



**Carlton, Oregon**  
**ANNUAL FINANCIAL REPORT**  
**For the Year Ended June 30, 2016**

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**CITY OF CARLTON**

**OFFICERS AND MEMBERS OF THE GOVERNING BODY  
For the Year Ended June 30, 2016**

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**CITY MANAGER**

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Carlton

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carlton 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 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 major fund, and the aggregate remaining fund information of the City of Carlton as of June 30, 2016, the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the General and Street Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (Continued)

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages a-g and the required supplementary information on pages 49-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were 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 combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Reports 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, contracts, 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 or on 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.



**INDEPENDENT AUDITOR'S REPORT (Continued)**

*Other Reporting Required by Oregon State Regulations*

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report January 31, 2017, on our consideration of the City's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Boldt Carlisle + Smith  
Certified Public Accountants  
Salem, Oregon  
January 31, 2017

By:

A handwritten signature in black ink, appearing to read 'B. Bingenheimer', written over a light blue horizontal line.

Bradley G. Bingenheimer, Member

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The management of the City of Carlton, Oregon, presents this narrative overview and analysis to facilitate an 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 the financial statements are issued.

**Financial Highlights**

- The City's governmental activities net position as of June 30, 2016, increased \$ 1,166,246 from the prior year.
- The City's business-type activities net position increased \$ 110,676 from the prior year.
- The General Fund's fund balance is \$335,163 at the end of the current fiscal year.
- The City's cash and cash equivalents as of June 30, 2016, are \$2,783,920.

**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 supplementary information. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

**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. These statements include all assets of the City (including infrastructure such as streets, traffic signals, street lights, buildings, bridges, etc.) as well as all liabilities (including general obligation long-term debt). Additionally, certain eliminations have occurred with regards to inter-fund activities.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash inflows or outflows in a future fiscal period. Examples of such items include earned but uncollected property taxes (future inflow), and interest accrued (future outflow).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Overview of the Financial Statements (continued)

#### Government-wide financial statements (continued)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental 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). The governmental activities of the City include the following:

- General government (City Council, Mayor, Human Resources, Finance)
- Public safety (Police)
- Highways and streets
- Culture and recreation
- Interest on long-term obligations

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

- Water
- Sewer

**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 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 expendable resources, as well as the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near term financial 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 governments near term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintained seven individual governmental funds. Information for the funds that are considered significant (major) is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. The City reports four major funds: General, Street, System Development Charges, and GO-2015 Pool Project Bond Funds.

The City adopts and appropriates annual budgets for all funds. To demonstrate compliance with the budget, budgetary comparison statements have been provided for all funds either in the basic financial statements (major governmental funds) or as supplementary information (all other funds).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Overview of the Financial Statements (continued)

#### Government-wide financial statements (continued)

*Proprietary funds* – Proprietary funds are used to account for activities where the emphasis is placed on net income determination. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements.

The City uses enterprise funds to account for its water and sewer utility activities.

The enterprise funds of the City are reported separately as proprietary fund financial statements in the basic financial statements.

**Notes to financial statements** – The notes 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 financial statements and should be read in conjunction with them.

**Supplementary information** – The combining statements and schedules referred to earlier and the schedules of property tax and bonded debt transactions follow the required supplementary information 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 \$12,493,326 as of June 30, 2016,

	Governmental Activities		Business Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
<b>Assets</b>						
Cash and investments	\$ 2,003,010	\$ 1,952,201	\$ 780,910	\$ 1,457,864	\$ 2,783,920	\$ 3,410,065
Other assets	130,733	135,409	279,469	218,504	410,202	353,913
Capital assets, net	4,612,947	2,462,538	11,337,676	9,184,377	15,950,623	11,646,915
<b>Total assets</b>	<b>6,746,690</b>	<b>4,550,148</b>	<b>12,398,055</b>	<b>10,860,745</b>	<b>19,144,745</b>	<b>15,410,893</b>
<b>Deferred Outflow of Resources</b>						
Pension related items	34,220	1,309	34,572	1,241	68,792	2,550
<b>Liabilities</b>						
Other liabilities	107,085	100,614	349,300	225,504	456,385	326,118
Long-term liabilities	1,297,284	228,266	4,898,479	3,552,766	6,195,763	3,781,032
<b>Total liabilities</b>	<b>1,404,369</b>	<b>328,880</b>	<b>5,247,779</b>	<b>3,778,270</b>	<b>6,652,148</b>	<b>4,107,150</b>
<b>Deferred Inflows of Resources</b>						
Pension related items	33,857	46,139	34,206	43,750	68,063	89,889
<b>Net Position</b>						
Net investment in capital assets	3,409,786	2,243,714	6,530,844	5,641,408	9,940,630	7,885,122
Restricted	1,531,346	1,525,995	452,491	1,086,360	1,983,837	2,612,355
Unrestricted	401,552	406,729	167,307	312,198	568,859	718,927
<b>Total Net Position</b>	<b>\$ 5,342,684</b>	<b>\$ 4,176,438</b>	<b>\$ 7,150,642</b>	<b>\$ 7,039,966</b>	<b>\$ 12,493,326</b>	<b>\$ 11,216,404</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Government-Wide Financial Analysis (continued)

The largest portion of the City's net position reflects its investment of \$9,940,630 or 79%, in capital assets (e.g., land, buildings, improvements, equipment, and infrastructure, net of accumulated depreciation and related debt). The City uses 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.

An additional portion of the City's net position, \$1,983,837 or approximately 16% represents resources that are subject to external restrictions. The remaining balance of unrestricted net position totaling \$568,859 or approximately 5% represents the balance that may be used to meet the City's ongoing obligations to citizens and creditors.

The change in net asset is as follows:

	Governmental Activities		Business Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program:						
Charge for services	\$ 95,637	\$ 500,830	\$ 1,408,894	\$ 1,336,289	\$ 1,504,531	\$ 1,837,119
Capital grants and contributions	411,830	17,706	518,000	-	929,830	17,706
General:						
Taxes	785,862	665,944	-	-	785,862	665,944
Franchise fees	103,850	115,456	-	-	103,850	115,456
Intergovernmental	363,996	207,391	-	52,961	363,996	260,352
Interest	15,026	12,108	6,743	4,516	21,769	16,624
Other	88,376	97,475	13,974	2,876	102,350	100,351
<b>Total revenues</b>	<u>1,864,577</u>	<u>1,616,910</u>	<u>1,947,611</u>	<u>1,396,642</u>	<u>3,812,188</u>	<u>3,013,552</u>
<b>Expenses</b>						
General government	322,719	483,373	-	-	322,719	483,373
Public safety	446,779	378,876	-	-	446,779	378,876
Highways and streets	237,453	111,353	-	-	237,453	111,353
Cultural and recreation	147,840	184,472	-	-	147,840	184,472
Interest long-term obligations	45,073	(343)	-	-	45,073	(343)
Water	-	-	720,203	687,051	720,203	687,051
Sewer	-	-	615,199	588,059	615,199	588,059
<b>Total expenses</b>	<u>1,199,864</u>	<u>1,157,731</u>	<u>1,335,402</u>	<u>1,275,110</u>	<u>2,535,266</u>	<u>2,432,841</u>
<b>Change in net position before transfers</b>	664,713	459,179	612,209	121,532	1,276,922	418,936
<b>Transfers</b>	<u>501,533</u>	<u>509,829</u>	<u>(501,533)</u>	<u>(509,829)</u>	-	-
<b>Change in net position</b>	1,166,246	969,008	110,676	(388,297)	1,276,922	580,711
<b>Beginning net position</b>	4,176,438	3,252,761	7,039,966	7,471,247	11,216,404	10,724,008
<b>Prior period adjustment</b>	-	(45,331)	-	(42,984)	-	(88,315)
<b>Ending net position</b>	<u>\$ 5,342,684</u>	<u>\$ 4,176,438</u>	<u>\$ 7,150,642</u>	<u>\$ 7,039,966</u>	<u>\$ 12,493,326</u>	<u>\$ 11,216,404</u>



## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Fund Financial Statements

#### General Fund

The General Fund ended the year with a fund balance of \$335,163. Revenues for fiscal year 2015-16 were \$956,534. This was an \$8,562 increase compared to last year. The increase in revenue was primarily due to an increase in property taxes and new development.

The operation of the General Fund can be summarized as follows:

Fund balance, July 1, 2015	\$	293,719	
Revenues		956,534	
Other financing sources (uses)		<u>(37,198)</u>	
Total		613,055	
Expenditures		<u>877,892</u>	
Fund balance, June 30, 2016	\$	<u>335,163</u>	
Expenditures were as follows:			
General government	\$	247,236	28%
Public safety		436,132	50%
Culture and recreation		125,792	14%
Capital outlay		<u>68,732</u>	<u>8%</u>
Total	\$	<u>877,892</u>	<u>100%</u>

#### Enterprise Funds

The City operates two utility services. These funds are operated like private enterprises and the accounting reflects this. Following are the significant highlights for each:

Water Fund financial comparison is as follows:

	<u>2016</u>	<u>2015</u>
Operating revenue	\$ 840,781	\$806,455
Operating expenses	<u>673,522</u>	<u>637,525</u>
Operating income	167,259	168,930
Nonoperating revenues (expenses)	(43,988)	(48,496)
Transfers in (out), net	<u>676,703</u>	<u>91,264</u>
Change in net position	<u>\$ 799,974</u>	<u>\$ 211,698</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Fund-Based Financial Statements

#### Enterprise Funds (continued)

Sewer Fund financial comparison is as follows:

	<u>2016</u>	<u>2015</u>
Operating revenue	\$ 568,113	\$ 529,834
Operating expenses	<u>534,982</u>	<u>490,724</u>
Operating income	33,131	39,110
Nonoperating revenue (expenses)	(57,929)	(73,793)
Transfers in (out), net	<u>(37,486)</u>	<u>128,475</u>
Change in net position	<u>\$ (62,284)</u>	<u>\$ 93,792</u>

### General Fund Budgetary Highlights

During the year, budgetary appropriations did not exceed actual expenditures. The net change in General Fund balance during the year was an increase of \$41,444. Total fund balances for all governmental fund types during the year increased by \$54,245.

### Capital Assets and Debt Administration

#### Capital Assets

As of June 30, 2016 the City had \$15,950,643 invested in a broad range of capital assets including land, buildings and improvements, equipment, roads, bridges, water, sewer and storm water lines.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Construction in progress	\$ 2,234,687	\$ 158,776	\$ 2,637,798	\$ 341,843	\$ 4,872,485	\$ 500,619
Land	160,688	160,688	309,456	309,456	470,144	470,144
Buildings and improvements (net of depreciation)	362,480	306,045	-	-	362,480	306,045
Machinery and equipment (net of depreciation)	169,356	112,913	41,669	18,532	211,025	131,445
Infrastructure (net of depreciation)	<u>1,685,736</u>	<u>1,724,116</u>	<u>8,348,753</u>	<u>8,514,546</u>	<u>10,034,489</u>	<u>10,238,662</u>
<b>Totals</b>	<u>\$ 4,612,947</u>	<u>\$ 2,462,538</u>	<u>\$ 11,337,676</u>	<u>\$ 9,184,377</u>	<u>\$ 15,950,623</u>	<u>\$ 11,646,915</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### General Fund Budgetary Highlights (continued)

**Bonded Debt** – The City's outstanding bonded debt is for business-type activities and is comprised of one outstanding water revenue bond issue. The bonds are paid from net revenues of the water system. At the end of the current fiscal year, the City had total bonded debt outstanding of \$655,000.

**General Obligation Bond** – State statutes limit the amount of general obligation debt a City may issue to 3 percent of its total assessed valuation. The current debt limitation of the City is \$5,619,832. The City has an outstanding general obligation debt of \$945,000.

**Long-Term Loans** – At the end of the current fiscal year, the City had total long-term loans outstanding of \$5,511,589. These loans are paid from net revenues of the water and sewer systems except for \$1,281,059 which is funded from governmental activities.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General obligation	\$ 945,000	\$ -	\$ -	\$ -	\$ 945,000	\$ -
Water Revenue bonds	-	-	655,000	700,000	655,000	700,000
Long-term loans	<u>258,161</u>	<u>218,824</u>	<u>4,151,832</u>	<u>2,842,969</u>	<u>4,409,993</u>	<u>3,061,793</u>
<b>Total</b>	<u>\$ 1,203,161</u>	<u>\$ 218,824</u>	<u>\$ 4,806,832</u>	<u>\$ 3,542,969</u>	<u>\$ 6,009,993</u>	<u>\$ 3,761,793</u>

Additional information of the City's capital assets and bonded debt can be found in the notes to the basic financial statements.

### Economic Factors and Next Year's Budget

During the preparation of the budget for the ensuing fiscal year, the long-term impacts of the local economy were examined in conjunction with business decisions made by the City. The City uses a conservative approach when preparing the budget each year. The City's 2016-2017 budget is \$ 7,488,750.

### Requests for information

The City's financial statements are designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have any questions about this report, please contact the Finance Director, Christy Martinez at (503) 852-7575, 191 E. Main, Carlton, Oregon 97111.

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## **BASIC FINANCIAL STATEMENTS**

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**CITY OF CARLTON**

**STATEMENT OF NET POSITION**

**June 30, 2016**

	Governmental Activities	Business-type Activities	Totals
<b><u>ASSETS</u></b>			
Cash and investments	\$ 2,003,010	\$ 780,910	\$ 2,783,920
Receivables, net	130,197	241,781	371,978
Inventories	536	21,634	22,170
Deferred charges, net	-	16,054	16,054
Capital assets:			
Construction in progress	2,234,687	2,637,798	4,872,485
Land	160,688	309,456	470,144
Capital assets, net	2,217,572	8,390,422	10,607,994
<b>TOTAL ASSETS</b>	<b>6,746,690</b>	<b>12,398,055</b>	<b>19,144,745</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Pension related items	34,220	34,572	68,792
<b><u>LIABILITIES</u></b>			
Accounts payable and accrued liabilities	102,026	253,508	355,534
Accrued interest payable	5,059	51,620	56,679
Customer deposits payable	-	44,172	44,172
Long-term obligations:			
Due within one year	74,863	183,369	258,232
Due in more than one year	1,222,421	4,636,412	5,858,833
<b>TOTAL LIABILITIES</b>	<b>1,404,369</b>	<b>5,169,081</b>	<b>6,573,450</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Pension related items	33,857	34,206	68,063
<b><u>NET POSITION</u></b>			
Net investment in capital assets	3,409,786	6,530,844	9,940,630
Restricted for:			
Capital projects	1,376,958	293,846	1,670,804
Highways and streets	107,996	-	107,996
Economic development	46,392	-	46,392
Debt service	-	158,645	158,645
Unrestricted	401,552	167,307	568,859
<b>TOTAL NET POSITION</b>	<b>\$ 5,342,684</b>	<b>\$ 7,150,642</b>	<b>\$ 12,493,326</b>

*See accompanying notes*

**CITY OF CARLTON**

**STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
<b>Functions/Programs</b>						
Governmental activities:						
General government	\$ 322,719	\$ 73,453	\$ -	\$ (249,266)		\$ (249,266)
Public safety	446,779	22,184	411,830	(12,765)		(12,765)
Highways and streets	237,453	-	-	(237,453)		(237,453)
Culture and recreation	147,840	-	-	(147,840)		(147,840)
Interest on long-term obligations	45,073	-	-	(45,073)		(45,073)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>1,199,864</u>	<u>95,637</u>	<u>411,830</u>	<u>(692,397)</u>		<u>(692,397)</u>
Business-type activities:						
Water	720,203	840,781	518,000		638,578	638,578
Sewer	615,199	568,113	-		(47,086)	(47,086)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u>1,335,402</u>	<u>1,408,894</u>	<u>518,000</u>		<u>591,492</u>	<u>591,492</u>
<b>Totals</b>	<u>\$ 2,535,266</u>	<u>\$ 1,504,531</u>	<u>\$ 929,830</u>	<u>(692,397)</u>	<u>591,492</u>	<u>(100,905)</u>
<b>General revenues</b>						
Taxes, levied for general purposes				785,862	-	785,862
Franchise fees				103,850	-	103,850
Licenses and permits				24,538	-	24,538
Intergovernmental				363,996	-	363,996
Transient room tax				34,437	-	34,437
Interest				15,026	6,743	21,769
Miscellaneous				29,401	13,974	43,375
<b>Transfers</b>				<u>501,533</u>	<u>(501,533)</u>	<u>-</u>
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>				<u>1,858,643</u>	<u>(480,816)</u>	<u>1,377,827</u>
<b>CHANGE IN NET POSITION</b>				1,166,246	110,676	1,276,922
<b>NET POSITION - BEGINNING</b>				<u>4,176,438</u>	<u>7,039,966</u>	<u>11,216,404</u>
<b>NET POSITION - ENDING</b>				<u>\$ 5,342,684</u>	<u>\$ 7,150,642</u>	<u>\$ 12,493,326</u>

*See accompanying notes*



**CITY OF CARLTON**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016**

	General	Street	System Development Charges	GO-2015 Pool Project Bond	Total Nonmajor Funds	Total Governmental Funds
<b><u>ASSETS</u></b>						
Cash and investments	\$ 347,992	\$ 104,699	\$ 1,146,870	\$ 289,159	\$ 114,290	\$ 2,003,010
Receivables, net	112,626	9,205	-	2,133	6,233	130,197
Inventories	<u>536</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>536</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 461,154</u></b>	<b><u>\$ 113,904</u></b>	<b><u>\$ 1,146,870</u></b>	<b><u>\$ 291,292</u></b>	<b><u>\$ 120,523</u></b>	<b><u>\$ 2,133,743</u></b>
<b><u>LIABILITIES</u></b>						
Accounts payable and accrued liabilities	<u>\$ 33,357</u>	<u>\$ 5,908</u>	<u>\$ 952</u>	<u>\$ 60,252</u>	<u>\$ 1,557</u>	<u>\$ 102,026</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>						
Unavailable revenue	<u>92,634</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>5,893</u>	<u>100,527</u>
<b><u>FUND BALANCE</u></b>						
Nonspendable	536	-	-	-	-	536
Restricted	-	107,996	1,145,918	229,040	40,499	1,523,453
Committed	-	-	-	-	72,574	72,574
Unassigned	<u>334,627</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>334,627</u>
<b>TOTAL FUND BALANCE</b>	<b><u>335,163</u></b>	<b><u>107,996</u></b>	<b><u>1,145,918</u></b>	<b><u>229,040</u></b>	<b><u>113,073</u></b>	<b><u>1,931,190</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b><u>\$ 461,154</u></b>	<b><u>\$ 113,904</u></b>	<b><u>\$ 1,146,870</u></b>	<b><u>\$ 291,292</u></b>	<b><u>\$ 120,523</u></b>	
<b>RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION</b>						
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>						
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						4,612,947
Governmental activities report contributions to the public employees retirement system as deferred outflows of resources.						34,220
Other long-term assets are not available for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.						100,527
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.						(1,302,343)
Governmental activities report as deferred inflows the effect of differences between projected and actual earnings and changes in proportionate share of contributions to the public employees retirement system						<u>(33,857)</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>						<b><u>\$ 5,342,684</u></b>

*See accompanying notes*

**CITY OF CARLTON**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2016**

	General	Street	System Development Charges	GO-2015 Pool Project Bond	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes	\$ 637,144	\$ -	\$ -	\$ 55,748	\$ 88,615	\$ 781,507
Franchise fees	103,850	-	-	-	-	103,850
System development charges	-	-	411,830	-	-	411,830
Licenses and permits	24,538	-	-	-	-	24,538
Fines and forfeitures	18,144	-	-	-	-	18,144
Charges for services	73,453	-	-	-	-	73,453
Intergovernmental	56,558	192,438	-	115,000	-	363,996
Transient room tax	10,003	-	-	-	24,434	34,437
Interest	3,463	3,356	3,598	3,049	1,560	15,026
Miscellaneous	29,381	20	-	-	-	29,401
<b>TOTAL REVENUES</b>	<u>956,534</u>	<u>195,814</u>	<u>415,428</u>	<u>173,797</u>	<u>114,609</u>	<u>1,856,182</u>
<b>EXPENDITURES</b>						
Current:						
General government	247,236	-	10,683	-	19,599	277,518
Public safety	436,132	-	-	-	-	436,132
Highways and streets	-	142,725	-	-	-	142,725
Culture and recreation	125,792	-	-	-	-	125,792
Capital outlay	68,732	39,435	253,816	1,188,422	285,191	1,835,596
Debt service	-	-	-	56,037	-	56,037
<b>TOTAL EXPENDITURES</b>	<u>877,892</u>	<u>182,160</u>	<u>264,499</u>	<u>1,244,459</u>	<u>304,790</u>	<u>2,873,800</u>
Excess (deficiency) of revenues over expenditures	<u>78,642</u>	<u>13,654</u>	<u>150,929</u>	<u>(1,070,662)</u>	<u>(190,181)</u>	<u>(1,017,618)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of long-term obligations	63,732	-	-	975,000	-	1,038,732
Transfers in	29,295	-	-	324,702	27,765	381,762
Transfers out	(130,225)	(31,350)	(187,056)	-	-	(348,631)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(37,198)</u>	<u>(31,350)</u>	<u>(187,056)</u>	<u>1,299,702</u>	<u>27,765</u>	<u>1,071,863</u>
Net change in fund balances	41,444	(17,696)	(36,127)	229,040	(162,416)	54,245
Fund balances at beginning of year	<u>293,719</u>	<u>125,692</u>	<u>1,182,045</u>	<u>-</u>	<u>275,489</u>	<u>1,876,945</u>
Fund balances at end of year	<u>\$ 335,163</u>	<u>\$ 107,996</u>	<u>\$ 1,145,918</u>	<u>\$ 229,040</u>	<u>\$ 113,073</u>	<u>\$ 1,931,190</u>

*See accompanying notes*

**CITY OF CARLTON**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	54,245
<i>Amounts reported for governmental activities in the statement of activities are different because of the following:</i>		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. The difference between these two amounts is:		
Capital outlay	\$ 1,837,421	
Depreciation	<u>(136,872)</u>	1,700,549
Noncash transfers of capital assets from the business-type activities are reported in the governmental activities		449,860
Noncash transfers of debt from the business-type activities are reported in the governmental activities		2,106
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds as follows		
Taxes	4,355	
Court	<u>4,040</u>	8,395
The issuance of long-term obligations provides current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net position		(1,038,732)
Compensated absences are reported as an expenditure in the funds when paid, but amounts accrued but unpaid are included in expenses in the statement of activities		(6,783)
Repayment of bond principal, capital lease principal or long-term debt is reported as expenditures in governmental funds. However, the repayment of principal is reported as changes in long-term obligations in the statement of net position		
Accrued interest on long-term obligations	(2,600)	
Repayment of loan principal	<u>52,289</u>	49,689
The amount contributed to defined benefit pension plans is reported as an expenditure in the funds while governmental activities reports pension expense as the change in net pension asset or liability, pension related deferred outflow of resources and deferred inflows of resources.		
Change in deferred outflows of resources	32,911	
Change in net pension asset or liability	(98,276)	
Change in deferred inflows of resources	<u>12,282</u>	<u>(53,083)</u>
 CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	 \$	 <u><u>1,166,246</u></u>

*See accompanying notes*

**CITY OF CARLTON**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016**

	Budget		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 610,000	\$ 610,000	\$ 637,144	\$ 27,144
Franchise fees	102,295	102,295	103,850	1,555
Licenses and permits	12,885	12,885	24,538	11,653
Fines and forfeitures	12,000	12,000	18,144	6,144
Charges for services	50,595	50,595	73,453	22,858
Intergovernmental	36,700	36,700	56,558	19,858
Transient room tax	7,000	7,000	10,003	3,003
Interest	6,000	6,000	3,463	(2,537)
Miscellaneous	14,050	14,050	29,381	15,331
<b>TOTAL REVENUES</b>	<u>851,525</u>	<u>851,525</u>	<u>956,534</u>	<u>105,009</u>
<b>EXPENDITURES</b>				
Administration				
Personal services	43,571	43,571	45,803	(2,232)
Materials and services	46,250	46,250	36,455	9,795
Total Administration	<u>89,821</u>	<u>89,821</u>	<u>82,258</u>	<u>7,563</u>
City recorder/finance				
Personal services	38,175	38,175	38,099	76
Materials and services	101,696	96,696	75,623	21,073
Total City recorder/finance	<u>139,871</u>	<u>134,871</u>	<u>113,722</u>	<u>21,149</u>
Planning and land use				
Personal services	6,582	6,582	5,691	891
Materials and services	23,650	45,650	45,565	85
Total Planning and land use	<u>30,232</u>	<u>52,232</u>	<u>51,256</u>	<u>976</u>
Police				
Personal services	325,455	325,455	293,306	32,149
Materials and services	105,700	105,700	108,884	(3,184)
Capital outlay	22,500	22,500	63,732	(41,232)
Total Police	<u>453,655</u>	<u>453,655</u>	<u>465,922</u>	<u>(12,267)</u>
Municipal court				
Personal services	32,572	32,572	25,987	6,585
Materials and services	2,000	8,500	7,955	545
Total Municipal court	<u>34,572</u>	<u>41,072</u>	<u>33,942</u>	<u>7,130</u>

*Continued on next page*

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND (continued)**

	Budget		Actual	Variance
	Original	Final		
<b>EXPENDITURES (continued)</b>				
Parks and recreation				
Personal services	58,787	58,787	54,265	4,522
Materials and services	24,250	24,250	24,156	94
Capital outlay	20,600	5,000	5,000	-
Total Parks and recreation	103,637	88,037	83,421	4,616
Swimming pool				
Personal services	\$ 49,858	\$ 49,858	\$ 36,839	\$ 13,019
Materials and services	16,250	16,250	10,532	5,718
Total Swimming pool	66,108	66,108	47,371	18,737
Contingency	37,098	8,937	-	8,937
<b>TOTAL EXPENDITURES</b>	<b>954,994</b>	<b>934,733</b>	<b>877,892</b>	<b>56,841</b>
Excess (deficiency) of revenues over expenditures	(103,469)	(83,208)	78,642	(161,850)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	60,000	60,000	-	(60,000)
Issuance of long-term obligations	-	-	63,732	63,732
Transfers in	29,295	29,295	29,295	-
Transfers out	(134,964)	(155,225)	(130,225)	25,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(45,669)</b>	<b>(65,930)</b>	<b>(37,198)</b>	<b>28,732</b>
Net change in fund balance	(149,138)	(149,138)	41,444	190,582
Fund balance at beginning of year	150,138	150,138	293,719	143,581
Fund balance at end of year	\$ 1,000	\$ 1,000	\$ 335,163	\$ 334,163

*See accompanying notes*

**CITY OF CARLTON**

**STREET FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016**

	Budget		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 162,708	\$ 162,708	\$ 192,438	\$ 29,730
Interest	3,532	3,532	3,356	(176)
Miscellaneous	<u>-</u>	<u>-</u>	<u>20</u>	<u>20</u>
<b>TOTAL REVENUES</b>	<u>166,240</u>	<u>166,240</u>	<u>195,814</u>	<u>29,574</u>
<b>EXPENDITURES</b>				
Personal services	70,232	70,232	61,649	8,583
Materials and services	82,800	82,800	81,076	1,724
Capital outlay	7,000	39,435	39,435	-
Contingency	<u>69,269</u>	<u>35,859</u>	<u>-</u>	<u>35,859</u>
<b>TOTAL EXPENDITURES</b>	<u>229,301</u>	<u>228,326</u>	<u>182,160</u>	<u>46,166</u>
Excess (deficiency) of revenues over expenditures	(63,061)	(62,086)	13,654	75,740
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(55,375)</u>	<u>(56,350)</u>	<u>(31,350)</u>	<u>25,000</u>
Net change in fund balance	(118,436)	(118,436)	(17,696)	100,740
Fund balance at beginning of year	<u>118,436</u>	<u>118,436</u>	<u>125,692</u>	<u>7,256</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,996</u>	<u>\$ 107,996</u>

*See accompanying notes*

**CITY OF CARLTON**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2016**

	Business-type Activities				Total Enterprise Funds
	Water	Sewer	Capital Improvements	Debt Service	
<b><u>ASSETS</u></b>					
Current assets					
Cash and investments	\$ 83,946	\$ 130,054	\$ 408,265	\$ 158,645	\$ 780,910
Receivables, net	83,900	74,945	82,936	-	241,781
Inventories	20,987	647	-	-	21,634
Total current assets	<u>188,833</u>	<u>205,646</u>	<u>491,201</u>	<u>158,645</u>	<u>1,044,325</u>
Noncurrent assets					
Capital assets, net	6,165,939	5,171,737	-	-	11,337,676
Total noncurrent assets	<u>6,165,939</u>	<u>5,171,737</u>	<u>-</u>	<u>-</u>	<u>11,337,676</u>
<b>TOTAL ASSETS</b>	<u>6,354,772</u>	<u>5,377,383</u>	<u>491,201</u>	<u>158,645</u>	<u>12,382,001</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>					
Premiums on long-term debt obligations	16,054	-	-	-	16,054
Pension related items	20,039	14,533	-	-	34,572
<b>TOTAL DEFERRED OUTFLOW OF RESOURCES</b>	<u>36,093</u>	<u>14,533</u>	<u>-</u>	<u>-</u>	<u>50,626</u>
<b><u>LIABILITIES</u></b>					
Current liabilities					
Accounts payable and accrued liabilities	41,562	14,591	197,355	-	253,508
Accrued interest payable	9,901	41,719	-	-	51,620
Customer deposits payable	44,172	-	-	-	44,172
Compensated absences payable	8,758	4,191	-	-	12,949
Bonds payable, current portion	45,000	-	-	-	45,000
Loans payable, current portion	73,976	51,444	-	-	125,420
Total current liabilities	<u>223,369</u>	<u>111,945</u>	<u>197,355</u>	<u>-</u>	<u>532,669</u>
Long-term obligations					
Bonds payable	610,000	-	-	-	610,000
Loans payable	2,634,479	1,391,933	-	-	4,026,412
Net pension liability	45,616	33,082	-	-	78,698
Total long-term obligations	<u>3,290,095</u>	<u>1,425,015</u>	<u>-</u>	<u>-</u>	<u>4,715,110</u>
<b>TOTAL LIABILITIES</b>	<u>3,513,464</u>	<u>1,536,960</u>	<u>197,355</u>	<u>-</u>	<u>5,247,779</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>					
Pension related items	19,827	14,379	-	-	34,206
<b><u>NET POSITION</u></b>					
Net investment in capital assets	2,802,484	3,728,360	-	-	6,530,844
Restricted for:					
Capital outlay	-	-	293,846	-	293,846
Debt service	-	-	-	158,645	158,645
Unrestricted	55,090	112,217	-	-	167,307
<b>TOTAL NET POSITION</b>	<u>\$ 2,857,574</u>	<u>\$ 3,840,577</u>	<u>\$ 293,846</u>	<u>\$ 158,645</u>	<u>\$ 7,150,642</u>

*See accompanying notes*

**CITY OF CARLTON**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUNDS**

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

	Business-type Activities		
	Water	Sewer	Capital Improvements
<b>OPERATING REVENUES</b>			
Charges for services	\$ 840,781	\$ 568,113	\$ -
<b>OPERATING EXPENSES</b>			
Personal services	314,306	200,852	-
Materials and services	253,195	203,088	-
Amortization	1,438	-	-
Depreciation	104,583	131,042	-
<b>TOTAL OPERATING EXPENSES</b>	<b>673,522</b>	<b>534,982</b>	<b>-</b>
<b>OPERATING INCOME (LOSS)</b>	<b>167,259</b>	<b>33,131</b>	<b>-</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest earned on investments	1,560	1,772	3,411
Miscellaneous	1,133	12,841	-
Interest	(46,681)	(72,542)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(43,988)</b>	<b>(57,929)</b>	<b>3,411</b>
Income (loss) before capital contributions and transfers	123,271	(24,798)	3,411
Capital contributions	-	-	518,000
Transfers in	2,442,774	203,821	1,781,106
Transfers out	(1,766,071)	(241,307)	(2,929,529)
Change in net position	799,974	(62,284)	(627,012)
Net position at beginning of year	2,057,600	3,902,861	920,858
Net position at end of year	<b>\$ 2,857,574</b>	<b>\$ 3,840,577</b>	<b>\$ 293,846</b>

*See accompanying notes*



Debt Service	Total Enterprise Funds
\$ -	\$ 1,408,894
-	515,158
7,675	463,958
-	1,438
-	235,625
7,675	1,216,179
(7,675)	192,715
-	6,743
-	13,974
-	(119,223)
-	(98,506)
(7,675)	94,209
-	518,000
545,187	4,972,888
(537,514)	(5,474,421)
(2)	110,676
158,647	7,039,966
\$ 158,645	\$ 7,150,642

**CITY OF CARLTON**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2016**

	Business-type Activities		
	Water	Sewer	Capital Improvements
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 846,248	\$ 576,431	\$ (78,409)
Cash paid to employees	(280,467)	(176,393)	-
Cash paid to suppliers	(233,727)	(207,820)	101,319
Miscellaneous	1,133	12,841	-
Net cash provided by (used in) operating activities	333,187	205,059	22,910
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Intergovernmental grants	-	-	518,000
Issuance of long-term obligations	-	-	1,431,106
Purchases of capital assets	(22,413)	(8,888)	(2,807,483)
Transfers in	-	-	350,000
Transfers out	(334,965)	(241,307)	(122,046)
Principal paid on long-term obligations	-	-	-
Interest paid on long-term obligations	-	-	-
Net cash provided by (used in) capital and related financing activities	(357,378)	(250,195)	(630,423)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest	1,560	1,772	3,411
Net (decrease) in cash and cash equivalents	(22,631)	(43,364)	(604,102)
Cash and cash equivalents at beginning of year	106,577	173,418	1,012,367
Cash and cash equivalent at end of year	83,946	130,054	408,265

*Continued on next page*

Debt Service	Total Enterprise Funds
\$ (6,855)	\$ 1,337,415
-	(456,860)
(7,675)	(347,903)
-	13,974
(14,530)	546,626
-	518,000
230,000	1,661,106
-	(2,838,784)
315,187	665,187
-	(698,318)
(399,349)	(399,349)
(138,165)	(138,165)
7,673	(1,230,323)
-	6,743
(6,857)	(676,954)
165,502	1,457,864
158,645	780,910

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (Continued)**

	Business-type Activities		
	Water	Sewer	Capital Improvements
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	\$ 167,259	\$ 33,131	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	104,583	131,042	-
Amortization	1,438	-	-
Nonoperating revenue	1,133	12,841	-
Decrease (increase) in assets and deferred outflows			
Receivables	(4,780)	1,463	(78,409)
Due from other funds		6,855	-
Net pension asset	11,679	7,644	-
Deferred outflow of resources	(19,289)	(14,042)	-
Increase (decrease) in liabilities and deferred inflows			
Accounts payable and accrued liabilities	19,468	(4,732)	101,319
Customer deposits payable	10,247	-	-
Due to other funds	-	-	-
Deferred inflows of resources	(6,615)	(2,929)	-
Net pension liability	45,616	33,082	-
Compensated absences payable	2,448	704	-
Net cash provided by (used in) operating activities	<u>\$ 333,187</u>	<u>\$ 205,059</u>	<u>\$ 22,910</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS</b>			
Transfers in	<u>\$ 2,442,774</u>	<u>\$ 203,821</u>	<u>\$ 1,431,106</u>
Transfers out	<u>\$ (1,431,106)</u>	<u>\$ -</u>	<u>\$ (2,807,483)</u>

*See accompanying notes*

<u>Debt Service</u>	<u>Total Enterprise Funds</u>
\$ (7,675)	\$ 192,715
-	235,625
-	1,438
-	13,974
-	(81,726)
-	6,855
-	19,323
-	(33,331)
-	116,055
-	10,247
(6,855)	(6,855)
-	(9,544)
-	78,698
-	3,152
<u>\$ (14,530)</u>	<u>\$ 546,626</u>
<u>\$ 230,000</u>	<u>\$ 4,307,701</u>
<u>\$ (537,514)</u>	<u>\$ (4,776,103)</u>

## CITY OF CARLTON

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

#### 1. Summary of significant accounting policies

##### A. Organization (reporting entity)

The City was incorporated in 1899, and its current charter was adopted in 2006.

Control of the City is vested in its Council and Mayor. The Council is composed of six members elected at-large to serve four-year staggered terms. The Mayor is elected at each biennial general election to serve a term of two years. The day-to-day City affairs are the responsibility of the City Manager, who is hired with the approval of the Council.

The accompanying financial statements present all activities, funds, and component units for which the City is considered to be financially accountable. The criteria used in making this determination includes appointment of a voting majority, imposition of will, financial benefit or burden on the primary government, and fiscal dependency on the primary government.

The City Council serves as the governing board of the Carlton Urban Renewal Agency. Therefore, the accounts of the Agency are included in the financial statements of the City.

Complete financial statements for the Carlton Urban Renewal Agency may be obtained from the City Recorder.

##### 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 all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 1. Summary of significant accounting policies (continued)

#### C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the functions of the City, the elimination of which would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Significant revenues, which are susceptible to accrual under the modified accrual basis of accounting, include property taxes and federal and state grants. Other revenue items are considered to be measurable and available when received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The bases of accounting described above are in accordance with accounting principles generally accepted in the United States of America.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 1. Summary of significant accounting policies (continued)

#### C. Measurement focus, basis of accounting and financial statement presentation (continued)

The City reports the following major governmental funds:

*General* – accounts for all financial resources of the City, except those required to be accounted for in another fund. Principal sources of revenue are property taxes, franchise fees, and state shared revenues. Expenditures are primarily for central government operations, community development (planning), community services (parks and pool) and public safety (police).

*Street* – accounts for the maintenance of the City’s roads. The principal sources of revenue are state shared revenue and interest earned on investments.

*System Development Charges* – accounts for financial resources from system development charges that can only be used to expand or improve the system for which the charges were made.

*GO-2015 Pool Project Bond* – accounts for financial resources from bonds used for the acquisition and improvement of capital assets.

The City reports the following major proprietary funds:

*Water* – accounts for the maintenance and operation of the City’s water intake, purification and delivery systems. The principal source of revenue is user fees.

*Sewer* – accounts for the maintenance and operation of the City’s wastewater treatment plant and collection system. The principal source of revenue is user fees.

*Capital Improvements* – accounts for the acquisition or improvements of capital assets. The principal source of funds are transfers.

*Debt Service* – accounts for the payment of debt. The principal source of funds are transfers.

The City also includes the following fund types as nonmajor governmental funds:

*Special revenue* – accounts for revenue derived from specific taxes or other revenue sources, which are legally restricted to finance particular functions or activities. When a special revenue fund is not an operating fund, transfers are made from the special revenue fund to the operating funds authorized to make expenditures.

*Capital projects* - account for financial resources which are to be expended for the acquisition or improvement of capital assets.



## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 1. Summary of significant accounting policies (continued)

#### D. Budgets policies and budgetary control

Generally, Oregon Local Budget Law requires annual budgets be adopted for all funds except agency funds. The modified accrual of accounting is used for all budgets. All annual appropriations lapse at fiscal year end.

The City begins its budgeting process by appointing a budget officer in the winter of each year. Budget recommendations are developed by management through early spring, with the budget committee meeting and approving the budget document in late spring. Public notices of the budget hearing are generally published in May or June and the hearing is held in June. The City council adopts the budget, makes appropriations, and declares the tax levy no later than June 30. Expenditure appropriations may not be legally over-expended, except in the case of grant receipts and bond sale proceeds which could not be reasonably estimated at the time the budget was adopted.

The resolution authorizing appropriations for each fund sets the level at which expenditures cannot legally exceed appropriations. The City established the levels of budgetary control at the personal services, materials and services, capital outlay, operating contingencies, debt service, and all other requirement levels for all funds, except the General Fund budgetary control is established at the department level.

Budget amounts shown in the basic financial statements have been revised since the original budget amounts were adopted. The City council must authorize all appropriation transfers and supplementary budgetary appropriations.

#### E. Receivables

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

Property taxes receivable collected within 60 days subsequent to year-end are considered measurable and available, and are recognized as revenues. All other property taxes receivable are offset by deferred revenue because they are not deemed available to finance operations of the current period. Management has determined that an allowance for uncollectible accounts is not necessary for property taxes.

Federal and state grants, as well as state, county, and local shared revenue are recorded as revenue in all fund types as earned.

An allowance for uncollectibles of 75 percent is used for fines and warrants.

Charges for services are recorded as revenue in all funds as earned. The allowance for doubtful accounts is established on a specific identification basis.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 1. Summary of significant accounting policies (continued)

#### F. Capital assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the time received. Public domain (infrastructure) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are recorded at cost. Capital assets are defined by the government as assets with an estimated useful life in excess of one year. Maintenance and repairs that do not add to the value of the assets or extend the assets' lives are charged to expenditures as incurred and are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net revenue bond interest cost incurred during the construction periods is capitalized when material.

Capital assets are depreciated using the straight line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Building	40
Sewer and water system	40 – 50
Equipment and other	5 – 20

#### G. Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, checking, savings and money market accounts, and any highly-liquid debt instruments purchased with a maturity of three months or less.

#### H. Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventories consist of expendable supplies held for consumption.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 1. Summary of significant accounting policies (continued)

#### I. Equity classification

##### i. Government-wide and proprietary fund reporting

In the government-wide and proprietary fund financial statements equity is classified as net position and displayed in three components:

***Net Investment in capital assets*** – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

***Restricted*** – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

***Unrestricted*** – All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the government-wide and proprietary fund financial statements, when the City has restricted and unrestricted resources available, it is the City’s policy to expend restricted resources first and then unrestricted resources as needed in determining the amounts to report as restricted – net position and unrestricted – net position.

##### ii. Governmental fund type fund balance reporting

Fund balance amounts are reported within one of the fund balance categories listed below:

***Non-spendable*** – Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

***Restricted*** – Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 1. Summary of significant accounting policies (continued)

#### I. Equity classification (continued)

##### ii. Governmental fund type fund balance reporting (continued)

**Committed** – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

**Assigned** – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City Council, has granted authority to the City Manager to assign fund balance amounts.

**Unassigned** – the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications. Additionally, other funds may report negative unassigned fund balance in certain circumstances.

In the governmental fund financial statements, when the City has restricted and unrestricted (Committed, Assigned or Unassigned) resources available, it is the City’s policy to expend restricted resources first. Unrestricted resources are then expended in the order of committed, assigned, and unassigned as needed, unless otherwise provided for in actions to commit or assign resources, in determining the amounts to be reported in each of the fund balance categories.

#### J. Compensated absences

##### i. Vacation leave

The City has a policy which permits employees to earn vacation leave at a rate determined by length of employment. Any amounts not used or forfeited will be paid upon the employee’s termination of employment.

##### ii. Sick leave

The City has a policy which permits full-time employees to earn sick leave at the rate of 10 days per year over their working careers. The City does not compensate employees for unused sick leave upon termination of employment, unless otherwise specified by terms of a contract.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 1. Summary of significant accounting policies (continued)

#### K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oregon Public Employee Retirement System (OPERS) and additions to/deductions from OPERS' fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### 2. Deposits and investments

The City maintains a pool of cash and investments that are available for use by all funds. Each fund's portion of this pool is displayed on the financial statements as cash and investments. Interest earned on pooled cash and investments is allocated to participating funds based upon their average daily balances.

Investments in the State of Oregon Local Government Investment Pool (LGIP) are stated at fair value.

The Oregon State Treasury administers the LGIP. The LGIP is an unrated, open-ended, no-load, diversified portfolio offered to any City, political subdivision or public corporation of the state who by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. To provide regulatory oversight, the Oregon Legislature established the Oregon Short-Term Fund Board and LGIP investments are approved by the Oregon Investment Council. The fair value of the City's position in the LGIP is the same as the value of the pool shares.

*Credit risk:* Oregon statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and the state treasurer's investment pool.

As of June 30, 2016, the City had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
State Treasurer's Investment Pool	N/A	<u>\$ 2,526,885</u>

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

*Concentration of Credit Risk:* The City does not have a formal policy that places a limit on the amount that may be invested in any one insurer. All of the City's investments are in the State Treasurer's Investment Pool.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 2. Deposits and investments (continued)

*Custodial Credit Risk – Investments:* This is the risk that, in the event of the failure of counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. None of the City's investments have custodial credit risk. The City does not have a policy which limits the amount of investments that can be held by counterparties.

*Custodial Credit Risk – Deposits:* This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits with financial institutions up to \$250,000 each for the aggregate of all non-interest bearing accounts and the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage with institutions participating in the Oregon Public Funds Collateralization Program are collateralized with securities held by the Federal Home Loan Bank of Seattle in the name of the institution. As of June 30, 2016, none of the City's bank balances were exposed to custodial credit risk.

A. The City's deposits and investments at June 30, 2016, are as follows:

Total investments	\$ 2,526,885
Cash on hand	121
Cash with county treasurer	9,080
Deposits with financial institutions	<u>247,834</u>
Total deposits and investments	<u>\$ 2,783,920</u>

B. Cash and investments by fund:

Governmental activities/funds

General	\$ 347,992
Street	104,699
System Development Charges	1,146,870
GO-2015 Pool Project Bond	289,159
Nonmajor	<u>114,290</u>
Total governmental activities/funds	<u>2,003,010</u>

Business-type activities/proprietary funds

Water	83,946
Sewer	130,054
Capital Improvements	408,265
Debt Service	<u>158,645</u>
Total business-type activities/proprietary funds	<u>780,910</u>

Total cash and investments \$ 2,783,920

C. Cash Restriction

The debt service fund is required to maintain a cash balance equal to or greater than one year's principal and interest payments for the Revenue bonds, Series 2007. The amount required to be restricted is \$163,365. At June 30, 2016 the debt service fund had a cash balance of \$158,645.

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**3. Receivables**

A. The City's receivables at June 30, 2016 are shown below:

	Governmental Activities/Funds				Totals
	General	Street	GO-2015	Nonmajor	
			Pool Bond	Funds	
Property taxes	\$ 59,015	\$ -	\$ 2,133	\$ 6,233	\$ 67,381
Accounts, net	47,566	-	-	-	47,566
Other governments	5,812	9,205	-	-	15,017
Miscellaneous	233	-	-	-	233
	<u>\$ 112,626</u>	<u>\$ 9,205</u>	<u>\$ 2,133</u>	<u>\$ 6,233</u>	<u>\$ 130,197</u>

	Business-type Activities/Enterprise Funds			Totals
	Water	Sewer	Capital	
			Improvements	
Accounts	\$ 83,900	\$ 74,945	\$ -	158,845
Miscellaneous	-	-	82,936	82,936
	<u>\$ 83,900</u>	<u>\$ 74,945</u>	<u>\$ 82,936</u>	<u>\$ 241,781</u>

Fines and warrants are recorded net of allowance for uncollectible of \$100,523.

B. Property taxes-ensuing year's levy

The permanent tax rate is \$5.0098 per thousand of assessed value. For the year ended June 30, 2017, the City will levy property taxes of \$4.9602 per thousand of assessed value.

The Urban Renewal Agency will levy 100 percent of the amount of its authority under option one of ORS 457.435(2)(a) for the retirement of long-term obligations principal and interest without making a special levy in 2016-17.

The tax rate limit of \$10 imposed by the Constitution of the State of Oregon is not expected to affect either of these levies.

In addition, the City will levy \$55,626 for the retirement of long-term debt principal and interest due in 2016-17.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 4. Capital assets

A. Transactions for the governmental activities for the year ended June 30, 2016 were as follows:

	Balances <u>July 1, 2015</u>	<u>Additions</u>	<u>Reclassifications</u>	Balances <u>June 30, 2016</u>
Capital assets, not being depreciated				
Construction in progress	\$ 158,776	\$ 2,142,332	\$ (66,421)	\$ 2,234,687
Land	<u>160,688</u>	<u>-</u>	<u>-</u>	<u>160,688</u>
Total capital assets, not being depreciated	<u>319,464</u>	<u>2,142,332</u>	<u>(66,421)</u>	<u>2,395,375</u>
Capital assets, being depreciated				
Land Improvements	15,311	-	66,421	81,732
Buildings	440,689	-	-	440,689
Swimming pool	225,937	-	-	225,937
Vehicles and equipment	438,469	97,382	-	535,851
Infrastructure	<u>2,499,460</u>	<u>47,567</u>	<u>-</u>	<u>2,547,027</u>
Total capital assets, being depreciated	<u>3,619,866</u>	<u>144,949</u>	<u>66,421</u>	<u>3,831,236</u>
Less accumulated depreciation for:				
Land Improvements	15,311	-	-	15,311
Buildings	134,644	9,986	-	144,630
Swimming pool	225,937	-	-	225,937
Vehicles and equipment	325,556	40,939	-	366,495
Infrastructure	<u>775,344</u>	<u>85,947</u>	<u>-</u>	<u>861,291</u>
Total accumulated depreciation	<u>1,476,792</u>	<u>136,872</u>	<u>-</u>	<u>1,613,664</u>
Total capital assets, being depreciated, net	<u>2,143,074</u>	<u>8,077</u>	<u>66,421</u>	<u>2,217,572</u>
Governmental activities capital assets, net	<u>\$ 2,462,538</u>	<u>\$ 2,150,409</u>	<u>\$ -</u>	<u>\$ 4,612,947</u>



## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 4. Capital assets (continued)

B. Transactions for the business-type activities for the year ended June 30, 2016 were as follows:

	Balances <u>July 1, 2015</u>	Additions	Reclassifications	Balances <u>June 30, 2016</u>
Capital assets, not being depreciated				
Construction in progress	\$ 341,843	\$ 2,357,623	\$ (61,668)	\$ 2,637,798
Land	<u>309,456</u>	<u>-</u>	<u>-</u>	<u>309,456</u>
Total capital assets, not being depreciated	<u>651,299</u>	<u>2,357,623</u>	<u>(61,668)</u>	<u>2,947,254</u>
Capital assets, being depreciated				
Water system infrastructure	5,120,398	-	53,973	5,174,371
Sewer system infrastructure	6,453,628	-	7,695	6,461,323
Vehicles and equipment	<u>210,742</u>	<u>31,301</u>	<u>-</u>	<u>242,043</u>
Total capital assets, being depreciated	<u>11,784,768</u>	<u>31,301</u>	<u>61,668</u>	<u>11,877,737</u>
Less accumulated depreciation for:				
Water system infrastructure	1,520,989	99,847	-	1,620,836
Sewer system infrastructure	1,538,491	127,614	-	1,666,105
Vehicles and equipment	<u>192,210</u>	<u>8,164</u>	<u>-</u>	<u>200,374</u>
Total accumulated depreciation	<u>3,251,690</u>	<u>235,625</u>	<u>-</u>	<u>3,487,315</u>
Total capital assets, being depreciated, net	<u>8,533,078</u>	<u>(204,324)</u>	<u>61,668</u>	<u>8,390,422</u>
Business-type activities capital assets, net	<u>\$ 9,184,377</u>	<u>\$ 2,153,299</u>	<u>\$ -</u>	<u>\$ 11,337,676</u>

C. Depreciation expense was charged to functions/programs of the city as follows:

Governmental activities	
General government	\$ 50,925
Highways and streets	<u>85,947</u>
Total depreciation expense - governmental activities	<u>\$ 136,872</u>
Business-type activities	
Water	104,583
Sewer	<u>131,042</u>
Total depreciation expense - business-type activities	<u>\$ 235,625</u>

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 5. Long-term obligations

A. Changes in long-term obligations for the year ended June 30, 2016 were as follows:

	Outstanding July 1, 2015	Additions	Reductions	Outstanding June 30, 2016	Balances Due Within One Year
<b><u>Governmental Activities</u></b>					
Long-term debt					
GO Bonds, series 2015 (swimming pool),	-	975,000	30,000	945,000	20,000
Promissory note, Citizen's Bank	-	230,000	13,282	216,718	18,422
Capital lease, Ford Credit Company LLC,	-	63,732	22,289	41,443	20,216
2005 Wells Fargo Tax Exempt Note	88,490		88,490	-	-
Umpqua Bank Promissory note	<u>130,334</u>	<u>-</u>	<u>130,334</u>	<u>-</u>	<u>-</u>
Total long-term debt	218,824	1,268,732	284,395	1,203,161	58,638
Other long-term obligations					
Net pension liability	-	77,898	-	77,898	-
Compensated absenses	<u>9,442</u>	<u>16,225</u>	<u>9,442</u>	<u>16,225</u>	<u>16,225</u>
Total long-term obligations	<u>\$ 228,266</u>	<u>\$1,362,855</u>	<u>\$ 293,837</u>	<u>\$ 1,297,284</u>	<u>\$ 74,863</u>
<b><u>Business-type Activities</u></b>					
Long-term debt					
Bonded debt					
Water revenue bonds, series 2007, original	700,000	-	45,000	655,000	45,000
Loans					
Safe drinking water revolving loan	-	1,431,106	-	1,431,106	-
Safe drinking water revolving loan	1,350,593	-	73,244	1,277,349	73,976
Water/wastewater financing program loan	<u>1,492,376</u>	<u>-</u>	<u>48,999</u>	<u>1,443,377</u>	<u>51,444</u>
Total long-term obligations	3,542,969	1,431,106	167,243	4,806,832	170,420
Other long-term obligations					
Net pension liability	-	78,698	-	78,698	-
Compensated absenses	<u>9,797</u>	<u>12,949</u>	<u>9,797</u>	<u>12,949</u>	<u>12,949</u>
Total long-term obligations	<u>\$ 3,552,766</u>	<u>\$1,522,753</u>	<u>\$ 177,040</u>	<u>\$ 4,898,479</u>	<u>\$ 183,369</u>

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 5. Long-term obligations (Continued)

#### B. Government activities long-term debt obligations

GO Bonds, Series 2015 (swimming pool)-The City borrowed \$975,000 to finance the swimming pool project. Annual payments of \$56,037 include interest at 3.77 percent.

Promissory note, Citizen's Bank-The City borrowed \$230,000 to finance City projects. Annual payments of \$24,175 include interest at 5.95 percent.

Capital lease, Ford Credit Company LLC-The City entered into a capital lease in the amount of \$63,732. Annual payments of \$24,361 include interest at 5 percent.

2005 Wells Fargo Tax Exempt Note – Refinanced with Citizen's bank loan

Umpqua Bank Promissory Note – Refinanced with Citizen's bank loan

#### C. Business-type activities long-term debt obligations

Water Revenue Bonds, series 2007 – The City issued bonds of \$1,000,000 to finance the remaining costs associated with the improvements to the water system. Interest on the outstanding bonds will vary from 4.75 to 4.9 percent.

Safe drinking water revolving loan (IFA S15008) – The City is estimated to borrow \$2,555,500 to finance water system improvements. At June 30, 2016 the City has drawn down \$1,431, 106.

Safe drinking water revolving loan (OEDD S99099) – The City borrowed \$2,238,625 to finance its water system improvements. Annual payments of \$86,742 include interest at 1 percent.

Water/wastewater financing program loan (OEDD Y09002) – The City borrowed \$1,540,000 to finance the City's waste water improvements project. Annual payments of \$123,468 include interest at 4.99 percent.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 5. Long-term obligations (continued)

#### D. Future maturities of government activities long-term debt obligations

Fiscal Year	GO Bonds, Series 2015		Promissory note, Citizen's Bank		Capital lease Ford Credit Company, LLC		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 20,000	\$ 35,626	\$ 18,422	\$ 12,641	\$ 20,216	\$ 2,072	\$ 74,339	\$ 54,229
2018	25,000	34,873	19,636	11,427	21,227	1,061	81,255	50,549
2019	25,000	33,930	20,854	10,209	-	-	60,922	46,589
2020	30,000	32,987	22,123	8,940	-	-	67,967	43,601
2021	30,000	31,857	23,519	7,544	-	-	70,178	40,259
2022-26	200,000	139,678	112,164	11,478	-	-	312,164	151,156
2027-31	295,000	95,193	-	-	-	-	295,000	95,193
2032-36	320,000	31,479	-	-	-	-	70,000	12,064
	<u>\$ 945,000</u>	<u>\$ 435,623</u>	<u>\$ 216,718</u>	<u>\$ 62,239</u>	<u>\$ 41,443</u>	<u>\$ 3,133</u>	<u>\$ 1,203,161</u>	<u>\$ 493,640</u>

#### E. Future maturities of business-type activities long-term debt obligations

Fiscal Year	Water Revenue Bonds Series 2007		Safe Drinking Water Revolving Loan		Water/Wastewater Financing Loan		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	45,000	31,623	73,976	12,766	51,444	72,025	170,420	116,414
2018	50,000	29,485	74,716	12,026	54,011	69,457	178,727	110,968
2019	50,000	27,110	75,463	11,279	56,707	66,762	182,169	105,151
2020	55,000	24,735	76,217	10,525	59,536	63,933	190,754	99,193
2021	55,000	22,123	76,980	9,762	62,507	60,962	194,487	92,847
2022-26	325,000	67,530	396,600	37,111	362,554	254,791	1,084,153	359,432
2027-31	75,000	3,675	416,829	16,881	462,500	154,844	954,329	175,400
2032-36	-	-	86,570	857	334,117	33,763	420,687	34,620
	<u>\$ 655,000</u>	<u>\$ 206,281</u>	<u>\$ 1,277,350</u>	<u>\$ 111,207</u>	<u>\$ 1,443,377</u>	<u>\$ 776,537</u>	<u>\$ 3,375,727</u>	<u>\$ 1,094,025</u>

The future maturities schedule for the safe drinking water revolving loan IFA S15008 will be established following the final draw down.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 5. Long-term obligations (continued)

#### F. Covenants and loan terms

Covenants of the Water Revenue Bonds, Series 2007 require the City to maintain a set ratio of net revenues to annual debt service payments. As of June 30, 2016, the City was not in compliance with these covenants.

### 6. Unavailable revenue

Resources owned by the City, which are measurable, but not available in the governmental funds, consist of the following:

	GO-2015		Totals
	General	Pool Project Bond	
Property taxes	\$ 55,886	\$ 2,000	\$ 5,893
Fines and warrants	36,748	-	-
	<u>\$ 92,634</u>	<u>\$ 2,000</u>	<u>\$ 5,893</u>
			<u>\$ 100,527</u>

### 7. Governmental fund balances

Fund balance amount for governmental funds have been reported in the categories of nonspendable, restricted, committed, assigned and unassigned. The specific purposes for these amounts are as follows:

Fund balances:	General	Street	System	GO-2015	Nonmajor	Total
			Development Charges	Pool Project Bond		
<b>Nonspendable:</b>						
Inventory	\$ 536	\$ -	\$ -	\$ -	\$ -	\$ 536
<b>Restricted for:</b>						
Capital projects	-	-	1,145,918	229,040	-	1,374,958
Economic development	-	-	-	-	51,183	51,183
Street maintenance	-	107,996	-	-	-	107,996
<b>Committed for:</b>						
Capital projects	-	-	-	-	61,890	61,890
<b>Unassigned:</b>	<u>334,627</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>334,627</u>
Total fund balances	<u>\$ 335,163</u>	<u>\$ 107,996</u>	<u>\$ 1,145,918</u>	<u>\$ 229,040</u>	<u>\$ 113,073</u>	<u>\$ 1,931,190</u>

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 8. Defined benefit pension plan

#### A. Plan description

Employees of the City are provided with pensions through OPERS. All the benefits of OPERS are established by the Oregon legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A.

The OPERS consists of a single cost-sharing multiple employer defined benefit pension plan.

OPERS produces an independently audited Comprehensive Annual Financial Report which can be found at: [www.oregon.gov/pers/Pages/section/financial\\_reports/financials.aspx](http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx)

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

#### B. Description of benefit terms

##### Plan Benefits

All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A.

1. **Tier One/Tier Two Retirement Benefit (Chapter 238).** Tier One/Tier Two Retirement Benefit plan is closed to new members hired on or after August 29, 2003.

##### Pension Benefits

The OPERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 8. Defined benefit pension plan (continued)

#### B. Description of benefit terms (continued)

##### 1. Tier One/Tier Two Retirement Benefit (Chapter 238) (continued)

###### Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- the member was employed by a OPERS employer at the time of death,
- the member died within 120 days after termination of OPERS-covered employment,
- the member died as a result of injury sustained while employed in a OPERS-covered job, or
- the member was on an official leave of absence from a OPERS-covered job at the time of death.

###### Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including OPERS judge members) for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

###### Benefit Changes After Retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. The cost-of-living increase for fiscal year 2015 was capped at 1.5 percent for all benefit recipients. As a result of the *Moro Decision* (*Everice Moro et al v. State of Oregon et al*), the cap on the cost-of-living increases are 2.0 percent for fiscal years 2016 and beyond.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 8. Defined benefit pension plan (continued)

#### B. Description of benefit terms (continued)

##### 2. Oregon Public Service Retirement Plan (Chapter 238A) (OPSRP DB)

###### **Pension Benefits.**

The OPSRP pension program provides benefits to members hired on or after August 29, 2003.

This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

Police and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

###### **Death Benefits**

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

###### **Disability Benefits**

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.



## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 8. Defined benefit pension plan (continued)

#### C. Contributions

OPERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due.

Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation. The rates based on a percentage of payroll, first became effective July 1, 2015.

Tier 1/tier 2 employer contribution rates are 6.04 percent and the OPSRP employer contribution rates are .45 percent for general service employees and 4.41 percent for public safety employees. Employer contributions for the year ended June 30, 2016 were \$17,730, excluding amounts to fund employer specific liabilities.

#### D. Pension asset or liability, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2016, the City reported a liability of \$156,596 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

Employers' long-term contribution efforts are based on projected rates that have two major components:

1. Normal Cost Rate: The economic value, stated as a percent of payroll, for the portion of each active member's total projected retirement benefit that is allocated to the upcoming year of service. The rate is in effect for as long as each member continues in OPERS-covered employment. The current value of all projected future Normal Cost Rate contributions is the Present Value of Future Normal Costs (PVFNC). The PVFNC represents the portion of the projected long-term contribution effort related to future service.

An employer's PVFNC depends on both the normal cost rates charged on the employer's payrolls, and on the underlying demographics of the respective payrolls. For OPERS funding, employers have up to three different payrolls, each with a different normal cost rate: (1) Tier 1/Tier 2 payroll, (2) OPSRP general service payroll, and (3) OPSRP police and fire payroll.

The employer's Normal Cost Rates for each payroll are combined with system-wide present value factors for each payroll to develop an estimated PVFNC. The present value factors are actuarially determined at a system level for simplicity and to allow for the PVFNC calculations to be audited in a timely, cost-effective manner.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 8. Defined benefit pension plan (continued)

#### D. Pension asset or liability, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

2. UAL Rate: If system assets are less than the actuarial liability, an Unfunded Actuarial Liability (UAL) exists. UAL can arise when an event such as experience differing from the assumptions used in the actuarial valuation occurs. An amortization schedule is established to eliminate the UAL that arises over a fixed period of time if future experience follows assumption. The UAL Rate is the upcoming year's component of the cumulative amortization schedules, stated as a percent of payroll. The present value of all projected UAL Rate contributions is equal to the Unfunded Actuarial Liability (UAL). The UAL represents the portion of the projected long-term contribution effort related to past service.
3. UAL Rate: The UAL has Tier 1/Tier 2 and OPSRP pieces. The Tier 1/Tier 2 piece is based on the employer's Tier 1/Tier 2 pooling arrangement. If an employer participates in one of the two large Tier 1/Tier 2 rate pools [State & Local Government Rate Pool (SLGRP) or School Districts Rate Pool], then the employer's Tier 1/Tier 2 UAL is their pro-rata share of their pool's UAL. The pro-rata calculation is based on the employer's payroll in proportion to the pool's total payroll. The OPSRP piece of the UAL follows a parallel pro-rata approach, as OPSRP experience is mandatorily pooled at a state-wide level. Employers that do not participate in a Tier 1/Tier 2 pooling arrangement, who are referred to as "Independent Employers", have their Tier 1/Tier 2 UAL tracked separately in the actuarial valuation.

The projected long-term contribution effort is the sum of the PVFNC and the UAL. The PVFNC part of the contribution effort pays for the value of future service while the UAL part of the contribution effort pays for the value of past service not already funded by accumulated contributions and investment earnings. Each of the two contribution effort components are calculated at the employer-specific level. The sum of these components across all employers is the total projected long-term contribution effort.

At June 30, 2015, the City's proportion was .00272746 percent, which is an increase of .00097599 percent from its proportion measured as of June 30, 2014.

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**8. Defined benefit pension plan (continued)**

**D. Pension asset or liability, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued)**

For the year ended June 30, 2016, the City recognized pension expense of \$151,820. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 8,444	\$
Net difference between projected and actual earnings		
On pension plan investments		32,826
Changes in proportion share	16,757	
Difference between City's contributions and proportionate share of contributions		35,237
City's contributions subsequent to the measurement date	<u>43,591</u>	<u>--</u>
	<u>\$ 68,792</u>	<u>\$ 68,063</u>

\$43,591 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (income) as follows:

Year ends June 30,

2017	\$ (18,469)
2018	(18,469)
2019	(18,469)
2020	12,512
2021	<u>34</u>
	<u>\$ (42,862)</u>

**E. Actuarial valuations**

The December 31, 2013 actuarial valuation used the following actuarial methods and valuation procedures in determining the Tier One/Tier Two contribution rates.

**Actuarial cost method**

The employer contribution rates effective July 1, 2015, through June 30, 2017, were set using the entry age normal actuarial cost method. Under this actuarial cost method, each active member's entry age present value of projected benefits is allocated over the member's service from the member's date of entry until their assumed date of exit, taking into consideration expected future compensation increases.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 8. Defined benefit pension plan (continued)

#### E. Actuarial valuations (continued)

##### **Tier One/Tier Two unfunded actuarial accrued liability amortization**

The Tier 1/Tier 2 UAL amortization period is reset to 20 years as of December 31, 2013. Gains and losses between subsequent odd-year valuations will be amortized as a level percentage of combined valuation payroll (Tier 1/ Tier 2 plus OPSRP payroll) over a closed 20 year period from the valuation in which they are first recognized.

##### **Retiree healthcare unfunded actuarial accrued liability amortization**

The UAL for Retiree Health Care as of December 31, 2007 is amortized as a level percentage of combined valuation payroll (Tier 1/ Tier 2 plus OPSRP payroll) over a closed 10 year period. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over a closed 10 year period from the valuation in which they are first recognized.

##### **Asset valuation method**

The actuarial value of assets equals the market value of assets, excluding the Contingency and Capital Preservation Reserves, and the Rate Guarantee Reserve when it is in positive surplus status. Market values are reported to the actuary by PERS.

##### **Contribution rate stabilization method**

Contribution rates for a rate pool (e.g. Tier 1/Tier 2 SLGRP, Tier 1/Tier 2 School Districts, OPSRP) are confined to a collared range based on the prior contribution rate (prior to application of side accounts, pre-SLGRP liabilities, and 6 percent Independent Employer minimum). The new contribution rate will generally not increase or decrease from the prior contribution rate by more than the greater of 3 percentage points or 20 percent of the prior contribution rate. If the funded percentage excluding side accounts drops below 60% or increases above 140%, the size of the collar doubles. If the funded percentage excluding side accounts is between 60% and 70% or between 130% and 140%, the size of the rate collar is increased on a graded scale.

##### **Allocation of liability for service segments**

For active Tier 1/Tier 2 members who have worked for multiple PERS employers over their career, the calculated actuarial accrued liability is allocated among the employers based on a weighted average of the Money Match methodology, which uses account balance, and the Full Formula methodology, which uses service. The allocation is 30% (5% for police & fire) based on account balance with each employer and 70% (95% for police & fire) based on service with each employer. The entire normal cost is allocated to the current employer.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 8. Defined benefit pension plan (continued)

#### E. Actuarial valuations (continued)

##### Allocation of benefits-in-force reserve

The reserve is allocated to each rate pool in proportion to the retiree liability attributable to the rate pool.

##### Economic assumptions

Investment return	7.75% compounded annually
Pre-2014 interest crediting	8.00% compounded annually on regular account balances 8.25% compounded annually on variable account balances
Post 2013 interest crediting	7.75% compounded annually
Inflation	2.75% compounded annually
Payroll growth	3.75% compounded annually
Healthcare cost trends	Ranges from 6.1% in 2014 to 4.7% in 2083

##### Demographic assumptions

###### Mortality tables

Healthy retirees	RP 2000, Generational (Scale AA) Combined Active/Healthy Annuitant, Sex Distinct
Disabled retirees	RP 2000, Static, Combined Disabled, No Collar, Sex Distinct Male 65% and Female 90% of disabled table
Non-annuitants	Ranges from 55% to 70% of healthy retired mortality tables depending upon sex and employment type

##### Retirement assumptions

Probability tables based on age of member, years of service and employment type with all police and fire retired by age 65 and all others retired by age 70, election to receive a lump sum option at retirement, disability assumptions, termination assumptions and Oregon post-retirement residency assumptions.

##### Salary increase assumptions

Salary increase assumptions, in addition to general payroll growth, include merit increase, unused sick leave and vacation pay.

The December 31, 2013 actuarial valuation for OPSRP generally used the same actuarial methods and valuation procedures as Tier One/Tier Two contribution rates except as follows.

##### OPSRP unfunded actuarial accrued liability amortization

The UAL as of December 31, 2007 is amortized as a level percentage of combined valuation payroll (Tier 1/ Tier 2 plus OPSRP payroll) over a closed period 16 year period. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over 16 years from the valuation in which they are first recognized.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 8. Defined benefit pension plan (continued)

#### E. Actuarial valuations (continued)

##### Economic assumptions

An additional amount for administrative expenses is added to the normal cost.

##### Retirement assumptions

Probability tables are different but still based on age of member, years of service and employment type with all police and fire retired by age 65 and all others retired by age 70, election to receive a lump sum option at retirement, disability assumptions, termination assumptions and Oregon post-retirement residency assumptions.

#### F. Actuarial methods and assumptions used in developing total pension liability

Valuation Date	December 31, 2013
Measurement Date	June 30, 2015
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.75 percent
Long-term expected rate of return	7.75 percent
Discount rate	7.75 percent
Projected Salary Increases	3.75 percent
Cost of living adjustments (COLA)	Blend of 2.00 percent COLA and graded COLA (1.25%/0.015) in accordance with <i>Moro</i> decision; blend based on service
Mortality	<p><b>Healthy retirees and beneficiaries:</b> RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.</p> <p><b>Active members:</b> Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p><b>Disabled retirees:</b> Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.</p>

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 8. Defined benefit pension plan (continued)

#### F. Actuarial methods and assumptions used in developing total pension liability

##### Discount rate

The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

##### Long-term expected rate of return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both the actuaries capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on forward-looking capital market economic model. For more information on the Plan's portfolio, assumed asset allocation and the long-term expected rate of return for each major asset class, calculated using both arithmetic and geometric means, see PERS audited financial statements.

The table below presents the assumptions for each of the asset classes in which the Plan was invested at the time based on the OIC's long-term target asset allocation.

Asset Class	Target Allocation*	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Core Fixed Income	7.20%	4.70%	4.50%	6.60%
Short-Term Bonds	8.00	3.76	3.70	3.45
Intermediate-Term Bonds	3.00	4.23	4.10	5.15
High Yield Bonds	1.80	7.21	6.66	11.10
Large Cap US Equities	11.65	8.60	7.20	17.90
Mid Cap US Equities	3.88	9.38	7.30	22.00
Small Cap US Equities	2.27	10.38	7.45	26.40
Developed Foreign Equities	14.21	8.73	6.90	20.55
Emerging Market Equities	5.49	11.51	7.40	31.70
Private Equity	20.00	11.95	8.26	30.00
Hedge Funds/Absolute Return	5.00	6.46	6.01	10.00
Real Estate (Property)	13.75	7.27	6.51	13.00
Real Estate (REITS)	2.50	8.41	6.76	19.45
Commodities	1.25	7.71	6.07	19.70
Assumed Inflation - Mean			2.75%	2.00%

\* Based on the OIC Statement of Investment Objectives and Policy Framework for the Oregon Public Employees Retirement Fund, revised as of December 18, 2012, and the revised allocation adopted at the June 26, 2013 OIC meeting.

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**8. Defined benefit pension plan (continued)**

**F. Actuarial methods and assumptions used in developing total pension liability**

**Depletion date projection**

GASB 68 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 67 (paragraph 43) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for OPERS:

- OPERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 68 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is OPERS independent actuary's opinion that the detailed depletion date projections outlined in GASB 67 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

**G. Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate.**

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1 Percentage Point Lower</u>	<u>Current Discount Rate</u>	<u>1 Percentage Point Higher</u>
City's proportionate share of net pension liability or (asset)	\$ 377,939	\$ 156,596	\$ (29,938)



## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 9. Interfund transactions

A. Interfund transfers during the year ended June 30, 2016 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 29,295	\$ 130,225
Street	-	31,350
System Development Charges	-	187,056
GO 2015 Pool Bond	324,702	-
Nonmajor	27,765	-
Water	-	334,965
Sewer	-	241,307
Capital Improvement	350,000	122,046
Debt Service	<u>315,187</u>	<u>-</u>
	<u>\$ 1,046,949</u>	<u>\$ 1,046,949</u>

As part of budget preparation and adoption, the City anticipates making interfund transfers to move resources between funds to provide resources for specific expenditures that are not supported by other revenues.

B. Non-cash interfund transfers during the year ended June 30, 2016 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental activities	\$ 468,402	\$ -
Water	2,442,774	1,431,106
Sewer	203,821	-
Capital Improvement	1,431,106	2,807,483
Debt Service	<u>230,000</u>	<u>537,514</u>
	<u>\$ 4,776,103</u>	<u>\$ 4,776,103</u>

These transfers reflect the following:

- principal and interest debt payments made by the Debt Service Fund for the debt obligation of the Water Fund
- loan proceeds received by the Capital Improvement Fund for the debt obligation of the Sewer Fund,
- acquisition of capital assets by the Capital Improvements Fund and System Development Charges Fund on behalf of the General, Water, and Sewer Funds.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 10. Contingencies - accumulated sick leave

Portions of sick leave accumulated at any point in time can be expected to be redeemed before termination of employment; however, such redemptions cannot be reasonably estimated. As of June 30, 2016, City employees had accumulated 302 days of sick leave.

### 11. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance for such risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal year

### 12. Construction commitments

The City has construction contracts with remaining commitments, as follows:

	<u>Commitment</u>
Meadow Lake Transmission	1,503,488

### 13. Net position restricted through enabling legislation

A. Net position which is restricted due to enabling legislation is as follows:

#### Governmental activities

Oregon laws restrict the use of state gas tax for road improvements and repairs	\$ 113,904
Urban renewal taxes are restricted to improving and redeveloping designated areas	304,758
System development charges (SDC) are restricted for the purposes as specified in the implementing ordinances	1,146,870

B. Net position which is restricted by Water Revenue Bonds, Series 2007

#### Business-type activities

Debt service net position is restricted for the payment of principle and interest as specified in the bond document	158,645
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**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**14. Expenditures in excess of appropriations**

Oregon law prohibits expenditures or expenses of a fund in excess of board-approved appropriations. Expenditures in excess of appropriations were made in the following categories:

<u>Fund/Category</u>	<u>Appropriation</u>	<u>Actual</u>	<u>Variance</u>
General Police	\$ 453,655	\$ 465,922	\$ (12,267)

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**CITY OF CARLTON**

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Last 10 Years Ended June 30, \***

	2016	2015	2014
Proportion of the collective net pension liability (asset)	0.00175147%	0.00175147%	0.00175147%
Proportionate share of the collective net pension liability (asset)	\$ 156,596	\$ (39,701)	\$ 89,380
Covered payroll	\$ 496,875	\$ 495,086	\$ 462,556
Proportionate share of the collective net pension liability (asset) as a percentage of the covered payroll	31.52%	-8.02%	19.32%
Pension plan's fiduciary net position as a percentage of the total pension liability	91.88%	103.59%	91.97%

\* Information will be accumulated annually until 10 years is presented

**CITY OF CARLTON**

**SCHEDULE OF CONTRIBUTIONS  
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM  
Last 10 Years Ended June 30, \***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 68,063	\$ 2,550	\$ 1,065
Contractually required contributions recognized by the pension plan	68,063	2,550	1,065
Difference	-	-	-
Covered payroll	496,875	495,086	462,556
Contractually required contributions as a percentage of covered payroll	13.69821%	0.51506%	0.23024%

\* Information will be accumulated until 10 years are presented.



**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES**

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**CITY OF CARLTON**

**SYSTEM DEVELOPMENT CHARGES - CAPITAL PROJECTS FUND (MAJOR FUND)  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

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

	Budget		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
System development charges	\$ 108,395	\$ 108,395	\$ 411,830	\$ 303,435
Interest	<u>1,612</u>	<u>1,612</u>	<u>3,598</u>	<u>1,986</u>
<b>TOTAL REVENUES</b>	<u>110,007</u>	<u>110,007</u>	<u>415,428</u>	<u>305,421</u>
<b>EXPENDITURES</b>				
Materials and services	110,000	93,596	10,683	82,913
Capital outlay	1,008,513	837,861	253,816	584,045
Contingency	<u>69,740</u>	<u>69,740</u>	<u>-</u>	<u>69,740</u>
<b>TOTAL EXPENDITURES</b>	<u>1,188,253</u>	<u>1,001,197</u>	<u>264,499</u>	<u>736,698</u>
Excess (deficiency) of revenues over expenditures	(1,078,246)	(891,190)	150,929	(431,277)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>-</u>	<u>(187,056)</u>	<u>(187,056)</u>	<u>-</u>
Net change in fund balance	(1,078,246)	(1,078,246)	(36,127)	1,042,119
Fund balance at beginning of year	<u>1,078,246</u>	<u>1,078,246</u>	<u>1,182,045</u>	<u>103,799</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,145,918</u>	<u>\$ 1,145,918</u>

**CITY OF CARLTON**

**GO-2015 POOL PROJECT BOND - CAPITAL PROJECTS FUND (MAJOR FUND)  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>			
Property taxes	\$ 62,264	\$ 55,748	\$ (6,516)
Intergovernmental	-	115,000	115,000
Interest	<u>-</u>	<u>3,049</u>	<u>3,049</u>
<b>TOTAL REVENUES</b>	<u>62,264</u>	<u>173,797</u>	<u>111,533</u>
<b>EXPENDITURES</b>			
Capital outlay	1,173,297	1,188,422	(15,125)
Debt service	62,264	56,037	6,227
Contingency	<u>126,405</u>	<u>-</u>	<u>126,405</u>
<b>TOTAL EXPENDITURES</b>	<u>1,361,966</u>	<u>1,244,459</u>	<u>117,507</u>
Excess (deficiency) of revenues over expenditures	<u>(1,299,702)</u>	<u>(1,070,662)</u>	<u>229,040</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Issuance of long-term obligations	975,000	975,000	-
Transfers in	<u>324,702</u>	<u>324,702</u>	<u>-</u>
<b>TOTAL OTHER SOURCES</b>	<u>1,299,702</u>	<u>1,299,702</u>	<u>-</u>
Net change in fund balance	-	229,040	229,040
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ 229,040</u>	<u>\$ 229,040</u>

**CITY OF CARLTON**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2016**

	Special Revenue		Capital Project	
	Urban Renewal	Tourism	Vehicle/ Equipment Replacement	Totals
<b><u>ASSETS</u></b>				
Cash and investments	\$ 41,308	\$ 16,233	\$ 56,749	\$ 114,290
Receivables, net	6,233	-	-	6,233
<b>TOTAL ASSETS</b>	<b>\$ 47,541</b>	<b>\$ 16,233</b>	<b>\$ 56,749</b>	<b>\$ 120,523</b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities	\$ 1,149	\$ 408	\$ -	\$ 1,557
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>				
Unavailable revenue	5,893	-	-	5,893
<b><u>FUND BALANCE</u></b>				
Restricted	40,499	-	-	40,499
Committed	-	15,825	56,749	72,574
<b>TOTAL FUND BALANCES</b>	40,499	15,825	56,749	113,073
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 47,541</b>	<b>\$ 16,233</b>	<b>\$ 56,749</b>	<b>\$ 120,523</b>

**CITY OF CARLTON**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2016**

	Special Revenue		Capital Project Vehicle/ Equipment Replacement	Totals
	Urban Renewal	Tourism		
<b>REVENUES</b>				
Property taxes	\$ 88,615	\$ -	\$ -	\$ 88,615
Transient room tax	-	24,434	-	24,434
Interest	1,342	218	-	1,560
<b>TOTAL REVENUES</b>	<b>89,957</b>	<b>24,652</b>	<b>-</b>	<b>114,609</b>
<b>EXPENDITURES</b>				
Materials and services	4,691	14,908	-	19,599
Capital outlay	258,366	-	26,825	285,191
<b>TOTAL EXPENDITURES</b>	<b>263,057</b>	<b>14,908</b>	<b>26,825</b>	<b>304,790</b>
Excess (deficiency) of revenues over expenditures	(173,100)	9,744	(26,825)	(190,181)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	27,765	27,765
Net change in fund balance	(173,100)	9,744	940	(162,416)
Fund balance at beginning of year	213,599	6,081	55,809	275,489
Fund balance at end of year	<b>\$ 40,499</b>	<b>\$ 15,825</b>	<b>\$ 56,749</b>	<b>\$ 113,073</b>

**CITY OF CARLTON**

**URBAN RENEWAL - SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016**

	Budget		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 63,500	\$ 63,500	\$ 88,615	\$ 25,115
Interest	500	500	1,342	842
<b>TOTAL REVENUES</b>	<u>64,000</u>	<u>64,000</u>	<u>89,957</u>	<u>25,957</u>
<b>EXPENDITURES</b>				
Materials and services	17,500	17,500	4,691	12,809
Capital outlay	258,966	141,466	258,366	(116,900)
<b>TOTAL EXPENDITURES</b>	<u>276,466</u>	<u>158,966</u>	<u>263,057</u>	<u>(104,091)</u>
Excess (deficiency) of revenues over expenditures	(212,466)	(94,966)	(173,100)	(78,134)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	(117,500)	-	117,500
Net change in fund balance	(212,466)	(212,466)	(173,100)	39,366
Fund balance at beginning of year	<u>212,466</u>	<u>212,466</u>	<u>213,599</u>	<u>1,133</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,499</u>	<u>\$ 40,499</u>

**CITY OF CARLTON**

**TOURISM-SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>			
Transient room tax	\$ 17,500	\$ 24,434	\$ 6,934
Interest	100	218	118
Miscellaneous	<u>5,000</u>	<u>-</u>	<u>(5,000)</u>
 TOTAL REVENUES	 22,600	 24,652	 2,052
 <b>EXPENDITURES</b>			
Materials and services	<u>24,957</u>	<u>14,908</u>	<u>10,049</u>
 Net change in fund balance	 (2,357)	 9,744	 12,101
Fund balance at beginning of year	<u>2,357</u>	<u>6,081</u>	<u>3,724</u>
 Fund balance at end of year	 <u><u>\$ -</u></u>	 <u><u>\$ 15,825</u></u>	 <u><u>\$ 15,825</u></u>



**CITY OF CARLTON**

**VEHICLE/EQUIPMENT REPLACEMENT - CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016**

	Budget		Actual	Variance
	Original	Final		
<b>EXPENDITURES</b>				
Capital outlay	\$ 18,000	\$ 27,765	\$ 26,825	\$ 940
Contingency	<u>21,480</u>	<u>21,480</u>	<u>-</u>	<u>21,480</u>
 TOTAL EXPENDITURES	 39,480	 49,245	 26,825	 22,420
 <b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>18,000</u>	<u>27,765</u>	<u>27,765</u>	<u>-</u>
Net change in fund balance	(21,480)	(21,480)	940	22,420
Fund balance at beginning of year	<u>21,480</u>	<u>21,480</u>	<u>55,809</u>	<u>34,329</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,749</u>	<u>\$ 56,749</u>

**CITY OF CARLTON**

**WATER - ENTERPRISE FUND (MAJOR FUND)  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016**

	Budget			
	Original	Final	Actual	Variance
<b>REVENUES</b>				
Charges for services	\$ 821,550	\$ 821,550	\$ 840,781	\$ 19,231
Interest	650	650	1,560	910
Miscellaneous	500	500	1,133	633
<b>TOTAL REVENUES</b>	822,700	822,700	843,474	20,774
<b>EXPENDITURES</b>				
Personal services	294,598	294,597	280,467	14,130
Materials and services	214,340	229,340	227,924	1,416
Capital outlay	42,025	48,290	47,684	606
Contingency	263,098	248,904	-	248,904
<b>TOTAL EXPENDITURES</b>	814,061	821,131	556,075	265,056
Excess (deficiency) of revenues over expenditures	8,639	1,569	287,399	285,830
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(342,035)	(334,965)	(334,965)	-
Net change in fund balance	(333,396)	(333,396)	(47,566)	285,830
Fund balance at beginning of year	333,396	333,396	150,665	(182,731)
Fund balance at end of year	\$ -	\$ -	103,099	\$ 103,099
<b>Reconciliation to generally accepted accounting principles:</b>				
Capital assets, net			6,165,939	
Deferred outflows of resources:				
Premiums on long-term debt obligations			16,054	
Pension related items			20,039	
Accrued interest payable			(9,901)	
Compensated absences payable			(8,758)	
Net pension liability			(45,616)	
Long-term obligations			(3,363,455)	
Deferred inflows of resources			(19,827)	
Net position at end of year			\$ 2,857,574	

**CITY OF CARLTON**

**SEWER - ENTERPRISE FUND (MAJOR FUND)  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016**

	Budget		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ 555,365	\$ 555,365	\$ 568,113	\$ 12,748
Interest	1,190	1,190	1,772	582
Miscellaneous	3,100	3,100	12,841	9,741
<b>TOTAL REVENUES</b>	<b>559,655</b>	<b>559,655</b>	<b>582,726</b>	<b>23,071</b>
<b>EXPENDITURES</b>				
Personal services	181,611	181,611	176,393	5,218
Materials and services	197,025	197,025	194,728	2,297
Capital outlay	15,825	22,089	17,248	4,841
Contingency	213,427	204,233	-	204,233
<b>TOTAL EXPENDITURES</b>	<b>607,888</b>	<b>604,958</b>	<b>388,369</b>	<b>216,589</b>
Excess (deficiency) of revenues over expenditures	(48,233)	(45,303)	194,357	239,660
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(238,377)	(241,307)	(241,307)	-
Net change in fund balance	(286,610)	(286,610)	(46,950)	239,660
Fund balance at beginning of year	286,610	286,610	238,005	(48,605)
Fund balance at end of year	\$ -	\$ -	191,055	\$ 191,055
<b>Reconciliation to generally accepted accounting principles:</b>				
Capital assets, net			5,171,737	
Deferred outflows of resources			14,533	
Accrued interest payable			(41,719)	
Compensated absences payable			(4,191)	
Net pension liability			(33,082)	
Long-term obligations			(1,443,377)	
Deferred inflows of resources			(14,379)	
Net position at end of year			\$ 3,840,577	

**CITY OF CARLTON**

**CAPITAL IMPROVEMENTS - ENTERPRISE FUND (MAJOR FUND)  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016**

	Budget	Actual	Variance
<b>REVENUES</b>			
Intergovernmental	\$ 625,000	\$ 518,000	\$ (107,000)
Interest	1,500	3,411	1,911
Miscellaneous	100,000	-	(100,000)
<b>TOTAL REVENUES</b>	726,500	521,411	(205,089)
<b>EXPENDITURES</b>			
Capital outlay	5,367,949	2,807,483	2,560,466
Excess (deficiency) of revenues over expenditures	(4,641,449)	(2,286,072)	2,355,377
<b>OTHER FINANCING SOURCES (USES)</b>			
Loan receipts	2,800,000	1,431,106	(1,368,894)
Transfers in	400,000	350,000	(50,000)
Transfers out	(122,046)	(122,046)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	3,077,954	1,659,060	(1,418,894)
Net change in fund balance	(1,563,495)	(627,012)	936,483
Fund balance at beginning of year	919,056	920,858	1,802
Fund balance at end of year	\$ (644,439)	\$ 293,846	\$ 938,285

**CITY OF CARLTON**

**DEBT SERVICE - ENTERPRISE FUND (MAJOR FUND)  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016**

	Budget	Actual	Variance
<b>REVENUES</b>			
Intergovernmental	\$ -	\$ 230,000	\$ 230,000
<b>EXPENDITURES</b>			
Materials and services	400	7,675	(7,275)
Debt service	313,056	537,514	(224,458)
Total expenditures	313,456	545,189	(231,733)
 Excess (deficiency) of revenues over expenditures	 (313,456)	 (315,189)	 461,733
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	315,187	315,187	-
Net change in fund balance	1,731	(2)	461,733
Fund balance at beginning of year	-	158,647	158,647
 Fund balance at end of year	 \$ 1,731	 \$ 158,645	 \$ 620,380

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

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**GRANT COMPLIANCE-SINGLE AUDIT**

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

Honorable Mayor and Members  
of the City Council  
**CITY OF CARLTON**  
Carlton, Oregon

We have audited in accordance with auditing standards generally accepted in the United States of America the basic financial statements of the CITY OF CARLTON as of and for the year ended June 30, 2016, and have issued our report thereon dated January 31, 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 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.**
- **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).**

**INDEPENDENT AUDITOR'S REPORT REQUIRED BY  
OREGON STATE REGULATIONS (Continued)**

**Compliance and Other Matters (continued)**

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 except as follows:

1. The 2015-16 budget was executed in compliance with legal requirements, except disbursements in excess of appropriations (which is prohibited by ORS 294.435) were made in the following categories:

<u>Fund/Category</u>	<u>Appropriation</u>	<u>Actual</u>	<u>Variance</u>
General			
Police	\$ 453,655	\$ 465,922	\$ (12,267)
GO-2015 Pool Project Bond			
Capital outlay	1,173,297	1,188,422	(15,125)
Debt Service			
Materials and services	400	7,675	(7,275)
Debt service	313,056	537,514	(224,458)

2. Items in the 2016-17 published financial summary, Form LB-1, did not agree to the 2016-17 budget approved by the budget committee.
3. The 2016-17 budgeted transfers out (\$572,642) do not agree to transfers in (\$605,142).
4. The City did not establish a separate debt service fund in 2015-16 for the GO-2015 Pool Project Bond as required by ORS 294.388.

**OAR 162-10-0230 Internal Control**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purposes 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. Deficiencies in internal control, if any, were communicated separately.

**Restriction of Use**

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

Boldt Carlisle + Smith  
 Certified Public Accountants  
 Salem, Oregon  
 January 31, 2017

By: 

Bradley G. Bingenheimer, Member



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the City Council  
City of Carlton

We have audited, in accordance with the 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 Carlton as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Carlton’s basic financial statements and have issued our report thereon dated January 31, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Carlton’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 of Carlton’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Carlton’s internal control.

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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness as item 2016-001. We also identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as item 2016-002.

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Carlton’s financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-003 and 2016-004.

**City of Carlton’s Response to Findings**

City of Carlton’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Carlton’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 results 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.

*Boldt Carlisle & Smith*

Boldt Carlisle + Smith  
Certified Public Accountants  
Salem, Oregon  
January 31, 2017



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE**

To the City Council

City of Carlton

**Report on Compliance for Each Major Federal Program**

We have audited the City of Carlton’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Carlton’s major federal programs for the year ended June 30, 2016. City of Carlton’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Carlton’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Carlton’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Carlton’s compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Carlton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE (Continued)**

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-003 and 2016-004. Our opinion on each major federal program is not modified with respect to these matters.

City of Carlton’s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Carlton’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of the City of Carlton is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Carlton’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Carlton’s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-005 that we consider to be a significant deficiency.



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)**

**Report on Internal Control over Compliance (Continued)**

City of Carlton’s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Carlton’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Boldt Carlisle & Smith*

Boldt Carlisle + Smith  
Certified Public Accountants  
Salem, Oregon  
January 31, 2017

**CITY OF CARLTON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2016**

Section I - Summary of Auditors' Results

***Financial Statements***

Type of auditor's report issued:	<i>Unmodified</i>
Internal controls over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

***Federal awards***

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
Type of auditor's report issued on compliance for major federal programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
Identification of major federal programs:	

CFDA

Number(s) Name of Federal Program or Cluster

66.468 Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	No

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### Section II - Financial Statement Findings

#### **Material Weakness:**

##### 2016-001 Cash Reconciliation

- Criteria: Internal controls should include processes for properly reconciling the bank accounts to the general ledger on a monthly basis. Without this reconciliation there is a significant risk of a material misstatement, caused by either error or fraud, occurring and not being detected or corrected in a timely manner.
- Condition: The City's internal controls do not provide for a proper reconciliation of bank accounts to the general ledger.
- Cause: The City was not able to properly reconcile bank accounts to the general ledger on a monthly basis.
- Effect: An employee could commit fraud and it would not be detected or corrected in a timely manner.
- Recommendation: The City should establish policies and procedures that provide for proper reconciliations of the bank accounts to the general ledger on a monthly basis. The City should receive additional training on the use of its software regarding the cash accounts and pooling.
- Response: The City disagrees. The City has hired and maintained an independent third party, who reconciles on a monthly basis for internal control and deter fraud. All reconciliations were done within a week of the month closing for fiscal year 15-16.

#### **Significant Deficiency**

##### 2016-002 Journal Entries

- Criteria: Internal controls should provide for adequate segregation of duties in connection with posting journal entries and monitoring of journal entries posted.
- Condition: The City's internal controls do not provide for adequate segregation of duties or monitoring of journal entries posted
- Cause: An employee has the ability to post journal entries without adequate monitoring.
- Effect: An employee could make adjustments to accounts without authorization, or commit fraud.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### Section II - Financial Statement Findings (Continued)

#### 2016-002 Journal Entries (Continued)

**Recommendation:** The City should establish policies and procedures that provide for adequate segregation of duties and monitoring over the posting of journal entries.

**Response:** The City partially disagrees. The finance director signs off all utility and water adjustments. The City manager signs off on bank reconciliation entries and payroll entries. The City will continue to improve 3<sup>rd</sup> party review for all journal entries.

### Section III - Federal Award Findings and Questioned Costs

#### 2016-003

U.S. Environmental Protection Agency  
State of Oregon Infrastructure Finance Authority  
66.468 Capitalization Grants for Drinking Water State Revolving Funds

**Criteria:** 2 CFR Part 200.302(b)(1) requires the financial management system to be able to identify federal awards received and expended.

**Condition:** The City was unaware that loan funds received were federal funds.

**Questioned Costs:** None.

**Prevalence and Consequences:** The City has no internal controls over identifying federal awards received and therefore could not comply with any applicable compliance requirements.

**Effect:** The City did not comply with identification of federal awards.

**Auditor's Recommendation:** The City should develop controls that would identify federal awards.

**Grantee Response:** The City agrees and will work on implementing the recommendations.

#### 2016-004

U.S. Environmental Protection Agency  
State of Oregon Infrastructure Finance Authority  
66.468 Capitalization Grants for Drinking Water State Revolving Funds

**Criteria:** 2 CFR Part 200.302(b)(7) requires the financial management system to include written procedures for determining the allowability of costs.

**Condition:** The City was unaware that loan funds received were federal funds.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### Section III - Federal Award Findings and Questioned Costs (Continued)

2016-004 (Continued)

Questioned Costs: None.

Prevalence and Consequences: Since the City has no internal controls over allowability of costs; there were costs requested for reimbursement that were not allowable.

Effect: The City complied with allowable costs only because of state oversight during the reimbursement process.

Auditor's Recommendation: The City should develop controls that that identify allowable costs.

Grantee Response: The City agrees and will work on implementing the recommendations.

2016-005

U.S. Environmental Protection Agency  
State of Oregon Infrastructure Finance Authority  
66.468 Capitalization Grants for Drinking Water State Revolving Funds

Criteria: 2 CFR Part 200.303 requires the City to establish and maintain effective internal controls over the federal award that provides reasonable assurance that the City is managing the award in accordance with the federal requirements.

Condition: The City requested and received federal funds from an invoice that had been reimbursed in a previous draw down request.

Questioned Costs: \$19,869.

Prevalence and Consequences: The City has no internal controls over the costs requested for reimbursement.

Effect: The City received more in federal awards than it was entitled to for the project.

Auditor's Recommendation: The City should develop controls that would ensure costs requested for reimbursement could not be requested more than once.

Grantee Response: The City agrees and will work on implementing the recommendations.

**CITY OF CARLTON**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b><u>US Environmental Protection Agency</u></b>			
Passed through the State of Oregon acting by and through the Oregon Infrastructure Finance Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	S15008	<u>\$ 1,392,721</u>
<b><u>Department of Homeland Security</u></b>			
Passed through Oregon Office of Emergency Management Disaster Grants - Public Assistance	97.036	DR-4258-OR	<u>9,928</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,402,649</u></u>

## CITY OF CARLTON

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2016

#### **Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Carlton under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of Carlton, it is not intended to and does not present the financial position, changes in net position, or cash flows of City of Carlton.

#### **Note 2 - Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The City does not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance. The City allocates indirect costs as allowed by each grant.