



**CITY OF LOWELL  
LANE COUNTY, OREGON**

**ANNUAL FINANCIAL REPORT**

**For the Year Ended June 30, 2016**

CITY OF LOWELL

CITY OFFICIALS

June 30, 2016

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
Steve Paulson 520 Sunridge Lane Lowell, Oregon 97452	Position 2	December 31, 2016
Jim Burford 160 Wetlau Dr. Lowell, Oregon 97452	Position 3 Council President	December 31, 2016
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, 2016

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, 2016

Page

INDEPENDENT AUDITOR'S REPORT

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

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, 2016

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> .....	39-44

***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, 2016, 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.

### Auditors' 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, 2016, 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, 2017, 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, 2017



***MANAGEMENT'S DISCUSSION & ANALYSIS***

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2016**

---

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, 2016. 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, 2016 are \$8,927,386, a decrease of \$243,268 over the previous year primarily as a result of capital asset depreciation.
- The City's Total Liabilities are \$1,730,992, a decrease of \$67,885 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, 2016 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 \$733,875, an increase of \$3,627 over the previous fiscal year. All but \$123,608 is restricted for specific purposes or assigned for future expense.
- The City's proprietary funds reported combined ending net position of \$3,315,339, down \$134,554 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 Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets 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, 2016**

---

The governmental activities of the City include the following:

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

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 statements. 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 25-33.

**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 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

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2016**

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 \$7,196,394 at the close of the most recent fiscal year.

The largest portion of the City's net position (81.1%) 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 – Net Position**

	Governmental Activities			
	2016	2015	Change	%
<b>Assets</b>				
Current and other assets	\$ 733,875	\$ 740,430	\$ (6,555)	-0.9%
Capital assets (net)	<u>3,147,180</u>	<u>3,191,637</u>	<u>(44,457)</u>	-1.4%
Total Assets	<u>\$ 3,881,055</u>	<u>\$ 3,932,067</u>	<u>\$ (51,012)</u>	-1.3%
<b>Liabilities and deferred inflows</b>				
Current and other liabilities	\$ -	\$ 10,183	\$ (10,183)	-
Noncurrent liabilities	-	-	-	-
Total Liabilities	-	10,183	(10,183)	-
<b>Net position</b>				
Net investment in capital assets	3,147,180	3,191,637	(44,457)	-1.4%
Restricted	509,972	537,810	(27,838)	-5.2%
Unrestricted	<u>223,903</u>	<u>192,437</u>	<u>31,466</u>	16.4%
Total net position	<u>\$ 3,881,055</u>	<u>\$ 3,921,884</u>	<u>\$ (40,829)</u>	-1.0%

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2016**

---

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 \$821,737, a decrease of \$16,070 from the previous year. The City's total non-current liabilities equal \$1,730,992, a decrease of \$57,702 from the previous fiscal year.

**City of Lowell – Statement of Activities**

	Governmental Activities			
	2016	2015	Change	%
<b>Revenues</b>				
Charges for services	\$ 39,547	\$ 28,687	\$ 10,860	37.9%
Operating grants and contributions	15,626	69,629	(54,003)	-77.6%
Capital grants and contributions	-	125,000	(125,000)	-100.0%
Property taxes	131,105	126,539	4,566	3.6%
Francise fees	74,085	91,153	(17,068)	-18.7%
Interest income	3,628	2,718	910	33.5%
Transfers	(60,126)	(60,226)	100	-0.2%
Utility deposits	(3,484)	3,780	(7,264)	-192.2%
Miscellaneous	104,535	4,623	99,912	2161.2%
Total revenues	<u>304,916</u>	<u>391,903</u>	<u>(86,987)</u>	-22.2%
<b>Expenses</b>				
General government	280,159	270,210	9,949	3.7%
Highways and streets	42,499	31,917	10,582	33.2%
Culture and recreation	23,087	13,259	9,828	74.1%
Water	-	-	-	-
Sewer	-	-	-	-
Total expenses	<u>345,745</u>	<u>315,386</u>	<u>30,359</u>	9.6%
Change in net position	(40,829)	76,517	(117,346)	-153.4%
Beginning net position	<u>3,921,884</u>	<u>3,845,367</u>	<u>76,517</u>	2.0%
Ending net position	<u>\$ 3,881,055</u>	<u>\$ 3,921,884</u>	<u>\$ (40,829)</u>	-1.0%

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2016**

	Business-type Activities				Total Government-Wide	
	2016	2015	Change	%	2016	2015
<b>Revenues</b>						
Charges for services	\$ 525,457	\$ 493,547	\$ 31,910	6.5%	\$ 565,004	\$ 522,234
Operating grants and contributions	-	-	-	-	15,626	69,629
Capital grants and contributions	-	-	-	0.0%	-	125,000
Property taxes	-	-	-	-	131,105	126,539
Franchise fees	-	-	-	0.0%	74,085	91,153
Interest income	-	244	(244)	-100.0%	3,628	2,962
Transfers	60,126	60,226	(100)	-	-	-
Utility deposits	-	-	-	-	(3,484)	3,780
Miscellaneous	-	12,331	(12,331)	-100.0%	104,535	16,954
<b>Total revenues</b>	<b>585,583</b>	<b>566,348</b>	<b>19,235</b>	<b>3.4%</b>	<b>890,499</b>	<b>958,251</b>
<b>Expenses</b>						
General government	-	-	-	-	280,159	270,210
Highways and streets	-	-	-	-	42,499	31,917
Culture and recreation	-	-	-	-	23,087	13,259
Water	344,914	318,125	26,789	8.4%	344,914	318,125
Sewer	375,223	393,260	(18,037)	-4.6%	375,223	393,260
<b>Total expenses</b>	<b>720,137</b>	<b>711,385</b>	<b>8,752</b>	<b>1.2%</b>	<b>1,065,882</b>	<b>1,026,771</b>
Change in net position	(134,554)	(145,037)	10,483	-7.2%		
Beginning net position	3,449,893	3,594,930	(145,037)	-4.0%	7,371,777	7,440,297
<b>Ending net position</b>	<b>\$ 3,315,339</b>	<b>\$ 3,449,893</b>	<b>\$ (134,554)</b>	<b>-3.9%</b>	<b>\$ 7,196,394</b>	<b>\$ 7,371,777</b>

**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, unreserved 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:

	2016	2015	Change	%
General Fund	\$ 123,608	\$ 94,227	\$ 29,381	31.2%
Personnel Liabilities Fund	23,968	19,368	4,600	23.8%
Street Fund	123,466	106,343	17,123	16.1%
SDC Fund	279,526	269,361	10,165	3.8%
Equipment Fund	30,188	28,888	1,300	4.5%
BBJ Festival Fund	17,763	18,094	(331)	-1.8%
Debt Service Fund	106,980	162,106	(55,126)	-34.0%
Utility Deposit Fund	28,376	31,861	(3,485)	-10.9%
<b>Total Governmental Funds</b>	<b>\$ 733,875</b>	<b>\$ 730,248</b>	<b>\$ 3,627</b>	<b>0.5%</b>

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2016**

---

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

	2016	2015	Change	%
Water Operating Fund	\$ 1,598,059	\$ 1,659,804	\$ (61,745)	-3.72%
Water Reserve Fund	7,876	3,938	3,938	100.00%
Sewer Operating Fund	1,705,884	1,784,206	(78,322)	-4.39%
Sewer Reserve Fund	3,520	1,945	1,575	80.98%
<b>Total</b>	<b>\$ 3,315,339</b>	<b>\$ 3,449,893</b>	<b>\$ (134,554)</b>	<b>-3.90%</b>

**Budgets**

For the year ending June 30, 2016, in the Utilities Deposit Fund, expenditures exceeded budgeted materials and services (refunds) by \$938. In the Debt Reserve Fund transfers out exceeded the budgeted amount by \$55,126. In the Blackberry Jam Festival Fund expenditures exceeded budgeted materials and services by \$3,145. The appropriation resolution budgeted \$161,783 for debt service that should have been in the transfers out category, so technically there is an over expenditure.

**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, 2016 was \$8,105,649 (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 non-current liabilities of \$1,730,512. 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 debt of \$1,730,512 and a current portion of \$58,819.

The decrease over the previous year (\$58,183) 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 Budgets and Rates**

In preparing the budget for FY 2016-17 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%.

**CITY OF LOWELL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ending June 30, 2016**

---

**Population.** The City's 2015 population estimate, provided by the Population Research Center at Portland State University, is 1,065. 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 2.5%. The City budgets 100% of the health care premium cost for employees.

**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 not increase.
- Automobile insurance will not increase.
- Liability insurance will increase by 9.0%
- Worker's compensation insurance rates will increase 7.2%
- Budgeted operating contingency is \$87,570 which represents 1 month of operating expenses. Reserves for capital replacement and improvements are \$171,545, and reserves for future expenditures, which includes expenditures for capital projects and new development, are \$349,591.

**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, 2016**

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 733,875	\$ 87,862	\$ 821,737
Capital assets	3,569,721	9,272,532	12,842,253
Less: Accumulated depreciation	<u>(422,541)</u>	<u>(4,314,063)</u>	<u>(4,736,604)</u>
Net Capital assets	<u>3,147,180</u>	<u>4,958,469</u>	<u>8,105,649</u>
Total Assets	<u>\$ 3,881,055</u>	<u>\$ 5,046,331</u>	<u>\$ 8,927,386</u>
<b>LIABILITIES</b>			
Deferred Revenues	\$ -	\$ 480	\$ 480
Long-term liabilities			
Due within one year			
Bonds, capital leases and contracts	-	59,819	59,819
Due in more than one year			
Bonds, capital leases and contracts	<u>-</u>	<u>1,670,693</u>	<u>1,670,693</u>
Total liabilities	<u>-</u>	<u>1,730,992</u>	<u>1,730,992</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	3,147,180	3,227,957	6,375,137
Restricted for:			
Streets	123,466	-	123,466
Capital projects (SDC funds)	279,526	-	279,526
Debt Service	106,980	-	106,980
Unrestricted	<u>223,903</u>	<u>87,382</u>	<u>311,285</u>
Total net position	<u>\$ 3,881,055</u>	<u>\$ 3,315,339</u>	<u>\$ 7,196,394</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, 2016**

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government</b>						
Governmental Activities						
General Government	\$ 280,159	\$ 14,909	\$ 6,497	\$ (258,753)	\$ -	\$ (258,753)
Highways and Streets	42,499	3,042	-	(39,457)	-	(39,457)
Culture and Recreation	23,087	21,596	9,129	7,638	-	7,638
Total governmental activities	<u>345,745</u>	<u>39,547</u>	<u>15,626</u>	<u>(290,572)</u>	<u>-</u>	<u>(290,572)</u>
Business-type activities:						
Water FD	344,914	250,726	-	-	(94,188)	(94,188)
Sewer FD	375,223	274,731	-	-	(100,492)	(100,492)
Total business-type activities	<u>720,137</u>	<u>525,457</u>	<u>-</u>	<u>-</u>	<u>(194,680)</u>	<u>(194,680)</u>
Total primary government	<u>\$ 1,065,882</u>	<u>\$ 565,004</u>	<u>\$ 15,626</u>	<u>(290,572)</u>	<u>(194,680)</u>	<u>(485,252)</u>
<b>General revenues:</b>						
Taxes:						
Property taxes, levied for general purposes				131,105	-	131,105
Property taxes, levied for debt service				-	-	-
Utility deposits				(3,484)	-	(3,484)
Franchise taxes				74,085	-	74,085
Unrestricted investment earnings				3,628	-	3,628
Miscellaneous				104,535	-	104,535
Transfers				(60,126)	60,126	-
Total general revenues, special items, and transfers				<u>249,743</u>	<u>60,126</u>	<u>309,869</u>
Change in net position				<u>(40,829)</u>	<u>(134,554)</u>	<u>(175,383)</u>
Net position - beginning				<u>3,921,884</u>	<u>3,449,893</u>	<u>7,371,777</u>
Net position - ending				<u>\$ 3,881,055</u>	<u>\$ 3,315,339</u>	<u>\$ 7,196,394</u>

The accompanying notes are an integral part of these financial statements

**CITY OF LOWELL**  
**Balance Sheet**  
**Modified Cash Basis**  
**Governmental Funds**  
**June 30, 2016**

	<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	\$ 123,608	\$ 123,466	\$ 279,526	\$ 106,980	\$ 100,295	\$ 733,875
Total assets	<u>\$ 123,608</u>	<u>\$ 123,466</u>	<u>\$ 279,526</u>	<u>\$ 106,980</u>	<u>\$ 100,295</u>	<u>\$ 733,875</u>
Fund Equity:						
Restricted for						
Streets	\$ -	\$ 123,466	\$ -	\$ -	\$ -	\$ 123,466
SDC	-	-	279,526	-	-	279,526
Debt service	-	-	-	106,980	-	106,980
Assigned for:						
Blackberry Jam Festival	-	-	-	-	17,763	17,763
Capital projects funds	-	-	-	-	30,188	30,188
Personnel liabilities	-	-	-	-	23,968	23,968
Utility Deposits	-	-	-	-	28,376	28,376
Unassigned	<u>123,608</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,608</u>
Total fund balances	<u>123,608</u>	<u>123,466</u>	<u>279,526</u>	<u>106,980</u>	<u>100,295</u>	<u>733,875</u>
Total liabilities and fund balances	<u>\$ 123,608</u>	<u>\$ 123,466</u>	<u>\$ 279,526</u>	<u>\$ 106,980</u>	<u>\$ 100,295</u>	<u>\$ 733,875</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, 2016**

Total fund balance, governmental funds \$ 733,875

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. 3,147,180

Net Position of Governmental Activities in the Statement of Net Position \$ 3,881,055

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, 2016**

	<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	\$ 131,105	\$ -	\$ -	\$ -	\$ -	\$ 131,105
Fees and fines	3,042	-	6,737	-	-	9,779
Licenses and permits	71,823	110	-	-	-	71,933
Intergovernmental	23,043	63,097	-	-	-	86,140
Investment earnings	3,641	-	-	-	9	3,650
Miscellaneous	41,529	15	-	-	-	41,544
Blackberry Jam Festival receipts	-	-	-	-	20,969	20,969
Total revenues	<u>274,183</u>	<u>63,222</u>	<u>6,737</u>	<u>-</u>	<u>20,978</u>	<u>365,120</u>
<b>EXPENDITURES</b>						
Current:						
General government	197,384	-	-	-	3,700	201,084
Public Safety	30,486	-	-	-	-	30,486
Highways and Streets	686	42,499	-	-	-	43,185
Culture and recreation	2,318	-	-	-	20,809	23,127
Deposit Refunds	-	-	-	-	3,485	3,485
Total Expenditures	<u>230,874</u>	<u>42,499</u>	<u>-</u>	<u>-</u>	<u>27,994</u>	<u>301,367</u>
Excess (deficiency) of revenues over expenditures	<u>43,309</u>	<u>20,723</u>	<u>6,737</u>	<u>-</u>	<u>(7,016)</u>	<u>63,753</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	500	-	3,428	-	9,600	13,528
Transfers out	<u>(14,428)</u>	<u>(3,600)</u>	<u>-</u>	<u>(55,126)</u>	<u>(500)</u>	<u>(73,654)</u>
Total other financing sources and uses	<u>(13,928)</u>	<u>(3,600)</u>	<u>3,428</u>	<u>(55,126)</u>	<u>9,100</u>	<u>(60,126)</u>
Net change in fund balances	29,381	17,123	10,165	(55,126)	2,084	3,627
Fund balances - beginning	<u>94,227</u>	<u>106,343</u>	<u>269,361</u>	<u>162,106</u>	<u>98,211</u>	<u>730,248</u>
Fund balances - ending	<u>\$ 123,608</u>	<u>\$ 123,466</u>	<u>\$ 279,526</u>	<u>\$ 106,980</u>	<u>\$ 100,295</u>	<u>\$ 733,875</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, 2016**

Net change in fund balances - total governmental funds: \$ 3,627

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays \$0 exceeded depreciation \$44,457 in the current period.

(44,457)

Rounding

1

Change in net position of governmental activities

\$ (40,829)

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, 2016**

	<b>Enterprise Funds</b>						
	<b>Water Operating Fund</b>	<b>Water Reserve Fund</b>	<b>Total Water Fund</b>	<b>Sewer Operating Fund</b>	<b>Sewer Reserve Fund</b>	<b>Total Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 59,353	\$ 7,876	\$ 67,229	\$ 17,113	\$ 3,520	\$ 20,633	\$ 87,862
Inter-fund loan receivable	40,000	-	40,000	-	-	-	40,000
Total current assets	<u>99,353</u>	<u>7,876</u>	<u>107,229</u>	<u>17,113</u>	<u>3,520</u>	<u>20,633</u>	<u>127,862</u>
Non-current assets:							
Capital Assets:							
Capital Assets	4,437,940	-	4,437,940	4,834,592	-	4,834,592	9,272,532
Less Accumulated depreciation	(1,897,928)	-	(1,897,928)	(2,416,135)	-	(2,416,135)	(4,314,063)
Total non-current assets	<u>2,540,012</u>	<u>-</u>	<u>2,540,012</u>	<u>2,418,457</u>	<u>-</u>	<u>2,418,457</u>	<u>4,958,469</u>
Total assets	<u>\$ 2,639,365</u>	<u>\$ 7,876</u>	<u>\$ 2,647,241</u>	<u>\$ 2,435,570</u>	<u>\$ 3,520</u>	<u>\$ 2,439,090</u>	<u>\$ 5,086,331</u>
<b>LIABILITIES</b>							
Current Liabilities:							
Interfund loan payable	\$ -	\$ -	\$ -	\$ 40,000	\$ -	\$ 40,000	\$ 40,000
Deferred revenue	480	-	480	-	-	-	480
Bonds, notes and loans payable	32,308	-	32,308	27,511	-	27,511	59,819
Total current liabilities	<u>32,788</u>	<u>-</u>	<u>32,788</u>	<u>67,511</u>	<u>-</u>	<u>67,511</u>	<u>100,299</u>
Non-current liabilities:							
Bonds, notes and loans payable	1,008,518	-	1,008,518	662,175	-	662,175	1,670,693
Total non-current liabilities	<u>1,008,518</u>	<u>-</u>	<u>1,008,518</u>	<u>662,175</u>	<u>-</u>	<u>662,175</u>	<u>1,670,693</u>
Total liabilities	<u>1,041,306</u>	<u>-</u>	<u>1,041,306</u>	<u>729,686</u>	<u>-</u>	<u>729,686</u>	<u>1,770,992</u>
<b>NET POSITION</b>							
Invested in capital assets, net of related debt	1,499,186	-	1,499,186	1,728,771	-	1,728,771	3,227,957
Unrestricted	98,873	7,876	106,749	(22,887)	3,520	(19,367)	87,382
Total net position	<u>\$ 1,598,059</u>	<u>\$ 7,876</u>	<u>\$ 1,605,935</u>	<u>\$ 1,705,884</u>	<u>\$ 3,520</u>	<u>\$ 1,709,404</u>	<u>\$ 3,315,339</u>

The accompanying notes are an integral part of these financial statements



**CITY OF LOWELL**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Modified Cash Basis**  
**Proprietary Funds**  
**For the Year Ended June 30, 2016**

	Enterprise Funds						Total
	Water Operating Fund	Water Reserve Fund	Total Water Fund	Sewer Operating Fund	Sewer Reserve Fund	Total Sewer Fund	
<b>REVENUES</b>							
Charges for services	\$ 247,628	\$ -	\$ 247,628	271,899	\$ -	\$ 271,899	\$ 519,527
Miscellaneous	3,098	-	3,098	2,832	-	2,832	5,930
Total operating revenues	<u>250,726</u>	<u>-</u>	<u>250,726</u>	<u>274,731</u>	<u>-</u>	<u>274,731</u>	<u>525,457</u>
<b>OPERATING EXPENSES</b>							
Personal services	128,396	-	128,396	128,411	-	128,411	256,807
Contractual services	15,184	-	15,184	12,443	-	12,443	27,627
Utilities	19,937	-	19,937	25,954	-	25,954	45,891
Repairs and maintenance	18,155	-	18,155	20,623	-	20,623	38,778
Other supplies and expenses	28,888	-	28,888	35,064	-	35,064	63,952
Insurance claims and expenses	6,244	-	6,244	6,244	-	6,244	12,488
Depreciation	95,154	-	95,154	119,726	-	119,726	214,880
Total Operating Expenses	<u>311,958</u>	<u>-</u>	<u>311,958</u>	<u>348,465</u>	<u>-</u>	<u>348,465</u>	<u>660,423</u>
Operating income (loss)	<u>(61,232)</u>	<u>-</u>	<u>(61,232)</u>	<u>(73,734)</u>	<u>-</u>	<u>(73,734)</u>	<u>(134,966)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>							
Interest expense	(32,956)	-	(32,956)	(26,758)	-	(26,758)	(59,714)
Total non-operating revenue (expenses)	<u>(32,956)</u>	<u>-</u>	<u>(32,956)</u>	<u>(26,758)</u>	<u>-</u>	<u>(26,758)</u>	<u>(59,714)</u>
Income (loss) before contributions and transfers	(94,188)	-	(94,188)	(100,492)	-	(100,492)	(194,680)
Transfers in	39,381	3,938	43,319	23,745	1,575	25,320	68,639
Transfers out	(6,938)	-	(6,938)	(1,575)	-	(1,575)	(8,513)
Change in net position	(61,745)	3,938	(57,807)	(78,322)	1,575	(76,747)	(134,554)
Total net position - beginning	<u>1,659,804</u>	<u>3,938</u>	<u>1,663,742</u>	<u>1,784,206</u>	<u>1,945</u>	<u>1,786,151</u>	<u>3,449,893</u>
Total net position - ending	<u>\$ 1,598,059</u>	<u>\$ 7,876</u>	<u>\$ 1,605,935</u>	<u>\$ 1,705,884</u>	<u>\$ 3,520</u>	<u>\$ 1,709,404</u>	<u>\$ 3,315,339</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, 2016**

	Enterprise Funds						Total
	Water Operating Fund	Water Reserve Fund	Total Water Fund	Sewer Operating Fund	Sewer Reserve Fund	Total Sewer Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Receipts from customers	\$ 248,108	\$ -	\$ 248,108	\$ 271,899	\$ -	\$ 271,899	\$ 520,007
Miscellaneous operating revenue	3,098	-	3,098	2,833	-	2,833	5,931
Payments to suppliers	(88,408)	-	(88,408)	(100,328)	-	(100,328)	(188,736)
Payments to employees	(128,396)	-	(128,396)	(128,411)	-	(128,411)	(256,807)
Net cash provided (used) by operating activities	34,402	-	34,402	45,993	-	45,993	80,395
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>							
Payments on Loans	(31,125)	-	(31,125)	(27,058)	-	(27,058)	(58,183)
Purchases of capital assets	-	-	-	-	-	-	-
Interest paid on capital debts	(32,956)	-	(32,956)	(26,758)	-	(26,758)	(59,714)
Transfers	32,443	3,938	36,381	22,171	1,575	23,746	60,127
Due to/due from	(42,765)	-	(42,765)	42,765	-	42,765	-
Inter-fund loan	40,000	-	40,000	(40,000)	-	(40,000)	-
Net cash provided (used) by capital related financing activities	(34,403)	3,938	(30,465)	(28,880)	1,575	(27,305)	(57,770)
Net increase (decrease) in cash and cash equivalents	(1)	3,938	3,937	17,113	1,575	18,688	22,625
Cash Balances - beginning of the year	59,354	3,938	63,292	-	1,945	1,945	65,237
Cash Balances - end of the year	\$ 59,353	\$ 7,876	\$ 67,229	\$ 17,113	\$ 3,520	\$ 20,633	\$ 87,862
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>							
Operating income (Loss)	\$ (61,232)	\$ -	\$ (61,232)	\$ (73,734)	\$ -	\$ (73,734)	\$ (134,966)
Adjustments to reconcile operating income:							
Depreciation expense	95,154	-	95,154	119,726	-	119,726	214,880
Rounding	-	-	-	1	-	1	1
Change in assets and liabilities:							
Increase (decrease) in deposits	480	-	480	-	-	-	480
Net cash provided (used) by operating activities	\$ 34,402	\$ -	\$ 34,402	\$ 45,993	\$ -	\$ 45,993	\$ 80,395

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, 2016

---

**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 assets/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, 2016

---

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

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.

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.

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

---

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

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

***Cash and investments***

The cash and investments reported on the statement of net assets 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, 2016

---

**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, 2016

---

**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, in the Utility Deposit Fund, expenditures exceeded budgeted materials and services (refunds) by \$938. In the Debt Reserve Fund Transfers Out exceed the budgeted amount by \$55,126. In the Blackberry Jam Festival Fund expenditures exceeded budgeted materials and services by \$3,145. The appropriation resolution budgeted \$161,783 for debt service that should have been in the transfer category, so technically there is an over expenditure.



CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

---

**3. CASH AND INVESTMENTS**

Cash and investments consist of the following as of June 30, 2016:

Cash in bank	\$ 294,785
Cash on hand	250
Local government investment pool (LGIP)	<u>526,703</u>
Total	<u>\$ 821,737</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 \$323,282 and \$2,540, respectively. The amount in the LGIP was \$526,704.

*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, 2016

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

**Investments:** The only investments held by the City at June 30, 2016, 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, 2016 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>				
Non-depreciable capital assets:				
Land and land improvements	\$ 1,969,035	\$ -	\$ -	\$ 1,969,035
Capital assets being depreciated				-
Buildings and improvements	1,548,242	-	-	1,548,242
Furniture, fixtures and equipment	52,444	-	-	52,444
Capital assets being depreciated	<u>1,600,686</u>	<u>-</u>	<u>-</u>	<u>1,600,686</u>
Total Capital assets	<u>3,569,721</u>	<u>-</u>	<u>-</u>	<u>3,569,721</u>
<b>Accumulated depreciation:</b>				
Buildings and improvements	327,810	43,837	-	371,647
Furniture, fixtures and equipment	50,274	620	-	50,894
Total accumulated depreciation	<u>378,084</u>	<u>44,457</u>	<u>-</u>	<u>422,541</u>
Capital assets, net, governmental activities	<u>\$ 3,191,637</u>	<u>\$ (44,457)</u>	<u>\$ -</u>	<u>\$ 3,147,180</u>
Governmental activities:				
General government				\$ 12,121
Highways and streets				31,205
Culture and recreation				<u>1,131</u>
Total depreciation expense - government activities				<u>\$ 44,457</u>

**4. CAPITAL ASSETS (Continued)**

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

<b>Business type activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Capital assets:</b>				
Non-depreciable capital assets:				
Land and land improvements	\$ 92,179	\$ -	\$ -	\$ 92,179
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	<u>9,272,532</u>	<u>-</u>	<u>-</u>	<u>9,272,532</u>
<b>Accumulated depreciation:</b>				
Buildings and improvements	4,003,635	211,031	-	4,214,666
Furniture, fixtures and equipment	95,547	3,850	-	99,397
Total accumulated depreciation	<u>4,099,182</u>	<u>214,881</u>	<u>-</u>	<u>4,314,063</u>
Capital assets, net, business type activities	<u>\$ 5,173,350</u>	<u>\$ (214,881)</u>	<u>\$ -</u>	<u>\$ 4,958,469</u>
Business type activities:				
Water				\$ 95,154
Sewer				<u>119,726</u>
Total depreciation expense - business-type activities				<u>\$ 214,881</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, 2016 was \$75,656.

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, 2016 was \$260,220.

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

**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 (OECDD). 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, 2016 was \$145,294 apportioned \$72,648 to the water fund and \$72,645 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, 2016 was \$892,523.

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, 2016 was \$356,819.

The changes in long-term debt were as follows:

	Fund	Balance 07/01/15	Additions	Repayment	Balance 06/30/16	Due within one year
Business Oregon (formerly OECDD) Drinking Water (S0006)	Water	\$ 88,855	\$ -	\$ 13,199	\$ 75,656	\$ 13,804
Business Oregon (formerly OECDD) Pioneer St Reloc. (J05001)	Water/Sewer	76,134	-	3,486	72,648	3,667
USDA Water Revenue Loan	Water	906,962	-	14,439	892,523	14,836
Subtotal Water Fund		<u>1,071,951</u>	<u>-</u>	<u>31,124</u>	<u>1,040,827</u>	<u>32,307</u>
Business Oregon (formerly OECDD) Wastewater (G2002)	Sewer	278,019	-	17,799	260,220	17,914
Business Oregon (formerly OECDD) Pioneer St Reloc. (J05001)	Sewer	76,133	-	3,487	72,646	3,666
USDA Sewer Revenue Loan	Water/Sewer	362,592	-	5,773	356,819	5,932
Subtotal Sewer Fund		<u>716,744</u>	<u>-</u>	<u>27,059</u>	<u>689,685</u>	<u>27,512</u>
Totals		<u>\$1,788,695</u>	<u>\$ -</u>	<u>\$ 58,183</u>	<u>\$1,730,512</u>	<u>\$ 59,819</u>

CITY OF LOWELL

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

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

Long-term debt service requirements are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 59,818	\$ 45,342	\$ 105,160
2018	61,527	43,757	105,284
2019	63,308	42,109	105,417
2020	65,166	40,393	105,559
2021	67,104	38,608	105,712
2022-2026	292,905	171,889	464,794
2027-2031	250,586	138,647	389,233
2032-2036	164,799	110,821	275,620
2037-2041	188,740	86,880	275,620
2042-2046	216,159	59,461	275,620
2047-2051	262,638	28,058	290,696
2052-2056	37,761	1,038	38,799
<b>Total</b>	<b>\$ 1,730,512</b>	<b>\$ 805,964</b>	<b>\$ 2,498,715</b>

**6. INTERFUND BALANCES AND TRANSFERS**

The Operating transfers for the year are as follows:

<b>Description</b>	<b>Transfer Out</b>	<b>Transfer In</b>
Transfer out From General Fund	\$ 14,428	\$ -
Transfer in to SDC Fund from General Fund	-	2,956
Transfer in to SDC Fund from General Fund	-	472
Transfer in to Sewer Operating Fund from General Fund	-	8,000
Transfer in to Equipment Fund from General Fund	-	1,000
Transfer in to Personnel Liability Fund General Fund	-	2,000
Transfer out from Street Fund	3,600	-
Transfer in to Equipment Fund from Street Fund	-	3,000
Transfer in to Personnel Liability Fund from Street Fund	-	600
Transfer out from Street Fund	-	-
Transfer out from Black Berry Jam (BBJ) Fund	500	-
Transfer in to General Fund from Black Berry Jam (BBJ) Fund	-	500
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	6,938	-
Transfer in from Water Operating Fund to Personnel Liability Fund	-	2,000
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 Operating Fund to Sewer Reserve Fund	1,575	-
Transfer in from Sewer Operating Fund to Sewer Reserve Fund	-	1,575
<b>Total Transfers</b>	<b>\$ 82,167</b>	<b>\$ 82,167</b>

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

---

**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.

An amount of \$40,000 in the Water Operating Fund was recorded as an interfund loan from the Sewer 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, 2016

---

**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, 2016 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, 2016, the City's annual pension cost of \$17,606 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
06/30/14	\$ 18,515	100%	0
06/30/15	\$ 17,606	100%	0
06/30/16	\$ 18,183	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, 2016

---

**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, 2016**

	<b>Blackberry Jam Festival Fund</b>	<b>Equipment Fund</b>	<b>Personnel Liabilities Fund</b>	<b>Utility Deposit Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 17,763	\$ 30,188	\$ 23,968	\$ 28,376	\$ 100,295
Total assets	<u>\$ 17,763</u>	<u>\$ 30,188</u>	<u>\$ 23,968</u>	<u>\$ 28,376</u>	<u>\$ 100,295</u>
Fund balances:					
Assigned	\$ 17,763	\$ 30,188	\$ 23,968	\$ 28,376	\$ 100,295
Total fund balances	<u>17,763</u>	<u>30,188</u>	<u>23,968</u>	<u>28,376</u>	<u>100,295</u>
Total liabilities and fund balances	<u>\$ 17,763</u>	<u>\$ 30,188</u>	<u>\$ 23,968</u>	<u>\$ 28,376</u>	<u>\$ 100,295</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, 2016**

	<u>Blackberry Jam Festival Fund</u>	<u>Equipment Fund</u>	<u>Personnel Liabilities Fund</u>	<u>Utility Deposit Fund</u>	<u>Total-Other Governmenta l Funds</u>
<b>REVENUES</b>					
Investment earnings	\$ 9	\$ -	\$ -	\$ -	\$ 9
Blackberry Jam Festival receipts	20,969	-	-	-	20,969
Total revenues	<u>20,978</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,978</u>
<b>EXPENDITURES</b>					
Current:					
General government	-	3,700	-	-	3,700
Culture and recreation	20,809	-	-	-	20,809
Deposit Refunds	-	-	-	3,485	3,485
Total Expenditures	<u>20,809</u>	<u>3,700</u>	<u>-</u>	<u>3,485</u>	<u>27,994</u>
Excess (deficiency) of revenues over expenditures	<u>169</u>	<u>(3,700)</u>	<u>-</u>	<u>(3,485)</u>	<u>(7,016)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	5,000	4,600	-	9,600
Transfers out	(500)	-	-	-	(500)
Total other financing sources and uses	<u>(500)</u>	<u>5,000</u>	<u>4,600</u>	<u>-</u>	<u>9,100</u>
Net change in fund balances	<u>(331)</u>	<u>1,300</u>	<u>4,600</u>	<u>(3,485)</u>	<u>2,084</u>
Fund balances - beginning	18,094	28,888	19,368	31,861	98,211
Fund balances - ending	<u>\$ 17,763</u>	<u>\$ 30,188</u>	<u>\$ 23,968</u>	<u>\$ 28,376</u>	<u>\$ 100,295</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**General Fund**  
**For the year ended June 30, 2016**

	<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>				
Property Taxes	\$ 130,415	\$ 130,415	\$ 131,105	\$ 690
Fees and fines	1,500	1,500	3,042	1,542
Licenses and permits	77,901	77,901	71,823	(6,078)
Intergovernmental	23,200	23,200	23,043	(157)
Investment earnings	433	433	3,641	3,208
Miscellaneous	10,500	10,500	41,529	31,029
Total revenues	<u>243,949</u>	<u>243,949</u>	<u>274,183</u>	<u>30,234</u>
<b>EXPENDITURES</b>				
Current:				
Personal services	134,443	134,443	111,623	22,820
Materials and services	144,940	144,940	119,251	25,689
Capital Outlay	2,000	2,000	-	2,000
Contingency	14,195	14,195	-	14,195
Total Expenditures	<u>295,578</u>	<u>295,578</u>	<u>230,874</u>	<u>64,704</u>
Excess (deficiency) of revenues over expenditures	<u>(51,629)</u>	<u>(51,629)</u>	<u>43,309</u>	<u>94,938</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	500	500	-
Transfers out	<u>(14,428)</u>	<u>(14,428)</u>	<u>(14,428)</u>	<u>-</u>
Total other financing sources and uses	<u>(14,428)</u>	<u>(13,928)</u>	<u>(13,928)</u>	<u>-</u>
Net change in fund balances	(66,057)	(65,557)	29,381	94,938
Fund balances - beginning	<u>87,557</u>	<u>87,557</u>	<u>94,227</u>	<u>6,670</u>
Fund balances - ending	<u>\$ 21,500</u>	<u>\$ 22,000</u>	<u>\$ 123,608</u>	<u>\$ 101,608</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Street Fund**  
**For the year ended June 30, 2016**

	<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	\$ 500	\$ 500	\$ 110	\$ (390)
Intergovernmental	60,380	60,380	63,097	2,717
Investment earnings	50	50	-	(50)
Miscellaneous	-	-	15	15
Total revenues	<u>60,930</u>	<u>60,930</u>	<u>63,222</u>	<u>2,292</u>
<b>EXPENDITURES</b>				
Current:				
Personal Services	24,780	24,780	18,171	6,609
Materials and Services	27,950	27,950	24,328	3,622
Capital Outlay	66,924	66,924	-	66,924
Contingency	42,676	42,676	-	42,676
Total Expenditures	<u>162,330</u>	<u>162,330</u>	<u>42,499</u>	<u>119,831</u>
Excess (deficiency) of revenues over expenditures	<u>(101,400)</u>	<u>(101,400)</u>	<u>20,723</u>	<u>122,123</u>
Transfers out	<u>(3,600)</u>	<u>(3,600)</u>	<u>(3,600)</u>	<u>-</u>
Total other financing sources and uses	<u>(3,600)</u>	<u>(3,600)</u>	<u>(3,600)</u>	<u>-</u>
Net change in fund balances	<u>(105,000)</u>	<u>(105,000)</u>	<u>17,123</u>	<u>122,123</u>
Fund balances - beginning	<u>105,000</u>	<u>105,000</u>	<u>106,343</u>	<u>1,343</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 123,466</u>	<u>\$ 123,466</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**SDC Fund**  
**For the year ended June 30, 2016**

	<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>				
SDC Fees	\$ 55,500	\$ 55,500	\$ 6,737	\$ (48,763)
Investment earnings	200	200	-	(200)
Total revenues	<u>55,700</u>	<u>55,700</u>	<u>6,737</u>	<u>(48,963)</u>
<b>EXPENDITURES</b>				
Current:				
Capital Outlay	<u>256,656</u>	<u>256,656</u>	<u>-</u>	<u>256,656</u>
Total Expenditures	<u>256,656</u>	<u>256,656</u>	<u>-</u>	<u>256,656</u>
Excess (deficiency) of revenues over expenditures	<u>(200,956)</u>	<u>(200,956)</u>	<u>6,737</u>	<u>207,693</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	3,428	3,428	3,428	-
Transfers out	<u>(30,996)</u>	<u>(30,996)</u>	<u>-</u>	<u>30,996</u>
Total other financing sources and uses	<u>(27,568)</u>	<u>(27,568)</u>	<u>3,428</u>	<u>30,996</u>
Net change in fund balances	(228,524)	(228,524)	10,165	238,689
Fund balances - beginning	<u>228,524</u>	<u>228,524</u>	<u>269,361</u>	<u>40,837</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279,526</u>	<u>\$ 279,526</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Debt Reserve Fund**  
**For the year ended June 30, 2016**

	<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>				
Investment earnings	\$ 500	\$ 500	\$ -	\$ (500)
Total revenues	<u>500</u>	<u>500</u>	<u>-</u>	<u>(500)</u>
<b>EXPENDITURES</b>				
Current:				
Principal	<u>161,783</u>	<u>161,783</u>	<u>-</u>	<u>161,783</u>
Total Expenditures	<u>161,783</u>	<u>161,783</u>	<u>-</u>	<u>161,783</u>
Excess (deficiency) of revenues over expenditures	<u>(161,283)</u>	<u>(161,283)</u>	<u>-</u>	<u>161,283</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>-</u>	<u>-</u>	<u>(55,126)</u>	<u>55,126</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(55,126)</u>	<u>55,126</u>
Net change in fund balances	<u>(161,283)</u>	<u>(161,283)</u>	<u>(55,126)</u>	<u>106,157</u>
Fund balances - beginning	<u>161,283</u>	<u>161,283</u>	<u>162,106</u>	<u>823</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,980</u>	<u>\$ 106,980</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Personnel Liabilities Fund**  
**For the year ended June 30, 2016**

	<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:				
General government				
Personal Services	\$ 23,968	\$ 23,968	\$ -	\$ 23,968
Total Expenditures	<u>23,968</u>	<u>23,968</u>	<u>-</u>	<u>23,968</u>
Excess (deficiency) of revenues over expenditures	<u>(23,968)</u>	<u>(23,968)</u>	<u>-</u>	<u>23,968</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>4,600</u>	<u>4,600</u>	<u>4,600</u>	<u>-</u>
Total other financing sources and uses	<u>4,600</u>	<u>4,600</u>	<u>4,600</u>	<u>-</u>
Net change in fund balances	(19,368)	(19,368)	4,600	23,968
Fund balances - beginning	<u>19,368</u>	<u>19,368</u>	<u>19,368</u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,968</u>	<u>\$ 23,968</u>



**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Blackberry Jam Festival Fund**  
**For the year ended June 30, 2016**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Festival revenue	\$ 13,310	\$ 13,310	\$ 20,969	\$ 7,659
Investment earnings	10	10	9	(1)
Total revenues	13,320	13,320	20,978	7,658
<b>EXPENDITURES</b>				
Current:				
Materials and Services	\$ 18,164	\$ 17,664	\$ 20,809	\$ (3,145)
Contingency	6,740	6,740	-	6,740
Total Expenditures	24,904	24,404	20,809	3,595
Excess (deficiency) of revenues over expenditures	(11,584)	(11,084)	169	11,253
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	(500)	(500)	-
Total other financing sources and uses:	-	(500)	(500)	-
<b>SPECIAL ITEM</b>				
Net change in fund balances	(11,584)	(11,584)	(331)	11,253
Fund balances - beginning	11,584	11,584	18,094	6,510
Fund balances - ending	\$ -	\$ -	\$ 17,763	\$ 17,763

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Utility Deposit Fund**  
**For the year ended June 30, 2016**

	<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>				
Utility deposits	\$ 2,000	\$ 2,000	\$ -	\$ (2,000)
Total revenues	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>(2,000)</u>
<b>EXPENDITURES</b>				
Current:				
Materials and services				
Refunds	2,547	2,547	3,485	(938)
Contingency	<u>29,319</u>	<u>29,319</u>	<u>-</u>	<u>29,319</u>
Total Expenditures	<u>31,866</u>	<u>31,866</u>	<u>3,485</u>	<u>28,381</u>
Excess (deficiency) of revenues over expenditures	<u>(29,866)</u>	<u>(29,866)</u>	<u>(3,485)</u>	<u>26,381</u>
Net change in fund balances	(29,866)	(29,866)	(3,485)	26,381
Fund balances - beginning	<u>29,866</u>	<u>29,866</u>	<u>31,861</u>	<u>1,995</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,376</u>	<u>\$ 28,376</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Equipment Fund**  
**For the year ended June 30, 2016**

	<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	\$ 36,388	\$ 36,388	\$ 3,700	\$ 32,688
Total Expenditures	<u>36,388</u>	<u>36,388</u>	<u>3,700</u>	<u>32,688</u>
Excess (deficiency) of revenues over expenditures	<u>(36,388)</u>	<u>(36,388)</u>	<u>(3,700)</u>	<u>32,688</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	2,500	2,500	-	2,500
Transfers in	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total other financing sources and uses	<u>7,500</u>	<u>7,500</u>	<u>5,000</u>	<u>2,500</u>
<b>SPECIAL ITEM</b>				
	-	-	-	-
Net change in fund balances	(28,888)	(28,888)	1,300	30,188
Fund balances - beginning	<u>28,888</u>	<u>28,888</u>	<u>28,888</u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,188</u>	<u>\$ 30,188</u>

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Water Operating Fund**  
**For the year ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts,</u> <u>Budgetary</u> <u>Basis</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for services	\$ 218,526	\$ 218,526	\$ 243,069	\$ 24,543
Water connections and permits	3,800	3,800	3,919	119
Reimbursement of SDC fees	2,982	2,982	640	(2,342)
Investment earnings	150	150	-	(150)
Miscellaneous	6,000	6,000	3,100	(2,900)
Total revenues	<u>231,458</u>	<u>231,458</u>	<u>250,728</u>	<u>19,270</u>
<b>EXPENDITURES</b>				
Current:				
Personal services	140,224	140,224	128,396	11,828
Materials and services	111,625	111,625	88,408	23,217
Debt Service:				
Principal	30,738	30,738	31,125	(387)
Interest and other charges	33,342	33,342	32,956	386
Contingency	47,034	47,034	-	47,034
Total Expenditures	<u>362,963</u>	<u>362,963</u>	<u>280,885</u>	<u>82,078</u>
Excess (deficiency) of revenues over expenditures	<u>(131,505)</u>	<u>(131,505)</u>	<u>(30,157)</u>	<u>101,348</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	39,381	39,381	39,381	-
Transfers out	(6,938)	(6,938)	(6,938)	-
Total other financing sources and uses	<u>32,443</u>	<u>32,443</u>	<u>32,443</u>	<u>-</u>
Net change in fund balances	(99,062)	(99,062)	2,286	101,348
Fund balances - beginning	99,062	99,062	96,587	(2,475)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	98,873	<u>\$ 98,873</u>
Reconciliation to modified cash basis:				
Net capital assets			2,540,012	
Long-term debt			<u>(1,040,826)</u>	
Net position, modified cash basis			<u>\$ 1,598,059</u>	

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Water Reserve Fund**  
**For the year ended June 30, 2016**

	<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>				
Current:				
Capital Outlay	\$ 7,876	\$ 7,876	\$ -	\$ 7,876
Total Expenditures	7,876	7,876	-	7,876
Excess (deficiency) of revenues over expenditures	(7,876)	(7,876)	-	7,876
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital leases	-	-	-	-
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	7,876
Fund balances - beginning	3,938	3,938	3,938	-
Fund balances - ending	\$ -	\$ -	\$ 7,876	\$ 7,876

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Sewer Operating Fund**  
**For the year ended June 30, 2016**

	<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>				
Charges for services	\$ 264,476	\$ 264,476	\$ 271,225	\$ 6,749
Sewer connections and permits	200	200	115	(85)
Reimbursement of SDC fees	2,863	2,863	559	(2,304)
Investment earnings	150	150	-	(150)
Miscellaneous	4,975	4,975	2,833	(2,142)
Total revenues	<u>272,664</u>	<u>272,664</u>	<u>274,732</u>	<u>2,068</u>
<b>EXPENDITURES</b>				
Current:				
Personal services	132,405	132,405	128,411	3,994
Materials and services	112,175	108,404	100,327	8,077
Debt Service:				
Principal	23,684	25,880	27,059	(1,179)
Interest and other charges	27,953	27,953	26,758	1,195
Total Expenditures	<u>296,217</u>	<u>294,642</u>	<u>282,555</u>	<u>12,087</u>
Excess (deficiency) of revenues over expenditures	<u>(23,553)</u>	<u>(21,978)</u>	<u>(7,823)</u>	<u>14,155</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	54,741	54,741	23,745	(30,996)
Transfers out	-	(1,575)	(1,575)	-
Total other financing sources and uses	<u>54,741</u>	<u>53,166</u>	<u>22,170</u>	<u>(30,996)</u>
Net change in fund balances	31,188	31,188	14,347	(16,841)
Fund balances - beginning	<u>(31,188)</u>	<u>(31,188)</u>	<u>(37,234)</u>	<u>(6,046)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>(22,887)</u>	<u>\$ (22,887)</u>
Reconciliation to modified cash basis:				
Net capital assets			2,418,458	
Long-term debt			<u>(689,686)</u>	
Net position, modified cash basis			<u>\$ 1,705,885</u>	

**CITY OF LOWELL**  
**Budget and Actual (with Variances)**  
**Sewer Reserve Fund**  
**For the year ended June 30, 2016**

	<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>				
Current:				
Capital Outlay	\$ 1,945	\$ 1,945	\$ -	\$ 1,945
Total Expenditures	1,945	1,945	-	1,945
Excess (deficiency) of revenues over expenditures	(1,945)	(1,945)	-	1,945
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	1,575	(1,575)
Total other financing sources and uses	-	-	1,575	(1,575)
Net change in fund balances	(1,945)	(1,945)	1,575	3,520
Fund balances - beginning	1,945	1,945	1,945	-
Fund balances - ending	\$ -	\$ -	\$ 3,520	\$ 3,520

**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, 2016, and have issued our report thereon dated January 31, 2017.

### *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).**

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, in the Utility Deposit Fund, expenditures exceeded budgeted materials and services (refunds) by \$938. In the Blackberry Jam Festival Fund expenditures exceeded budgeted materials and services by \$3,145. In the Debt Reserve Fund Transfers Out exceed the budgeted amount by \$55,126. The appropriation resolution budgeted \$161,783 for debt service that should have been in the transfer category, so technically there is an over expenditure. The City should properly identify transfers out in its appropriation resolution and identify the corresponding transfers in in its budget documentation. Transfers out must always equal transfers in.

*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 39-44.

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, 2017

***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, 2016, 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, 2017. 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 2015-1 Material Weakness: Segregation of duties and review.**

This finding has been changed from a material weakness to a significant deficiency and incorporated into **Finding 2016-1 Significant Deficiency: Segregation of duties.**

#### **Finding 2015-2 Material Weakness: General ledger maintenance.**

This finding has been incorporated into **Finding 2016-2 Material Weakness: Inadequate accounting software.**

#### **Finding 2015-3 Material Weakness: Cash reconciliation.**

This finding has been cleared. The City has engaged an experienced independent contractor to monthly reconcile cash.

#### **Finding 2015-4 Material Weakness: Federal and state payroll reports not in agreement with general ledger and with each other.**

This finding has been incorporated into **Finding 2016-2 Material Weakness: Inadequate accounting software.**

#### **Finding 2015-5 Significant Deficiency: Financial statements.**

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

#### **Finding 2015-6 Significant deficiency: Oregon Public Employees Retirement System (PERS) payments not in agreement with general ledger reports.**

This finding has been incorporated into **Finding 2016-2 Material Weakness: Inadequate accounting software.**

#### **Finding 2015-7 Significant deficiency: inappropriate governmental revenue funds.**

This finding has been carried forward in **Finding 2016-4 Significant deficiency: inappropriate governmental revenue funds.**

#### **Finding 2015-8 Compliance finding - Failure to require an audit according to *Government Auditing Standards* for the years ending June 30, 2013 and 2014.**

This finding has been cleared. The audits for the years ending June 30, 2015 and 2016 have been conducted according to *Government Auditing Standards*.

### **Finding 2016-1 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 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 2016-2 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.

### Recommendation

We recommend that the City explore replacement of the current general ledger software for a package that is both user friendly and has the necessary controls. It is our understanding that the City administrative staff has exhausted efforts to correct the deficiencies of the current accounting software.

### Response

Staff will make a recommendation to the City Council to purchase and implement new accounting software in FY 2017 capable of producing accounting reports that are consistent with generally accepted accounting principles. The recommendation will be submitted to the City Council by May 1, 2017.

## **Finding 2016-3 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.

### **Finding 2016-4 Significant deficiency: inappropriate governmental revenue funds**

#### Condition

The City maintains two funds as governmental revenue funds; the personnel liabilities fund and the utility deposit fund.

#### Criteria

The Governmental Accounting Standards Board (GASB) in its guidance in GASB 54 requires that revenue funds have specific restricted or committed revenue sources. In addition, the personnel liabilities fund contains amounts that belong in the water and sewer funds and the amounts in the utility deposit fund belong entirely in the water and sewer funds.

#### Effect

The City is out of compliance with accounting standards and the liabilities are understated in the water and sewer funds.

#### Cause

The City was not aware of current governmental accounting standards.

#### Recommendation

The personnel liabilities fund should be dissolved and the cash transferred to the general fund, the street fund and the sewer and water funds where presumably, the liabilities arose. The Utilities deposit fund should also be dissolved and the cash transferred to the water and sewer funds.



## Response

The Personnel Liabilities Fund was closed and the cash was transferred to the originating funds in FY 2017. The Utilities Deposit Fund will be closed and the cash will be transferred to the Water Fund by June 30, 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, 2017