

***CITY OF MILLERSBURG, OREGON
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017***

CITY OF MILLERSBURG, OREGON

CITY OFFICIALS

JUNE 30, 2017

<u>Name and Address</u>	<u>Position</u>	<u>Term Expires</u>
Jim Lepin 3360 Lauren Avenue NE Albany, Oregon 97321	Mayor	December 31, 2018
Scott Cowan 2491 Millersburg Drive NE Albany, Oregon 97321	Council Member	December 31, 2018
Scott McPhee P.O. Box 1852 Albany, Oregon 97321	Council Member	December 31, 2020
Don Miller 2690 Millersburg Drive NE Albany, Oregon 97321	Council Member	December 31, 2020
Dave Harms 3206 Yosemite Place NE Albany, Oregon 97321	Council Member	December 31, 2020

Appointed Officials

Sarah Cook
City Administrator/Recorder
4222 Old Salem Road NE
Albany, Oregon 97321

CITY OF MILLERSBURG, OREGON

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FINANCIAL SECTION



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Millersburg
4222 Old Salem Rd NE
Albany, Oregon 97321

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Millersburg, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in the notes to the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these modified cash basis financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 City'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 City'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 modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Millersburg, as of June 30, 2017, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in the notes to the financial statements.

Basis of Accounting

We draw attention to the notes to financial statements, which describe the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Report on Supplemental and 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. Management's discussion and analysis and the supplemental information are the responsibility of management, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The supplemental information as listed in the table of contents is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in notes to the financial statements.

Management's discussion and analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated January 31, 2018, 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.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: RTR
Ryan T. Pasquarella, A Shareholder
January 31, 2018

City of Millersburg, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2017

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

Financial Highlights

	June 30,		change
	2017	2016	
Net Position	\$ 41,788,325	\$ 40,327,871	\$ 1,460,454
Change in Net Position	1,460,454	1,640,756	(180,302)
Governmental Net Position	23,287,435	22,078,633	1,208,802
Proprietary Net Position	18,500,890	18,249,238	251,652
Change in Governmental Net Position	1,208,802	468,480	740,322
Change in Proprietary Net Position	251,652	1,172,276	(920,624)

Overview of the Financial Statements

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

The Statement of Net Position (Modified Cash Basis). The *statement of net position* presents information on all of the assets and liabilities of the City as of the date on the statement. Net position is what remains after the recognized liabilities have been paid off or otherwise satisfied. 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 (Modified Cash Basis). The *statement of activities* presents information showing how the net position of the City changed over the most recent fiscal year by tracking revenues, expenses and other transactions that increase or decrease net position in total.

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
- Highways and streets

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

- Water Utility
- Sewer Utility

The government-wide financial statements can be found on pages 10 through 11 of this report.

Fund financial statements – The fund financial statements provide more detailed information about the City’s funds, focusing on its most significant or “major” funds – not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial decisions. By doing so, readers may better understand the long-term impact of the government’s near-term financial decisions.

The City maintains three individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances for those funds that are considered significant (major) to the City taken as a whole. These financial statements report two major funds, the General and Street Reserve.

The governmental fund financial statements can be found on pages 12 through 13 in the basic financial statements.

The City adopts an annual appropriated budget for all governmental funds. To demonstrate compliance with the budget, budgetary comparison statements have been provided for the General fund, Street fund, and Street Reserve fund.

Proprietary funds - Proprietary funds are used to account for activities where the emphasis is placed on net income determination. All of the City’s proprietary funds are enterprise funds. 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 activity.

The enterprise funds for Water Utility and Sewer Utility are considered to be major funds of the City and are reported separately in the proprietary fund financial statements in the basic financial statements.

The City adopts an annual appropriated budget for each enterprise fund. To demonstrate compliance with the budget, budgetary comparison statements have been provided for the enterprise funds as other supplemental information.

The enterprise fund financial statements can be found on pages 14 through 15 in the basic financial statements.

Notes to the basic 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 basic financial statements and should be read in conjunction with them.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain *supplemental information*, including the budgetary comparison schedules, the combining nonmajor fund financial statements, and other schedules.

Government-Wide Financial Analysis

Statement of Net Position (Modified Cash Basis)

City of Millersburg
Statements of Net Position (Modified Cash Basis)
June 30,

	2017			2016		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 6,950,063	\$ 4,937,474	\$ 11,887,537	\$ 5,300,871	\$ 4,315,204	\$ 9,616,075
Non-depreciable capital assets	5,622,558	188,953	5,811,511	5,622,558	188,953	5,811,511
Depreciable capital assets, net	10,714,814	21,015,754	31,730,568	11,155,204	21,975,247	33,130,451
Total assets	23,287,435	26,142,181	49,429,616	22,078,633	26,479,404	48,558,037
Long-term liabilities	-	7,641,291	7,641,291	-	8,230,166	8,230,166
Net position:						
Net investment in capital assets	16,337,372	13,563,416	29,900,788	16,777,762	13,934,034	30,711,796
Restricted	2,101,590	2,486,668	4,588,258	872,517	1,578,794	2,451,311
Unrestricted	4,848,473	2,450,806	7,299,279	4,428,354	2,736,410	7,164,764
Total Net Position	\$ 23,287,435	\$ 18,500,890	\$ 41,788,325	\$ 22,078,633	\$ 18,249,238	\$ 40,327,871

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 \$41,788,325 at June 30, 2017.

The City's net investment in capital assets, \$29,900,788 or approximately 72% represents the net book value of capital assets less the outstanding balance of debt issued for the purpose of acquiring or constructing capital assets.

A portion of the City's net position, \$4,588,258 or approximately 11% represents resources that are subject to external restrictions on how they may be used. The remaining balance is net position - unrestricted totaling \$7,299,279 or approximately 17%.

Statement of Activities (Modified Cash Basis)

City of Millersburg
Statements of Activities (Modified Cash Basis)
For the Year Ended June 30,

	2017			2016		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues						
Program Revenues						
Fees, fines and charges for services	\$ 823,605	\$ 1,631,935	\$ 2,455,540	\$ 269,182	\$ 1,589,809	\$ 1,858,991
Operating grants and contributions	128,735	37,713	166,448	375,709	281,959	657,668
Capital grants and contributions	964,013	541,621	1,505,634	559,498	336,758	896,256
General Revenues						
Property taxes	736,444	-	736,444	643,944	-	643,944
Franchise taxes	881,770	-	881,770	866,052	-	866,052
Intergovernmental	58,867	-	58,867	264,532	-	264,532
Miscellaneous	176,626	-	176,626	156,342	2,689	159,031
<i>Total Revenues</i>	<u>3,770,060</u>	<u>2,211,269</u>	<u>5,981,329</u>	<u>3,135,259</u>	<u>2,211,215</u>	<u>5,346,474</u>
Expenses						
General government	2,038,628	-	2,038,628	1,732,840	-	1,732,840
Highway and streets	522,630	-	522,630	51,208	-	51,208
Water	-	977,265	977,265	-	867,502	867,502
Sewer	-	982,352	982,352	-	1,054,168	1,054,168
<i>Total Expenses</i>	<u>2,561,258</u>	<u>1,959,617</u>	<u>4,520,875</u>	<u>1,784,048</u>	<u>1,921,670</u>	<u>3,705,718</u>
Transfers	-	-	-	(882,731)	882,731	-
Change in Net Position	1,208,802	251,652	1,460,454	468,480	1,172,276	1,640,756
Net Position, beginning of year	<u>22,078,633</u>	<u>18,249,238</u>	<u>40,327,871</u>	<u>21,610,153</u>	<u>17,076,962</u>	<u>38,687,115</u>
Net Position, end of year	<u>\$ 23,287,435</u>	<u>\$ 18,500,890</u>	<u>\$ 41,788,325</u>	<u>\$ 22,078,633</u>	<u>\$ 18,249,238</u>	<u>\$ 40,327,871</u>

The City's net position increased \$1,460,454 during fiscal 2016-2017. This increase is explained in the government and business-type activities as follows:

Governmental activities - The City's net position increased by \$1,208,802 from governmental activities. This increase is due mainly to expenditures being under budget.

Major Governmental Funds:

General. The General fund is the primary operating fund of the City. Fund balance was \$5,179,723 at June 30, 2017. The fund balance increased by \$831,311 during the year mainly due to a significant increase in building activity and the associated permits.

As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 259% of total General Fund expenditures.

Street Reserve. The Street Reserve fund accounts for revenues and expenditures related to street maintenance and improvements. The fund balance increased this year by \$774,141 due to substantial revenue and minimal expenditures.

Business-type activities - The City's fund balances increased by \$251,652 from business-type activities. This increase was due to minimal capital outlay.

Major Proprietary Funds:

Water Utility. The Water Utility fund revenues are from charges for services and expenses are for personal services, materials and services and capital outlay. The fund balance increased by \$339,711 during the year as a result of revenues being over budget and expenditures being under budget.

Sewer Utility. The Sewer fund revenues are from charges for services and expenses are for personal services, materials and services and capital outlay. The fund's net position increased by \$282,559 during the year due to minimal capital outlay.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for governmental and business-type activities are shown below. Capital assets include land, buildings and improvements, furniture and equipment, and infrastructure. More detailed information on the City's capital assets can be found in the notes to the financial statements.

	Governmental activities		Business-type activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 5,622,558	\$ 5,622,558	\$ 188,953	\$ 188,953	\$ 5,811,511	\$ 5,811,511
Buildings and improvements	2,946,596	2,922,611	-	-	2,946,596	2,922,611
Furniture and equipment	167,484	167,484	5,022	5,022	172,506	172,506
Infrastructure	12,555,701	12,496,629	31,451,127	31,392,297	44,006,828	43,888,926
Accumulated depreciation	(4,954,967)	(4,431,520)	(10,440,395)	(9,422,072)	(15,395,362)	(13,853,592)
Net capital assets	\$ 16,337,372	\$ 16,777,762	\$ 21,204,707	\$ 22,164,200	\$ 37,542,079	\$ 38,941,962

Long-Term Debt

The long-term debt of the City is shown below. The City made scheduled payments on existing debt during the year. More detailed information on the City's long-term debt can be found in the notes to the financial statements.

State statutes limit the amount of general obligation debt a government entity may issue up to 3 percent of its total assessed valuation. The City currently has no general obligation debt.

**City of Millersburg
Outstanding Debt**

	Business-type Activities	
	2017	2016
SPWF Water Loan	\$2,844,912	\$3,119,321
City of Albany Sewer Plant	4,071,379	4,335,845
DEQ Wetlands Loan	725,000	775,000
	<u>\$7,641,291</u>	<u>\$8,230,166</u>

Current Year Budgetary Highlights

There were no changes made to the adopted budget for the General fund during the current fiscal year.

Economic Factors and Next Year's Budgets and Rates

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 following are the major assumptions used in developing the FY 2018 budget:

- The City's population is expected to grow significantly in 2018.
- The City's tax rate is estimated to be 100% of the City's permanent levy rate of \$1.700.
- Assessed values, the basis of property tax revenues, will grow to 3% due to market conditions.
- Interest rates on investments will be similar to 2017.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report should be addressed to the City Administrator at 4222 Old Salem Road NE, Albany, Oregon 97321.

BASIC FINANCIAL STATEMENTS

CITY OF MILLERSBURG, OREGON
STATEMENT OF NET POSITION (MODIFIED CASH BASIS)
JUNE 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 6,950,063	\$ 4,937,474	\$ 11,887,537
Non-depreciable capital assets	5,622,558	188,953	5,811,511
Depreciable capital assets, net	10,714,814	21,015,754	31,730,568
<i>Total Assets</i>	23,287,435	26,142,181	49,429,616
LIABILITIES			
Long-term liabilities			
Portion due within one year	-	781,475	781,475
Portion due in more than one year	-	6,859,816	6,859,816
<i>Total Liabilities</i>	-	7,641,291	7,641,291
NET POSITION			
Net investment in capital assets	16,337,372	13,563,416	29,900,788
Restricted for:			
Debt service	-	450,839	450,839
Streets	1,770,340	-	1,770,340
Capital acquisitions	331,250	2,035,829	2,367,079
Unrestricted	4,848,473	2,450,806	7,299,279
<i>Total Net Position</i>	<u>\$ 23,287,435</u>	<u>\$ 18,500,890</u>	<u>\$ 41,788,325</u>

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

CITY OF MILLERSBURG, OREGON
STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)
YEAR ENDED JUNE 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
FUNCTIONS/PROGRAMS				
Governmental activities:				
General government	\$ 2,038,628	\$ 823,605	\$ 20,000	\$ 130,800
Highway and streets	522,630	-	108,735	833,213
<i>Total Governmental activities</i>	2,561,258	823,605	128,735	964,013
Business-type activities:				
Water	977,265	891,259	-	237,018
Sewer	982,352	740,676	37,713	304,603
<i>Total Business-type activities</i>	1,959,617	1,631,935	37,713	541,621
<i>Total Activities</i>	<u>\$ 4,520,875</u>	<u>\$ 2,455,540</u>	<u>\$ 166,448</u>	<u>\$ 1,505,634</u>
General Revenues:				
Property taxes				
Franchise taxes				
Intergovernmental				
Miscellaneous				
<i>Total General Revenues</i>				
Change in Net Position				
<i>Net Position - beginning of year</i>				
<i>Net Position - end of year</i>				

*Net (Expenses) Revenues
and Changes in Net Position*

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
\$ (1,064,223)	\$ -	\$ (1,064,223)
419,318	-	419,318
(644,905)	-	(644,905)
-	151,012	151,012
-	100,640	100,640
-	251,652	251,652
(644,905)	251,652	(393,253)
736,444	-	736,444
881,770	-	881,770
58,867	-	58,867
176,626	-	176,626
1,853,707	-	1,853,707
1,208,802	251,652	1,460,454
22,078,633	18,249,238	40,327,871
<u>\$ 23,287,435</u>	<u>\$ 18,500,890</u>	<u>\$ 41,788,325</u>

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

CITY OF MILLERSBURG, OREGON
BALANCE SHEET (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General</u>	<u>Capital Projects Street Reserve Fund</u>	<u>Other Governmental Funds Special Revenue Street Fund</u>
ASSETS			
Cash and cash equivalents	\$ 5,179,723	\$ 1,520,608	\$ 249,732
LIABILITIES AND FUND BALANCE			
Liabilities	\$ -	\$ -	\$ -
Fund Balance:			
Restricted for:			
Streets	-	1,520,608	249,732
Capital acquisitions	331,250	-	
Unassigned	4,848,473	-	-
Total Fund Balance	<u>5,179,723</u>	<u>1,520,608</u>	<u>249,732</u>
Total Liabilities and Fund Balance	<u>\$ 5,179,723</u>	<u>\$ 1,520,608</u>	<u>\$ 249,732</u>

**Reconciliation of the Balance Sheet (Modified Cash Basis)
to the Statement of Net Position (Modified Cash Basis)**

Fund balances

Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Position at their net depreciable value:

- Capital assets, cost
- Accumulated depreciations

Net Position

Total

\$	6,950,063
----	-----------

\$	-
----	---

	1,770,340
	331,250
	4,848,473

	6,950,063
--	-----------

\$	6,950,063
----	-----------

\$	6,950,063
----	-----------

	21,292,339
	(4,954,967)

\$	23,287,435
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The accompanying notes are an integral part of the financial statements.

CITY OF MILLERSBURG, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

(MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>Capital Projects Street Reserve Fund</u>	<u>Other Governmental Funds Special Revenue Street Fund</u>
REVENUES			
Taxes and assessments	\$ 736,444	\$ -	\$ -
Intergovernmental	78,927	-	108,735
Licenses and permits	1,828,680	833,213	-
Charges for services	7,435	-	-
Miscellaneous	176,626	-	-
<i>Total Revenues</i>	<u>2,828,112</u>	<u>833,213</u>	<u>108,735</u>
EXPENDITURES			
General government	1,967,123	-	64,995
Capital acquisitions	29,678	59,072	-
<i>Total Expenditures</i>	<u>1,996,801</u>	<u>59,072</u>	<u>64,995</u>
NET CHANGE IN FUND BALANCE	831,311	774,141	43,740
FUND BALANCE, beginning of year	<u>4,348,412</u>	<u>746,467</u>	<u>205,992</u>
FUND BALANCE, end of year	<u>\$ 5,179,723</u>	<u>\$ 1,520,608</u>	<u>\$ 249,732</u>

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance (Modified Cash Basis) to the Statement of Activities (Modified Cash Basis)

Net change in fund balance

Capital acquisitions are reported as expenditures in governmental funds. However, the Statement of Activities allocates the cost of capital acquisitions over the estimated useful life as depreciation expense:

- Capital acquisitions
- Depreciation expense

Change in net position of governmental activities

<i>Total</i>	
\$	736,444
	187,662
	2,661,893
	7,435
	176,626
	<u>3,770,060</u>
	2,032,118
	88,750
	<u>2,120,868</u>
	1,649,192
	5,300,871
\$	<u><u>6,950,063</u></u>

\$	1,649,192
	83,057
	(523,447)
\$	<u><u>1,208,802</u></u>

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

CITY OF MILLERSBURG, OREGON

STATEMENT OF FUND NET POSITION (MODIFIED CASH BASIS) - PROPRIETARY FUNDS

JUNE 30, 2017

	<i>Water Utility Fund</i>	<i>Sewer Utility Fund</i>	<i>Other Business- type Funds Sewer Construction Fund</i>
ASSETS			
Cash and cash equivalents	\$ 1,759,284	\$ 3,164,407	\$ 13,783
LIABILITIES	-	-	-
FUND NET POSITION:			
Restricted for:			
Debt service	450,839	-	-
Capital acquisitions	988,287	1,047,542	-
Unrestricted	320,158	2,116,865	13,783
<i>Total Fund Net Position</i>	<u>\$ 1,759,284</u>	<u>\$ 3,164,407</u>	<u>\$ 13,783</u>

**Reconciliation of the Statement of Fund Net position (Modified Cash Basis)
to the Statement of Net Position (Modified Cash Basis)**

Fund net position

Capital assets are not financial resources for the modified cash basis, but are reported in the Statement of Net Position at their net depreciable value:

- Capital assets, cost
- Accumulated depreciations

Long-term liabilities are not financial requirements for the modified cash basis, but are reported in the Statement of Net position

Net position

CITY OF MILLERSBURG, OREGON

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

(MODIFIED CASH BASIS) - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2017

	<u>Water Utility Fund</u>	<u>Sewer Utility Fund</u>	<u>Other Business- type Funds Sewer Construction Fund</u>
OPERATING REVENUES			
Charges for services	\$ 891,260	\$ 740,676	\$ -
Intergovernmental	-	37,713	-
<i>Total Operating Revenues</i>	891,260	778,389	-
OPERATING EXPENSES			
Materials and services	340,202	272,501	-
OPERATING INCOME			
	551,058	505,888	-
NONOPERATING ITEMS			
Capital contributions	237,018	304,602	-
Capital acquisitions	-	(58,830)	-
Debt payments			
Principal	(274,409)	(314,466)	-
Interest	(173,956)	(154,635)	-
<i>Total Nonoperating Items</i>	(211,347)	(223,329)	-
CHANGE IN FUND NET POSITION			
	339,711	282,559	-
FUND NET POSITION, beginning of year			
	1,419,573	2,881,848	13,783
FUND NET POSITION, end of year			
	<u>\$ 1,759,284</u>	<u>\$ 3,164,407</u>	<u>\$ 13,783</u>

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance (Modified Cash Basis) to the Statement of Activities (Modified Cash Basis)

Change in fund net position

Capital acquisitions are reported as expenditures in governmental funds. However, the Statement of Activities allocates the cost of capital acquisitions over the estimated useful life as depreciation expense:

- Capital acquisitions
- Depreciation expense

Debt principal paid is reported as an expenditure for the modified cash basis. However, it does not affect the Statement of Activities, but is reported as a decrease in noncurrent liabilities on the Statement of Net Position

Change in net position of business-type activities

<i>Total</i>	
\$	1,631,936
	37,713
	<hr/> 1,669,649
	612,703
	<hr/> 1,056,946
	541,620
	(58,830)
	(588,875)
	(328,591)
	<hr/> (434,676)
	622,270
	4,315,204
\$	<hr/> <hr/> 4,937,474

\$ 622,270

58,830
(1,018,323)

588,875

\$

251,652

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Millersburg, Oregon was incorporated in 1974 under the provisions of the Oregon Statutes. The City offers a beautiful eleven-acre park with a large shelter for year-round use. It boasts of a volleyball court, a jogging path, a tennis court, and an outdoor basketball court. Two baseball fields, playground equipment, and horseshoe pits round out the park amenities. With a population of 1,620 and growing, Millersburg gives you that country feeling with big city facilities nearby. The City is headed by a City Council and Mayor who are responsible for rule-making, budget preparation and enforcement, expenditure approval, and hiring of the City management personnel. The Mayor and four City Council members are elected by vote of the general public.

As discussed further under *Measurement Focus and Basis of Accounting*, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally 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.

Government-wide financial statements display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Position (Modified Cash Basis) and the Statement of Activities (Modified Cash Basis).

The Statement of Net Position (Modified Cash Basis) presents all the recorded assets and liabilities of the City. Net position, representing assets less liabilities, is shown in two components: restricted for special purposes, amounts which must be spent in accordance with legal restrictions; and unrestricted, the amount available for ongoing City activities.

The Statement of Activities (Modified Cash Basis) demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the City has governmental (general, special revenue and capital projects) and proprietary type (enterprise) funds. Major individual governmental funds, and major individual proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

CITY OF MILLERSBURG, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The City reports the following major governmental funds:

General Fund

This fund accounts for the financial operations of the City not accounted for in any other fund. Principal sources of revenues are property taxes, licenses and permits, franchise fees and State shared revenues. Primary expenditures are for general administration.

Capital Projects Fund

Street Reserve Fund – The Street Reserve Fund is used to accumulate resources for future construction of streets. The primary source of revenue is street frontage fees. Expenditures are primarily for existing street repairs, improvements, and upgrades.

The City reports the following nonmajor governmental fund:

Special Revenue Fund

Street Fund – The Street fund accounts for state highway use tax revenues. Expenditures are for street lighting and repairs, as allowed by Oregon statutes.

The City reports the following major proprietary funds:

Enterprise Funds

Water Utility Fund – The Water Utility Fund accounts for the activities of the City's water utilities. The primary source of revenue is user charges. Expenditures are primarily for the operation of the water system and acquisition and construction of capital assets.

Sewer Utility Fund - The Sewer Utility Fund accounts for the activities of the City's sewer utilities. The primary source of revenue is user charges. Expenditures are primarily for the operation of the utility and acquisition of capital assets.

The City reports the following nonmajor proprietary fund:

Sewer Construction Fund – The Sewer Construction Fund accounts for financial resources to be used for the acquisition and construction of sewer facilities. The primary source of revenue is investment earnings. Expenditures are primarily for sewer expansion.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Fund balance is reported as restricted when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Fund balance is reported as committed when the City Council takes formal action that places specific constraints on how the resources may be used. The City Council can modify or rescind the commitment at any time through taking a similar formal action.

Resources that are constrained by the City's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the City Council approves which resources should be "reserved" during the adoption of the annual budget. The City's City Administrator uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the City's Annual Financial Report.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds.

Definitions of Governmental Fund Types

The General Fund is used to account for all financial resources not accounted for in another fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term "proceeds of specific revenues sources" means that the revenue sources for the fund must be from restricted or committed sources, specifically that a substantial portion of the revenue must be from these sources and be expended in accordance with those requirements.

Capital Projects Funds are utilized to account for financial resources to be used for the acquisition or construction of capital equipment and facilities.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

In the government-wide Statement of Net Position (Modified Cash Basis) and Statement of Activities (Modified Cash Basis), both governmental and business-type activities are presented using the economic resource measurement focus, within the limitations of the modified cash basis of accounting, as defined below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an economic resource measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, change in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include:

1. Interfund receivables and payables that are temporary borrowing and result from transactions involving cash or cash equivalents are recognized.
2. Assets that normally convert to cash or cash equivalents (e.g., certificates of deposit, external cash pools, and marketable investments) that arise from transactions and events involving cash or cash equivalents are recognized.
3. Liabilities for cash (or cash equivalents) held on behalf of others or held in escrow are recognized.

The modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods and services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value. Additionally, capital assets such as property and equipment, and long-term liabilities such as debt are only reported in the government-wide financial statements and in the notes to the financial statements.

If the City utilized the basis of accounting recognized as generally accepted in the United States of America, the fund financial statements for the governmental funds would use the modified accrual basis of accounting, and the fund financial statements for the enterprise funds would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

CITY OF MILLERSBURG, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting(Continued)

The City's policy, although not in accordance with accounting principles generally accepted in the United States of America, is acceptable under Oregon Law (ORS 294.333), which leaves the selection of the method of accounting to the discretion of the municipal corporation.

Enterprise funds distinguish between operating revenues and expenses and nonoperating items. Operating revenues and expenses result from providing services to customers in connection with ongoing utility operations. The principal operating revenues are charges to customers for service. Operating expenses include payroll and related costs, and materials and supplies. All revenues not considered operating are reported as nonoperating items.

When expenditures are paid for purposes in which both net position - restricted and net position - unrestricted are available, the City deems net position - restricted to be spent first.

Cash and Cash Equivalents

The City maintains cash and cash equivalents in a common pool that is available for use by all funds. Each fund type's portion of this pool is displayed in the financial statements as cash and cash equivalents. Additionally, several funds held separate cash accounts. Interest earned on pooled cash and investments is allocated to participating funds based upon their combined cash and investment balances. The City considers cash on hand, demand deposits, and short-term investments with an original maturity of three months or less from the date of acquisition to be cash and cash equivalents.

Oregon Revised Statutes authorize the City to invest in certificates of deposit, savings accounts, bank repurchase agreements, bankers' acceptances, general obligations of U.S. Government and its agencies, certain bonded obligations of Oregon municipalities and the State Treasurer's Local Government Investment Pool, among others.

Investments are stated at cost, which approximates fair value.

Property Taxes

Property taxes are levied by the County Assessor and collected by the County Tax Collector. The taxes are levied and become a lien as of July 1. They may be paid in three installments payable in equal payments due November 15, February 15, and May 15. The City's property tax collection records show that most of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years.

Capital Assets

Capital assets (items costing more than \$5,000 and lasting more than one year) are reported in the applicable governmental or business-type activities in the notes to the financial statements. In the fund statements, capital assets are charged as expenditures as purchased. Capital assets are recorded at cost or estimated historical cost where records are available. Donated assets are not recorded. Maintenance and repairs are expensed as incurred. Replacements which improve or extend the lives of property are capitalized.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Capital assets are depreciated unless they are inexhaustible in nature (e.g., land and right-of-ways). Depreciation is an accounting process to allocate the cost of capital assets in a systematic and rational manner to those periods expected to benefit from the use of capital assets. Depreciation is not intended to represent an estimate in the decline of fair market value, nor are capital assets, net of accumulated depreciation, intended to represent an estimate of the current condition of the assets, or the maintenance requirements needed to maintain the assets at their current level of condition.

Depreciation is computed over the estimated useful lives of the capital assets. Depreciation is calculated on the straight-line basis. The estimated useful lives of the various categories of assets are as follows:

Buildings and improvements	50 years
Water and sewer systems	25 - 80 years
Infrastructure	40 years
Furniture and equipment	5 - 20 years

Upon disposal of capital assets, cost and accumulated depreciation are removed from the accounts.

Long-Term Debt

Long-term debt is presented only in the government-wide financial statements and in the notes to the financial statements. Payments of principal and interest are recorded as expenditures / expenses when paid.

Accrued Compensated Absences

Accumulated unpaid vacation and comp time pay is not accrued. Earned but unpaid sick pay is recorded as an expenditure when paid.

Budgets and Budgetary Accounting

The City adopts the budget on an object basis (personnel services, materials and services, capital outlay, debt service), for all funds except the General fund, where the budget is adopted on a departmental basis. Therefore, cash expenditures of a fund may not legally exceed that object's appropriations for cash expenditures. The City Council may amend the budget to expend unforeseen revenues by supplemental appropriations. All supplemental appropriations are included in the budget comparison statements. Appropriations lapse at year-end and may not be carried over. The City does not use encumbrance accounting.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenditures / expenses as of and for the year ended June 30, 2017. Actual results may differ from such estimates.

CITY OF MILLERSBURG, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

CASH AND CASH EQUIVALENTS

<i>Cash</i>	
Cash on hand	\$ 70
Deposits with financial institutions	932,785
<i>Investments</i>	
Local Government Investment Pool	10,954,682
	<hr/>
	\$ 11,887,537
	<hr/> <hr/>

Deposits

The book balance of the City’s bank deposits was \$932,785 and the bank balance was \$938,282 at year end. The difference is due to transactions in process. Bank deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

Local Government Investment Pool

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2017, the fair value of the position in the Oregon State Treasurer’s Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

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 for up to \$250,000 for the aggregate of all demand deposits and the aggregate of all time deposit and savings accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2017, \$688,282 of the City’s bank balances were covered by the PFCP.

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

CASH AND CASH EQUIVALENTS (Continued)

Interest Rate Risk

In accordance with its investment policy, the City manages its exposure to declines in fair value of its investments by limiting its investments to the LGIP.

Custodial Risk – Local Government Investment Pool

For the LGIP, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The City's investment policy limits the types of investments that may be held and does not allow securities to be held by the counterparty.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

CAPITAL ASSETS

The summary of capital assets for governmental activities for the year ended June 30, 2017 is as follows:

	<i>Balances July 1, 2016</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balances June 30, 2017</i>
Nondepreciable capital assets				
Land	\$ 5,622,558	\$ -	\$ -	\$ 5,622,558
Depreciable capital assets				
Buildings	2,922,611	23,985	-	2,946,596
Equipment	167,484	-	-	167,484
Infrastructure	12,496,629	59,072	-	12,555,701
Total depreciable capital assets	15,586,724	83,057	-	15,669,781
Less accumulated depreciation				
Buildings	(787,810)	(61,334)	-	(849,144)
Equipment	(148,106)	(4,477)	-	(152,583)
Infrastructure	(3,495,604)	(457,636)	-	(3,953,240)
Total accumulated depreciation	(4,431,520)	(523,447)	-	(4,954,967)
Net depreciable capital assets	11,155,204	(440,390)	-	10,714,814
Net capital assets	\$ 16,777,762	\$ (440,390)	\$ -	\$ 16,337,372

The summary of capital assets for the business-type activities for the year ended June 30, 2017 is as follows:

	<i>Balances July 1, 2016</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balances June 30, 2017</i>
Nondepreciable capital assets				
Land	\$ 188,953	\$ -	\$ -	\$ 188,953
Depreciable capital assets				
Equipment	5,022	-	-	5,022
Infrastructure	31,392,297	58,830	-	31,451,127
Total depreciable capital assets	31,397,319	58,830	-	31,456,149
Less accumulated depreciation				
Equipment	(5,022)	-	-	(5,022)
Infrastructure	(9,417,050)	(1,018,323)	-	(10,435,373)
Total accumulated depreciation	(9,422,072)	(1,018,323)	-	(10,440,395)
Net depreciable capital assets	21,975,247	(959,493)	-	21,015,754
Net capital assets	\$ 22,164,200	\$ (959,493)	\$ -	\$ 21,204,707

CITY OF MILLERSBURG, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

LONG-TERM LIABILITIES

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

	<i>Outstanding July 1, 2016</i>	<i>Issued</i>	<i>Matured/ Redeemed During Year</i>	<i>Outstanding June 30, 2017</i>	<i>Due Within One Year</i>
<i>Business-type activities</i>					
Loan Payable - OECD					
2001 OBDD Special Public Works Fund Loan	\$ 3,119,321	\$ -	\$ (274,409)	\$ 2,844,912	\$ 294,601
Loans Payable - City of Albany	4,335,845	-	(264,466)	4,071,379	411,874
Loan Payable - DEQ CWSRF	775,000	-	(50,000)	725,000	75,000
	<u>\$ 8,230,166</u>	<u>\$ -</u>	<u>\$ (588,875)</u>	<u>\$ 7,641,291</u>	<u>\$ 781,475</u>

The Sewer Utility and Water Utility Funds have traditionally been used to liquidate long-term liabilities. Interest and fees charged to the City during the year ended June 30, 2017 amounted to \$154,635 and \$173,956, respectively.

Loan Payable – OECD

The 2001 Special Public Works Fund Loan through the Oregon Economic and Community Development Department was signed on August 27, 1999, with interest at 5.25% due annually on December 1 through the year 2024. The proceeds were used for water system improvements.

Loans Payable – City of Albany

The City of Millersburg signed two loan agreements with the City of Albany as part of an intergovernmental agreement to finance the construction costs for wastewater treatment facilities. Both loans were signed on August 17, 2007, with payments and interest due semiannually on April 1 and October 1 through 2029. In addition to interest, the City must pay an administrative loan fee equal to 0.50% of the outstanding balance.

Loan Payable – DEQ CWSRF

The City of Millersburg signed a loan agreement with the Oregon Department of Environmental Quality (DEQ) Clean Water State Revolving Fund (CWSRF) to finance Phase 1 of the wastewater wetlands project. The project was completed in July 2011 and the final loan amount was determined to be \$4,000,000. Due to the City's compliance with the requirements of the CWSRF loan agreement, \$3,000,000 principal forgiveness outlined in Article 1 of the loan agreement took place, leaving the City with \$1,000,000 to be repaid to DEQ. The City of Millersburg's ownership percentage constitutes 10% of the total project cost. Payment and fees are due semiannually on February 1 and August 1 through 2031. The City meets the requirement of the covenant to maintain a loan reserve account in which the amount is equal to half of the average annual debt service.

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

LONG-TERM LIABILITIES (Continued)

Future Maturities of Long-Term Liabilities

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2018	\$ 781,475	\$ 337,308	\$ 1,118,783
2019	645,140	251,146	896,286
2020	669,601	225,411	895,012
2021	694,641	198,544	893,185
2022	725,437	170,091	895,528
2023-2027	3,166,809	398,338	3,565,147
2028-2031	958,188	28,869	987,057
	<u>\$ 7,641,291</u>	<u>\$ 1,609,707</u>	<u>\$ 9,250,998</u>

PENSION PLAN

The Oregon Public Employees Retirement System (OPERS) is a cost-sharing multiple employer defined benefit plan. Qualified employees of the City are provided with pensions through OPERS. Employees hired before August 29, 2003 belong to the Tier One/Tier Two Retirement Benefit Program (established pursuant to ORS Chapter 238), while employees hired on or after August 29, 2003 belong to the OPSRP Pension Program (established pursuant to ORS Chapter 238A). OPERS issues a publicly available financial report that can be obtained at

http://www.oregon.gov/pers/pages/section/financial_reports/financials.aspx.

Benefits provided under ORS Chapter 238 – Tier One/ Tier Two

Pension Benefits: The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under 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. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

CITY OF MILLERSBURG, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

Benefits provided under ORS Chapter 238 – Tier One/ Tier Two (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 PERS employer at the time of death; the member died within 120 days after termination of PERS-covered employment; the member died as a result of injury sustained while employed in a PERS-covered job, or; the member was on an official leave of absence from a PERS-covered job at the time of death.

Disability Benefits: A member with 10 or more years of creditable service who becomes disabled from other than duty connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 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. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

Benefits provided under Chapter 238A - OPSRP Pension Program (OPSRP DB)

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: 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.

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.

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

Benefits provided under Chapter 238A - OPSRP Pension Program (OPSRP DB) (Continued)

Benefit Changes After Retirement: Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2016 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2014 actuarial valuation. The City's contribution rates in effect for the fiscal year ended June 30, 2017 were 17.35 percent for Tier One/Two members, 11.36 percent for OPSRP general service members, and 15.47 percent for OPSRP uniformed members. The City's contributions for the year ended June 30, 2017 were \$34,973, excluding amounts to fund employer specific liabilities.

Actuarial Methods and Assumptions:

The employer contribution rates effective July 1, 2015, through June 30, 2017, were set by OPERS using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

Valuation Date	December 31, 2014 rolled forward to June 30, 2016
Experience Study Report	2014, published September 2015
Actuarial cost method	Entry Age Normal
Amortization method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years.
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation rate	2.50 percent
Investment rate of return	7.50 percent
Projected salary increases	3.50 percent overall payroll growth
Cost of living adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blend based on service

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

Actuarial Methods and Assumptions (Continued):

Mortality

Healthy retirees and beneficiaries:
RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.
Active members:
Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.
Disabled retirees:
Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

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.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 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 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

CITY OF MILLERSBURG, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

PENSION PLAN (Continued)

Long-Term Expected Rate of Return (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compound Annual (Geometric) Return</u>
Core Fixed Income	8.00 %	4.00 %
Short-Term Bonds	8.00	3.61
Bank/Leveraged Loans	3.00	5.42
High Yield Bonds	1.00	6.20
Large/Mid Cap US Equities	15.75	6.70
Small Cap US Equities	1.31	6.99
Micro Cap US Equities	1.31	7.01
Developed Foreign Equities	13.13	6.73
Emerging Market Equities	4.12	7.25
Non-US Small Cap Equities	1.88	7.22
Private Equity	17.50	7.97
Real Estate (Property)	10.00	5.84
Real Estate (REITS)	2.50	6.69
Hedge Fund of Funds - Diversified	2.50	4.64
Hedge Fund - Event-driven	0.63	6.72
Timber	1.88	5.85
Farmland	1.88	6.37
Infrastructure	3.75	7.13
Commodities	1.88	4.58
Assumed Inflation - Mean		2.50 %

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 7.50%, as well as what City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Proportionate share of the net pension liability	\$ 677,195	\$ 419,402	\$ 203,933

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2017

CONTINGENCIES

The City purchases commercial insurance to cover all commonly insurable risks, which includes property damage, liability and employee bonds. Most policies carry a small deductible amount. There were no open claims at the time of this report. No insurance settlements have exceeded coverage in the last three years.

At times, the City is a defendant in various litigation proceedings. Management believes any losses arising from these actions will not materially affect the City's financial position.

OVEREXPENDITURES OF APPROPRIATIONS

Oregon law prohibits expenditures in excess of council-approved appropriations. Overexpenditures of appropriations during the current year were as follows:

<u>Fund/Appropriation Category</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<i>General</i>			
Materials and services	\$ 1,074,000	\$ 1,577,552	\$ (503,552)

NEW PRONOUNCEMENTS

The City implemented the following pronouncement during the current fiscal year:

GASB Statement No. 77, "Tax Abatement Disclosures," addresses the disclosure requirements for governments that have tax abated properties in their jurisdiction. It will require governments to disclose a description of the tax abatement program, the gross dollar amount of taxes abated during the period, and commitments made by a government, other than to abate taxes, as part of the tax abatement agreement. Implementation of the pronouncement did not affect the current year financial statements.

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

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. It requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. The statement is effective for fiscal years beginning after June 15, 2017.

RELATED PARTY TRANSACTIONS

The City leases residential property to the prior City Recorder. Rents received during the current fiscal year totaled \$8,400.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2018, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

CITY OF MILLERSBURG, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - GENERAL FUND****YEAR ENDED JUNE 30, 2017**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 600,000	\$ 600,000	\$ 736,444	\$ 136,444
Intergovernmental	65,045	65,045	78,927	13,882
Licenses and permits	1,114,000	1,114,000	1,828,680	714,680
Charges for services	6,000	6,000	7,435	1,435
Miscellaneous	81,500	81,500	176,626	95,126
<i>Total Revenues</i>	1,866,545	1,866,545	2,828,112	961,567
EXPENDITURES				
Personnel services	431,600	431,600	389,571	42,029
Materials and services	1,074,000	1,074,000	1,577,552	(503,552)
Capital outlay	195,100	195,100	29,678	165,422
Contingency	500,000	500,000	-	500,000
<i>Total Expenditures</i>	2,200,700	2,200,700	1,996,801	203,899
REVENUES OVER (UNDER) EXPENDITURES	(334,155)	(334,155)	831,311	1,165,466
OTHER FINANCING SOURCES (USES)				
Transfers out	(252,100)	(252,100)	-	252,100
NET CHANGE IN FUND BALANCE	(586,255)	(586,255)	831,311	1,417,566
FUND BALANCE, beginning of year	4,133,800	4,133,800	4,348,412	214,612
FUND BALANCE, end of year	\$ 3,547,545	\$ 3,547,545	\$ 5,179,723	\$ 1,632,178

CITY OF MILLERSBURG, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - STREET RESERVE FUND

YEAR ENDED JUNE 30, 2017

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 57,000	\$ 57,000	\$ 833,213	\$ 776,213
EXPENDITURES				
Capital outlay	697,300	697,300	59,072	638,228
REVENUES OVER (UNDER) EXPENDITURES	(640,300)	(640,300)	774,141	1,414,441
OTHER FINANCING SOURCES (USES)				
Transfers in	100	100	-	(100)
NET CHANGE IN FUND BALANCE	(640,200)	(640,200)	774,141	1,414,341
FUND BALANCE, beginning of year	640,200	640,200	746,467	106,267
FUND BALANCE, end of year	\$ -	\$ -	\$ 1,520,608	\$ 1,520,608

CITY OF MILLERSBURG, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - STREET FUND

YEAR ENDED JUNE 30, 2017

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 80,000	\$ 80,000	\$ 108,735	\$ 28,735
EXPENDITURES				
Materials and services	118,800	118,800	64,995	53,805
Contingency	143,200	143,200	-	143,200
<i>Total Expenditures</i>	<u>262,000</u>	<u>262,000</u>	<u>64,995</u>	<u>197,005</u>
REVENUES OVER (UNDER) EXPENDITURES	(182,000)	(182,000)	43,740	225,740
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
NET CHANGE IN FUND BALANCE	(181,000)	(181,000)	43,740	224,740
FUND BALANCE, beginning of year	<u>181,000</u>	<u>181,000</u>	<u>205,992</u>	<u>24,992</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 249,732</u>	<u>\$ 249,732</u>

CITY OF MILLERSBURG, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – WATER UTILITY FUND

YEAR ENDED JUNE 30, 2017

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 845,000	\$ 845,000	\$ 891,260	\$ 46,260
Licenses and permits	41,420	41,420	237,018	195,598
<i>Total Revenues</i>	886,420	886,420	1,128,278	241,858
EXPENDITURES				
Materials and services	410,000	410,000	340,202	69,798
Debt service				
Principal	275,000	275,000	274,409	591
Interest	174,000	174,000	173,956	44
Capital outlay	10,000	10,000	-	10,000
Contingency	200,000	200,000	-	200,000
<i>Total Expenditures</i>	1,069,000	1,069,000	788,567	280,433
REVENUES OVER (UNDER) EXPENDITURES	(182,580)	(182,580)	339,711	522,291
OTHER FINANCING SOURCES (USES)				
Transfers in	1,000	1,000	-	(1,000)
NET CHANGE IN FUND BALANCE	(181,580)	(181,580)	339,711	521,291
FUND BALANCE, beginning of year	1,372,000	1,372,000	1,419,573	47,573
FUND BALANCE, end of year	\$ 1,190,420	\$ 1,190,420	\$ 1,759,284	\$ 568,864

CITY OF MILLERSBURG, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - SEWER UTILITY FUND****YEAR ENDED JUNE 30, 2017**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 625,000	\$ 625,000	\$ 740,676	\$ 115,676
Intergovernmental	38,000	38,000	37,713	(287)
Licenses and permits	44,620	44,620	304,602	259,982
<i>Total Revenues</i>	<u>707,620</u>	<u>707,620</u>	<u>1,082,991</u>	<u>375,371</u>
EXPENDITURES				
Materials and services	310,000	310,000	272,501	37,499
Debt service				
Principal	315,000	315,000	314,466	534
Interest	154,900	154,900	154,635	265
Capital outlay	1,085,000	1,085,000	58,830	1,026,170
Contingency	400,000	400,000	-	400,000
<i>Total Expenditures</i>	<u>2,264,900</u>	<u>2,264,900</u>	<u>800,432</u>	<u>1,464,468</u>
REVENUES OVER (UNDER) EXPENDITURES	(1,557,280)	(1,557,280)	282,559	1,839,839
OTHER FINANCING SOURCES (USES)				
Transfers in	250,000	250,000	-	(250,000)
NET CHANGE IN FUND BALANCE	(1,307,280)	(1,307,280)	282,559	1,589,839
FUND BALANCE, beginning of year	<u>2,690,000</u>	<u>2,690,000</u>	<u>2,881,848</u>	<u>191,848</u>
FUND BALANCE, end of year	<u>\$ 1,382,720</u>	<u>\$ 1,382,720</u>	<u>\$ 3,164,407</u>	<u>\$ 1,781,687</u>

CITY OF MILLERSBURG, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – SEWER CONSTRUCTION FUND
YEAR ENDED JUNE 30, 2017**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Capital outlay	13,783	13,783	-	13,783
NET CHANGE IN FUND BALANCE	(13,783)	(13,783)	-	13,783
FUND BALANCE, beginning of year	13,783	13,783	13,783	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 13,783	\$ 13,783

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Honorable Mayor and Members of the City Council
City of Millersburg
4222 Old Salem Rd NE
Albany, OR 97321

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the City of Millersburg, Oregon (the City) as of and for the year ended June 30, 2017, and have issued our report thereon dated January 31, 2018.

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.**
- **Programs funded from outside sources.**
- **Highway revenues used for public highways, roads, and streets.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials - no money was collected or received by elected officials.**

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 for overexpenditures of appropriations disclosed in the notes to the financial statements.

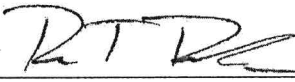
Internal Control Over Financial Reporting

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

Restriction on Use

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

*GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS*

By: 
Ryan T. Pasquarella, A Shareholder
January 31, 2018