

**CITY OF COBURG
LANE COUNTY, OREGON**

FINANCIAL STATEMENTS

**WITH
INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED JUNE 30, 2014

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CITY OF COBURG
LANE COUNTY, OREGON

Mayor & City Council

June 30, 2014

<u>Name</u>	<u>POSITION</u>	<u>TERM EXPIRES</u>
Jae Pudewell	Mayor	December 31, 2014
Jerry Behney	Council President	December 31, 2014
Don Nelson	City Councilor	December 31, 2014
Jeffrey Kaliner	City Councilor	December 31, 2014
Brian Pech	City Councilor	December 31, 2014
Sharyl Abasapour	City Councilor	December 31, 2016
Ray Smith	City Councilor	December 31, 2016

All City Council members will receive mail at the following address:

City of Coburg
P.O. Box 8316
Coburg, Oregon 97408

ADMINISTRATION

Petra Schuetz, City Administrator

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**CITY OF COBURG
LANE COUNTY, OREGON**

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**CITY OF COBURG
LANE COUNTY, OREGON**

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12700 SW 72nd Ave. ♦ Tigard, OR 97223
(503) 620-2632 ♦ (503) 684-7523 FAX
www.paulyrogersandcocpas.com

April 20, 2015

To the Honorable Mayor and Members of the City Council
City of Coburg, Oregon
Lane County, Oregon

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Coburg, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. The financial statements of the City of Coburg Urban Renewal Agency were not audited in accordance with Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Coburg, as of June 30, 2014, and the respective changes in financial position and budgetary comparisons for the general, park, and street funds, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The City adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, 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 Management's Discussion and Analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information 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 supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The listing of Council members containing their term expiration dates located before the table of contents, 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 20, 2015 on our consideration of the internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the reports 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. The reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated April 20, 2015, on our consideration of 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.

A handwritten signature in black ink that reads "Roy R. Rogers". The signature is written in a cursive style with a large, stylized "R" at the beginning.

ROY R. ROGERS, CPA
PAULY, ROGERS AND CO., P.C.

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**CITY OF COBURG
FISCAL YEAR 2014
ANNUAL FINANCIAL REPORT**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Coburg's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the City's financial statements, which follow this section. The City is on the modified accrual basis of accounting.

FINANCIAL HIGHLIGHTS

- The City's total combined assets at June 30, 2014 are \$31,349,777.
- The City's total combined liabilities at June 30, 2014 are \$21,191,139.
- At June 30, 2014, the City's governmental funds reported a combined ending fund balance of \$(778,319) compared to \$(1,794,013) at June 30, 2013 (see tables and discussion on pages VII and VIII).
- The General Fund reported an ending fund balance this year of \$(514,274). This is a \$131,770 decrease from the previous year's fund balance of \$(382,504). This decrease is the result of recording an interfund loan to the general fund from the Sewer Capital fund that was not previously recorded in the financial statements.

PERFORMANCE HIGHLIGHTS

- Completion of the Wastewater Project was a monumental-once in a generation-accomplishment for Coburg's future.
- The move to the new City hall location provides for essential security, ADA and design standard improvements, and increased space for community meetings and events.
- There have been no significant worker's compensation claims, and the City has experienced a clean safety record, which resulted in a decrease in Workers Compensation Coverage rates for FY 2013-14.
- Increases in Health Care costs are significantly lower than expected. This is a result of a successful switch to the CIS pool.
- With the transition to the new City Hall Court operations have improved significantly. The new facility allows for full jury trials and eliminates the need to rent an alternate facility.
- Court collections have increased with newly implemented payment programs.
- Financial processes continue to improve which results in more in-depth financial reporting to the Council and community.
- The City is experiencing an increase in development of both commercial as well as single-family units.
- Historic preservation efforts continue to evolve with the help of grant funding.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Coburg's basic financial statements. The City's basic financial statements comprise three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies using accrual-basis accounting. 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 the associated cash transaction is recorded on the City's books.

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:

- General Government
- Police
- Municipal Court
- Planning
- Public Works
- Capital Project Construction

The City has two proprietary (business-type) activities.

- Water Utility
- Sewer Utility

The City provides all administrative duties for the Coburg Urban Renewal Agency (CURA), a legally separate entity, in accordance with intergovernmental agreements. Therefore, management believes it would be misleading to exclude this entity from the government-wide financial statements. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. Detailed information about this component unit is the subject of a separate audit report.

The government-wide financial statements can be found on pages 2, 3A, and 3B of the basic financial statements.

Fund Financial Statements

The 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. Much of the revenue the City receives is restricted by either the provider of the revenue or by decision of the City Council. All of the funds of the City can be divided into three categories: government funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements (page II). However, 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 financing requirements.

The City maintains seven individual governmental funds. Information is presented separately in the governmental funds Balance Sheet (page 4A & 4B) and in the governmental funds Statement of Revenues, Expenses, and Changes in Fund Balances (page 6A & 6B). Explanations of differences between the Government Fund Balance Sheet and the Government-Wide Statement of Net Position can be found on page 5.

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, Park, and Street Funds beginning on page 12, and the remaining funds beginning on page 30.

Proprietary funds. The City maintains two proprietary funds – the Water Fund and the Sewer Fund – and they are both enterprise funds. These are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses these enterprise funds to account for its Water Utility and Sewer Utility.

The proprietary fund financial statements can be found on pages 8, 9 and 10 in the basic financial statements. Budgetary comparison schedules have been provided for the Water and Sewer Funds on pages 28 and 29, respectively.

Fiduciary funds. The City is the trustee, or *fiduciary*, for certain funds. The City is responsible for ensuring that the assets reported in a fiduciary fund are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations. The City has one Fiduciary Fund: Cash Evidence Held. The fiduciary fund financial statements can be found on page 11 in the basic financial statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-27 of this report. The schedule of bonded debt and loan transactions and future debt service requirements are included in this section on pages 25-27.

Supplementary information. The enterprise funds and non-major governmental funds are detailed in this section beginning on page 28. The schedule of property tax transactions is on page 34.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial analysis presented in this section of a municipal audit is based on the change in net position over the subject year. In it, the change is identified, as are the causes of that change, and the benefit to the City of the change. Table 1 presents a summary of the change in Coburg's net position between June 30, 2014 and June 30, 2013.

Total Assets increased by \$6,094,374 between June 30, 2014 and June 30, 2013. The reason for this was due to an increase in Capital Assets in the Sewer Fund as project completions were capitalized, an increase in cash and investments, and a reduction in receivables.

TABLE 1			
CHANGE IN NET POSITION			
	June 30, 2014	June 30, 2013	Change
ASSETS			
Cash & Investments	\$1,527,181	\$48,637	\$1,478,544
Accounts Receivable	902,604	1,053,046	-150,442
Due from other Funds	40,187	40,187	0
Property Taxes Receivable	38,268	40,445	-2,177
Total Current Assets	2,508,240	1,182,315	1,325,925
NON CURRENT CAPITAL ASSETS			
Capital Assets (net of Depreciation)	28,841,537	24,073,088	4,768,449
TOTAL ASSETS	\$31,349,777	\$25,255,403	\$6,094,374

TABLE 2			
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
LIABILITIES	June 30, 2014	June 30, 2013	Change
Due to Component Unit	\$1,495,955	\$995,597	\$500,358
Due to Other Funds	40,187	40,187	0
Accounts Payable	1,025,309	1,111,305	-85,996
Retainage Payable	326,214	801,198	-474,984
Payroll Liabilities	34,348	11,492	22,856
Accrued Compensated Absences	48,023	42,953	5,070
Unearned Revenue	0	8,191	-8,191
Accrued Interest	195,883	147,436	48,447
Bonds and Loans Payable - Current	180,345	128,113	52,232
Total Current Liabilities	3,346,264	3,286,472	59,792
NON-CURRENT			
Bonds and Loans Payable	17,844,875	13,982,760	3,862,115
Total Liabilities	\$21,191,139	\$17,269,232	\$3,921,907

As of June 30, 2014 liabilities increased by \$3,921,907 compared to June 30, 2013. This increase is a result of an increase in debt primarily for the Wastewater System.

As of June 30, 2014, the portion of restricted net position was \$529,701. This amount is subject to internal and external restrictions as shown in Table 3.

TABLE 3			
CHANGE IN NET POSITION			
NET POSITION	June 30, 2014	June 30, 2013	Change
Net Investment in Capital Assets	\$10,816,317	\$9,962,215	\$854,102
Restricted for:			0
System Development Charges	215,360	215,360	0
Debt Service Loan Covenants	314,341	377,771	-63,430
Unrestricted	-1,187,380	-2,569,175	1,381,795
TOTAL NET POSITION	\$10,158,638	\$7,986,171	\$2,172,467

Comparing Table 1 with Table 3 shows that assets are sufficient to cover restricted account requirements.

Financial Analysis of the Government Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$(778,319) (Table 4), an increase of \$1,015,694 from the previous year-end fund balance total.

TABLE 4				
CHANGE IN ENDING FUND BALANCES				
GOVERNMENTAL FUNDS				
FUND #	FUND NAME	June 30, 2014	June 30, 2013	CHANGE
001	General Fund	\$-514,274	\$-382,504	\$-131,770
002	Park Fund	4,038	6,162	-2,124
003	Street Fund	122,840	128,749	-5,909
022	Park Capital Fund	135,575	91,489	44,086
023	Street Capital Fund	303,064	220,515	82,549
024	Water Capital Fund	-19,276	2,071	-21,347
025	Sewer Capital Fund	-810,286	-1,860,495	1,050,209
	TOTAL	\$-778,319	\$-1,794,013	\$1,015,694

The General Fund. The General Fund is the chief operating fund of the City. At the end of FY14 the Fund's balance was \$(514,274), a decrease from last year's ending fund balance of \$(382,504). The increase in negative balance reflects the recording of an interfund loan dating back to 2007 that was not reported on the balance sheet in prior years, and the recording of the purchase of the new city hall.

For a discussion of the negative fund balance see the interfund debt issue discussion in the FY07 Management Analysis and Discussion.

General Fund program expenditures exceeded the authorized budget appropriations by \$63,384. The majority of this excess is a result of the cost of contracting with third party consultants and contractors during transition in the finance and administration departments.

Other Governmental Funds. The changes in Fund Balances documented in Table 4 above reflect each Fund's gain or loss for the fiscal year. While expenditures remained well below budgeted appropriations in most funds, revenues were also under budget. This resulted in a reduced fund balance in five out of seven funds. The Sewer Capital Fund exceeded the budget for revenues, but funding source revenue was well below budget expectations. This is because the project was not completed as of the end of the fiscal year and therefore, reimbursements expected for the project were delayed.

Enterprise Funds. The City's enterprise funds, the Water and Sewer Funds, had fund balances of \$217,484 and \$96,328 for FY14. This is a total gain of \$345,899. This gain can be attributed to higher than expected revenues in the Water Fund and Sewer Fund. It is also a reflection of the removal of an inter-agency loan that was placed on the books incorrectly in a prior period in the amount of \$195,597.

TABLE 5				
CHANGE IN ENDING FUND BALANCES				
ENTERPRISE FUNDS				
FUND #	FUND NAME	June 30, 2014	June 30, 2013	CHANGE
4	Water Fund	\$217,484	\$109,245	\$108,239
5	Sewer Fund	96,328	-141,332	237,660
	TOTAL	\$313,812	\$-32,087	\$345,899

All Funds Combined: Gain or Loss by Fund. In the year ended June 30, 2014, the City had revenues in excess of expenses in the amount of \$1,361,593 as shown in Table 6. This is compared to an excess of expenses over revenues in 2013 in the amount of \$1,257,691. This change can mostly be attributed to revenues in the Sewer Capital fund, and a prior year change in the Sewer Fund.

Table 6						
Summary All Funds						
FUND	NAME OF FUND	BEGINNING FUND BALANCES	REVENUES	EXPENSES	ENDING FUND BALANCE	CHANGE IN FUND BALANCE
		7/1/2013			6/30/2014	
001	General Fund	\$-382,504	\$1,967,757	\$-2,099,527	\$-514,274	\$-131,770
002	Park Fund	6,162	17,831	-19,955	4,038	-2,124
003	Street Fund	128,749	116,597	-122,506	122,840	-5,909
004	Water Fund	109,245	582,600	-474,361	217,484	108,239
005	Sewer Fund	-141,332	42,063	195,597	96,328*	237,660*
022	Parks CIP Fund	91,489	44,136	-50	135,575	44,086
023	Street CIP Fund	220,515	82,549	0	303,064	82,549
024	Water CIP Fund	2,071	6,911	-28,258	-19,276	-21,347
025	Sewer CIP Fund	-1,860,495	6,673,626	-5,623,417	-810,286	1,050,209
	Total	(\$1,826,100)	\$9,534,070	\$-8,172,477	\$-464,507	\$1,361,593

*Includes PPA of \$195,597 as noted on page 27.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's net investment in capital assets for its governmental type activities as of June 30, 2014, was \$426,310. Business type activities' net investment in capital assets was \$10,390,007 which included \$1,513,509 in the Water Fund and \$8,876,498 in the Sewer Fund.

Debt Administration. At the end of FY14, the City had total bonded debt outstanding of \$135,000, and total loans of \$17,890,220 for a total long-term debt of \$18,025,220. This debt was backed by water revenues, general fund revenues, future sewer revenues, a local improvement district, system development charges, and the property tax receipts of the Coburg Urban Renewal Agency.

The City's total debt increased by \$3,914,347 in FY14. The increase in debt can be attributed to \$3,364,567 of additional funds drawn on Loan R23043 with the Department of Environmental Quality in order to fund the completion of the sewer project, and the loan for the new City Hall with Summit Bank in the amount of \$685,000.

For more detailed information on the City's long-term debt, see Note 7 on pages 25-27 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

As this document is being prepared, the national economy has experienced a recovery. The local economy has improved and development and future development in the City of Coburg is very optimistic. Although the City has been operating at above capacity with a reduced staff, the residents of Coburg have continued to receive quality services.

The City has continued to improve the financial reporting systems. In February of 2014 the City hired contract consultants to provide interim financial support during financial staff transitions. These consultants have continued in contract with the City to review financial records at the end of each quarter, and provide support to the finance office in order to ensure separation of duties are in place.

Inter-fund loans dating back to 2002 and not recorded properly on the books, have now been recorded and are reflected in these statements. The Council has committed to a work plan that pays back these loans in a short time span. It is anticipated that at the end of Fiscal Year 2015, only one loan will be remaining.

The budget process of the City was started in the same week as this report was written. The budget reflects the City's commitment to quality service to customers, pursuit of development, and the ability to retain valued and well trained staff.

A conservative list of assumptions would be as follows.

- The City will see an increase in tax receipts
- The City will remain at current staffing levels
- Retirement benefit rates will remain level.
- Health insurance cost increases will be minimal.
- The City will see an increase in development of both commercial and residential units.
- The City will continue the Council directed plan to pay back inter-fund loans.

REQUESTS FOR INFORMATION

This financial report was prepared by Anne Heath, City of Coburg Finance Director in April of 2015. It is designed to provide a general overview of the City's finances for those with an interest in the City. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Finance Director
City of Coburg
91136 N. Willamette Street
PO Box 8316
Coburg, OR 97408
541-682-7870

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CITY OF COBURG
LANE COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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**CITY OF COBURG
LANE COUNTY, OREGON**

**STATEMENT OF NET POSITION
June 30, 2014**

	PRIMARY GOVERNMENT		TOTAL	URBAN RENEWAL AGENCY
	GOVERNMENTAL	BUSINESS TYPE		
ASSETS				
Current				
Cash and Investments	\$ 1,282,464	\$ 244,717	\$ 1,527,181	\$ 163,036
Internal Balances	40,187	-	40,187	-
Accounts Receivable	788,515	114,089	902,604	-
Loans Receivable	-	-	-	1,495,955
Property Taxes Receivable	38,268	-	38,268	23,567
Total Current Assets	<u>2,149,434</u>	<u>358,806</u>	<u>2,508,240</u>	<u>1,682,558</u>
Non-Current				
Capital Assets (Net of Accumulated Depreciation)	<u>1,104,203</u>	<u>27,737,334</u>	<u>28,841,537</u>	<u>-</u>
Total Assets	<u>3,253,637</u>	<u>28,096,140</u>	<u>31,349,777</u>	<u>1,682,558</u>
LIABILITIES				
Current				
Due to Component Unit	1,495,955	-	1,495,955	-
Internal Balances	-	40,187	40,187	-
Accounts Payable	1,020,502	4,807	1,025,309	3,878
Retainage Payable	326,214	-	326,214	-
Payroll Liabilities	34,348	-	34,348	-
Accrued Compensated Absences	48,023	-	48,023	-
Accrued Interest	-	195,883	195,883	-
Bonds and Loans Payable - Current	17,496	162,849	180,345	-
Total Current Liabilities	<u>2,942,538</u>	<u>403,726</u>	<u>3,346,264</u>	<u>3,878</u>
Non-Current				
Bonds and Loans Payable	<u>660,397</u>	<u>17,184,478</u>	<u>17,844,875</u>	<u>-</u>
Total Non-Current Liabilities	<u>660,397</u>	<u>17,184,478</u>	<u>17,844,875</u>	<u>-</u>
Total Liabilities	<u>3,602,935</u>	<u>17,588,204</u>	<u>21,191,139</u>	<u>3,878</u>
NET POSITION				
Net Investment in Capital Assets	426,310	10,390,007	10,816,317	-
Restricted for				
System Development Charges	215,360	-	215,360	-
Debt Service Loan Covenants	-	314,341	314,341	-
Unrestricted	<u>(990,968)</u>	<u>(196,412)</u>	<u>(1,187,380)</u>	<u>1,678,680</u>
TOTAL NET POSITION	<u>\$ (349,298)</u>	<u>\$ 10,507,936</u>	<u>\$ 10,158,638</u>	<u>\$ 1,678,680</u>

See accompanying notes to the basic financial statements

**CITY OF COBURG
LANE COUNTY, OREGON**

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014**

Functions/Programs	Program Revenues				Net Revenues (Expenses) and Changes in Net Position	
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities						
Municipal Department	\$ 468,702	\$ 243,098	\$ -	\$ -	\$ (225,604)	\$ -
Facilities Management	61,273	-	-	-	(61,273)	-
Planning Department	114,560	-	-	-	(114,560)	-
Economic Development	7,154	-	-	-	(7,154)	-
Police Department	420,820	133,361	5,400	-	(282,059)	-
Municipal Court	136,100	-	-	-	(136,100)	-
Highways and Streets	124,229	93,469	-	50,292	19,532	-
Parks and Recreation	20,281	44,279	-	-	23,998	-
Infrastructure	-	546,782	-	2,782,911	3,329,693	-
Interest on Debt Service	10,204	-	-	-	(10,204)	-
Total Governmental Activities	1,363,323	1,060,989	5,400	2,833,203	2,536,269	-
Business-Type Activities						
Water	438,804	581,328	-	-	-	142,524
Sewer	51,718	42,062	-	-	-	(9,656)
Total Business-Type Activities	490,522	623,390	-	-	-	132,868
Total Primary Government	\$ 1,853,845	\$ 1,684,379	\$ 5,400	2,833,203	2,536,269	132,868
Component Unit						
Coburg Urban Renewal Agency	\$ 1,130	\$ -	\$ -	\$ -		
General Revenues						
					461,934	-
					126,368	-
					149,969	-
					223,149	-
					33,141	1,273
					3,700	(3,700)
					(2,470,628)	782,527
					(1,472,367)	780,100
Change in Net Position					1,063,902	912,968
Beginning Net Position					(1,413,200)	9,399,371
Prior Period Adjustment					-	195,597
Ending Net Position					\$ (349,298)	\$ 10,507,936

See accompanying notes to the basic financial statements

<u>Total</u>	<u>Component Unit</u>
\$ (225,604)	\$ -
(61,273)	-
(114,560)	-
(7,154)	-
(282,059)	-
(136,100)	-
19,532	-
23,998	-
3,329,693	-
(10,204)	-
<u>2,536,269</u>	<u>-</u>
142,524	-
(9,656)	-
<u>132,868</u>	<u>-</u>
<u>2,669,137</u>	<u>-</u>
	<u>(1,130)</u>
461,934	206,496
126,368	-
149,969	-
223,149	-
34,414	1,964
-	-
(1,688,101)	-
<u>(692,267)</u>	<u>208,460</u>
1,976,870	207,330
7,986,171	1,666,947
<u>195,597</u>	<u>(195,597)</u>
<u>\$ 10,158,638</u>	<u>\$ 1,678,680</u>

See accompanying notes to the basic financial statements

**CITY OF COBURG
LANE COUNTY, OREGON**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

	GENERAL FUND	PARK FUND	STREET FUND
ASSETS			
Cash and Investments	\$ 245,021	\$ 5,093	\$ 126,020
Due from Other Funds	34,198	-	-
Accounts Receivable	14,380	-	663
Taxes Receivable, Net	38,268	-	-
Total Assets	\$ 331,867	\$ 5,093	\$ 126,683
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Due to URA	\$ -	\$ -	\$ -
Due to Other Funds	671,295	-	-
Accounts Payable	89,764	1,055	3,843
Retainage Payable	-	-	-
Other Payables	34,348	-	-
Total Liabilities	795,407	1,055	3,843
Deferred Inflows of Resources			
Unavailable Revenue - property taxes and fees	50,734	-	-
Total Deferred Inflows of Resources	50,734	-	-
Fund Balances			
Restricted for			
System Development Charges	-	-	-
Assigned for			
Parks	-	-	-
Streets	-	-	122,840
Unassigned	(514,274)	4,038	-
Total Fund Balances	(514,274)	4,038	122,840
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 331,867	\$ 5,093	\$ 126,683

See accompanying notes to the basic financial statements

PARK CAPITAL IMPROVEMENT FUND	STREET CAPITAL IMPROVEMENT FUND	WATER CAPITAL IMPROVEMENT FUND	SEWER CAPITAL IMPROVEMENT FUND	TOTAL
\$ 135,575	\$ 303,064	\$ 14,922	\$ 452,769	\$ 1,282,464
-	-	-	711,482	745,680
-	-	-	773,472	788,515
-	-	-	-	38,268
<u>\$ 135,575</u>	<u>\$ 303,064</u>	<u>\$ 14,922</u>	<u>\$ 1,937,723</u>	<u>\$ 2,854,927</u>
\$ -	\$ -	\$ -	\$ 1,495,955	\$ 1,495,955
-	-	34,198	-	705,493
-	-	-	925,840	1,020,502
-	-	-	326,214	326,214
-	-	-	-	34,348
-	-	34,198	2,748,009	3,582,512
-	-	-	-	50,734
-	-	-	-	50,734
67,726	147,634	-	-	215,360
67,849	-	-	-	67,849
-	155,430	-	-	278,270
-	-	(19,276)	(810,286)	(1,339,798)
<u>135,575</u>	<u>303,064</u>	<u>(19,276)</u>	<u>(810,286)</u>	<u>(778,319)</u>
<u>\$ 135,575</u>	<u>\$ 303,064</u>	<u>\$ 14,922</u>	<u>\$ 1,937,723</u>	<u>\$ 2,854,927</u>

See accompanying notes to the basic financial statements

**CITY OF COBURG
LANE COUNTY, OREGON**

**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION**

June 30, 2014

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

Fund Balances	\$ (778,319)
<p>The cost of capital assets (land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress) is reported as an expenditure in governmental funds. The statement of net position includes those capital assets among the assets of the City as a whole.</p>	
Net Capital Assets	1,104,203
<p>Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and noncurrent, are reported in the statement of net position.</p>	
GO Bonds	(677,893)
Accrued Compensated Absences	(48,023)
<p>Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.</p>	
Unavailable Revenue (taxes and fees receivable)	<u>50,734</u>
Total Net Position	<u>\$ (349,298)</u>

See accompanying notes to the basic financial statements

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**CITY OF COBURG
LANE COUNTY, OREGON**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014**

	GENERAL FUND	PARK FUND	STREET FUND	PARK CAPITAL IMPROVEMENT FUND
Revenues				
Property Taxes	\$ 461,934	\$ -	\$ -	\$ -
Fines & Forfeits	118,642	-	-	-
Licenses, Permits & Fees	374,108	-	10,999	-
Intergovernmental	44,861	-	105,108	-
Charges for Services	-	-	-	44,067
Grants	5,400	-	-	-
Interest and Miscellaneous	14,620	17,831	490	69
Total Revenues	1,019,565	17,831	116,597	44,136
Expenditures				
Municipal Department	456,542	-	-	-
Facilities Management	59,683	-	-	-
Planning Department	111,588	-	-	-
Economic Development	6,968	-	-	-
Police Department	409,902	-	-	-
Municipal Court	132,569	-	-	-
Highways and Streets	-	-	121,006	-
Parks and Recreation	-	19,705	-	50
Debt Service	17,311	-	-	-
Capital Outlay	904,964	-	-	-
Total Expenditures	2,099,527	19,705	121,006	50
Excess of Revenues Over, (Under) Expenditures	(1,079,962)	(1,874)	(4,409)	44,086
Other Financing Sources, (Uses)				
Loan Proceeds	685,000	-	-	-
Sale of Capital Assets	252,642	-	-	-
Transfers In	10,550	-	-	-
Transfers Out	-	(250)	(1,500)	-
Total Other Financing Sources, (Uses)	948,192	(250)	(1,500)	-
Net Change in Fund Balance	(131,770)	(2,124)	(5,909)	44,086
Beginning Fund Balance	(382,504)	6,162	128,749	91,489
Ending Fund Balance	\$ (514,274)	\$ 4,038	\$ 122,840	\$ 135,575

See accompanying notes to the basic financial statements

STREET CAPITAL IMPROVEMENT FUND	WATER CAPITAL IMPROVEMENT FUND	SEWER CAPITAL IMPROVEMENT FUND	TOTAL
\$ -	\$ -	\$ -	\$ 461,934
-	-	-	118,642
-	-	-	385,107
-	-	-	149,969
82,470	6,859	539,923	673,319
-	-	2,833,203	2,838,603
79	52	-	33,141
<u>82,549</u>	<u>6,911</u>	<u>3,373,126</u>	<u>4,660,715</u>
-	-	-	456,542
-	-	-	59,683
-	-	-	111,588
-	-	-	6,968
-	-	-	409,902
-	-	-	132,569
-	-	-	121,006
-	-	-	19,755
-	-	-	17,311
-	28,258	5,618,317	6,551,539
-	28,258	5,618,317	7,886,863
82,549	(21,347)	(2,245,191)	(3,226,148)
-	-	3,300,500	3,985,500
-	-	-	252,642
-	-	-	10,550
-	-	(5,100)	(6,850)
-	-	3,295,400	4,241,842
82,549	(21,347)	1,050,209	1,015,694
220,515	2,071	(1,860,495)	(1,794,013)
<u>\$ 303,064</u>	<u>\$ (19,276)</u>	<u>\$ (810,286)</u>	<u>\$ (778,319)</u>

See accompanying notes to the basic financial statements

**CITY OF COBURG
LANE COUNTY, OREGON**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - TO STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2014

Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities.

Excess of Revenues over Expenditures \$ 1,015,694

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Asset Additions	780,411
Capital Asset Deletions	(29,493)
Depreciation Expense	(30,036)

Changes in Accrued Compensated Absences have an effect on net income in the governmental funds. On the government wide statements, however, changes are posted to the liability account on the balance sheet. (5,070)

The issuance of long-term debt provides current financial resources to governmental funds; the repayment of long-term debt consumes current financial resources:

Issuance of Long-term Debt	(685,000)
Principle Reductions on Long-term Debt	7,107

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Unavailable Revenues	<u>10,289</u>
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Change in Net Position	<u>\$ 1,063,902</u>
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See accompanying notes to the basic financial statements

**CITY OF COBURG
LANE COUNTY, OREGON**

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014**

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Total
ASSETS			
Current Assets			
Cash and Investments	\$ 239,779	\$ 4,938	\$ 244,717
Due From Other Funds		179,773	179,773
Accounts Receivable, Net	72,026	42,063	114,089
Total Current Assets	311,805	226,774	538,579
Capital Assets, Net	3,357,842	24,379,492	27,737,334
Total Assets	\$ 3,669,647	\$ 24,606,266	\$ 28,275,913
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 4,807	\$ -	\$ 4,807
Due to Other Funds	89,514	130,446	219,960
Accrued Interest	52,184	143,699	195,883
Long Term Debt - Current Portion	134,065	28,784	162,849
Total Current Liabilities	280,570	302,929	583,499
Non-Current Liabilities			
Long Term Debt	1,710,268	15,474,210	17,184,478
Total Liabilities	1,990,838	15,777,139	17,767,977
NET POSITION			
Net Investment in Capital Assets	1,513,509	8,876,498	10,390,007
Restricted for Debt Service Loan Covenant	31,960	282,381	314,341
Unrestricted	133,340	(329,752)	(196,412)
Total Net Position	\$ 1,678,809	\$ 8,829,127	\$ 10,507,936

See accompanying notes to the basic financial statements

**CITY OF COBURG
LANE COUNTY, OREGON**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2014**

	<u>ENTERPRISE FUNDS</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for Services	\$ 581,328	\$ 42,062	\$ 623,390
OPERATING EXPENDITURES			
Personal Service	160,236	-	160,236
Materials and Services	80,929	-	80,929
Depreciation	107,027	-	107,027
Total Operating Expenditures	348,192	-	348,192
Operating Income, (Loss)	233,136	42,062	275,198
NONOPERATING REVENUES (EXPENDITURES)			
Capital Contribution	(7,500)	790,027	782,527
Transfers Out	(3,700)	-	(3,700)
Interest on Investments	1,272	1	1,273
Interest on Long Term Loans	(90,612)	(51,718)	(142,330)
Total Nonoperating Revenues (Expenditures)	(100,540)	738,310	637,770
Change in Net Position	132,596	780,372	912,968
Beginning Net Position	1,546,213	7,853,158	9,399,371
Prior Period Adjustment	-	195,597	195,597
Ending Net Position	<u>\$ 1,678,809</u>	<u>\$ 8,829,127</u>	<u>\$ 10,507,936</u>

See accompanying notes to the basic financial statements

CITY OF COBURG
LANE COUNTY, OREGON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	WATER FUND	SEWER FUND	TOTAL
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 595,396	\$ (1)	\$ 595,395
Cash Paid to Suppliers	(87,264)	-	(87,264)
Cash Paid to Employees	(160,236)	-	(160,236)
Net Cash Provided (Used) by Operating Activities	<u>347,896</u>	<u>(1)</u>	<u>347,895</u>
Cash Flows from Capital and Related Financing Activities			
Transfers Out	(3,700)	-	(3,700)
Payment of Principal of Long Term Debt	(128,113)	-	(128,113)
Interest Expense	(93,883)	-	(93,883)
Capital Contributions	(7,500)	-	(7,500)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(233,196)</u>	<u>-</u>	<u>(233,196)</u>
Cash Flows from Investing Activities			
Interest on Investments	1,272	1	1,273
Net Increase (Decrease) in Cash and Cash Equivalents	115,972	-	115,972
Cash and Investments at Beginning of Year	123,807	4,938	128,745
Cash and Investments at End of Year	<u>\$ 239,779</u>	<u>\$ 4,938</u>	<u>\$ 244,717</u>
Reconciliation of Operating Income to			
Net Cash Provided by Operating Activities	\$ 233,136	\$ 42,062	\$ 275,198
Operating Income, (Loss)			
Noncash Items Included in Income:			
Depreciation	107,027	-	107,027
Decrease (Increase) in Accounts Receivable and Accrued Liabilities	14,068	(42,063)	(27,995)
	(6,335)	-	(6,335)
Net Cash Provided (Used) by Operating Activities	<u>\$ 347,896</u>	<u>\$ (1)</u>	<u>\$ 347,895</u>

See accompanying notes to the basic financial statements

**CITY OF COBURG
LANE COUNTY, OREGON**

**STATEMENT OF NET POSITION
FIDUCIARY FUND (AGENCY FUND)
June 30, 2014**

	<u>FIDUCIARY FUND</u>
	<u>Cash Evidence Held Fund</u>
ASSETS	
Current Assets	
Cash and Investments	<u>\$ 22,422</u>
 Total Assets	 <u>\$ 22,422</u>
 LIABILITIES	
Current Liabilities	
Refund Payables and Other	<u>\$ 22,422</u>
 Total Liabilities	 <u>\$ 22,422</u>

See accompanying notes to the basic financial statements

**CITY OF COBURG
LANE COUNTY, OREGON**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2014**

GENERAL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
Revenues				
Property Taxes	\$ 512,000	\$ 512,000	\$ 461,934	\$ (50,066)
Licenses, Permits & Fees	213,025	366,788	374,108	7,320
Intergovernmental	52,300	52,300	44,861	(7,439)
Grants	6,000	6,000	5,400	(600)
Fines & Forfeits	151,500	151,500	118,642	(32,858)
Interest and Miscellaneous	27,660	27,660	14,620	(13,040)
Total Revenues	962,485	1,116,248	1,019,565	(96,683)
Expenditures				
Administration Department	211,226	364,989 (1)	603,095	(238,106)
Facilities Management	36,000	36,000 (1)	818,094	(782,094)
Planning Department	105,542	105,542 (1)	111,588	(6,046)
Economic Development	12,000	12,000 (1)	6,968	5,032
Police Department	400,503	400,503 (1)	409,902	(9,399)
Municipal Court	138,025	138,025 (1)	132,569	5,456
Debt Service	-	10,500 (1)	17,311	(6,811)
Capital Outlay	-	955,000 (1)	-	955,000
Contingency	25,189	13,584 (1)	-	13,584
Total Expenditures	928,485	2,036,143	2,099,527	(63,384)
Excess of Revenues Over, (Under) Expenditures	34,000	(919,895)	(1,079,962)	(160,067)
Other Financing Sources, (Uses)				
Loan Proceeds	-	685,000	685,000	-
Sale of Capital Assets	-	270,000	252,642	(17,358)
Transfers In	-	-	10,550	10,550
Transfers Out	(34,000)	(35,105) (1)	-	35,105
Total Other Financing Sources, (Uses)	(34,000)	919,895	948,192	28,297
Net Change in Fund Balance	-	-	(131,770)	(131,770)
Beginning Fund Balance	(331,000)	(331,000)	(382,504)	(51,504)
Ending Fund Balance	\$ (331,000)	\$ (331,000)	\$ (514,274)	\$ (183,274)

(1) Appropriation Level

See accompanying notes to the basic financial statements

**CITY OF COBURG
LANE COUNTY, OREGON**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2014**

PARK FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
Revenues				
Interest and Miscellaneous	\$ 100	\$ 100	\$ 17,831	\$ 17,731
Expenditures				
Personal Services	12,300	12,300 (1)	12,207	93
Materials and Services	23,125	23,600 (1)	7,498	16,102
Debt Service	-	250 (1)	-	250
Contingency	1,075	350 (1)	-	350
Total Expenditures	<u>36,500</u>	<u>36,500</u>	<u>19,705</u>	<u>16,795</u>
Excess of Revenues Over (Under) Expenditures	(36,400)	(36,400)	(1,874)	34,526
Other Financing Sources, (Uses)				
Transfers In	34,000	34,000	-	(34,000)
Transfers Out	-	- (1)	(250)	(250)
Total Other Financing Sources, (Uses)	<u>34,000</u>	<u>34,000</u>	<u>(250)</u>	<u>34,250</u>
Net Change in Fund Balance	(2,400)	(2,400)	(2,124)	276
Beginning Fund Balance	<u>4,983</u>	<u>4,983</u>	<u>6,162</u>	<u>1,179</u>
Ending Fund Balance	<u>\$ 2,583</u>	<u>\$ 2,583</u>	<u>\$ 4,038</u>	<u>\$ 1,455</u>

(1) Appropriation Level

See accompanying notes to the basic financial statements

**CITY OF COBURG
LANE COUNTY, OREGON**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2014**

	<u>STREET FUND</u>			
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
Revenues				
Intergovernmental	\$ 117,000	\$ 117,000	\$ 105,108	\$ (11,892)
Licenses, Permits & Fees	9,500	9,500	10,999	1,499
Interest and Miscellaneous	100	100	490	390
Total Revenues	<u>126,600</u>	<u>126,600</u>	<u>116,597</u>	<u>(10,003)</u>
Expenditures				
Personal Services	64,350	66,575 (1)	74,891	(8,316)
Materials and Services	70,200	67,975 (1)	46,115	21,860
Debt Service	-	1,500 (1)	-	1,500
Contingency	3,600	2,100 (1)	-	2,100
Total Expenditures	<u>138,150</u>	<u>138,150</u>	<u>121,006</u>	<u>17,144</u>
Excess of Revenues Over, (Under) Expenditures	(11,550)	(11,550)	(4,409)	7,141
OTHER FINANCING SOURCES				
Transfers Out	-	- (1)	(1,500)	(1,500)
Net Change in Fund Balance	(11,550)	(11,550)	(5,909)	5,641
Beginning Fund Balance	<u>173,585</u>	<u>173,585</u>	<u>128,749</u>	<u>(44,836)</u>
Ending Fund Balance	<u>\$ 162,035</u>	<u>\$ 162,035</u>	<u>\$ 122,840</u>	<u>\$ (39,195)</u>

(1) Appropriation Level

See accompanying notes to the basic financial statements

**CITY OF COBURG
LANE COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting policies. The more significant of the accounting policies are described below.

A. THE FINANCIAL REPORTING ENTITY

The City of Coburg operates under a City Charter, last updated in 1992. The Charter provides for the City to be governed by the City Council, consisting of six elected at-large City Councilors and an elected Mayor. The Council is responsible for rule making, budget preparation and enforcement, expenditure approval, and hiring the City Administrator. The Mayor and the Councilors are elected by a vote of the general public and the councilors serve staggered four-year terms and the mayor serves a two year term. Administrative functions are delegated to the City Administrator, whom the Mayor appoints, with the consent of the Council. The Mayor, with the consent of the Council, also appoints other City Officers as listed in the Charter, while the City Administrator appoints all employees.

Management has considered all potential component units. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable, as defined under GASB Statement 61. Based upon the application of the criteria, the Urban Renewal Agency was included within the City of Coburg's reporting, because the City is financially accountable for the Agency. Separate financial statements for Urban Renewal Agency may be obtained from the City Recorder at Coburg's City Hall.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

Financial operations of the City are accounted for in the following major funds:

GENERAL FUND

The General Fund is the primary operating fund of the City. This fund is used to track revenues and expenditures that support Administration, Planning, Police, and Municipal Court. Principal sources of revenue are property taxes, franchise fees from utilities using the City right of way, intergovernmental taxes such as cigarette and alcohol taxes collected by the state, and fines and bails assessed by the Coburg Municipal Court.

PARK FUND

The Park Fund is used to document revenues and expenditures for maintenance of the City's parks and recreational facilities. This Fund's major source of revenue is charges for park services.

STREET FUND

The Street Fund is used to document revenues and expenditures for maintenance of the City's roads and storm drain system. The primary resources are a City fuel tax of three cents per gallon and a fuel tax collected and allocated to the City by the State of Oregon.

**CITY OF COBURG
LANE COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

B. BASIS OF PRESENTATION - FUND ACCOUNTING (CONTINUED)

WATER FUND

The Water Fund is used to document revenues and expenditures for the maintenance, operations, and debt service of the City's water utility. The primary revenue source is water rate revenue paid by the City's water customers.

SEWER FUND

The Sewer Fund was initiated in the 2009 fiscal year and is used to pay debt service on sewer project loans. As the wastewater treatment system is constructed the operational revenues and costs are being tracked in this fund. The primary revenue source is charges for sewer services.

CAPITAL IMPROVEMENT PROJECT FUNDS

In addition to the Parks, Streets, Water and Sewer Operation Funds, each of these functional areas also has a Capital Improvement Projects Fund. Major infrastructure construction and repairs are tracked in these funds. Revenues for the funds are from grants, reserves, and Systems Development Charges.

EVIDENCE FUND (FIDUCIARY)

The Evidence Fund is a holding fund for cash that has been confiscated by the Police Department in the investigation of crimes. Upon judicial dispensation of the crime, the cash taken as evidence is returned to the citizen from whom it was confiscated.

C. GOVERNMENT-WIDE FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the City and its component units. 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. 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.

Separate financial statements are provided for governmental funds and the proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. 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.

**CITY OF COBURG
LANE COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be measurable to accrue as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

E. BUDGET

A budget is prepared for all funds in accordance with the modified accrual basis of accounting and legal requirements set forth in the Oregon Local Budget Law. The budget process begins early in each fiscal year with the establishment of the Budget Committee. Recommendations are developed through late winter with the Budget Committee approving the budget in early spring. Public notices of the budget hearing are published generally in early spring with a public hearing being held approximately three weeks later. The Council may amend the budget prior to adoption, however, budgeted expenditures for each fund may not be increased by more than ten percent. The budget is then adopted, appropriations are made and the tax levy declared no later than June 30th.

Expenditure budgets are appropriated at the function level in the General Fund and the following levels for all other funds: Personal Services, Materials and Services, Capital Outlay, Interfund Transactions, Debt Service, and Operating Contingency. Expenditures cannot legally exceed the above appropriations levels. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur if the City Council approves them due to a need which exists which was not determined at the time the budget was adopted.

Budget amounts shown in the basic financial statements reflect the original appropriations, and several appropriation transfers. Expenditures of the various funds were within authorized appropriation levels for the fiscal year ended June 30, 2014 except for over expenditures in the following funds: General Fund – Administration Department by \$238,106, Facilities Management by \$782,094, Planning Department by \$6,046, Police Department by \$9,399, and Debt Service by \$6,811; Park Fund – Transfers Out by \$250; Street Fund – Personal Services by \$8,316, and Transfers Out by \$1,500; Water Fund – Personal Services by \$6,806, Capital Outlay by \$7,500, and Transfers Out by \$3,700; Water Capital Improvement Fund – Personal Services by \$83, and Capital Outlay by \$3,625; and Sewer Capital Improvement Fund – Materials and Services by \$16,330, and Transfers Out by \$5,100.

F. DEFICIT FUND BALANCES

As of June 30, 2014, the following funds had budgetary basis deficits in fund balance:

General Fund	\$ (514,274)
Water Capital Improvement Fund	(19,276)
Sewer Capital Improvement Fund	(810,286)

CITY OF COBURG
LANE COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

F. DEFICIT FUND BALANCES (CONTINUED)

On July 1, 2007 the City adopted a new fund structure. The number of funds was decreased from 23 to 10. Several of the original funds had negative fund balances and, as part of this consolidation of funds, all negative fund balances were moved to the General Fund. The balance effectively represents cash owed to the other funds. The City Council has instituted several new revenue sources and expenditure reductions to address this negative fund balance. The Water Capital Improvement Fund had a negative fund balance due to capital asset additions exceeding charges for services. The City anticipates that future charges for services will increase the fund balance in this fund. The Sewer Capital Improvement Fund had a negative fund balance due to a loan from the Urban Renewal Agency. The City anticipates that future grants and loan proceeds will increase the fund balance in this fund.

Also in July 2007, the Urban Renewal Agency accounting was removed from the City accounting system and established in a separate accounting system of its own.

G. RECEIVABLES

Property taxes receivable is recorded in the General Fund to indicate the amount of uncollected taxes that the City can expect to receive in the future. Such taxes are offset by a liability to indicate that these amounts have not been recorded as revenues. Real and personal property are assessed and property taxes become a lien against the property as of July 1 of each year. Property taxes are payable in three installments, following the lien date on November 15, February 15, and May 15. Taxes not received by May 15th are considered delinquent. As required by law, Lane County manages tax collections for the City. Substantially all taxes receivable are considered collectible through liens on the underlying property.

The revenues and receivables of the fees for utilities are reported net of uncollectible amounts. Total estimated allowance, by management, for uncollectible receivables at year end is \$35,311.

H. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets in the proprietary fund types are stated at cost, or the estimated fair market value at the date of receipt for gifts or projects constructed by others and accepted for ownership and maintenance by the City. Maintenance and repairs are expensed as incurred. Replacements which improve or extend the lives of property are capitalized. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Upon disposal of such assets, the accounts are relieved of the related costs and accumulated depreciation and resulting gains or losses are reflected in operations. Estimated useful lives used in computing depreciation are:

Buildings and improvements	40 to 50 years
Equipment and machinery	10 to 15 years
Computers and portable electronic equipment	1 to 3 years
Vehicles and rolling stock	5 to 10 years

CITY OF COBURG
LANE COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

I. LONG-TERM DEBT

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. RETIREMENT PLANS

City employees are participants in Public Employees Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged to expenditures as funded.

K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. There are no deferred outflows.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for property taxes and franchise fees. The amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

L. FUND BALANCE

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are – nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents inventories and prepaid items.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).

**CITY OF COBURG
LANE COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

L. FUND BALANCE (CONTINUED)

- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body. This authority was given to the Finance Director.
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

There were no nonspendable or committed fund balances at year end.

The governing body has approved the following order of spending regarding fund balance categories: Restricted resources are spent first when both restricted and unrestricted (committed, assigned or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed (if applicable), assigned (if applicable) and unassigned.

M. INTERFUND TRANSACTIONS

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Operating interfund transactions are reported as transfers.

N. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Proprietary Funds consider cash to include their proportional share of the cash and investment common pool since it has the general characteristics of demand deposit accounts in that the Proprietary Funds may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty.

O. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

State statutes govern the cash management policies. Statutes authorize investing in banker's acceptances, time certificates of deposit, repurchase agreements, obligations of the United States and its agencies and instrumentalities, and the Oregon State Treasurer's Local Government Investment Pool.

**CITY OF COBURG
LANE COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Investments

The State Treasurer's Local Government Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State's investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund was in compliance with all portfolio guidelines at June 30, 2014.

Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. As of June 30, 2014 the fair value of the position in the Local Government Investment Pool approximates the value of the pool shares as reported in the Oregon Short Term Fund audited financial statements. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

The City maintains a cash pool that is available for use by all funds. Each fund type's portion of this pool is reported on the combined balance sheet as Cash and Investments or amounts Due to/from Other Funds. The Component Unit's money, however, is not available for use by the City's funds. Cash and Investments (recorded at fair value) at June 30, 2014 consisted of:

	2014
Petty Cash	\$ 300
Demand Deposits	887,990
Investments	661,313
Total	\$ 1,549,603
Reported In:	
Governmental	\$ 1,282,464
Business Type	244,717
Fiduciary Funds	22,422
	\$ 1,549,603

The City had the following investment and maturities:

Investment Type	Fair Value	Investment Maturities (in months)	
		Less than 3	More than 3
State Treasurer's Investment Pool	\$ 661,313	\$ 661,313	\$ -
Total	\$ 661,313	\$ 661,313	\$ -

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. The City does not have any investments that have a maturity date.

**CITY OF COBURG
LANE COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Credit Risk

Oregon Revised Statutes do not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

Custodial Credit Risk

At year end, the net carrying amount of deposits was \$1,549,603 and the bank balance was \$980,653. Of these deposits, \$390,086 was covered by federal depository insurance. The remainder is collateralized by the Oregon Public Funds Collateralization Program (PFCP). Oregon Revised Statutes and City policy require depository institutions to maintain on deposit, with the collateral pool manager, securities having a value not less than 10% of their quarter-end public fund deposits if they were all 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.

3. CAPITAL ASSETS

The changes in capital assets for the fiscal year ended June 30, 2014 are as follows:

	GOVERNMENTAL FUNDS			
	Balance Beginning of Year	Additions	(Deletions)	Balance End Of Year
Cost				
Land	\$ 92,166	\$ -	\$ -	\$ 92,166
Buildings & Improvements	692,467	758,411	(259,598)	1,191,280
Equipment	433,448	22,000	(102,166)	353,282
Total	<u>1,218,081</u>	<u>780,411</u>	<u>(361,764)</u>	<u>1,636,728</u>
Accumulated Depreciation				
Buildings & Improvements	441,487	18,538	(231,891)	228,134
Equipment	393,273	11,498	(100,380)	304,391
Total	<u>834,760</u>	<u>\$ 30,036</u>	<u>\$ (332,271)</u>	<u>532,525</u>
Total Net Capital Assets	<u>\$ 383,321</u>			<u>\$ 1,104,203</u>

Governmental Depreciation was allocated to the functions as follows:

Municipal	\$ 10,545
Facilities	1,379
Planning	2,577
Economic Development	161
Public Safety	9,468
Municipal Court	3,062
Highways and Streets	2,795
Parks and Recreation	<u>49</u>
Total Governmental Activities	<u>\$ 30,036</u>

**CITY OF COBURG
LANE COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

3. CAPITAL ASSETS (CONTINUED)

PROPRIETARY FUNDS

WATER FUND

	Balance Beginning of Year	Additions	(Deletions)	Balance End Of Year
Cost				
Utility System	\$ 4,460,596	\$ -	\$ -	\$ 4,460,596
Equipment	30,833	-	-	30,833
Total	<u>4,491,429</u>	<u>-</u>	<u>-</u>	<u>4,491,429</u>
Accumulated Depreciation				
Utility System	995,727	107,027	-	1,102,754
Equipment	30,833	-	-	30,833
Total	<u>1,026,560</u>	<u>107,027</u>	<u>-</u>	<u>1,133,587</u>
Total Net Capital Assets	<u>\$ 3,464,869</u>			<u>\$ 3,357,842</u>

SEWER FUND

	Balance Beginning Of Year	Additions	(Deletions)	Balance End Of Year
Cost				
Construction in process	\$ 20,224,898	\$ 4,154,594	\$ -	\$ 24,379,492
Total	<u>20,224,898</u>	<u>4,154,594</u>	<u>-</u>	<u>24,379,492</u>
Total Net Capital Assets	<u>\$ 20,224,898</u>			<u>\$ 24,379,492</u>
Total Net Capital Assets, All Proprietary Funds	<u>\$ 23,689,767</u>			<u>\$ 27,737,334</u>

4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables for the year ended are as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 34,198	\$ 671,295
Water Fund	-	89,514
Sewer Fund	179,773	130,446
Water Capital Improvement Fund	-	34,198
Sewer Capital Improvement Fund	711,482	-
Total	<u>\$ 925,453</u>	<u>\$ 925,453</u>

**CITY OF COBURG
LANE COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Transfers in and out for the year ended are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	\$ -	\$ 10,550
Park Fund	250	-
Street Fund	1,500	-
Sewer Capital Improvement Fund	5,100	-
Water Fund	<u>3,700</u>	<u>-</u>
Total	<u>\$ 10,550</u>	<u>\$ 10,550</u>

Transfers were made to fund operations and reserves, and the interfund receivables/payables are used as a pooling of cash between various funds.

5. PROPERTY TAX LIMITATIONS

The State of Oregon imposes a constitutional limit on property taxes for schools and nonschool government operations. School operations include community colleges, local school districts, and education service districts. The limitation provides that property taxes for nonschool operations are limited to \$10.00 for each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt. The State further reduced property taxes by replacing the previous constitutional limits on tax bases with a rate and value limit in 1997. This reduction is accomplished by rolling property values back to their 1995-96 values less 10% and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The State Constitution sets restrictive voter approval requirements for most tax and many fee increases and new bond issues, and requires the State to minimize the impact to school districts from the impact of the tax cuts.

6. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM

Plan Description and Provisions:

All of the employees participate in the State of Oregon Public Employees Retirement System (PERS), an agent multiple-employer defined benefit, public employee pension plan. All City full-time employees become members of PERS after six months of service in any one year. Part-time and temporary employees are covered by the plan after 600 hours of employment. Generally, employees who retire at or after age 50 with 25 years of credited service are entitled to a retirement benefit, payable monthly for life, equal to 1.67 percent of their final average monthly salary for each year of credited service. Final average monthly salary is based upon either the three calendar years out of the last ten calendar years of employment during which the highest salaries were earned or the last 36 calendar months of membership, whichever is larger. Benefits fully vest on reaching 5 years of service. Vested employees with fewer than 25 years of service will receive reduced benefits if retirement occurs prior to age 55. PERS also provides death and disability benefits. Benefits are established by state statute.

The Oregon Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

**CITY OF COBURG
LANE COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

6. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM (CONTINUED)

Description of Funding Policy:

Covered employees are required by State statute to contribute 6% of their salary to the plan. The City is required to contribute at actuarially determined rates, as adopted by the PERS Board. The net PERS rate effective for the two year period beginning July 1, 2013 is 9.56% of covered payroll. The City's contribution to the plan for the years ending June 30, 2014, 2013, and 2012 were \$78,567, \$57,414, and \$65,679, respectively, and were equal to the required contributions for each year.

7. LONG-TERM DEBT

The changes in long-term debt for the year ended June 30, 2014 is comprised of the following:

	July 1, 2013	Additions	Reductions	June 30, 2014
Governmental Funds:				
\$685,000 was issued on January 16, 2014 of General Obligation notes payable for the purpose of purchasing the city hall building. The interest rate is 3.59-3.69%.	\$ -	\$ 685,000	\$ 7,107	\$ 677,893
Proprietary Funds:				
\$225,000 was issued in 1973 of General Obligation bonds which bears The interest rate is 5.25% to 5.40%. The Bond Matured at June 30, 1999, with one \$5000 bond outstanding and that bond remains outstanding.	\$ 5,000	\$ -	\$ -	\$ 5,000
\$375,000 was issued in January 1999 of Water Revenue Bonds which bear an interest rate of 3.6-5.2% for the purpose of financing the costs of water facility improvements.	150,000	-	20,000	130,000
\$1,251,270 was issued on October 11, 2000 of General Obligation notes payable (loan number GO1001) obtained from the Special Public Works Fund of the Oregon Economic and Community Development Department for system improvements. The interest rate is 5.37%.	845,503	-	48,026	797,477
\$1,596,800 was issued on October 11, 2000 of General Obligation notes payable (loan number BO1003) obtained from the Special Public Works Fund of the Oregon Economic and Community Development Department for system improvements. The interest rate is 5.37%.	971,943	-	60,087	911,856
\$789,310 was issued on June 30, 2006 of General Obligation notes payable (loan number R23041) obtained from the Clean Water State Revolving Fund of the Department of Environmental Quality. The interest rate is 3.51%.	789,310	-	-	789,310
\$9,209,228 was issued on August 31, 2005 of General Obligation notes payable (loan number R23042) obtained from the Clean Water State Revolving Fund of the Department of Environmental Quality for System improvements. The interest rate is 2.81%.	5,360,487	3,364,567	-	8,725,054
\$6,000,000 was issued on July 1, 2011 (loan number R23043. Same source as above). The interest rate is 1.28%.	4,988,630	-	-	4,988,630
\$1,000,000 was issued on July 1, 2012 of OECD loans. The interest rate is 3.92%.	1,000,000	-	-	1,000,000
Total Proprietary Funds	14,110,873	3,364,567	128,113	17,347,327
Total Long Term Debt	\$ 14,110,873	\$ 4,049,567	\$ 135,220	\$ 18,025,220

**CITY OF COBURG
LANE COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

7. LONG-TERM DEBT (CONTINUED)

Future maturities of significant long term debt items are as follows:

Governmental Type Notes Payable:

Amounts Payable in Fiscal Year:	2014 Mortgage Loan	
	Principal	Interest Due
2014-2015	\$ 17,496	\$ 24,050
2015-2016	18,134	23,412
2016-2017	18,796	22,750
2017-2018	19,482	22,064
2018-2019	20,347	21,352
2019-2024	583,638	89,280
	<u>\$ 677,893</u>	<u>\$ 202,908</u>

Business Type Bonds Payable:

Amounts Payable in Fiscal Year:	1999 Water Revenue Bond		1973 Water Matured Bonds	
	Principal	Interest Due	Principal	Interest Due
2014-2015	\$ 25,000	\$ 6,760	\$ -	\$ -
2015-2016	25,000	5,460	-	-
2016-2017	25,000	4,160	-	-
2017-2018	25,000	2,860	-	-
2018-2019	30,000	1,560	-	-
2019-2023	-	-	5,000	-
	<u>\$ 130,000</u>	<u>\$ 20,800</u>	<u>\$ 5,000</u>	<u>\$ -</u>

Business Type Notes and Contracts Payable:

Amounts Payable in Fiscal Year:	Water Project Loan G01001		Water Project Loan B01003	
	Principal	Interest Due	Principal	Interest Due
2014-2015	\$ 48,448	\$ 43,370	\$ 60,617	\$ 55,365
2015-2016	53,892	40,826	66,174	52,182
2016-2017	54,363	37,970	66,767	48,675
2017-2018	54,863	35,061	72,397	45,103
2018-2019	60,396	32,099	78,067	41,193
2019-2024	356,112	107,011	451,804	138,706
2024-2027	169,403	13,997	116,030	18,475
	<u>\$ 797,477</u>	<u>\$ 310,334</u>	<u>\$ 911,856</u>	<u>\$ 399,699</u>

**CITY OF COBURG
LANE COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

7. LONG-TERM DEBT (CONTINUED)

Amounts Payable in Fiscal Year:	Clean Water Loan R23041		OECDD Loan B08004	
	Principal	Interest Due	Principal	Interest Due
2014-2015	\$ 28,784	\$ 307,230	\$ -	\$ 85,383
2015-2016	29,803	26,435	33,861	39,200
2016-2017	30,858	25,380	35,189	37,873
2017-2018	31,950	24,288	36,568	36,493
2018-2019	33,082	23,156	38,002	35,060
2019-2024	183,832	97,358	213,555	151,750
2024-2029	218,766	62,424	258,827	106,481
2029-2034	232,235	20,853	313,693	51,616
2034-2035	-	-	70,305	2,756
	<u>\$ 789,310</u>	<u>\$ 587,124</u>	<u>\$ 1,000,000</u>	<u>\$ 546,612</u>

Note: Payments on loans R23042 and R23043 do not commence until after the final draw. The final amortization schedule will be provided at that time.

8. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of June 30, 2014, the City had committed to receive three new loans. They are as follows:

Loan USDA 1 for \$3,000,000 for construction of a wastewater system. This is a 40-year loan at an interest rate of 4.25%. Repayment will not begin until after project completion. Interim construction financing is required but not yet secured. Loan USDA 2 for \$3,000,000 for construction of a wastewater system. This is a 40-year loan at an interest rate of 4.50%. Repayment will not begin until after project completion. Interim construction financing is required but not yet secured.

The City had a balance of a contract remaining for Phase 4 of the wastewater construction project of \$873,636 at the end of the fiscal year.

9. NET POSITION RESTRICTIONS

The Net Position is restricted to show loan covenants of \$314,341. Net Position is also restricted for all SDC monies that are unspent as of the year-end (if any). State law states that SDC monies must be spent for the specific purpose for which they were charged.

10. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was made to remove the loan from the Urban Renewal Agency of the City of Coburg in the amount of \$195,597. These funds were transferred to the City to pay for debt service expenses which is an adopted use of URA funds and should not have been recorded as an interagency loan. Transfers of \$65,199 and \$130,398 were made for debt service in 2011 and 2012.

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 to minimize its exposure to these risks. Settled claims have not exceeded this commercial coverage for any of the past three years.

**CITY OF COBURG
LANE COUNTY, OREGON**

SUPPLEMENTARY INFORMATION

**Combining, Individual Fund, and
Other Financial Schedules**

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**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2014**

<u>WATER FUND</u>				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
Revenues				
Water Service	\$ 411,800	\$ 411,800	\$ 581,328	\$ 169,528
Interest and Miscellaneous	750	750	1,272	522
Total Revenues	412,550	412,550	582,600	170,050
Expenditures				
Personal Services	145,505	153,430 (1)	160,236	(6,806)
Materials and Services	94,000	86,075 (1)	80,929	5,146
Debt Service	243,250	246,950 (1)	221,996	24,954
Capital Outlay	-	- (1)	7,500	(7,500)
Contingency	4,000	300 (1)	-	300
Total Expenditures	486,755	486,755	470,661	16,094
Excess of Revenues Over, (Under) Expenditures	(74,205)	(74,205)	111,939	186,144
Other Financing Sources, (Uses)				
Transfers Out	-	- (1)	(3,700)	(3,700)
Net Change in Fund Balance	(74,205)	(74,205)	108,239	182,444
Beginning Fund Balance	217,694	217,694	109,245	(108,449)
Ending Fund Balance	\$ 143,489	\$ 143,489	217,484	\$ 73,995

Reconciliation to the Statement of Proprietary Net Position:

Net Capital Assets	3,357,842
Long Term Debt	(1,844,333)
Accrued Interest	(52,184)
Net Position	\$ 1,678,809

(1) Appropriation Level

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2014**

SEWER FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
Revenues				
Charges for Services	\$ -	\$ -	\$ 42,062	\$ 42,062
Interest and Miscellaneous	-	-	1	1
Total Revenues	<u>-</u>	<u>-</u>	<u>42,063</u>	<u>42,063</u>
Net Change in Fund Balance	-	-	42,063	42,063
Prior Period Adjustment	-	-	195,597	195,597
Beginning Fund Balance	<u>123,955</u>	<u>123,955</u>	<u>(141,332)</u>	<u>(265,287)</u>
Ending Fund Balance	<u>\$ 123,955</u>	<u>\$ 123,955</u>	96,328	<u>\$ (27,627)</u>

Reconciliation to the Statement of Proprietary Net Position:

Net Capital Assets	24,379,492
Long Term Debt	(15,502,994)
Accrued Interest	<u>(143,699)</u>
Net Position	<u>\$ 8,829,127</u>

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2014**

PARK CAPITAL IMPROVEMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
Revenues				
Charges for Services	\$ -	\$ -	\$ 44,067	\$ 44,067
Interest and Miscellaneous	408,050	408,050	69	(407,981)
Total Revenues	<u>408,050</u>	<u>408,050</u>	<u>44,136</u>	<u>(363,914)</u>
Expenditures				
Materials and Services	2,525	2,525 (1)	50	2,475
Capital Outlay	408,000	408,000 (1)	-	408,000
Contingency	13,400	13,400 (1)	-	13,400
Total Expenditures	<u>423,925</u>	<u>423,925</u>	<u>50</u>	<u>423,875</u>
Net Change in Fund Balance	(15,875)	(15,875)	44,086	(787,789)
Beginning Fund Balance	<u>147,569</u>	<u>147,569</u>	<u>91,489</u>	<u>(56,080)</u>
Ending Fund Balance	<u>\$ 131,694</u>	<u>\$ 131,694</u>	<u>\$ 135,575</u>	<u>\$ 3,881</u>

(1) Appropriation Level

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2014**

STREET CAPITAL IMPROVEMENT FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
Revenues				
Charges for Services	\$ -	\$ -	\$ 82,470	\$ 82,470
Interest and Miscellaneous	24	24	79	55
Total Revenues	<u>24</u>	<u>24</u>	<u>82,549</u>	<u>82,525</u>
Expenditures				
Materials and Services	2,500	2,500 (1)	-	2,500
Contingency	10,000	10,000 (1)	-	10,000
Total Expenditures	<u>12,500</u>	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Net Change in Fund Balance	(12,476)	(12,476)	82,549	95,025
Beginning Fund Balance	<u>216,991</u>	<u>216,991</u>	<u>220,515</u>	<u>3,524</u>
Ending Fund Balance	<u>\$ 204,515</u>	<u>\$ 204,515</u>	<u>\$ 303,064</u>	<u>\$ 98,549</u>

(1) Appropriation Level

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2014**

WATER CAPITAL IMPROVEMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
Revenues				
Charges for Services	\$ 2,400	\$ 2,400	\$ 6,859	\$ 4,459
Interest and Miscellaneous	24	24	52	28
Total Revenues	<u>2,424</u>	<u>2,424</u>	<u>6,911</u>	<u>4,487</u>
Expenditures				
Personal Services	3,775	7,950 (1)	8,033	(83)
Materials and Services	-	10,000 (1)	-	10,000
Capital Outlay	16,600	16,600 (1)	20,225	(3,625)
Contingency	25,000	10,825 (1)	-	10,825
Total Expenditures	<u>45,375</u>	<u>45,375</u>	<u>28,258</u>	<u>17,117</u>
Net Change in Fund Balance	(42,951)	(42,951)	(21,347)	21,604
Beginning Fund Balance	<u>199,991</u>	<u>199,991</u>	<u>2,071</u>	<u>(197,920)</u>
Ending Fund Balance	<u>\$ 157,040</u>	<u>\$ 157,040</u>	<u>\$ (19,276)</u>	<u>\$ (176,316)</u>

(1) Appropriation Level

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2014**

SEWER CAPITAL IMPROVEMENT FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
Revenues				
Licenses, Permits & Fees	\$ 2,900	\$ 2,900	\$ -	\$ (2,900)
Charges for Services	970,000	970,000	539,923	(430,077)
Grants	2,000,000	2,000,000	2,833,203	833,203
Total Revenues	<u>2,972,900</u>	<u>2,972,900</u>	<u>3,373,126</u>	<u>400,226</u>
Expenditures				
Personal Services	252,395	252,395 (1)	173,076	79,319
Materials and Services	143,900	138,800 (1)	155,130	(16,330)
Capital Outlay	6,150,340	7,061,281 (1)	5,290,111	1,771,170
Debt Service	-	5,100 (1)	-	5,100
Contingency	1,142,380	231,439 (1)	-	231,439
Total Expenditures	<u>7,689,015</u>	<u>7,689,015</u>	<u>5,618,317</u>	<u>2,070,698</u>
Excess of Revenues Over, (Under) Expenditures	(4,716,115)	(4,716,115)	(2,245,191)	2,470,924
Other Financing Sources, (Uses)				
Loan Proceeds	10,958,000	10,958,000	3,300,500	(7,657,500)
Transfers Out	-	- (1)	(5,100)	(5,100)
Total Other Financing Sources, (Uses)	<u>10,958,000</u>	<u>10,958,000</u>	<u>3,295,400</u>	<u>(7,662,600)</u>
Net Change in Fund Balance	6,241,885	6,241,885	1,050,209	(5,191,676)
Beginning Fund Balance	<u>-</u>	<u>-</u>	<u>(1,860,495)</u>	<u>(1,860,495)</u>
Ending Fund Balance	<u>\$ 6,241,885</u>	<u>\$ 6,241,885</u>	<u>\$ (810,286)</u>	<u>\$ (7,052,171)</u>

(1) Appropriation Level

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED - GENERAL FUND
For the Year Ended June 30, 2014**

TAX YEAR	IMPOSED LEVY OR UNCOLLECTED AT 07/01/13	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED AT 06/30/14
CURRENT:						
2013-14	\$ 477,040	\$ 12,246	\$ (1,446)	\$ 188	\$ 449,436	\$ 14,100
PRIOR YEARS:						
2012-13	14,876	(12)	214	557	6,396	9,263
2011-12	9,768	(4)	(849)	610	3,113	6,420
2010-11	6,529	-	(890)	681	2,151	4,169
2009-10	4,144	-	(624)	490	1,318	2,692
Prior	5,128	-	(3,380)	257	381	1,624
Total	\$ 517,485	\$ 12,230	\$ (6,975)	\$ 2,783	\$ 462,795	\$ 38,268

RECONCILIATION TO REVENUE

Cash Collections by County Treasurer Above	\$ 462,795
Other Taxes in Lieu of Property Taxes	(861)
Total Revenue	\$ 461,934

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CITY OF COBURG
LANE COUNTY, OREGON

**INDEPENDENT AUDITORS' REPORT REQUIRED
BY OREGON STATE REGULATIONS**

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PAULY, ROGERS AND Co., P.C.
12700 SW 72nd Ave. ♦ Tigard, OR 97223
(503) 620-2632 ♦ (503) 684-7523 FAX
www.paulyrogersandcocpas.com

April 20, 2015

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the City of Coburg as of and for the year ended June 30, 2014, and have issued our report thereon dated April 20, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the City of Coburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

- **Deposit of public funds with financial institutions (ORS Chapter 295)**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Highway revenues used for public highways, roads, and streets.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

In connection with our testing nothing came to our attention that caused us to believe the City of Coburg 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:

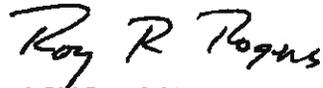
1. The City only published one notice of the budget committee meeting. Two notices are required to be published prior to the budget committee meeting by Oregon local budget law.
2. There were instances where actual expenditures exceeded appropriations as noted on page 17.

OAR 162-10-0230 Internal Control

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

We noted matters involving the internal control structure and its operation that we consider to be material weaknesses and significant deficiencies under standards established by the American Institute of Certified Public Accountants, which are noted in the schedule of findings and questioned costs on page 43.

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



ROY R. ROGERS, CPA
PAULY, ROGERS AND CO., P.C.

CITY OF COBURG
LANE COUNTY, OREGON

GRANT COMPLIANCE REVIEW

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CITY OF COBURG
LANE COUNTY, OREGON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
US DEPARTMENT OF COMMERCE		
Direct Award		
Investments for Public Works and Economic Development Facilities	11.300	\$ 782,911
US DEPARTMENT OF AGRICULTURE		
Direct Award		
Water and Waste Disposal Systems for Rural Communities	10.760	<u>2,000,000</u> (1)
TOTAL FEDERAL FINANCIAL AWARDS		<u>\$ 2,782,911</u>

(1) Major Program

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PAULY, ROGERS AND CO., P.C.
12700 SW 72nd Ave. ♦ Tigard, OR 97223
(503) 620-2632 ♦ (503) 684-7523 FAX
www.paulyrogersandcocpas.com

April 20, 2015

To the City Council
City of Coburg, Oregon
Lane County, Oregon

Independent Auditors' 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*

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, and each major fund of the City of Coburg as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated April 20, 2015. The financial statements of the City of Coburg Urban Renewal Agency were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of 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 one finding related to internal control over compliance. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of on the Schedule of Findings and Questioned Costs on page 43.

The management responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the responses and, accordingly, we express no opinion on them.

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 internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ROY R. ROGERS, CPA
PAULY, ROGERS AND CO., P.C.



PAULY, ROGERS AND Co., P.C.
12700 SW 72nd Ave. ♦ Tigard, OR 97223
(503) 620-2632 ♦ (503) 684-7523 FAX
www.paulyrogersandcocpas.com

April 20, 2015

To the City Council
City of Coburg, Oregon
Lane County, Oregon

**Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over
Compliance Required by OMB Circular A-133**

Report on Compliance for Each Major Federal Program

We have audited the City of Coburg's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the major federal programs for the year ended June 30, 2014. The major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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 compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Coburg, 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 2014-008. Our opinion on each major federal program is not modified with respect to these matters.

The City of Coburg's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The 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

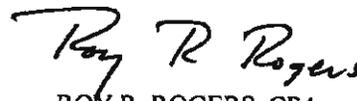
Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could 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 OMB Circular A-133, 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 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. We identified a deficiency in internal control over compliance, as described in the accompany schedule of findings and questioned costs as item 2014-008, that we consider to be a significant deficiency. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The management response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the response and, accordingly, we express no opinion on it.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



ROY R. ROGERS, CPA
PAULY, ROGERS AND CO., P.C.

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS,
QUESTIONED COSTS, AND NOTES RELATIVE TO FEDERAL AWARDS**

For the Year Ended June 30, 2014

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Any GAGAS audit findings disclosed that are required to be reported in accordance with section 505(d)(2) of OMB Circular A-133? yes no

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(s) identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, section 510(a)? yes no

IDENTIFICATION OF MAJOR PROGRAMS

<u>CFDA NUMBER</u>	<u>NAME OF FEDERAL PROGRAM CLUSTER</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS,
QUESTIONED COSTS, AND NOTES RELATIVE TO FEDERAL AWARDS**

For the Year Ended June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

2014-001

Condition:

The City has no approval process in place for journal entries.

Criteria:

Documentation, including the signature and date of the reviewer, should be maintained showing approval of all journal entries by someone independent of the journal entry process.

Effect:

Without documentation showing that all journal entries have been properly reviewed, there exists the possibility of unintentional or intentional errors or irregularities existing and not being detected that could result in a material misstatement of the financial statements.

Cause:

There was a significant amount of staff turnover within the accounting department during the fiscal year, and the City only hired one employee to perform the jobs of two former employees so there was no longer a second accounting employee to review journal entries.

Recommendations:

We recommend an independent review of all journal entries, including evidence of review by signature and date.

Management's Response:

Management plans to contract with an outside accounting company to do monthly or quarterly reviews of journal entries.

2014-002

Condition:

The City did not reconcile all bank accounts timely during the fiscal year until year end, and there was no evidence of review of any bank reconciliations.

Criteria:

Bank reconciliations should be prepared within a month of receiving the bank statements and reviewed in a timely manner by a person independent of the reconciliation process.

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS,
QUESTIONED COSTS, AND NOTES RELATIVE TO FEDERAL AWARDS**

For the Year Ended June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Effect:

The likelihood of an unintentional or intentional error or irregularity existing and not being detected that could result in a material misstatement of the financial statements is increased the later the bank reconciliations are prepared and reviewed.

Cause:

There was a significant amount of staff turnover within the accounting department during the fiscal year, and the City only hired one employee to perform the jobs of two former employees so there was no longer a second accounting employee to review reconciliations or help segregate accounting duties.

Recommendations:

We recommend that management require bank reconciliations be prepared within a month of receiving the bank statements and that documentation be maintained showing the signature and date the bank reconciliations are prepared and reviewed.

Management's Response:

Bank reconciliations were finally reconciled as of the fiscal year end, and the business manager intends to prepare them on a regular basis from now on. Management plans to contract with an outside accounting company to do monthly or quarterly reviews of reconciliations.

2014-003

Condition:

During court fines testing, there were multiple instances where receipt batches could not be traced to the deposits in the bank statements. Also, there were many instances where the documentation regarding the assessed fee from the City did not match the amount shown on the listing provided (possibly due to other fees/fines assessed later). However, the City did not provide backup for these additional fees assessed. There were also multiple instances where individual receipts could not be traced to receipt batches because listings showing individual payments were not included with batches. There was no reconciliation prepared to tie the original fines to deposits.

Criteria:

All documentation regarding fees and fines assessed for court fines should be maintained as backup for the assessments. Also, receipt batches should be properly documented so that all receipts can be traced to receipt batches and to the corresponding deposits in the bank statements.

Effect:

Court fines could be adjusted to an incorrect amount and not all court fine revenue could unintentionally or intentionally be deposited in the bank.

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS,
QUESTIONED COSTS, AND NOTES RELATIVE TO FEDERAL AWARDS**

For the Year Ended June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Cause:

The court fines receipting system does not communicate with the City's accounting software, and maintaining proper backup for court fine assessments has not been made a priority.

Recommendations:

The City should maintain all records for court fines assessed, and all money received should be properly tracked on a receipt batch that corresponds to the deposit in the bank statement.

Management's Response:

The court prints out a receipt log and balances it to cash on hand. The receipts are then batched separately from other City receipts and deposited into the bank. A proof of deposit is attached to the batch record.

2014-004 (Material Weakness)

Condition:

There is a lack of segregation of duties around all accounting processes at the City.

Criteria:

Incompatible duties should be adequately segregated so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction.

Effect:

The possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

Cause:

There was a significant amount of staff turnover within the accounting department during the fiscal year, and the City only hired one employee to perform the jobs of two former employees so there was no longer a second accounting employee to properly segregate accounting duties.

Recommendations:

While the City carries fidelity (employee honesty) insurance it is well below the cash balances carried. We recommend that the City Council continually monitor the financial activities to mitigate this risk and consider obtaining additional fidelity (employee honesty) insurance coverage to compensate for this risk.

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS,
QUESTIONED COSTS, AND NOTES RELATIVE TO FEDERAL AWARDS**

For the Year Ended June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Management's Response:

The City has insurance coverage that covers losses due to the intentional and unintentional acts of finance staff. In addition, the City has contracted with a third party to review the City's finances on a quarterly basis.

2014-005 (Material Weakness)

Condition:

The City's balance sheet accounts (including cash) were not reconciled until June of 2014.

Criteria:

Good internal control requires that all accounts be reconciled on a timely basis.

Effect:

If the balance sheet accounts are not reconciled timely, there is a greater risk that the City's related revenue and expenditure accounts are not correct as they are being reviewed throughout the year.

Cause:

The bookkeeper is learning the process of accruals in the current accounting system.

Recommendations:

All balance sheet accounts on the City's master trial balance should be reconciled to the detailed supporting documentation for each month of the year. The year-end trial balance should be complete and ready for audit no later than two months after the end of the fiscal year. This same recommendation was made in the prior year.

Management's Response:

Management will ensure that all trial balance accounts are reconciled to the supporting detail on a monthly basis going forward.

2014-006

Condition:

The City does not reconcile utility billing accounts receivable per the aging report to the general ledger balance.

Criteria:

The utility billing accounts receivable aging report should always be reconciled to the general ledger.

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS,
QUESTIONED COSTS, AND NOTES RELATIVE TO FEDERAL AWARDS**

For the Year Ended June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Effect:

At the end of each accounting period, the City's utility revenues are not correct until they are adjusted.

Cause:

Utility accounts are tracked in a separate module from the general ledger, which creates the need for an additional step to record a journal entry and reconcile the data.

Recommendations:

The City should reconcile accounts receivable per the general ledger to the detailed balances in the utility billing module at least monthly. This recommendation was also made during the prior year audit.

Management's Response:

Management will implement a reconciliation process for accounts receivable between the utility billing system and the general ledger as soon as possible.

2014-007

Condition:

The permits system is completely manual and only one person has access to all forms, tracks permits through the system, and receives payments. Having only one individual with access to add/delete/adjust permits who also has the authority to accept payments creates a risk that errors, either intentional or unintentional, may go undetected.

Criteria:

One employee should not have access to both physical assets and the related accounting records or to all phases of a transaction.

Effect:

Unintentional or intentional errors or irregularities could exist and not be promptly detected.

Cause:

Due to a limited number of staff, the City was unable to segregate the duties involved in the permits process.

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS,
QUESTIONED COSTS, AND NOTES RELATIVE TO FEDERAL AWARDS**

For the Year Ended June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Recommendations:

The City should evaluate the possibility of segregating these duties so that one employee doesn't have access to the physical assets and related accounting records of the permits process. Also, the Council should continually monitor the financial activities to mitigate this risk. While the City Planner & Building Official review the permits at a point after their receipt, there is no way for either to continually monitor the initial transaction and receipt of cash. This same recommendation was made in the prior year.

Management's Response:

Permits intake is done at the front counter. Permits are reviewed and signed off by City Planner, Building Official (Outside agency contracted by the City). The Building Department assigns and tracks the permits and fees, as well as prepares the quarterly reports for the state.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONS COSTS

2014-008

Condition:

The City's approval process for payment of bills is not operating properly. There were multiple instances where bills were not properly approved for payment including bills related to the Sewer Project.

Criteria:

All bills should be approved prior to payment to ensure proper authorization.

Effect:

Bills could be paid and reimbursed by a grant that were not in accordance with grant requirements.

Cause:

Due to a limited number of staff, bills were often paid prior to approval so as to not be late on payments.

Recommendations:

The City should reiterate the importance of approval of all bills to its finance staff and ensure that all bills are being properly reviewed and this review documented by a signature of the independent reviewer prior to payment.

Management's Response:

Finance staff will review to ensure all bills are properly approved prior to payment.

Questioned Costs - None

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS,
QUESTIONED COSTS, AND NOTES RELATIVE TO FEDERAL AWARDS**

For the Year Ended June 30, 2014

SECTION IV – PRIOR FINANCIAL STATEMENT FINDINGS

2013-001

Condition:

The City has not adopted a formal plan to eliminate its negative fund balances.

Criteria:

The City's fund balance should be positive in accordance with Oregon Budget Law.

Effect:

Having negative fund balances puts the City at a higher risk of not being able to meet all of its obligations.

Cause:

Many years ago the City extremely over spent the general fund monies.

Recommendations:

The City should adopt a formal written plan detailing how it will accomplish its goal of eliminating all negative fund balances. This was also recommended in the prior year.

Management's Response:

Management will complete a formal plan and present it to council prior to the end of the 2014-2015 fiscal year.

Status of Finding:

This finding was corrected in the current year.

2013-002

Condition:

The City does not reconcile utility billing accounts receivable per the aging report to the general ledger balance.

Criteria:

The utility billing accounts receivable aging report should always be reconciled to the general ledger.

Effect:

At the end of each accounting period, the City's utility revenues are not correct until they are adjusted.

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS,
QUESTIONED COSTS, AND NOTES RELATIVE TO FEDERAL AWARDS**

For the Year Ended June 30, 2014

SECTION IV – PRIOR FINANCIAL STATEMENT FINDINGS (CONTINUED)

Cause:

Utility accounts are tracked in a separate module from the general ledger, which creates the need for an additional step to record a journal entry and reconcile the data.

Recommendations:

The City should reconcile accounts receivable per the general ledger to the detailed balances in the utility billing module at least monthly. This recommendation was also made during the prior year audit.

Management's Response:

Management will implement a reconciliation process for accounts receivable between the utility billing system and the general ledger as soon as possible.

Status of Finding:

This is still a finding in the current year (see 2014-006).

2013-003

Condition:

The City's balance sheet accounts (including cash) were not reconciled until June of 2014.

Criteria:

Good internal control requires that all accounts be reconciled on a timely basis.

Effect:

If the balance sheet accounts are not reconciled timely, there is a greater risk that the City's related revenue and expenditure accounts are not correct as they are being reviewed throughout the year.

Cause:

The bookkeeper is learning the process of accruals in the current accounting system.

Recommendations:

All balance sheet accounts on the City's master trial balance should be reconciled to the detailed supporting documentation for each month of the year. The year end trial balance should be complete and ready for audit no later than two months after the end of the fiscal year. This same recommendation was made in the prior year.

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS,
QUESTIONED COSTS, AND NOTES RELATIVE TO FEDERAL AWARDS**

For the Year Ended June 30, 2014

SECTION IV – PRIOR FINANCIAL STATEMENT FINDINGS (CONTINUED)

Management’s Response:

Management will ensure that all trial balance accounts are reconciled to the supporting detail on a monthly basis going forward.

Status of Finding:

This is still a finding in the current year (see 2014-005).

2013-004

Condition:

Bank reconciliations are not documented as to when they are completed or when they are independently reviewed.

Criteria:

Bank reconciliations should always be documented upon completion and review.

Effect:

Bank reconciliations may not be completed or reviewed in a timely manner.

Cause:

The finance staff was not following the procedures for preparing and reviewing bank reconciliations during the fiscal year.

Recommendations:

The City should document the timely completion and review of the bank reconciliations.

Management’s Response:

Management will ensure that bank reconciliations are performed on a monthly basis as of the date of this report. Reconciliations will be reviewed quarterly by a contracted CPA beginning in FY 2014-15.

Status of Finding:

This is still a finding in the current year (see 2014-002).

**CITY OF COBURG
LANE COUNTY, OREGON**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS,
QUESTIONED COSTS, AND NOTES RELATIVE TO FEDERAL AWARDS**

For the Year Ended June 30, 2014

SECTION IV – PRIOR FINANCIAL STATEMENT FINDINGS (CONTINUED)

2013-005

Condition:

The permits system is completely manual and only one person has access to all forms, tracks permits through the system, and receives payments.

Criteria:

One employee should not have access to both physical assets and the related accounting records or to all phases of a transaction.

Effect:

Unintentional or intentional errors or irregularities could exist and not be promptly detected.

Cause:

Due to a limited number of staff, the City was unable to segregate the duties involved in the permits process.

Recommendations:

The City should evaluate the possibility of segregating these duties so that one employee doesn't have access to the physical assets and related accounting records of the permits process. Also, the Council should continually monitor the financial activities to mitigate this risk.

Management's Response:

Permits intake is done at the front counter. Permits are reviewed and signed off by City Planner, Building Official (Outside agency contracted by the City). The Building Department assigns and tracks the permits and fees, as well as prepares the quarterly reports for the state.

Status of Finding:

This is still a finding in the current year (see 2014-007).

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The City of Coburg and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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**CITY OF COBURG
LANE COUNTY, OREGON**

COMMUNICATION TO THE GOVERNING BODY

FOR THE YEAR ENDED JUNE 30, 2014



**12700 SW 72nd Ave.
Tigard, OR 97223**



PAULY, ROGERS AND CO., P.C.
12700 SW 72nd Ave. ♦ Tigard, OR 97223
(503) 620-2632 ♦ (503) 684-7523 FAX
www.paulyrogersandcocpas.com

April 10, 2015

To the City Councilors
City of Coburg, Oregon
Lane County, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Coburg for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Purpose of the Audit

Our audit was conducted using sampling, inquiries and analytical work to opine on the fair presentation of the financial statements and compliance with:

- generally accepted accounting principles and auditing standards
- the Oregon Municipal Audit Law and the related administrative rules
- federal, state and other agency rules and regulations related to expenditures of federal awards

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, 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 is not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of the major federal programs for the purpose of expressing an opinion on compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City. We also communicated any internal control related matters that are required to be communicated under professional standards.

Results of Audit

1. Audit opinion letter – an unmodified opinion on the financial statements has been issued. This means we have given a “clean” opinion with no reservations.
2. State minimum standards – We found no exceptions or issues requiring comment except as noted on page 36 of the report.
3. Federal Awards - We found no issues of non-compliance and no questioned costs. We noted one finding in relation to internal controls over compliance, as noted at page 48 of the financial report. We have responsibility to review these programs and give our opinion on the schedule of expenditures of federal awards, tests of the internal control system, compliance with laws and regulations, and general and specific requirements mandated by the various awards.
4. Management Letter – No separate management letter was issued; however, material weaknesses and significant deficiencies in internal control were identified, as described in the Schedule of Findings and Questioned Costs on page 43 of the report.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014, except for the implementation of GASB 65 – *Items Previously Reported as Assets and Liabilities*. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were Management’s estimates of Accounts Receivable and Capital Asset Depreciation, which are based on estimated collectability of receivables and useful lives of assets. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the financial statements are neutral, consistent, and clear.

Pauly, Rogers and Co., P.C.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit other than we did not receive timely financial information.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements or determined that their effects are immaterial. There were immaterial uncorrected misstatements noted during the audit which were discussed with management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to our retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Information

With respect to the other information accompanying the financial statements, we read the information to identify if any material inconsistencies or misstatement of facts existed with the audited financial statements. Our results noted no material inconsistencies or misstatement of facts.

Other Matters – Future Accounting and Auditing Issues

In order to keep you aware of new auditing standards issued by the American Institute of Certified Public Accounts and accounting statements issued by the Governmental Accounting Standards Board (GASB), we have prepared the following summary of the more significant upcoming issues:

GASB 68

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have certain characteristics. This statement will impact the government-wide financial statements for most entities with net position being reduced by an actuarially determined amount. The implementation date for this statement is fiscal periods beginning after June 15, 2014.

GASB 69

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. The implementation date for this statement is fiscal periods beginning after December 15, 2013 and earlier implementation is encouraged.

GASB 71

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, addresses the reporting requirements related to amounts associated with contributions made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68, which is required to be implemented in fiscal periods beginning after June 15, 2014.

Best Practices – Not Significant Deficiencies

1. **Governing Board Monitoring**

An integral part of internal controls is the monitoring of financial activities by those charged with the governance (elected officials). This can be accomplished by asking specifically designed questions to senior staff, by reviewing financial statements and projections and by comparing financial results to pre-established benchmarks. While elected officials participate in the budget adoption process and receive staff prepared financial statements, these only partially fulfill the monitoring function.

We recommend that the Council articulate their monitoring practices and record in the minutes when those activities occur.

Since monitoring activities, including benchmarking, are unique to each entity we are available to assist the Council in establishing checklists, questions and benchmarks that are customized for your use.

Pauly, Rogers and Co., P.C.

2. Fidelity Insurance Coverage

In reviewing fidelity (employee honesty) insurance coverage we noticed that the City carries cash and investment balances in excess of the insurance coverage amount. We recommend that the Council examine this exposure risk and make a determination as to the amount of insurance coverage they feel is prudent in regard to their oversight.

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

A handwritten signature in black ink that reads "Roy R Rogers". The signature is written in a cursive, slightly slanted style.

ROY R ROGERS, CPA
PAULY, ROGERS AND CO., P.C.