

***CITY OF MILLERSBURG, OREGON
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018***

CITY OF MILLERSBURG, OREGON
CITY OFFICIALS
JUNE 30, 2018

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

Appointed Officials

Kevin Kreitman
City Manager
4222 Old Salem Road NE
Albany, Oregon 97321

CITY OF MILLERSBURG, OREGON

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-9
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position (Modified Cash Basis)	10
Statement of Activities (Modified Cash Basis)	11
Fund Financial Statements	
Balance Sheet (Modified Cash Basis) - Governmental Funds	12
Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) - Governmental Funds	13
Statement of Fund Net Position (Modified Cash Basis) - Proprietary Funds	14
Statement of Revenues, Expenses and Changes in Fund Net Position (Modified Cash Basis) - Proprietary Funds	15
Notes to Basic Financial Statements	16-29
Supplemental Information	
Governmental Funds	
Schedules of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) - Budget and Actual	
General Fund	30
Street Reserve Fund	31
Street Fund	32
Proprietary Funds	
Schedules of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis) - Budget and Actual	
Water Utility Fund	33
Sewer Utility Fund	34
Sewer Construction Fund	35
COMPLIANCE SECTION	
Independent Auditor's Report Required by Oregon State Regulations	36-37

FINANCIAL SECTION



GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Millersburg, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these modified cash basis financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Millersburg, as of June 30, 2018, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in the notes to the financial statements.

Basis of Accounting

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

Other Matters

Report on Supplemental and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Management's discussion and analysis and the supplemental information are the responsibility of management, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The supplemental information as listed in the table of contents is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in notes to the financial statements.

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

Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated January 24, 2019, on our consideration of the City's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

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

By: 

Ryan T. Pasquarella, A Shareholder
January 24, 2019

City of Millersburg, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2018

The management of the City of Millersburg, Oregon presents this narrative overview and analysis to facilitate both a short and a long-term analysis of the financial activities of the City for the fiscal year ended June 30, 2018. This Management's Discussion and Analysis (MD&A) is based on currently known facts, decisions, and conditions that existed as of the date of the independent auditor's report. Please read it in conjunction with the City's financial statements which follow this section.

Financial Highlights

	June 30,		change
	2018	2017	
Net Position	\$ 43,995,486	\$ 41,788,325	\$ 2,207,161
Change in Net Position	2,207,161	1,460,454	746,707
Governmental Net Position	25,080,703	23,287,435	1,793,268
Proprietary Net Position	18,914,783	18,500,890	413,893
Change in Governmental Net Position	1,793,268	1,208,802	584,466
Change in Proprietary Net Position	413,893	251,652	162,241

Overview of the Financial Statements

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

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

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements include:

The Statement of Net Position (Modified Cash Basis). The *statement of net position* presents information on all of the assets and liabilities of the City as of the date on the statement. Net position is what remains after the recognized liabilities have been paid off or otherwise satisfied. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities (Modified Cash Basis). The *statement of activities* presents information showing how the net position of the City changed over the most recent fiscal year by tracking revenues, expenses and other transactions that increase or decrease net position in total.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include the following:

- General government
- Highways and streets

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

- Water utility
- Sewer utility

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

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

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

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

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

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

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

Proprietary funds - Proprietary funds are used to account for activities where the emphasis is placed on net income determination. All of the City’s proprietary funds are enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements.

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

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

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

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

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

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

Government-Wide Financial Analysis

Statement of Net Position (Modified Cash Basis)

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

	2018			2017		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 8,143,963	\$ 4,714,318	\$ 12,858,281	\$ 6,950,063	\$ 4,937,474	\$ 11,887,537
Non-depreciable capital assets	6,505,758	188,953	6,694,711	5,622,558	188,953	5,811,511
Depreciable capital assets, net	10,430,982	21,025,590	31,456,572	10,714,814	21,015,754	31,730,568
Total assets	25,080,703	25,928,861	51,009,564	23,287,435	26,142,181	49,429,616
Current liabilities	-	718	718	-	-	-
Long-term liabilities	-	7,013,360	7,013,360	-	7,641,291	7,641,291
Total liabilities	-	7,014,078	7,014,078	-	7,641,291	7,641,291
Net position:						
Net investment in capital assets	16,936,740	14,201,183	31,137,923	16,337,372	13,563,416	29,900,788
Restricted	2,532,123	2,052,384	4,584,507	2,101,590	2,486,668	4,588,258
Unrestricted	5,611,840	2,661,216	8,273,056	4,848,473	2,450,806	7,299,279
Total Net Position	<u>\$ 25,080,703</u>	<u>\$ 18,914,783</u>	<u>\$ 43,995,486</u>	<u>\$ 23,287,435</u>	<u>\$ 18,500,890</u>	<u>\$ 41,788,325</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$43,995,486 at June 30, 2018.

The City's net investment in capital assets, \$31,137,923 or approximately 71% represents the net book value of capital assets less the outstanding balance of debt issued for the purpose of acquiring or constructing capital assets.

A portion of the City's net position, \$4,584,507, or approximately 10%, represents resources that are subject to external restrictions on how they may be used. The remaining balance is net position - unrestricted totaling \$8,273,056, or approximately 19%.

Statements of Activities (Modified Cash Basis)

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

	2018			2017		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues						
Program Revenues						
Fees, fines and charges for services	\$ 1,163,448	\$ 1,810,063	\$ 2,973,511	\$ 823,605	\$ 1,631,935	\$ 2,455,540
Operating grants and contributions	120,539	37,538	158,077	128,735	37,713	166,448
Capital grants and contributions	1,489,838	619,540	2,109,378	964,013	541,621	1,505,634
General Revenues						
Property taxes	782,233	-	782,233	736,444	-	736,444
Franchise taxes	919,647	-	919,647	881,770	-	881,770
Intergovernmental	64,837	-	64,837	58,867	-	58,867
Miscellaneous	307,507	-	307,507	176,626	-	176,626
<i>Total Revenues</i>	<u>4,848,049</u>	<u>2,467,141</u>	<u>7,315,190</u>	<u>3,770,060</u>	<u>2,211,269</u>	<u>5,981,329</u>
Expenses						
General government	2,515,152	-	2,515,152	2,038,628	-	2,038,628
Highway and streets	539,629	-	539,629	522,630	-	522,630
Water	-	1,087,832	1,087,832	-	977,265	977,265
Sewer	-	965,416	965,416	-	982,352	982,352
<i>Total Expenses</i>	<u>3,054,781</u>	<u>2,053,248</u>	<u>5,108,029</u>	<u>2,561,258</u>	<u>1,959,617</u>	<u>4,520,875</u>
Transfers	-	-	-	-	-	-
Change in Net Position	1,793,268	413,893	2,207,161	1,208,802	251,652	1,460,454
Net Position, beginning of year	<u>23,287,435</u>	<u>18,500,890</u>	<u>41,788,325</u>	<u>22,078,633</u>	<u>18,249,238</u>	<u>40,327,871</u>
Net Position, end of year	<u>\$ 25,080,703</u>	<u>\$ 18,914,783</u>	<u>\$ 43,995,486</u>	<u>\$ 23,287,435</u>	<u>\$ 18,500,890</u>	<u>\$ 41,788,325</u>

The City's net position increased \$2,207,161 during fiscal 2017-2018. This increase is explained in the government and business-type activities as follows:

Governmental activities - The City's net position increased by \$1,793,268 from governmental activities. This increase is due mainly to expenditures being under budget.

Major Governmental Funds:

General. The General fund is the primary operating fund of the City. Fund balance was \$5,945,105 at June 30, 2018. The fund balance increased by \$765,382 during the year mainly due to a significant increase in building activity and the associated permits.

As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 237% of total General fund expenditures.

Street Reserve. The Street Reserve fund accounts for revenues and expenditures related to street maintenance and improvements. The fund balance increased this year by \$261,537 due to substantial revenue and minimal expenditures.

Business-type activities - The City's net position increased by \$413,893 from business-type activities. This increase was primarily due to increased charges for services.

Major Proprietary Funds:

Water Utility. The Water Utility fund revenues are from charges for services and expenses are for personal services, materials and services and capital outlay. The fund balance increased by \$218,256 during the year as a result of revenues being over budget and expenditures being under budget.

Sewer Utility. The Sewer fund revenues are from charges for services and expenses are for personal services, materials and services and capital outlay. The fund’s net position decreased by \$760,164 during the year primarily due to increased capital outlay.

Capital Assets and Debt Administration

Capital Assets

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

	Governmental activities		Business-type activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 6,505,758	\$ 5,622,558	\$ 188,953	\$ 188,953	\$ 6,694,711	\$ 5,811,511
Buildings and improvements	2,998,660	2,946,596	-	-	2,998,660	2,946,596
Furniture and equipment	179,839	167,484	11,651	5,022	191,490	172,506
Infrastructure	12,739,471	12,555,701	32,500,080	31,451,127	45,239,551	44,006,828
Accumulated depreciation	(5,486,988)	(4,954,967)	(11,486,141)	(10,440,395)	(16,973,129)	(15,395,362)
Net capital assets	<u>\$ 16,936,740</u>	<u>\$ 16,337,372</u>	<u>\$ 21,214,543</u>	<u>\$ 21,204,707</u>	<u>\$ 38,151,283</u>	<u>\$ 37,542,079</u>

Long-Term Debt

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

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

**City of Millersburg
Outstanding Debt**

	Business-type Activities	
	2018	2017
SPWF Water Loan	\$2,550,311	\$2,844,912
City of Albany Sewer Plant	3,788,049	4,071,379
DEQ Wetlands Loan	675,000	725,000
	<u>\$7,013,360</u>	<u>\$7,641,291</u>

Current Year Budgetary Highlights

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

Economic Factors and Next Year's Budgets and Rates

During the preparation of the budget for the ensuing fiscal year, the long-term impacts of the local economy were examined in conjunction with business decisions made by the City. The following are the major assumptions used in developing the FY 2019 budget:

- The City's population is expected to grow significantly in 2019.
- The City's tax rate is estimated to be 100% of the City's permanent levy rate of \$3.500.
- Assessed values, the basis of property tax revenues, will grow by 3% due to market conditions.
- Interest rates on investments will be similar to 2018.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF MILLERSBURG, OREGON
STATEMENT OF NET POSITION (MODIFIED CASH BASIS)
JUNE 30, 2018

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
ASSETS			
Cash and cash equivalents	\$ 8,143,963	\$ 4,714,318	\$ 12,858,281
Non-depreciable capital assets	6,505,758	188,953	6,694,711
Depreciable capital assets, net	10,430,982	21,025,590	31,456,572
<i>Total Assets</i>	25,080,703	25,928,861	51,009,564
LIABILITIES			
Deposits payable	-	718	718
Long-term liabilities			
Portion due within one year	-	660,183	660,183
Portion due in more than one year	-	6,353,177	6,353,177
<i>Total Liabilities</i>	-	7,014,078	7,014,078
NET POSITION			
Net investment in capital assets	16,936,740	14,201,183	31,137,923
Restricted for:			
Debt service	-	369,124	369,124
Streets	2,198,858	-	2,198,858
Capital acquisitions	333,265	1,683,260	2,016,525
Unrestricted	5,611,840	2,661,216	8,273,056
<i>Total Net Position</i>	\$ 25,080,703	\$ 18,914,783	\$ 43,995,486

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

This page intentionally left blank.

CITY OF MILLERSBURG, OREGON
STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)
YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,515,152	\$ 1,053,198	\$ -	\$ 1,034,575
Highway and streets	539,629	110,250	120,539	455,263
<i>Total Governmental activities</i>	3,054,781	1,163,448	120,539	1,489,838
Business-type activities:				
Water	1,087,832	876,366	-	299,071
Sewer	965,416	933,697	37,538	320,469
<i>Total Business-type activities</i>	2,053,248	1,810,063	37,538	619,540
<i>Total Activities</i>	<u>\$ 5,108,029</u>	<u>\$ 2,973,511</u>	<u>\$ 158,077</u>	<u>\$ 2,109,378</u>
General Revenues:				
Property taxes				
Franchise taxes				
Intergovernmental				
Miscellaneous				
<i>Total General Revenues</i>				
Change in Net Position				
Net Position - beginning of year				
Net Position - end of year				

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

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
\$ (427,379)	\$ -	\$ (427,379)
146,423	-	146,423
(280,956)	-	(280,956)
-	87,605	87,605
-	326,288	326,288
-	413,893	413,893
(280,956)	413,893	132,937
782,233	-	782,233
919,647	-	919,647
64,837	-	64,837
307,507	-	307,507
2,074,224	-	2,074,224
1,793,268	413,893	2,207,161
23,287,435	18,500,890	41,788,325
<u>\$ 25,080,703</u>	<u>\$ 18,914,783</u>	<u>\$ 43,995,486</u>

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

CITY OF MILLERSBURG, OREGON
BALANCE SHEET (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>	<u>Capital Projects Street Reserve Fund</u>	<u>Other Governmental Funds Special Revenue Street Fund</u>
ASSETS			
Cash and cash equivalents	\$ 5,945,105	\$ 1,782,145	\$ 416,713
LIABILITIES AND FUND BALANCE			
Liabilities	\$ -	\$ -	\$ -
Fund Balance:			
Restricted for:			
Streets	-	1,782,145	416,713
Capital acquisitions	333,265	-	-
Unassigned	5,611,840	-	-
Total Fund Balance	5,945,105	1,782,145	416,713
Total Liabilities and Fund Balance	\$ 5,945,105	\$ 1,782,145	\$ 416,713

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

Fund balances

Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net

Position at their net depreciable value:

Capital assets, cost

Accumulated depreciations

Net Position

<i>Total</i>
\$ 8,143,963
\$ -
2,198,858
333,265
5,611,840
8,143,963
\$ 8,143,963
\$ 8,143,963
22,423,728
(5,486,988)
\$ 25,080,703

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

CITY OF MILLERSBURG, OREGON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General Fund	Capital Projects Street Reserve Fund	Other Governmental Funds Special Revenue Street Fund
REVENUES			
Taxes and assessments	\$ 782,233	\$ -	\$ 8,671
Intergovernmental	64,837	-	120,539
Licenses and permits	2,112,399	446,592	-
Charges for services	10,495	-	-
Miscellaneous	308,833	-	110,250
<i>Total Revenues</i>	<u>3,278,797</u>	<u>446,592</u>	<u>239,460</u>
EXPENDITURES			
General government	2,431,835	-	72,479
Capital acquisitions	81,580	185,055	-
<i>Total Expenditures</i>	<u>2,513,415</u>	<u>185,055</u>	<u>72,479</u>
NET CHANGE IN FUND BALANCE	765,382	261,537	166,981
FUND BALANCE, beginning of year	5,179,723	1,520,608	249,732
FUND BALANCE, end of year	<u>\$ 5,945,105</u>	<u>\$ 1,782,145</u>	<u>\$ 416,713</u>

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

Net change in fund balance

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

Capital acquisitions
 Depreciation expense

Change in net position of governmental activities

<i>Total</i>
\$ 790,904
185,376
2,558,991
10,495
419,083
3,964,849
2,504,314
266,635
2,770,949
1,193,900
6,950,063
\$ 8,143,963
\$ 1,193,900
1,131,389
(532,021)
\$ 1,793,268
\$ 1,793,268

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

CITY OF MILLERSBURG, OREGON
STATEMENT OF FUND NET POSITION (MODIFIED CASH BASIS) - PROPRIETARY FUNDS
JUNE 30, 2018

	<u>Water Utility Fund</u>	<u>Sewer Utility Fund</u>	<u>Other Non- Major Funds Sewer Construction Fund</u>
ASSETS			
Cash and cash equivalents	\$ 1,977,540	\$ 2,404,961	\$ 331,817
LIABILITIES			
Current liabilities:			
Deposits Payable	-	718	-
FUND NET POSITION:			
Restricted for:			
Debt service	369,124	-	-
Capital acquisitions	1,586,753	-	96,507
Unrestricted	21,663	2,404,243	235,310
Total Fund Net Position	\$ 1,977,540	\$ 2,404,243	\$ 331,817

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

Fund net position

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

 Capital assets, cost
 Accumulated depreciations

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

Net position



Total

\$ 4,714,318

718

369,124
1,683,260
2,661,216

\$ 4,713,600

\$ 4,713,600

32,700,684
(11,486,141)

(7,013,360)

\$ 18,914,783

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

CITY OF MILLERSBURG, OREGON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
(MODIFIED CASH BASIS) - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	<u>Water Utility Fund</u>	<u>Sewer Utility Fund</u>	<u>Other Non-Major Funds Sewer Construction Fund</u>
OPERATING REVENUES			
Charges for services	\$ 876,366	\$ 933,697	\$ -
Intergovernmental	-	37,538	-
<i>Total Operating Revenues</i>	876,366	971,235	-
OPERATING EXPENSES			
Materials and services	462,835	252,403	-
OPERATING INCOME	413,531	718,832	-
NONOPERATING ITEMS			
Capital contributions	299,071	2,435	318,034
Capital acquisitions	(40,882)	(1,023,297)	-
Debt payments			
Principal	(294,601)	(333,330)	-
Interest	(158,863)	(124,804)	-
<i>Total Nonoperating Items</i>	(195,275)	(1,478,996)	318,034
CHANGE IN FUND NET POSITION	218,256	(760,164)	318,034
FUND NET POSITION, beginning of year	1,759,284	3,164,407	13,783
FUND NET POSITION, end of year	\$ 1,977,540	\$ 2,404,243	\$ 331,817

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

Change in fund net position

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

Capital acquisitions
Depreciation expense

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

Change in net position of business-type activities

	<i>Total</i>
	<hr/>
\$	1,810,063
	37,538
	<hr/>
	1,847,601
	715,238
	<hr/>
	1,132,363
	619,540
	(1,064,179)
	(627,931)
	(283,667)
	<hr/>
	(1,356,237)
	<hr/>
	(223,874)
	4,937,474
	<hr/>
\$	4,713,600
	<hr/> <hr/>

\$ (223,874)

1,055,582
(1,045,746)

627,931

\$ 413,893

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

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

The City reports the following major governmental funds:

General Fund

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

Capital Projects Fund

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

The City reports the following nonmajor governmental fund:

Special Revenue Fund

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

The City reports the following major proprietary funds:

Enterprise Funds

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

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

The City reports the following nonmajor proprietary fund:

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

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

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

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

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

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

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

Definitions of Governmental Fund Types

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

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

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

Measurement Focus and Basis of Accounting

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting(Continued)

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

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

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

Cash and Cash Equivalents

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

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

Investments are stated at cost, which approximates fair value.

Property Taxes

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

Capital Assets

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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

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

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

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

Long-Term Debt

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

Accrued Compensated Absences

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

Budgets and Budgetary Accounting

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

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenditures / expenses as of and for the year ended June 30, 2018. Actual results may differ from such estimates.

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

CASH AND CASH EQUIVALENTS

<i>Cash</i>	
Cash on hand	\$ 70
Deposits with financial institutions	614,073
<i>Investments</i>	
Local Government Investment Pool	12,244,138
	<hr/>
	\$ 12,858,281
	<hr/> <hr/>

Deposits

The book balance of the City's bank deposits was \$614,073 and the bank balance was \$708,128 at year end. The difference is due to transactions in process. Bank deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

Local Government Investment Pool

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2018, the fair value of the position in the Oregon State Treasurer's Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits with financial institutions for up to \$250,000 for the aggregate of all demand deposits and the aggregate of all time deposit and savings accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2018, \$458,128 of the City's bank balances were covered by the PFCP.

CASH AND CASH EQUIVALENTS (Continued)

Interest Rate Risk

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

Custodial Risk – Local Government Investment Pool

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

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

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

CAPITAL ASSETS

The summary of capital assets for governmental activities for the year ended June 30, 2018 is as follows:

	<i>Balances July 1, 2017</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balances June 30, 2018</i>
Nondepreciable capital assets				
Land	\$ 5,622,558	\$ 883,200	\$ -	\$ 6,505,758
Depreciable capital assets				
Buildings	2,946,596	52,064	-	2,998,660
Equipment	167,484	12,355	-	179,839
Infrastructure	12,555,701	183,770	-	12,739,471
Total depreciable capital assets	15,669,781	248,189	-	15,917,970
Less accumulated depreciation				
Buildings	(849,144)	(61,654)	-	(910,798)
Equipment	(152,583)	(4,503)	-	(157,086)
Infrastructure	(3,953,240)	(465,864)	-	(4,419,104)
Total accumulated depreciation	(4,954,967)	(532,021)	-	(5,486,988)
Net depreciable capital assets	10,714,814	(283,832)	-	10,430,982
Net capital assets	\$ 16,337,372	\$ 599,368	\$ -	\$ 16,936,740

The summary of capital assets for the business-type activities for the year ended June 30, 2018 is as follows:

	<i>Balances July 1, 2017</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balances June 30, 2018</i>
Nondepreciable capital assets				
Land	\$ 188,953	\$ -	\$ -	\$ 188,953
Depreciable capital assets				
Equipment	5,022	6,629	-	11,651
Infrastructure	31,451,127	1,048,953	-	32,500,080
Total depreciable capital assets	31,456,149	1,055,582	-	32,511,731
Less accumulated depreciation				
Equipment	(5,022)	(295)	-	(5,317)
Infrastructure	(10,435,373)	(1,045,451)	-	(11,480,824)
Total accumulated depreciation	(10,440,395)	(1,045,746)	-	(11,486,141)
Net depreciable capital assets	21,015,754	9,836	-	21,025,590
Net capital assets	\$ 21,204,707	\$ 9,836	\$ -	\$ 21,214,543

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

LONG-TERM LIABILITIES

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

	<i>Outstanding July 1, 2017</i>	<i>Issued</i>	<i>Matured/ Redeemed During Year</i>	<i>Outstanding June 30, 2018</i>	<i>Due Within One Year</i>
<i>Business-type activities</i>					
Loan Payable - OECDD 2001 OBDD Special Public Works Fund Loan	\$ 2,844,912	\$ -	\$ (294,601)	\$ 2,550,311	\$ 310,080
Loans Payable - City of Albany	4,071,379	-	(283,330)	3,788,049	300,103
Loan Payable - DEQ CWSRF	725,000	-	(50,000)	675,000	50,000
	<u>\$ 7,641,291</u>	<u>\$ -</u>	<u>\$ (627,931)</u>	<u>\$ 7,013,360</u>	<u>\$ 660,183</u>

The Sewer Utility and Water Utility Funds have traditionally been used to liquidate long-term liabilities. Interest and fees charged to the City during the year ended June 30, 2018 amounted to \$283,667 and \$328,591, respectively.

Loan Payable – OECDD

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

Loans Payable – City of Albany

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

Loan Payable – DEQ CWSRF

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

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

LONG-TERM LIABILITIES (Continued)

Future Maturities of Long-Term Liabilities

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 660,183	\$ 207,643	\$ 867,826
2020	681,237	185,315	866,552
2021	702,701	162,024	864,725
2022	729,741	137,327	867,068
2023	752,247	111,322	863,569
2024-2028	2,774,067	200,297	2,974,364
2029-2032	713,184	9,445	722,629
	\$ 7,013,360	\$ 1,013,373	\$ 8,026,733

PENSION PLAN

Plan Description - City employees are provided pension benefits through the Oregon Public Employees Retirement System (PERS). PERS is a cost-sharing multiple-employer defined benefit pension plan for units of state and local government in Oregon, containing multiple actuarial pools. Benefits are established and amended by the Oregon State Legislature pursuant to ORS Chapters 238 and 238A. The legislature has delegated the authority to administer and manage PERS to the Public Employees Retirement Board. PERS issues a publicly available financial report that can be found at: <https://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>

Benefits Provided - PERS provides retirement, disability, and death benefits which vary based on a qualified employee's hiring date and employment class (general service or police/fire). All City employees are eligible to participate after six months of covered employment. Details applicable to police/fire employees are noted in [square brackets] where different.

The Tier One/Tier Two Retirement Plan applies to qualifying employees hired before August 29, 2003 and is closed to new members.

Monthly retirement benefits are based on final 3-year average salary multiplied by years of service and a factor of 1.67% [2.00%]. Benefits may also be based on a money match computation, or formula plus annuity (for members contributing before August 21, 1981), if a greater benefit results. Employees are fully vested after making contributions in each of five calendar years, and are eligible to retire at age 55 [50]. Tier One benefits are reduced if retirement occurs prior to age 58 [55] with less than 30 [25] years of service; Tier Two benefits are reduced for retirement prior to age 60.

Employees are eligible for service-related disability benefits regardless of length of service; 10 years of service is required for nonservice-related benefits. Disability benefits are determined in the same manner as retirement benefits with service time computed to age 58 [55].

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

PENSION PLAN (Continued)

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance. The beneficiary may also receive a matching lump-sum payment from employer funds if the member was in covered employment at the time of death, or if the member died less than 120 days after termination, while on official leave of absence, or as a result of a job-related injury.

Monthly benefits are subject to annual cost-of-living adjustments (COLA). For benefits earned after the relevant effective dates, the COLA is subject to a cap of 1.25% on the first \$60,000 of annual benefits and 0.15% thereafter (ORS 238.360).

The Oregon Public Service Retirement Plan (OPSRP) applies to qualifying employees hired on or after August 29, 2003.

Monthly retirement benefits are based on final 3-year average salary multiplied by years of service and a factor of 1.50% [1.80%]. Employees are fully vested after completing 600 hours of service in each of five calendar years, and are eligible to retire at age 58 [53] with 30 [25] years of service, or at age 65 [60] otherwise.

Employees are eligible for service-related disability benefits regardless of length of service; 10 years of service is required for nonservice-related benefits. The benefit is 45% of the employee's salary during the last full month of employment before the disability occurred.

Upon the death of a non-retired member, the beneficiary receives a monthly benefit equal to 50% of the retirement benefit that would have been paid to the member.

Monthly benefits are subject to annual cost-of-living adjustments (COLA). For benefits earned after the relevant effective dates, the COLA is subject to a cap of 1.25% on the first \$60,000 of annual benefits and 0.15% thereafter (ORS 238A.210).

Contribution Requirements – As a participating employer, the City is required to make monthly contributions to PERS based on actuarially determined percentages of covered payroll. Rates in effect for fiscal year 2018 were 20.98% for Tier One/Tier Two employees, 13.76% for OPSRP general service employees, and 18.53% for OPSRP police/fire employees. The City's total contributions to PERS were \$47,135, for fiscal year ended June 30, 2018.

Contribution requirements are established by Oregon statute and may be amended by an act of the Oregon State Legislature. Employer contribution rates for fiscal year 2018 were based on the December 31, 2015 actuarial valuation using the entry age normal actuarial cost method. It is important to note that the actuarial valuations used for rate setting are based on different methods and assumptions than those used for financial reporting which are described later in this note.

Employee contributions are set by statute at 6% of salary and are remitted by participating employers, who may agree to make employee contributions on the employee's behalf. Prior to January 1, 2004, employee contributions were credited to the defined benefit pension plan. Beginning January 1, 2004, all employee contributions were placed in the OPSRP Individual Account Program (IAP), a defined contribution pension plan described further at the end of this note.

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

PENSION PLAN (Continued)

Pension Assets/Liabilities, Pension Expense, and Pension-Related Deferrals – At June 30, 2018, the City reported a net pension liability of \$356,093 as its proportionate share of the collective net pension liability for PERS, measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was based on a December 31, 2015 actuarial valuation, rolled forward to the measurement date. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to PERS relative to the projected contributions of all participating employers, as actuarially determined. The City’s proportion was 0.00264% as of the June 30, 2017 measurement date, compared to 0.00279% as of June 30, 2016.

Actuarial Methods and Assumptions – The total pension liability in the December 31, 2015 actuarial valuation was determined using the entry age normal method and the following actuarial assumptions, applied to all periods included in the measurement: inflation rate of 2.50%, projected salary increases of 3.50%, investment rate of return of 7.50%, and mortality rates based on the RP-2000 sex-distinct mortality tables, with generational adjustments per scale BB. These assumptions were based on the results of an actuarial experience study for the four-year period ending December 31, 2014.

The long-term expected rate of return on pension plan investments was developed by combining estimated rates of return for each major asset class weighted by target asset allocation percentages and adjusting for inflation.

Target allocations and estimated geometric rates of return for each major asset class are available in the PERS publicly available financial report previously mentioned.

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following chart shows the sensitivity of the net pension liability (asset) to changes in the discount rate, based on calculations using discount rates of 6.50%, 7.50%, and 8.50%.

	<u>1% Decrease</u> <u>(6.50%)</u>	<u>Discount Rate</u> <u>(7.50%)</u>	<u>1% Increase</u> <u>(8.50%)</u>
Proportionate share of the net pension liability	\$ 606,847	\$ 356,093	\$ 146,416

Pension Plan Fiduciary Net Position – Detailed information about PERS’ net position is available in its separately issued financial report.

Defined Contribution Plan – PERS-eligible employees are statutorily required to contribute 6% of their annual covered salary to the OPSRP Individual Account Program (IAP), a defined contribution pension plan. Benefits terms, including contribution requirements, are established by the Oregon Legislature. As permitted, the City has opted to pick-up the contributions on behalf of employees; contributions were \$16,347 for the year ended June 30, 2018. Employees are fully vested after completing 600 hours of service in each of five calendar years. PERS contracts with VOYA Financial to administer the IAP.

CITY OF MILLERSBURG, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

PENSION PLAN (Continued)

Changes in Plan Provisions Subsequent to Measurement Date – The PERS Board lowered the Assumed Rate of Return from 7.50% to 7.20% on July 28, 2017. This change is effective January 1, 2018, and will decrease the net OPEB asset or increase the net OPEB liability in future periods.

POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The other postemployment benefits (OPEB) for the City combines two separate plans. The City provides an implicit rate subsidy for retiree health insurance premiums administered by Citycounty Insurance Services (CIS), and a contribution to the State of Oregon’s PERS cost-sharing multiple-employer defined health insurance benefit plan. The total OPEB liability is based on a valuation provided by an independent actuarial firm based on assumptions including inflation rate, projected salary increases, discount rate, medical, dental and vision increases, and mortality rates and other inputs. The total OPEB liability was estimated at June 30, 2018 by Milliman Actuarial Services for both plans. Management has determined that the total OPEB liability is not material to the financial statements taken as a whole.

CONTINGENCIES

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

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

OVEREXPENDITURES OF APPROPRIATIONS

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

<i>Fund/Appropriation Category</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance</i>
<i>General</i>			
Personnel services	\$ 546,200	\$ 583,445	\$ (37,245)
Materials and services	1,695,000	1,848,390	(153,390)
<i>Sewer</i>			
Capital outlay	960,000	1,023,297	(63,297)

SUPPLEMENTAL INFORMATION

CITY OF MILLERSBURG, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2018

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 650,000	\$ 650,000	\$ 782,233	\$ 132,233
Intergovernmental	46,000	46,000	64,837	18,837
Licenses and permits	1,474,060	1,474,060	2,112,399	638,339
Charges for services	6,000	6,000	10,495	4,495
Miscellaneous	101,500	101,500	308,833	207,333
<i>Total Revenues</i>	<i>2,277,560</i>	<i>2,277,560</i>	<i>3,278,797</i>	<i>1,001,237</i>
EXPENDITURES				
Personnel services	546,200	546,200	583,445	(37,245)
Materials and services	1,295,000	1,695,000	1,848,390	(153,390)
Capital outlay	516,100	516,100	81,580	434,520
Contingency	500,000	100,000	-	100,000
<i>Total Expenditures</i>	<i>2,857,300</i>	<i>2,857,300</i>	<i>2,513,415</i>	<i>343,885</i>
REVENUES OVER (UNDER) EXPENDITURES	(579,740)	(579,740)	765,382	1,345,122
OTHER FINANCING SOURCES (USES)				
Transfers out	(52,100)	(52,100)	-	52,100
NET CHANGE IN FUND BALANCE	(631,840)	(631,840)	765,382	1,397,222
FUND BALANCE, beginning of year	4,291,000	4,291,000	5,179,723	888,723
FUND BALANCE, end of year	\$ 3,659,160	\$ 3,659,160	\$ 5,945,105	\$ 2,285,945

CITY OF MILLERSBURG, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – STREET RESERVE FUND
YEAR ENDED JUNE 30, 2018

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 240,000	\$ 240,000	\$ 446,592	\$ 206,592
EXPENDITURES				
Capital outlay	824,390	824,390	185,055	639,335
NET CHANGE IN FUND BALANCE	(584,390)	(584,390)	261,537	845,927
FUND BALANCE, beginning of year	1,469,900	1,469,900	1,520,608	50,708
FUND BALANCE, end of year	<u>\$ 885,510</u>	<u>\$ 885,510</u>	<u>\$ 1,782,145</u>	<u>\$ 896,635</u>

CITY OF MILLERSBURG, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - STREET FUND
YEAR ENDED JUNE 30, 2018

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ -	\$ -	\$ 8,671	\$ 8,671
Intergovernmental	80,000	80,000	120,539	40,539
Miscellaneous	-	-	110,250	110,250
<i>Total Revenues</i>	80,000	80,000	239,460	159,460
EXPENDITURES				
Materials and services	167,700	167,700	72,479	95,221
Contingency	100,000	100,000	-	100,000
<i>Total Expenditures</i>	267,700	267,700	72,479	195,221
REVENUES OVER (UNDER) EXPENDITURES	(187,700)	(187,700)	166,981	354,681
OTHER FINANCING SOURCES (USES)				
Transfers in	1,100	1,100	-	(1,100)
NET CHANGE IN FUND BALANCE	(186,600)	(186,600)	166,981	353,581
FUND BALANCE, beginning of year	186,700	186,700	249,732	63,032
FUND BALANCE, end of year	\$ 100	\$ 100	\$ 416,713	\$ 416,613

CITY OF MILLERSBURG, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – WATER UTILITY FUND
YEAR ENDED JUNE 30, 2018

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 900,000	\$ 900,000	\$ 876,366	\$ (23,634)
Licenses and permits	160,000	160,000	299,071	139,071
<i>Total Revenues</i>	1,060,000	1,060,000	1,175,437	115,437
EXPENDITURES				
Materials and services	550,000	550,000	462,835	87,165
Debt service				
Principal	295,000	295,000	294,601	399
Interest	159,000	159,000	158,863	137
Capital outlay	130,000	130,000	40,882	89,118
Contingency	300,000	300,000	-	300,000
<i>Total Expenditures</i>	1,434,000	1,434,000	957,181	476,819
REVENUES OVER (UNDER) EXPENDITURES	(374,000)	(374,000)	218,256	592,256
OTHER FINANCING SOURCES (USES)				
Transfers in	1,000	1,000	-	(1,000)
NET CHANGE IN FUND BALANCE	(373,000)	(373,000)	218,256	591,256
FUND BALANCE, beginning of year	1,757,556	1,757,556	1,759,284	1,728
FUND BALANCE, end of year	\$ 1,384,556	\$ 1,384,556	\$ 1,977,540	\$ 592,984

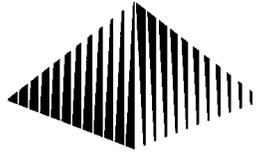
CITY OF MILLERSBURG, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - SEWER UTILITY FUND
YEAR ENDED JUNE 30, 2018

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 700,000	\$ 700,000	\$ 933,697	\$ 233,697
Intergovernmental	38,000	38,000	37,538	(462)
Licenses and permits	-	-	2,435	2,435
<i>Total Revenues</i>	738,000	738,000	973,670	235,670
EXPENDITURES				
Materials and services	460,000	460,000	252,403	207,597
Debt service				
Principal	323,000	323,000	333,330	(10,330)
Interest	145,700	145,700	124,804	20,896
Capital outlay	960,000	960,000	1,023,297	(63,297)
Contingency	500,000	500,000	-	500,000
<i>Total Expenditures</i>	2,388,700	2,388,700	1,733,834	654,866
REVENUES OVER (UNDER) EXPENDITURES	(1,650,700)	(1,650,700)	(760,164)	890,536
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	50,000	-	(50,000)
NET CHANGE IN FUND BALANCE	(1,600,700)	(1,600,700)	(760,164)	840,536
FUND BALANCE, beginning of year	2,737,000	2,737,000	3,164,407	427,407
FUND BALANCE, end of year	\$ 1,136,300	\$ 1,136,300	\$ 2,404,243	\$ 1,267,943

CITY OF MILLERSBURG, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – SEWER CONSTRUCTION FUND
YEAR ENDED JUNE 30, 2018

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 180,000	\$ 180,000	\$ 318,034	\$ 138,034
EXPENDITURES				
Capital outlay	13,783	13,783	-	13,783
NET CHANGE IN FUND BALANCE	166,217	166,217	318,034	151,817
FUND BALANCE, beginning of year	13,783	13,783	13,783	-
FUND BALANCE, end of year	<u>\$ 180,000</u>	<u>\$ 180,000</u>	<u>\$ 331,817</u>	<u>\$ 151,817</u>

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the City of Millersburg, Oregon (the City) as of and for the year ended June 30, 2018, and have issued our report thereon dated January 24, 2019.

Compliance and Other Matters

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

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

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Highway revenues used for public highways, roads, and streets.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials - no money was collected or received by elected officials.**

In connection with our testing nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except for overexpenditures of appropriations disclosed in the notes to the financial statements.

Internal Control Over Financial Reporting

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

Restriction on Use

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

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

By: 
Ryan T. Pasquarella, A Shareholder
January 24, 2019