$ 184,077</u>	<u>\$ 126,877</u>	<u>\$ 316,946</u>	<u>\$ 51,854</u>	<u>\$ 38,721</u>	<u>\$ 718,475</u>

The accompanying notes are an integral part of these financial statements

**CITY OF LOWELL**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities  
Modified Cash Basis  
For the Year Ended June 30, 2017**

Net change in fund balances - total governmental funds:	\$	(15,400)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
This is the amount by which capital outlays \$27,998 were less than depreciation \$45,288 in the current period.		(17,250)
Change in net position of governmental activities	<u>\$</u>	<u>(32,650)</u>

The accompanying notes are an integral part of these financial statements



**CITY OF LOWELL**  
**Statement of Net Position**  
**Proprietary Funds**  
**Modified Cash Basis**  
**June 30, 2017**

	<u>Enterprise Funds</u>		
	<u>Water Operating Fund</u>	<u>Sewer Operating Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 194,717	\$ 22,360	\$ 217,077
Total current assets	<u>194,717</u>	<u>22,360</u>	<u>217,077</u>
Non-current assets:			
Capital Assets:			
Capital Assets	4,274,139	4,792,057	9,066,196
Less Accumulated depreciation	<u>(1,990,626)</u>	<u>(2,534,321)</u>	<u>(4,524,947)</u>
Total non-current assets	<u>2,454,067</u>	<u>2,307,026</u>	<u>4,761,093</u>
Total assets	<u>\$ 2,648,784</u>	<u>\$ 2,329,386</u>	<u>\$ 4,978,170</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Utility Deposits	\$ 31,070	\$ -	\$ 31,070
Bonds, notes and loans payable	<u>33,538</u>	<u>27,989</u>	<u>61,527</u>
Total current liabilities	<u>64,608</u>	<u>27,989</u>	<u>92,597</u>
Non-current liabilities:			
Bonds, notes and loans payable	<u>974,981</u>	<u>634,184</u>	<u>1,609,165</u>
Total non-current liabilities	<u>974,981</u>	<u>634,184</u>	<u>1,609,165</u>
Total liabilities	<u>1,039,589</u>	<u>662,173</u>	<u>1,701,762</u>
<b>NET POSITION</b>			
Net investment in capital assets, net of related debt	1,274,994	1,595,563	2,870,557
Unrestricted	<u>334,201</u>	<u>71,650</u>	<u>405,851</u>
Total net position	<u>\$ 1,609,195</u>	<u>\$ 1,667,213</u>	<u>\$ 3,276,408</u>

The accompanying notes are an integral part of these financial statements

**CITY OF LOWELL**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Modified Cash Basis**  
**Proprietary Funds**  
**For the Year Ended June 30, 2017**

	<b>Enterprise Funds</b>		
	<b>Water Operating Fund</b>	<b>Sewer Operating Fund</b>	<b>Total</b>
<b>REVENUES</b>			
Charges for services	\$ 264,734	\$ 315,672	\$ 580,406
Miscellaneous	10,030	15,107	25,137
Total operating revenues	<u>274,764</u>	<u>330,779</u>	<u>605,543</u>
<b>OPERATING EXPENSES</b>			
Personal services	136,494	136,066	272,560
Contractual services	18,641	17,411	36,052
Utilities	22,140	38,666	60,806
Repairs and maintenance	115	15,187	15,302
Other supplies and expenses	41,957	31,642	73,599
Insurance claims and expenses	4,866	4,866	9,732
Depreciation	92,697	118,187	210,884
Total Operating Expenses	<u>316,910</u>	<u>362,025</u>	<u>678,935</u>
Operating income (loss)	<u>(42,146)</u>	<u>(31,246)</u>	<u>(73,392)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest expense	<u>(31,773)</u>	<u>(25,690)</u>	<u>(57,463)</u>
Total non-operating revenue (expenses)	<u>(31,773)</u>	<u>(25,690)</u>	<u>(57,463)</u>
Income (loss) before contributions and transfers	(73,919)	(56,936)	(130,855)
Transfers in	82,117	17,320	99,437
Transfers out	<u>(4,938)</u>	<u>(2,575)</u>	<u>(7,513)</u>
Change in net position	<u>3,260</u>	<u>(42,191)</u>	<u>(38,931)</u>
Total net position - beginning	<u>1,605,935</u>	<u>1,709,404</u>	<u>3,315,339</u>
Total net position - ending	<u>\$ 1,609,195</u>	<u>\$ 1,667,213</u>	<u>\$ 3,276,408</u>

The accompanying notes are an integral part of these financial statements

**CITY OF LOWELL**  
**Statement of Cash Flows - Proprietary Funds**  
**Modified Cash Basis**  
**For the Year Ended June 30, 2017**

	<b>Enterprise Funds</b>		
	<b>Water Operating Fund</b>	<b>Sewer Operating Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 295,324	\$ 315,672	\$ 610,996
Miscellaneous operating revenue	10,030	15,108	25,138
Payments to suppliers	(87,719)	(107,772)	(195,491)
Payments to employees	(136,494)	(136,066)	(272,560)
Net cash provided (used) by operating activities	<u>81,141</u>	<u>86,942</u>	<u>168,083</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Payments on Loans	(32,305)	(27,516)	(59,821)
Purchases of capital assets	(6,754)	(6,754)	(13,508)
Interest paid on capital debts	(31,773)	(25,690)	(57,463)
Transfers	77,179	14,745	91,924
Inter-fund loan	40,000	(40,000)	-
<b>Net cash provided (used) by capital related financing activities</b>	<u>46,347</u>	<u>(85,215)</u>	<u>(38,868)</u>
Net increase (decrease) in cash and cash equivalents	<u>127,488</u>	<u>1,727</u>	<u>129,215</u>
Cash Balances - beginning of the year	<u>67,229</u>	<u>20,633</u>	<u>87,862</u>
Cash Balances - end of the year	<u>\$ 194,717</u>	<u>\$ 22,360</u>	<u>\$ 217,077</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>			
<b>CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (Loss)	\$ (42,146)	\$ (31,246)	\$ (73,392)
Adjustments to reconcile operating income:			
Depreciation expense	92,697	118,187	210,884
Change in assets and liabilities:			
Increase (decrease) in deposits	30,590	-	30,590
Net cash provided (used) by operating activities	<u>\$ 81,141</u>	<u>\$ 86,942</u>	<u>\$ 168,083</u>

The accompanying notes are an integral part of these financial statements

*NOTES TO THE BASIC FINANCIAL STATEMENTS*

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Lowell, Oregon, operates under a Council-Manager form of government. The governing body consists of five elected council members, of which one is selected as Mayor by a majority of the Council.

The City of Lowell, Oregon, is a primary government. A primary government is financially accountable for the organizations (component units) that make up its legal entity. The City has considered all organizations for which the City is financially accountable. Financial accountability may be evidenced by the ability to appoint the voting majority of the governing body, and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific burdens on, the primary government; or a fiscal dependency or intergovernmental relationship so close that exclusion from the primary government would render the financial statements incomplete or misleading. The City has determined that there are no component units required to be included in these financial statements.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on the entire City. For the most part, the effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. General and other governmental other funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues and expenditures when they result from cash transactions with a provision for capital assets and depreciation and recognition of long-term debts. The modified cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting is specifically allowed under Oregon rules, and the City considers the use of this basis to be an appropriate reflection of the City's financial status and results of operations.

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial sources except for those required to be accounted for in another fund. The principal revenue sources are property taxes.

The *Street Fund* accounts for receipts for state gasoline taxes and interest. The monies are expended primarily for the repair and maintenance of the City roads and buildings.

The *System Development Charge (SDC) Fund* accounts for receipts of the City's system development charges and related expenses.

The *Debt Reserve Fund* accounts for resources set aside for payments on current and future debt incurred.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the operations of the City's water department. Primary revenues are the sale of water to users and connection fees.

The *Sewer Fund* accounts for the operations of the City's sewer department. Primary revenues are charges for services and connection fees.

Additionally, the City reports the following fund types:

*Special Revenue Funds* are primarily operating funds that account for specific taxes or other revenue sources, which are legally restricted to finance particular functions or activities.

*Capital Projects Funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include operating grants and contributions and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

**D. Assets, Liabilities, and Net Position**

***Cash and investments***

The cash and investments reported on the statement of net position include checking account, state Local Government Investment Pool (LGIP), and petty cash balances. The City invests in the LGIP, which is managed by the State Treasurer's office. These investments are managed in accordance with the "prudent person rule" and administrative regulations of the State Treasurer, which may change. Eligible investments are those allowed by Oregon law and are not leveraged and do not contain any derivative products. The City reports the fair value of their position in the pool as the same as the value of the pool shares.

***Receivables and payables***

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds."

Lane County makes all assessments of property value, and levies and collects the taxes for the City. Assessments of property values are as of January 1 of each year. Real property taxes are levied and attach as an enforceable lien on property on July 1. Taxes are payable in three installments on November 15, February 15, and May 15. A 3% discount is allowed for payment in full on November 15. Property taxes unpaid and outstanding on May 16 are considered to be delinquent.

For the current year the City levied taxes at the rate of 2.1613 per \$1,000 of assessed value within the City limits. Measure 50 establishes the permanent rate and allows for an increase of the assessed value of 3% per year.

***Capital assets***

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as any capital purchase, donation or dedication of land, infrastructure, buildings and/or equipment that exceeds \$5,000 for a single acquisition. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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>
Equipment	10
Buildings	20
Infrastructure	40

***Long-term Obligations***

General obligation bonds and other revolving loans, issued for sewer and water system construction, are reported as long-term debts in the government-wide financial statements.

***Fund balance***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

***Use of Estimates***

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

***Budgetary Compliance***

Budgets are prepared and adopted, and expenditures are appropriated, in accordance with Oregon Local Budget Law. Budgets are adopted on the cash-basis of accounting, which is not in conformity with generally accepted accounting principles, but is an acceptable method for Oregon Municipal Corporations under Oregon Local Budget Law. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

On or before June 30 of each year, the City enacts a resolution approving the budget, appropriating the expenditures, and levying the property taxes. Prior to enacting this resolution, the proposed budget is presented to a budget committee consisting of members the City Council and a like number of interested citizens. The budget committee presents the budget to the City Council for budget hearings prior to enactment of the resolution.



CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

The budget is prepared by fund, and line item, and includes information of the past year, current year estimates, and requested appropriations for the next fiscal year. Expenditures may not exceed legally budgeted appropriations at the level of materials and services, personal services, capital outlay, debt service, transfers out, or other expenditures for each fund.

During the fiscal year, the expenditures in the Municipal court exceeded budgeted amounts by \$813.

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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**3. CASH AND INVESTMENTS**

Cash and investments consist of the following as of June 30, 2017:

Cash in bank	\$ 409,350
Cash on hand	250
Local government investment pool (LGIP)	<u>532,407</u>
Total	<u>\$ 942,007</u>

**Deposits:** Deposits with financial institutions are comprised of bank demand deposits and a certificate of deposit. Total bank balances of the checking accounts and certificate of deposit, as shown on the banks' records at year-end were \$417,624 and \$2,545, respectively. The amount in the LGIP was \$532,407.

*Custodial credit risk – deposits:* This is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. In order to minimize this risk, the State of Oregon established the Public Funds Collateralization Program (PFCP).

PFCP is an application created by the Office of the State Treasurer (OST) to facilitate bank depository, custodian and public official compliance with Oregon Revised Statutes 295 (ORS) effective on July 1, 2008. Requirements described on PFCP for depository banks, custodian banks and local governments are set forth as the following:

Banks are required to report quarterly to the State Treasurer, providing quarter-end public funds balance in excess of the FDIC limits, net worth, and FDIC capitalization information. The FDIC assigns each bank with a capitalization category quarterly, either well capitalized, adequately capitalized or undercapitalized. The PFCP calculates, based on this information, the bank's minimum collateral (maximum liability) that must be pledged with the custodian for the next quarter. The maximum liability is reported to the bank, OST and custodian.

The custodian banks hold the collateral pledged by the banks. OST provides the custodian the maximum liability for each bank. Banks will request security pledges, releases and substitutions through the PFCP. The custodian will process the transactions as approved by OST and maintain an inventory of pledged securities. OST will monitor that adequate collateral is pledged at all times and that all banks comply with the requirements of ORS.

Public officials are required to verify that deposit accounts in excess of deposit insurance limits are only maintained at financial institutions included on the list of qualified depositories found on the OST's web site. Public officials are also required to report at least annually, or within 10 days of a change, the banks they do business with, and contact information for the public official. It is the responsibility of the public official to ensure compliance with these requirements in order to eliminate personal liability in the event of a bank loss.

The City's depository bank was listed on the Treasurer's web site, "Qualified Depositories for Public Fund", throughout the fiscal year.

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

**3. CASH AND INVESTMENTS (Continued)**

**Investments:** The only investments held by the City at June 30, 2017, were funds in the LGIP, which is part of the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool available for use by all state agencies and eligible local governments. Then LGIP is an open-ended, no-load diversified portfolio offered to eligible participants who by law are made custodian of, or have control over, any public funds. The City's investment in the LGIP is carried at cost, which approximates fair value. The State of Oregon's investments policies used in administering the LGIP are governed by statute and the Oregon Investment Council (the Council). The State Treasurer is the investment officer for the Council and is responsible for the funds on deposit in the state treasury. The OST's investments in short-term securities are limited by the portfolio rules established by the OSTF Board and the Council. In accordance with Oregon statutes, the investments funds are invested, and the investments of those funds managed, as a prudent investor would do – exercising reasonable care, skill, and caution. The LGIP's portfolio rules provide that broker/dealers meet certain qualifications and that investments and delivered to and held by a third-party custodian that hold the securities in the State of Oregon's name. The LGIP is not registered with the Securities Exchange Commission and is not rated.

**4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 was as follows:

<b>Governmental activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Capital assets:</b>				
Capital assets not being depreciated:				
Land and land improvements	\$ 1,969,035	\$ -	\$ -	\$ 1,969,035
Construction in progress	-	9,005	-	9,005
Capital assets not being depreciated	<u>1,969,035</u>	<u>9,005</u>	<u>-</u>	<u>1,978,040</u>
Capital assets being depreciated				
Buildings and improvements	252,538	-	-	252,538
Infrastructure	1,295,704	-	-	1,295,704
Furniture, fixtures and equipment	52,444	18,993	-	71,437
Capital assets being depreciated	<u>1,600,686</u>	<u>18,993</u>	<u>-</u>	<u>1,619,679</u>
Total Capital assets	<u>3,569,721</u>	<u>27,998</u>	<u>-</u>	<u>3,597,719</u>
<b>Accumulated depreciation:</b>				
Buildings and improvements	104,687	11,501	-	116,188
Infrastructure	266,960	32,336	-	299,296
Furniture, fixtures and equipment	50,894	1,411	-	52,305
Total accumulated depreciation	<u>422,541</u>	<u>45,248</u>	<u>-</u>	<u>467,789</u>
Capital assets, net, governmental activities	<u>\$ 3,147,180</u>	<u>\$ (17,250)</u>	<u>\$ -</u>	<u>\$ 3,129,930</u>
<b>Governmental activities:</b>				
General government				\$ 4,999
Highways and streets				31,205
Culture and recreation				9,044
Total depreciation expense - government activities				<u>\$ 45,248</u>

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

**4. CAPITAL ASSETS (Continued)**

<i>Business type activities:</i>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Capital assets:</b>				
Capital assets not being depreciated:				
Land and land improvements	\$ 92,179	\$ -	\$ -	\$ 92,179
Construction in progress	-	13,508	-	13,508
Capital assets not being depreciated	<u>92,179</u>	<u>13,508</u>	<u>-</u>	<u>105,687</u>
Capital assets being depreciated				
Buildings and improvements	9,085,448	-	-	9,085,448
Furniture, fixtures and equipment	94,905	-	-	94,905
Capital assets being depreciated	<u>9,180,353</u>	<u>-</u>	<u>-</u>	<u>9,180,353</u>
Total Capital assets	<u>9,272,532</u>	<u>13,508</u>	<u>-</u>	<u>9,286,040</u>
<b>Accumulated depreciation:</b>				
Buildings and improvements	4,214,666	207,034	-	4,421,700
Furniture, fixtures and equipment	99,397	3,850	-	103,247
Total accumulated depreciation	<u>4,314,063</u>	<u>210,884</u>	<u>-</u>	<u>4,524,947</u>
Capital assets, net, business type activities	<u>\$ 4,958,469</u>	<u>\$ (197,376)</u>	<u>\$ -</u>	<u>\$ 4,761,093</u>
Business type activities:				
Water				\$ 92,697
Sewer				118,187
Total depreciation expense - business-type activities				<u>\$ 210,884</u>

**5. LONG-TERM DEBT**

SAFE DRINKING WATER REVOLVING LOAN FUND

On August 7, 2002, the City was granted a Water Drinking Revolving Loan in the amount of \$223,000 from the State of Oregon Economic and Community Development Department (OECD). The loan was the part of total amount of \$868,000 for the Project of Construction of Water System Improvements, which consisted of Oregon Community Development Block Grant (\$645,000) and this loan. The loan agreement requires 20 annual payments and carries an interest rate of 4.59%, and maturity date on December 1, 2020. The balance of the loan at June 30, 2017 was \$61,851.

WASTEWATER PROJECT LOAN

On December 4, 2002, the City was granted a loan for Phase I of its Water/Wastewater construction project in the amount of \$425,000 from the State of Oregon Economic and Community Development Department (OECD). Proceeds in the amount of \$161,939 were received during the 2002-03 fiscal year, with the remaining loan proceeds of \$263,061 received during the 2003-2004 fiscal year. The loan agreement requires 25 annual payments and carries an interest rate of 5.35%, and maturity date on December 1, 2027. The balance of the loan at June 30, 2017 was \$242,306.

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

**5. LONG-TERM DEBT (continued)**

PIONEER STREET RELOCATION PROJECT LOAN

On May 11, 2005, the City was granted a loan for the Pioneer Street Water/Sewer Line Relocation Project in the amount of \$200,000 from the State of Oregon Economic and Community Development Department (OECD). The loan principal is split between the Water and Sewer Funds equally. The loan agreement requires 24 annual payments of \$14,845 beginning December 1, 2006, and carries an interest rate of 5.17%, and maturity date is December 1, 2029. The balance of the loan at June 30, 2017 was \$137,960 apportioned \$68,981 to the water fund and \$68,979 to the sewer fund.

REVENUE WATER LOAN

On April 6, 2012, a water revenue loan for capital improvements to the water system including improving the water treatment facility, constructing a water storage reservoir and extending water services in the amount of \$948,000 was entered into with the United States Department of Agriculture, Rural Development Utilities Services (RUS). The loan agreement requires 40 annual payments of \$39,380 beginning April 6, 2012, carries an interest rate of 2.75% and a maturity date of April 6, 2052. The balance of the loan at June 30, 2017 was \$877,687.

REVENUE SEWER LOAN

On April 6, 2012, a sewer revenue loan for capital improvements to the sewer system including extending sewer services in the amount of \$379,000 was entered into with the United States Department of Agriculture, Rural Development Utilities Services (RUS). The loan agreement requires 40 annual payments of \$15,744 beginning April 6, 2012, carries an interest rate of 2.75% and a maturity date of April 6, 2052. The balance of the loan at June 30, 2017 was \$350,888.

The changes in long-term debt were as follows:

	Fund	Balance 07/01/16	Additions	Repayment	Balance 06/30/17	Due within one year
Business Oregon (formerly OECD) Drinking Water (S0006)	Water	\$ 75,656	\$ -	\$ 13,805	\$ 61,851	\$ 14,438
Business Oregon (formerly OECD) Pioneer St Reloc. (J05001)	Water/Sewer	72,648	-	3,667	68,981	3,856
USDA Water Revenue Loan	Water	892,523	-	14,836	877,687	15,244
Subtotal Water Fund		1,040,827	-	32,308	1,008,519	33,538
Business Oregon (formerly OECD) Wastewater (G2002)	Sewer	260,220	-	17,914	242,306	18,038
Business Oregon (formerly OECD) Pioneer St Reloc. (J05001)	Sewer	72,646	-	3,667	68,979	3,856
USDA Sewer Revenue Loan	Water/Sewer	356,819	-	5,931	350,888	6,095
Subtotal Sewer Fund		689,685	-	27,512	662,173	27,989
Totals		\$1,730,512	\$ -	\$ 59,820	\$1,670,692	\$ 61,527

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

**5. LONG-TERM DEBT (continued)**

Long-term debt service requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 61,527	\$ 55,117	\$ 116,644
2019	63,308	52,680	115,988
2020	65,166	50,146	115,312
2021	67,105	47,518	114,623
2022	51,847	44,793	96,640
2023-2027	305,013	190,125	495,138
2028-2032	217,827	133,400	351,227
2033-2037	169,331	106,289	275,620
2038-2042	193,931	81,689	275,620
2043-2047	222,104	53,516	275,620
2048-2052	253,533	20,836	274,369
Total	<u>\$ 1,670,692</u>	<u>\$ 836,109</u>	<u>\$ 2,506,801</u>

**6. INTERFUND BALANCES AND TRANSFERS**

The Operating transfers for the year are as follows:

<u>Description</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Transfer out From General Fund	\$ 4,428	\$ -
Transfer in to SDC Fund from General Fund		3,428
Transfer in to Equipment Fund from General Fund		1,000
Transfer out from Street Fund	3,126	
Transfer in to Equipment Fund from Street Fund	-	3,126
Transfer out from Personnel Liabilities Fund	23,968	
Transfer in to General Fund from Personnel Liabilities Fund		10,421
Transfer in to Street Fund from Personnel Liabilities Fund		3,126
Transfer in to Water Fund from Personnel Liabilities Fund		10,421
Transfer out from Utility Deposit Fund	28,377	
Transfer in to Water Fund from Utility Deposit Fund		28,377
Transfer out from Debt Reserve Fund	55,126	
Transfer in to Water Operating Fund from Debt Reserve Fund		39,381
Transfer in to Sewer Operating Fund from Debt Reserve Fund		15,745
Transfer out from Water Fund	4,938	
Transfer in from Water Operating Fund to Equipment Fund		1,000
Transfer in from Water Operating Fund to Water Reserve Fund		3,938
Transfer out from Sewer Fund	2,575	
Transfer in from Sewer Operating Fund to Equipment Fund		1,000
Transfer in from Sewer Operating Fund to Sewer Reserve Fund		1,575
Total Transfers	<u>\$ 122,538</u>	<u>\$ 122,538</u>

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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**6. INTERFUND BALANCES AND TRANSFERS (Continued)**

Transfers are used to move revenues that budget requires to collect and expend them, use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and transfer residual equity to the general fund.

In 2010 the General Fund borrowed \$30,000 from the SDC Fund at 2.5% interest and a term of ten years. At June 30, 2017 the balance of the loan was \$12,895. The loan has been repaid through operating transfers from the General Fund to the SDC Fund.

**7. PENSION PLAN**

**A. Plan Description**

The City contributes to the State of Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Oregon Public Employees Retirement System. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan member and beneficiaries. The Oregon Public Employees Retirement Fund ("OPERF") applies to the City's contribution for qualifying employees who were hired before August 29, 2003. Oregon Revised Statutes 238 assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees and the State Legislature.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan ("OPSRP") is effective for all new employees hired on or after August 29, 2003, and applies to any inactive PERS members who return to employment following a six month or greater break in service. The new plan consists of a defined benefit program (the "Pension Program") and a defined contribution portion (the Individual Account Program or "IAP"). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service and a factor that varies based on type of service (general versus police or fire).

Beginning January 1, 2004, all PERS member's contributions go into the IAP portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account. Those employees who had established a PERS membership prior to creation of OPSRP will be members of both the PERS and OPSRP system as long as they remain in covered employment.

Both PERS and OPSRP are administered by the Oregon Public Employees Retirement Board ("OPERB"). The comprehensive annual financial report for the funds administered by the OPERB may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700, by calling (503) 598-7377, or by accessing the PERS web site at [www.pers.state.or.us](http://www.pers.state.or.us).

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

**7. PENSION PLAN (Continued)**

**B. Funding Policy**

Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The City is required by ORS 238.225 to contribute at an actuarially determined rate for all the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF and OPSRP rates in effect for the year ended June 30, 2017 were 14.59% and 9.38% respectively. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

**C. Annual Pension Cost**

Employer contributions are calculated in conformance with the provisions of GASB Statement No. 27 as a percentage of covered payroll. Therefore, the contributions transmitted to the System are equal to the Annual Required Contribution (ARC), and there is no Net Pension Obligation (NPO) necessary to amortize any unmade contributions.

For the year ended June 30, 2017, the City's annual pension cost of \$27,309 was equal to the required and actual contributions of the City. The required contribution was determined as part of the December 31, 2013, actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.0% per year, (b) projected salary increases of 4.5% per year attributable to general wage adjustments, with additional increases for promotion and longevity that vary by age and service, (c) projected automatic cost-of-living benefit increases of 2.0% per year, and (d) CPI increases of 3.5% per year, and (e) demographic assumptions that were chosen to reflect the best estimate of emerging experience of the members of the System.

**D. Three-year Trend Information**

Three-year trend information for the City of Lowell is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/15	\$ 17,606	100%	0
06/30/16	\$ 23,520	100%	0
06/30/17	\$ 27,309	100%	0

**8. CONTINGENCIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time although management expects such amounts, if any, to be immaterial.



CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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**8. CONTINGENCIES (Continued)**

Management believes that there are no liabilities that could result from pending suits, judgments or claims where the amount in excess of insurance coverage would be material to the financial statements.

**9. RISK MANAGEMENT**

The City is operated under various risks and the City participates in various insurance programs to hedge against those risks. The insurance coverage includes general and auto liability, property/mobile equipment, boiler & machinery, excess earthquake, excess crime and others. There have been no losses in excess of insurance coverage for the past three years.

***SUPPLEMENTARY INFORMATION***

**CITY OF LOWELL**  
**Balance Sheet**  
**Other Governmental Funds**  
**Modified Cash Basis**  
**June 30, 2017**

	<u>Blackberry Jam Festival Fund</u>	<u>Equipment Fund</u>	<u>Personnel Liabilities Fund</u>	<u>Utility Deposit Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 21,526	\$ 17,195	\$ -	\$ -	\$ 38,721
Total assets	<u>\$ 21,526</u>	<u>\$ 17,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,721</u>
Fund balances:					
Assigned	<u>\$ 21,526</u>	<u>\$ 17,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,721</u>
Total fund balances	<u>21,526</u>	<u>17,195</u>	<u>-</u>	<u>-</u>	<u>38,721</u>
Total liabilities and fund balances	<u>\$ 21,526</u>	<u>\$ 17,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,721</u>

**CITY OF LOWELL**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Other Governmental Funds**  
**Modified Cash Basis**  
**For the Year Ended June 30, 2017**

	<b>Blackberry Jam Festival Fund</b>	<b><u>Equipment</u> Fund</b>	<b>Personnel Liabilities Fund</b>	<b>Utility Deposit Fund</b>	<b>Total-Other Governmenta l Funds</b>
<b>REVENUES</b>					
Investment earnings	\$ 12	\$ -	\$ -	\$ 1	\$ 13
Blackberry Jam Festival receipts	22,187	-	-	-	22,187
Total revenues	22,199	-	-	1	22,200
<b>EXPENDITURES</b>					
Current:					
Culture and recreation	18,436	-	-	-	18,436
Capital Outlay	-	18,993	-	-	18,993
Total Expenditures	18,436	18,993	-	-	37,429
Excess (deficiency) of revenues over expenditures	3,763	(18,993)	-	1	(15,229)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	6,000	-	-	6,000
Transfers out	-	-	(23,968)	(28,377)	(52,345)
Total other financing sources and uses	-	6,000	(23,968)	(28,377)	(46,345)
Net change in fund balances	3,763	(12,993)	(23,968)	(28,376)	(61,574)
Fund balances - beginning	17,763	30,188	23,968	28,376	100,295
Fund balances - ending	<u>\$ 21,526</u>	<u>\$ 17,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,721</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**General Fund**  
**For the year ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property Taxes	\$ 133,281	\$ 133,281	\$ 134,981	\$ 1,700
Fees and fines	2,400	2,400	4,273	1,873
Licenses and permits	76,829	76,829	82,543	5,714
Intergovernmental	24,898	24,898	28,764	3,866
Investment earnings	250	250	6,506	6,256
Miscellaneous	11,201	11,201	14,095	2,894
	<u>248,859</u>	<u>248,859</u>	<u>271,162</u>	<u>22,303</u>
Total revenues				
<b>EXPENDITURES</b>				
Current:				
Personal services				-
Materials and services				-
General government	108,559	108,559	87,971	20,588
Public Safety - Police	26,400	26,400	21,000	5,400
Highways and roads - Tourism	16,500	16,500	3,096	13,404
Community Development	39,890	39,890	35,264	4,626
Library	4,352	5,352	4,697	655
Code enforcement	11,246	11,246	9,141	2,105
Parks & recreation	56,955	56,955	41,249	15,706
Municipal court	8,455	13,455	14,268	(813)
Debt Service:				
Principal	2,956	-	-	-
Interest and other charges	472	-	-	-
Contingency	37,232	31,232	-	31,232
Total Expenditures	<u>313,017</u>	<u>309,589</u>	<u>216,686</u>	<u>92,903</u>
Excess (deficiency) of revenues over expenditures	<u>(64,158)</u>	<u>(60,730)</u>	<u>54,476</u>	<u>115,206</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	10,921	10,921	10,421	500
Transfers out	(1,000)	(4,428)	(4,428)	-
Total other financing sources and uses	<u>9,921</u>	<u>6,493</u>	<u>5,993</u>	<u>500</u>
Net change in fund balances	(54,237)	(54,237)	60,469	114,706
Fund balances - beginning	63,738	63,738	123,608	59,870
Fund balances - ending	<u>\$ 9,501</u>	<u>\$ 9,501</u>	<u>\$ 184,077</u>	<u>\$ 174,576</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Street Fund**  
**For the year ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Licenses and permits	\$ 770	\$ 770	\$ 864	\$ 94
Intergovernmental	60,918	60,918	63,960	3,042
Investment earnings	-	-	1,264	1,264
Miscellaneous	-	-	4,345	4,345
Total revenues	<u>61,688</u>	<u>61,688</u>	<u>70,433</u>	<u>8,745</u>
<b>EXPENDITURES</b>				
Current:				
Personal Services	40,603	40,603	36,929	3,674
Materials and Services	32,182	32,182	27,968	4,214
Capital Outlay	94,057	94,057	2,251	91,806
Contingency	12,883	12,883	-	12,883
Total Expenditures	<u>179,725</u>	<u>179,725</u>	<u>67,148</u>	<u>112,577</u>
Excess (deficiency) of revenues over expenditures	<u>(118,037)</u>	<u>(118,037)</u>	<u>3,285</u>	<u>121,322</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	3,126	3,126	3,126	-
Transfers out	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>	<u>-</u>
Total other financing sources and uses:	<u>126</u>	<u>126</u>	<u>126</u>	<u>-</u>
Net change in fund balances	(117,911)	(117,911)	3,411	121,322
Fund balances - beginning	<u>117,911</u>	<u>117,911</u>	<u>123,466</u>	<u>5,555</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,877</u>	<u>\$ 126,877</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**SDC Fund**  
**For the year ended June 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
SDC Fees	\$ 47,159	\$ 47,159	\$ 33,992	\$ (13,167)
Investment earnings	200	200	-	(200)
Total revenues	<u>47,359</u>	<u>47,359</u>	<u>33,992</u>	<u>(13,367)</u>
<b>EXPENDITURES</b>				
Current:				
Capital Outlay	<u>332,682</u>	<u>332,682</u>	<u>-</u>	<u>332,682</u>
Total Expenditures	<u>332,682</u>	<u>332,682</u>	<u>-</u>	<u>332,682</u>
Excess (deficiency) of revenues over expenditures	<u>(285,323)</u>	<u>(285,323)</u>	<u>33,992</u>	<u>319,315</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>6,856</u>	<u>6,856</u>	<u>3,428</u>	<u>(3,428)</u>
Total other financing sources and uses	<u>6,856</u>	<u>6,856</u>	<u>3,428</u>	<u>(3,428)</u>
Net change in fund balances	(278,467)	(278,467)	37,420	315,887
Fund balances - beginning	<u>281,895</u>	<u>281,895</u>	<u>279,526</u>	<u>(2,369)</u>
Fund balances - ending	<u>\$ 3,428</u>	<u>\$ 3,428</u>	<u>\$ 316,946</u>	<u>\$ 313,518</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Debt Reserve Fund**  
**For the year ended June 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Investment earnings	\$ 300	\$ 300	\$ -	\$ (300)
Total revenues	<u>300</u>	<u>300</u>	<u>-</u>	<u>(300)</u>
<b>EXPENDITURES</b>				
Current:				
Debt Service:				
Principal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>300</u>	<u>300</u>	<u>-</u>	<u>(300)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(55,126)</u>	<u>(55,126)</u>	<u>(55,126)</u>	<u>-</u>
Total other financing sources and uses	<u>(55,126)</u>	<u>(55,126)</u>	<u>(55,126)</u>	<u>-</u>
Net change in fund balances	(54,826)	(54,826)	(55,126)	(300)
Fund balances - beginning	<u>107,569</u>	<u>107,569</u>	<u>106,980</u>	<u>(589)</u>
Fund balances - ending	<u>\$ 52,743</u>	<u>\$ 52,743</u>	<u>\$ 51,854</u>	<u>\$ (889)</u>



**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Personnel Liabilities Fund**  
**For the year ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	\$ (23,968)	\$ (23,968)	\$ (23,968)	\$ -
Total other financing sources and uses:	<u>(23,968)</u>	<u>(23,968)</u>	<u>(23,968)</u>	<u>-</u>
Net change in fund balances	(23,968)	(23,968)	(23,968)	-
Fund balances - beginning	<u>23,968</u>	<u>23,968</u>	<u>23,968</u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Blackberry Jam Festival Fund**  
**For the year ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>Budgetary</u> <u>Basis</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<b>REVENUES</b>				
Festival revenue	\$ -	\$ -	\$ 22,187	\$ 22,187
Investment earnings	-	-	12	12
Total revenues	<u>12,650</u>	<u>12,650</u>	<u>22,199</u>	<u>9,549</u>
<b>EXPENDITURES</b>				
Current:				
Materials and Services	\$ 13,324	\$ 15,322	\$ 18,436	\$ (3,114)
Contingency	7,232	5,234	-	5,234
Total Expenditures	<u>20,556</u>	<u>20,556</u>	<u>18,436</u>	<u>2,120</u>
Excess (deficiency) of revenues over expenditures	<u>(7,906)</u>	<u>(7,906)</u>	<u>3,763</u>	<u>11,669</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(500)</u>	<u>(500)</u>	<u>-</u>	<u>500</u>
Total other financing sources and uses:	<u>(500)</u>	<u>(500)</u>	<u>-</u>	<u>500</u>
Net change in fund balances	(8,406)	(8,406)	3,763	12,169
Fund balances - beginning	<u>8,406</u>	<u>8,406</u>	<u>17,763</u>	<u>9,357</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,526</u>	<u>\$ 21,526</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Utility Deposit Fund**  
**For the year ended June 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Miscellaneous	\$ -	\$ -	\$ 1	\$ 1
Total revenues	-	-	1	1
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(32,810)	(32,810)	(28,377)	(4,433)
Total other financing sources and uses	(32,810)	(32,810)	(28,377)	(4,433)
<b>SPECIAL ITEM</b>				
Proceeds from sale capital assets	-	-	-	-
Net change in fund balances	(32,810)	(32,810)	(28,376)	4,434
Fund balances - beginning	32,810	32,810	28,376	(4,434)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Equipment Fund**  
**For the year ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES</b>				
Current:				
Capital Outlay	\$ 51,488	\$ 51,488	\$ 18,993	\$ 32,495
Total Expenditures	51,488	51,488	18,993	32,495
Excess (deficiency) of revenues over expenditures	(51,188)	(51,188)	(18,993)	32,195
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	15,000	15,000	-	15,000
Transfers in	6,000	6,000	6,000	-
Total other financing sources and uses	21,000	21,000	6,000	15,000
Net change in fund balances	(30,188)	(30,188)	(12,993)	17,195
Fund balances - beginning	30,188	30,188	30,188	-
Fund balances - ending	\$ -	\$ -	\$ 17,195	\$ 17,195

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Water Operating Fund**  
**For the year ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>Budgetary</u> <u>Basis</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<b>REVENUES</b>				
Charges for services	\$ 262,438	\$ 262,438	\$ 255,472	\$ (6,966)
Water connections and permits	4,350	4,350	5,504	1,154
Reimbursement of SDC fees	4,480	4,480	3,759	(721)
Investment earnings	150	150	-	(150)
Miscellaneous	5,000	5,000	10,031	5,031
Total revenues	<u>276,418</u>	<u>276,418</u>	<u>274,766</u>	<u>(1,652)</u>
<b>EXPENDITURES</b>				
Current:				
Personal services	165,095	165,095	136,494	28,601
Materials and services	101,750	101,750	87,719	14,031
Capital outlay	-	-	6,754	(6,754)
Debt Service:				
Principal	32,307	32,307	32,307	-
Interest and other charges	31,773	31,773	31,773	-
Contingency	34,502	34,502	-	34,502
Total Expenditures	<u>365,427</u>	<u>365,427</u>	<u>295,047</u>	<u>70,380</u>
Excess (deficiency) of revenues over expenditures	<u>(89,009)</u>	<u>(89,009)</u>	<u>(20,281)</u>	<u>68,728</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	82,612	82,612	78,179	4,433
Transfers out	(44,938)	(44,938)	(4,938)	(40,000)
Total other financing sources and uses	<u>37,674</u>	<u>37,674</u>	<u>73,241</u>	<u>(35,567)</u>
Net change in fund balances	<u>(51,335)</u>	<u>(51,335)</u>	<u>52,960</u>	<u>104,295</u>
Fund balances - beginning	44,144	44,144	98,873	54,729
Prior period adjustment	-	-	-	-
Fund balances as restated	<u>44,144</u>	<u>44,144</u>	<u>98,873</u>	<u>54,729</u>
Fund balances - ending	<u>\$ (7,191)</u>	<u>\$ (7,191)</u>	<u>151,833</u>	<u>\$ 159,024</u>
Reconciliation to modified cash basis:				
Net capital assets			2,454,067	
Long-term debt			<u>(1,008,519)</u>	
Net position, modified cash basis			<u>\$ 1,597,381</u>	

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Water Reserve Fund**  
**For the year ended June 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>EXPENDITURES</b>				
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 3,938	\$ 3,938	\$ 3,938	\$ -
Total other financing sources and uses	3,938	3,938	3,938	-
Net change in fund balances	3,938	3,938	3,938	-
Fund balances - beginning	7,876	7,876	7,876	-
Fund balances - ending	\$ 11,814	\$ 11,814	\$ 11,814	\$ -

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Sewer Operating Fund**  
**For the year ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for services	\$ 309,766	\$ 309,766	\$ 312,810	\$ 3,044
Reimbursement of SDC fees	3,913	3,913	2,862	(1,051)
Investment earnings	50	50	-	(50)
Miscellaneous	4,850	4,850	15,105	10,255
	<u>318,579</u>	<u>318,579</u>	<u>330,777</u>	<u>12,198</u>
<b>EXPENDITURES</b>				
Current:				
Personal services	164,265	164,265	136,066	28,199
Materials and services	113,254	113,254	107,773	5,481
Debt Service:				
Principal	71,394	71,394	27,512	43,882
Interest and other charges	21,808	21,808	25,690	(3,882)
Capital Outlay	-	-	6,754	(6,754)
	<u>370,721</u>	<u>370,721</u>	<u>303,795</u>	<u>66,926</u>
Total Expenditures				
Excess (deficiency) of revenues over expenditures	<u>(52,142)</u>	<u>(52,142)</u>	<u>26,982</u>	<u>79,124</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	55,745	55,745	15,745	(40,000)
Transfers out	<u>(2,575)</u>	<u>(2,575)</u>	<u>(2,575)</u>	<u>-</u>
Total other financing sources and uses	<u>53,170</u>	<u>53,170</u>	<u>13,170</u>	<u>(40,000)</u>
Net change in fund balances	1,028	1,028	40,152	39,124
Fund balances - beginning	<u>1,925</u>	<u>1,925</u>	<u>(22,887)</u>	<u>(24,812)</u>
Fund balances - ending	<u>\$ 2,953</u>	<u>\$ 2,953</u>	17,265	<u>\$ 14,312</u>
Reconciliation to modified cash basis:				
Net capital assets			2,307,026	
Long-term debt			<u>(662,173)</u>	
Net position, modified cash basis			<u>\$ 1,662,118</u>	

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Sewer Reserve Fund**  
**For the year ended June 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 1,575	\$ 1,575	\$ 1,575	\$ -
Total other financing sources and uses	<u>1,575</u>	<u>1,575</u>	<u>1,575</u>	<u>-</u>
Net change in fund balances	1,575	1,575	1,575	-
Fund balances - beginning	<u>3,520</u>	<u>3,520</u>	<u>3,520</u>	<u>-</u>
Fund balances - ending	<u>\$ 5,095</u>	<u>\$ 5,095</u>	<u>\$ 5,095</u>	<u>\$ -</u>



**REPORT OF THE INDEPENDENT AUDITORS REQUIRED BY  
THE STATE OF OREGON MINIMUM STANDARDS FOR  
AUDITS OF OREGON MUNICIPAL CORPORATIONS**

# Emerald CPA Group, LLP

450 Country Club Road, Suite 155  
Eugene OR 97401

## REPORT OF THE INDEPENDENT AUDITORS REQUIRED BY THE STATE OF OREGON MINIMUM STANDARDS FOR AUDITS OF OREGON MUNICIPAL CORPORATIONS

Honorable Mayor and City Council  
City of Lowell  
107 East Third Street  
Post Office Box 490  
Lowell, Oregon 97452

We have audited the basic financial statements of City of Lowell (the City) as of and for the year ended June 30, 2017, and have issued our report thereon dated January 31, 2018.

### *Compliance*

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

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

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **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).**

Honorable Mayor and City Council  
City of Lowell  
Page 2 of 2

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, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

*Budgets*

During the fiscal year, the expenditures in the Municipal court exceeded budgeted amounts by \$813.

*OAR 162-10-0230 Internal Control*

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Communication on the City's internal control over financial reporting is issued in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* on pages 39-43.

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

**EMERALD CPA GROUP, LLP**

Certified Public Accountants

Eugene, Oregon  
January 31, 2018

**REPORT ON INTERNAL CONTROL OVER FINANCING REPORTING AND  
ON COMPLIANCE AND OTHER MATTER BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

# Emerald CPA Group, LLP

450 Country Club Road, Suite 155  
Eugene OR 97401

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTER BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

### INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Lowell  
Lowell, Oregon

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 2018. The report on all opinion units was qualified because management was unable to reconcile cash in financial institutions with cash reported in the general ledger and +we were unable to obtain sufficient appropriate audit evidence to determine the fairness of the cash balances. This caused us to have an inability to carry out audit procedures to obtain sufficient and appropriate audit evidence over those individual amounts contained therein.

#### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purposed described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following paragraphs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. Finding 2016-2 is a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying paragraphs to be a significant deficiencies (Findings 2016-1, 2016-3, and 2016-4).

### **Prior Year Findings**

**Finding 2016-1 Material Weakness: Segregation of duties and review.**  
Repeat Finding as **Finding 2017-1.**

**Finding 2016-2 Material Weakness: Inadequate accounting software.**  
Repeat finding as **Finding 2017-2 Material Weakness: Inadequate accounting software.**

**Finding 2016-3 Significant Deficiency: Financial statements.**  
This finding has been carried forward to **Finding 2017-3 Significant Deficiency: Financial statements.**

**Finding 2016-4 Significant Deficiency: inappropriate governmental revenue funds.**  
This finding has been cleared.

### **Current Year Findings**

**Finding 2017-1 Significant deficiency: Segregation of duties and review.**

#### Condition

A fundamental element of internal control is the segregation of certain key duties. The basic idea underlying the segregation of duties is that no employee should be in a position both to perpetrate and conceal errors or fraud in the normal course of their duties. Because the city has a limited number of personnel, it is not always possible to adequately segregate accounting duties (assigning the responsibility for authorizing transactions, recording transactions, and reconciling accounting records to different people within the City). There are two employees involved in the finance functions but their duties often overlap and the same person is responsible for receipting revenues, preparing checks, and entering transactions. However, an independent contract has been engaged to conduct cash reconciliations and supervision and review have been increased during the 2015-16 fiscal year.

#### Criteria

The city council and the city administrator are responsible for establishing and maintaining internal controls that allow for the fair presentation of financial statements and the prevention of fraud.

#### Effect

The risk of misstatement in the financial statements and the threat of fraud increase when there is not proper segregation of duties.

### Recommendation

We recommend that the City council continue its scrutiny and oversight of the financial function to supplement the work of the administrative staff.

### Response

Staff made a number of changes in FY 2017 to improve internal controls, including hiring a contract accountant, requiring employee logins for the accounting system to track activity, and requiring an employee other than the City Clerk to open and initial bank statements. Additional policies and procedures will be researched, adopted, and implemented to improve internal controls in FY 2017 and FY 2018.

### **Finding 2017-2 Material Weakness: Inadequate accounting software.**

#### Condition

The general ledger is not capable of producing a summary trial balance. The trial balance for use in the current audit had to be pieced together from three different reports - the balance sheet, the revenue report and the expenditure/expense report. The program does not automatically carry forward the fund balances that have to be made by a journal entry. In producing reports, the software defaults from calendar dates to council meeting dates making it difficult to produce detail to reconcile external reports to the Internal Revenue Service, the Oregon Department of Revenue and the Oregon Public Employees Retirement System. These deficiencies cause additional work for the annual audit and prevent the City's administration and council from having accurate up-to-date financial information.

#### Criteria

The general ledger contains the City's books of original account and is the basis of internal financial control for the City. There should be controls in the accounting program that do not permit unbalanced entries in total or by fund and all balance sheet amounts should be rolled forward when the old fiscal year is closed and the new fiscal year begins. Detail reports should be produced using calendar dates rather than council meeting dates.

#### Effect

In the absence of a well maintained general ledger the City loses financial and budgetary control and the annual audit is delayed.

#### Cause

The City experienced turnover in administrative staff when the current accounting software was adopted and for some time thereafter. This situation prevented adequate evaluation of the software complicated on the provider end by the software being under development when it was adopted. Subsequent attempts to correct software deficiencies were unsuccessful as the provider apparently lacked knowledge of the requirements for fund accounting software. The City has purchased an adequate accounting software package that it will implement beginning January 1, 2018.

### Recommendation

We recommend that the City continue the replacement of the current general ledger software with the new package that is both user friendly and has the necessary controls.

### Response

Staff will continue the Implementation of the new accounting software.

### **Finding 2017-3 Significant Deficiency: Financial statements.**

#### Condition

The city does not have a system of internal controls that would enable management to prepare the financial statements and related in accordance with the modified cash basis of accounting. As such, management requested us to prepare a draft of the financial statements, including related footnote disclosures.

#### Criteria

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows and disclosures in the financial statements, in conformity with the modified cash basis of accounting.

#### Effect

The risk of misstatement in the financial statements increases when management is not able to apply the modified cash basis of accounting in recording the entity's financial transactions or preparing its financial statements, including the related notes.

#### Cause

Prior to the issuance of SAS 112 and SAS 115, which categorically stated management's responsibility for the financial statements and removed any ambiguities in the guidance with respect to preparation of the financial statements, the City relied on the external auditors to assist with the financial statements and related notes without being subject to control deficiencies.

#### Recommendation

The outsourcing of these services is not unusual in cities of your size and is a result of management' cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost. The City may consider the following possible actions:

- Provide training opportunities for its staff that would enable it to become more familiar with the financial statements prepared using the modified cash system of accounting.
- Hire an external Certified Public Accountant or other experienced professional to prepare or confirm that the accounting records, financial statements and related disclosures are in accordance with the modified cash basis of accounting.
- Take no action. The City may find that the costs outweigh the benefits to adhere to this standard. No action will result in a continuing deficiency in the City's internal controls over the preparation of the financial statements.



## Response

Staff will utilize the services of a contract accountant to prepare or confirm the accounting records, financial statements and related disclosures in accordance with the modified cash basis of accounting for FY 2017.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

## **EMERALD CPA GROUP, LLP**

Certified Public Accountants

Eugene, Oregon  
January 31, 2018

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