



City of Baker City, Oregon Annual Financial Report

For the Fiscal Year Ended
June 30, 2017



BAKER CITY
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2017

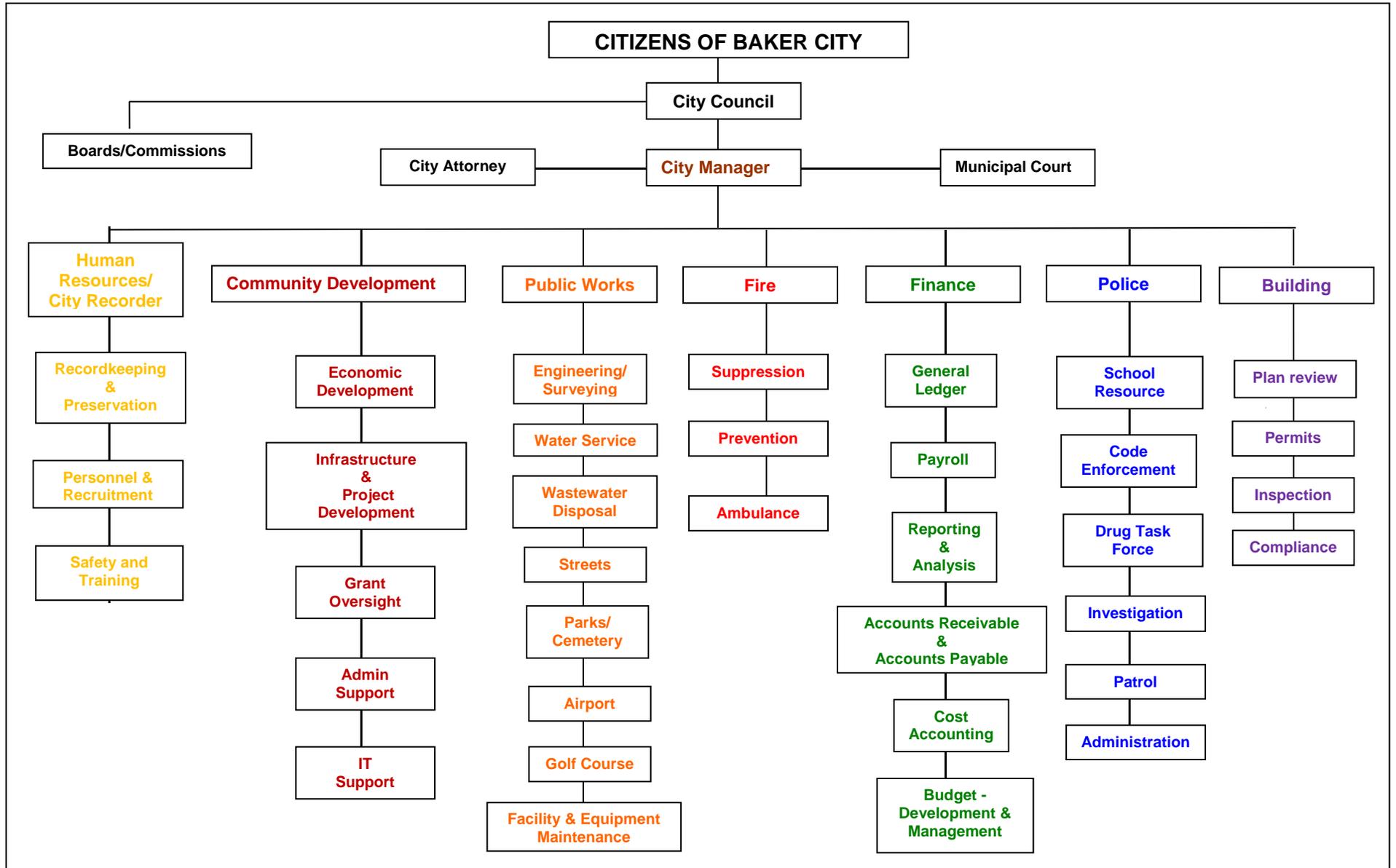
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Introductory Section

City of Baker City



**BAKER CITY
City Hall
1655 1st Street
Baker City, Oregon 97814**

ELECTED MAYOR AND CITY COUNCIL AT JUNE 30, 2017

| | <u>Term Expiration</u> |
|--|-------------------------------|
| <u>Mayor:</u> | |
| Mike Downing 923 Walnut Street | December 31, 2020 |
| <u>Council Members:</u> | |
| Rosemary Abell 2005 Washington Avenue | December 31, 2018 |
| Arvid Andersen 1400 Colorado Avenue | December 31, 2020 |
| Loran Joseph 2464 Baker Street | December 31, 2020 |
| Dan McQuisten 1353 2 nd Street | December 31, 2018 |
| Adam Nilsson 307 Hillcrest Drive | December 31, 2018 |
| James Thomas 1675 East Street | December 31, 2018 |

APPOINTED CITY OFFICERS AS OF JUNE 30, 2017

City Manager:

Fred Warner, Jr.

City Attorney:

Andrew Martin

City Finance Director:

Jeanie Dexter

Municipal Judge:

Don Williams

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Financial Section



Scott A. Martin
Jacob J. Collier

Megan R. Adams
Michael J. Rudi

Randell C. Guyer, Jr.
Kent J. Bailey

David F. Lindley
Linda L. Cyr

Kara J. Bond

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
City of Baker City, Oregon

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Baker City, Oregon, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 5-15 and the budgetary comparison and pension information on pages 53-60 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 management's discussion and analysis and the pension 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

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the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison 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 budgetary comparison information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section on pages 1-2, combining and individual fund financial statements and budgetary comparison schedules on pages 61-77, and schedule of property tax transactions on page 78, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary comparison schedules, schedule of property tax transactions, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budgetary comparison schedules, schedule of property tax transactions, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section 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.

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

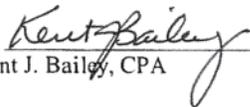
In accordance with Government Auditing Standards, we have also issued our report dated February 28, 2018, on our consideration of the City of Baker City, Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Baker City, Oregon's internal control over financial reporting and compliance.

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated February 28, 2018, on our consideration of the City of Baker City, Oregon'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.



Guyer & Associates
Certified Public Accountants
A Professional Corporation
Baker City, Oregon
February 28, 2018

By 
Kent J. Bailey, CPA

**BAKER CITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

The management of the City of Baker City, Oregon (City) presents this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. This Management’s Discussion and Analysis (MD&A) is based upon currently known facts, decisions, and conditions that existed as of the date of the independent auditor’s report.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

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. The statement of net position presents information on all of the assets and liabilities of the City at year end. Net position is what remains after the liabilities have been paid 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. The statement of activities presents information showing how the net position of the City changed over the year by tracking revenues, expenses and other transactions that increase or reduce net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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 government-wide financial statements can be found on pages 16-17 of this report.

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 are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other governments, 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.

**BAKER CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of 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 the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term funding decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains thirteen governmental funds. Information is presented separately in the governmental fund statements for the General Fund, Street Fund, LID Repayment Fund, and State and Federal Grants Fund which are considered to be major funds. The basic governmental fund financial statements can be found on pages 18-21 of this report. Data from the other governmental funds are combined into a single, aggregated presentation on these statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements on pages 61-67.

Proprietary funds - the City maintains six proprietary funds. Functions that are intended to recover all or a significant portion of their costs through user fees and charges are accounted for in proprietary funds. Proprietary funds are further designated as either enterprise funds or internal service funds.

Enterprise funds are used to account for services provided to outside entities. Four of the City's proprietary funds are Enterprise funds. These funds are used to account for financial transactions related to the City's water utility, wastewater utility, building inspections, and golf course.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses two internal service funds to account for its equipment maintenance and replacement and inventory functions.

The basic proprietary fund financial statements can be found on pages 22-24 of this report.

Notes to the financial statements 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 25-52 of this report.

Other statements – Major funds are included within the basic financial statements, where non-major funds are presented here as “combining statements”. These statements include balance

**BAKER CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

sheets and statements of revenues, expenditures and changes in fund balances. A final type of report is the budgetary comparison schedules. These are presented for all funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

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 of Baker City, assets and deferred outflows exceeded liabilities and deferred inflows by \$49,595,826 at the close of the most recent fiscal year.

By far the largest portion of the City's net position (86 percent) reflects its investment in capital assets (e.g. land, buildings, and equipment) less any related debt that is still outstanding that was used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following is a summary of net position:

**City of Baker City
Summary of Net Position
June 30, 2017**

| | Governmental Activities | | Business-type Activities | | Total | |
|--|--------------------------------|----------------|---------------------------------|----------------|----------------|----------------|
| | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 |
| ASSETS | | | | | | |
| Current and Other Assets | \$ 6,410,491 | \$ 6,674,676 | \$ 5,628,337 | \$ 4,192,157 | \$ 12,038,828 | \$10,039,555 |
| Capital Assets | 19,715,110 | 19,203,775 | 25,129,738 | 25,196,943 | 44,844,848 | 44,400,718 |
| Total Assets | 26,125,601 | 25,051,173 | 30,758,075 | 29,389,100 | 56,883,676 | 54,440,273 |
| DEFERRED OUTFLOWS | | | | | | |
| Total Assets & Deferred Outflows | \$ 29,001,003 | \$ 25,585,486 | \$ 31,685,598 | \$ 29,580,627 | \$ 60,686,601 | \$ 55,166,113 |
| LIABILITIES | | | | | | |
| Long-Term Liabilities | - | - | 1,623,687 | 1,687,472 | 1,623,687 | 1,687,472 |
| Other Liabilities | 6,893,639 | 2,891,658 | 2,070,271 | 1,133,750 | 8,963,910 | 4,025,408 |
| Total Liabilities | 6,893,639 | 2,891,658 | 3,693,958 | 2,821,222 | 10,587,597 | 5,712,880 |
| DEFERRED INFLOWS | | | | | | |
| Total Liab & Deferred Inflows | \$ 7,274,094 | \$ 3,501,230 | \$ 3,816,681 | \$ 3,039,727 | \$ 11,090,775 | \$ 6,540,957 |
| NET POSITION | | | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 19,715,110 | \$ 19,203,775 | \$ 23,414,799 | \$ 23,399,435 | \$ 43,129,909 | \$ 42,603,210 |
| Restricted | 1,082,914 | 1,726,058 | - | - | 1,082,914 | 1,726,058 |
| Unrestricted | 928,885 | 1,154,423 | 4,454,118 | 3,141,465 | 5,383,003 | 4,295,888 |
| Total Net Position | \$ 21,726,909 | \$ 22,084,256 | \$ 27,868,917 | \$ 26,540,900 | \$ 49,595,826 | \$ 48,625,156 |

**BAKER CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

An additional portion of the City's net position (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$5,383,003) may be used to meet the City's ongoing obligations to citizens and creditors. Net position for the City as a whole increased by \$970,670 during the fiscal year ended June 30, 2017. The following is an analysis of this increase.

**City of Baker City
Summary of Changes in Net Position
June 30, 2017**

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------|-------------------------|---------------|--------------------------|---------------|---------------|---------------|
| | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 |
| REVENUES | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$ 934,784 | \$ 999,932 | \$ 4,230,995 | \$ 3,741,164 | \$ 5,165,779 | \$ 4,741,096 |
| Operating Grants/Contrib. | 742,520 | 752,309 | - | - | 742,520 | 752,309 |
| Capital Grants/Contrib. | 871,322 | 601,966 | - | 34,575 | 871,322 | 636,541 |
| General Revenues: | | | | | | |
| Property Taxes | 3,231,766 | 3,142,015 | - | - | 3,231,766 | 3,142,015 |
| Franchise Taxes | 864,235 | 826,833 | - | - | 864,235 | 826,833 |
| Investment Earnings | 58,355 | 36,669 | 49,246 | 22,170 | 107,601 | 58,839 |
| SAIF Refunds | 31,428 | 20,490 | - | - | 31,428 | 20,490 |
| Unrestricted Grants/Contrib. | 264,424 | 247,035 | - | - | 264,424 | 247,035 |
| Rental Income | 34,701 | 32,684 | 47,625 | 47,217 | 82,326 | 79,901 |
| Miscellaneous | 56,804 | 43,650 | 281,531 | 78,420 | 338,335 | 122,070 |
| Total Revenues | \$ 7,090,339 | \$ 6,703,583 | \$ 4,609,397 | \$ 3,923,546 | \$ 11,699,736 | \$ 10,627,129 |
| EXPENSES | | | | | | |
| General Government | \$ 510,986 | \$ 743,968 | \$ - | \$ - | \$ 510,986 | \$ 743,968 |
| Public Safety | 4,571,634 | 5,468,852 | - | - | 4,571,634 | 5,468,852 |
| Transportation and Streets | 1,527,443 | 1,706,843 | - | - | 1,527,443 | 1,706,843 |
| Culture & Recreation | 361,946 | 321,200 | - | - | 361,946 | 321,200 |
| Economic Development | 113,492 | 45,647 | - | - | 113,492 | 45,647 |
| Cemetery | 144,721 | 144,689 | - | - | 144,721 | 144,689 |
| Airport | 161,989 | 165,920 | - | - | 161,989 | 165,920 |
| Hydro-Electric Plant | 6,294 | 8,177 | - | - | 6,294 | 8,177 |
| Interest on Long-Term Debt | 3,181 | 3,458 | - | - | 3,181 | 3,458 |
| Water | - | - | 1,770,350 | 2,304,231 | 1,770,350 | 2,304,231 |
| Wastewater | - | - | 1,160,967 | 1,367,199 | 1,160,967 | 1,367,199 |
| Golf Course | - | - | 67,893 | 62,720 | 67,893 | 62,720 |
| Building Department | - | - | 328,170 | 284,326 | 328,170 | 284,326 |
| Total Expenses | 7,401,686 | 8,608,754 | 3,327,380 | 4,018,476 | 10,729,066 | 12,627,230 |
| Operating Transfers | (46,000) | (60,500) | 46,000 | 60,500 | - | - |
| Change in Net Position | (357,347) | (1,965,671) | 1,328,017 | (34,430) | 970,670 | (2,000,101) |
| Net Position—Beginning of Year | 22,084,256 | 24,114,009 | 26,540,900 | 26,606,903 | 48,625,156 | 50,720,912 |
| Restatement of Beg Net Position | - | (64,082) | - | (31,573) | - | (95,655) |
| Net Position—End of Year | \$ 21,726,909 | \$ 22,084,256 | \$ 27,868,917 | \$ 26,540,900 | \$ 49,595,826 | \$ 48,625,156 |

**BAKER CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

Analysis of Changes in Net Position

Governmental activities: During the fiscal year ended June 30, 2017, net position of the governmental activities decreased by \$357,347. Of that decrease, \$531,945 was due to GASB 68 and 71 (in effect for the fiscal year ended June 30, 2015) which requires municipalities to account for their portion of the change in net pension liability or asset related to its pension plan with Oregon Public Employees Retirement System (PERS). Also contributing to that decrease was an increase in snowplow costs of over \$250,000 due to an extraordinarily heavy snowfall. These additional snowplow costs were partially offset by a delay in the start of a major street overlay project until 2017-18. Partially offsetting these decreases was an increase in property tax revenue, franchise fees and other intergovernmental revenues.

Included in deferred inflows on the modified accrual basis of accounting are a Connect Oregon VI grant of \$127,436 and the 2nd quarter 2017 Department of Justice COPS grant payment of \$16,398. These grant receipts were included in deferred inflows on the modified accrual basis of accounting since they were not received within two months of the close of the fiscal year. In addition, the City received an in-kind donation (volunteer labor) from the State of Oregon, Parks and Recreation Department. The State's MACS volunteers installed new playground equipment at Cedar Acres Park which, according to the State of Oregon, was valued at \$5,023.

Business-type activities: Net position of the business-type activities increased by \$1,328,017. This increase was due in part to the City's attempt to collect revenue in excess of routine operational costs in order to set aside significant funds for capital improvements to the water and wastewater systems such as the repair and replacement of transmission and distribution lines for the water system; establishing a secondary water source; and the wastewater effluent disposal project. Also contributing to the increase was approximately \$246,000 which was received from the sale of multiple property tax lots on Salmon Creek owned by the City's Water Fund. Partially offsetting that increase were additional payroll benefit expenses (PERS) of \$86,161 due to GASB 68 and 71 (explained in the governmental activities section above). In addition, in July 2016 the City changed its billing cycle for water and wastewater charges from bimonthly to monthly. This change affects the timing of cash flows from operations for both the Water and Wastewater Funds.

FUND ANALYSIS

The following is an analysis of the difference in the ending fund balance of each of the City's major funds.

Major Governmental Funds

General Fund: The ending fund balance of the General Fund decreased from \$927,548 to \$771,147. The decrease was partially the result of transfers to other funds to support capital purchases and operations. These transfers included a \$7,500 transfer for the FAA taxiway rehabilitation project; a \$46,000 transfer to support golf course operations and debt repayment; and a \$20,000 transfer for the replacement of fire and emergency medical supply (EMS) equipment. In addition, other transfers were used to support the City's parks (\$4,500) and trees (\$4,000). This decrease was also due to the rising cost of personnel. Partially offsetting these decreases were increases in property taxes, franchise fees and other intergovernmental revenue.

**BAKER CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

Major Governmental Funds

Street Fund: The ending fund balance of the Street Fund increased from \$1,043,463 to \$1,159,225. This increase was mainly due to a major street overlay project that was deferred until July 1, 2017 due to the extraordinary high snow plow costs related to an unprecedented amount of snowfall over the winter.

LID Repayment Fund: The deficit ending fund balance of the LID Repayment Fund decreased from (\$152,523) to (\$103,807) due to repayments received on LIDs.

State and Federal Grants Fund: The ending fund balance of the State and Federal Grants Fund decreased from a balance of \$66,598 to a deficit of (\$28,610). This decrease was due to a \$127,436 grant reimbursement from Connect Oregon VI for the airport apron reconstruction project that was not received within two months of the end of the fiscal year and; therefore, was not subject to accrual.

Enterprise Funds

Water Fund: The ending net position of the Water Fund increased from \$18,736,088 to \$19,772,516. This increase was partially due to the City's 11.2% water rate increase that will be used to fund major capital improvements to the Mountain Line and to establish a secondary water source. In an attempt to reduce costs, during 2016-17 the City restructured the management structure in this fund reducing personnel costs by approximately \$60,000. Also contributing to the increase was the Salmon Creek property sales of approximately \$246,000 discussed in the Business-type activities section above. This increase was slightly offset by the change in accounting principles for GASB 68 and 71 which increased payroll benefit expenses (PERS) by \$10,304.

Wastewater Fund: The ending net position of the Wastewater Fund increased from \$5,963,206 to \$6,151,355. This increase was due to the City's continued effort to set aside funds for major capital projects such as the mandatory wastewater effluent disposal project. Offsetting this increase in part was the affect of the change in accounting principles for GASB 68 and 71 which increased payroll benefit expenses (PERS) by \$52,012.

Golf Fund: The ending net position of the Golf Fund increased from \$1,119,036 to \$1,137,795. This increase was mainly due to a joint effort between the golf course concessionaire and City personnel to take preventative measures to reduce irrigation mainline repairs by adjusting water pressure and carefully winterizing the irrigation system.

Building Inspections Fund: The ending net position of the Building Inspections Fund increased from \$145,816 to \$186,865. The City attempts to accumulate reserves while the building activity is up in order to build a reserve that can offset future declines in the economy when necessary.

**BAKER CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

BUDGETARY HIGHLIGHTS

Significant differences between the 2016-17 original budget as adopted and the final budget are as follows:

- Due to unprecedented amounts of snowfall the City's Street Fund Snow and Ice Control Department's costs exceeded those anticipated at the time of the budget adoption by \$250,000.
- The General Fund's Hydro Electric Plant Department incurred approximately \$6,000 in unanticipated repair costs to the Pelton wheel generator that were due to a defective regulator.
- The General Fund's Planning Department incurred approximately \$1,850 in additional costs related to changes made in the Baker City Development Code which required notices to be sent to Baker City residents. These additional costs were covered by the transfer of savings from the General Fund's Community Development Department.
- The Building Inspections Fund received unanticipated permit revenue from both an upturn in the economy and from wind turbines constructed in Baker County. These additional revenues increased related expenditures by approximately \$20,000 which included the 12% state surcharge fee on permits and the contracted service fee for the electrical inspector.

**BAKER CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

Significant differences between the 2016-17 final amended budget and the 2016-17 actual expenditures in the General Fund are as follows:

The City's final amended General Fund budget for the fiscal year ended 2016-17 included a contingency of \$94,000 and an unappropriated ending fund balance of \$822,556, for a total of \$916,556. The actual balance carried forward to 2017-18 was \$771,147. The difference of (\$145,409) is explained below:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> | <u>Explanations</u> |
|---------------------------------------|---------------|---------------|-------------------|--|
| REVENUE | | | | |
| Property Tax Revenue | \$ 2,479,655 | \$ 2,584,432 | \$ 104,777 | Received more current & prior year property taxes than anticipated. |
| Franchise Taxes | 839,287 | 864,235 | 24,948 | Received more OTEC, Baker Sanitary, and Charter franchise taxes than anticipated which were partially offset by less Cascade Natural Gas and Century Link franchise taxes being received than anticipated. |
| Charges for Services | 1,067,600 | 763,875 | (303,725) | Received approx. \$282,000 less in ambulance revenue than anticipated due to switching to a third-party ambulance billing provider for ambulance billings. Due to numerous billing errors and omissions by the billing provider the revenue was not collected and the contract was cancelled after twelve months. In addition, generated power sells were \$30,000 below budget due to the generator being offline due to multiple breakdowns. |
| SAIF Refund | - | 31,428 | 31,428 | Received an unanticipated SAIF refund. |
| Other Revenue | 1,113,415 | 842,426 | (270,989) | Land sale of \$286,000 did not transpire as anticipated which was partially offset by more intergovernmental funds being received than anticipated. |
| Total Revenue Decrease | | | (413,561) | |
| EXPENDITURES | | | | |
| Personnel Services | 4,065,973 | 3,913,638 | (152,335) | Savings in the Admin Department of \$24,371, Police Dept. of \$34,111, Fire Dept. of \$92,105 and a small savings in Public Works labor in the General Fund. |
| Materials and Services | 1,352,907 | 1,214,199 | (138,708) | Approx. \$20,000 savings in the Fire Dept. contracted services due to third party ambulance billing (4% of collections) which were significantly less than anticipated. Approx. \$32,000 savings in contracted labor in Cemetery Department due to fewer interments than anticipated. Overall savings in all departments due to management's efforts to reduce costs to help offset revenue shortfalls. |
| Capital Outlay | 69,000 | 41,333 | (27,667) | A \$10,000 City Hall HVAC replacement project was deferred to help offset the decline in actual versus anticipated revenue. LAMP improvements of \$13,666 were delayed due to weather and other project timing issues. |
| Total Expenditure Savings | | | \$ 318,710 | |
| Operating Transfer In | 7,200 | 8,373 | 1,173 | Received more cemetery trust interest than anticipated. |
| Operating Transfer Out | (82,000) | (82,000) | - | Interfund transfers were made as budgeted. |
| Beginning Fund Balance | 979,279 | 927,548 | (51,731) | Additional carryover from budgeted amount. |
| Difference Budget & Actual | | | (145,409) | |

**BAKER CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

CAPITAL ASSET AND DEBT ACTIVITY

Capital asset activity for the fiscal year ended June 30, 2017 is summarized on pages 37-38 in the notes to the financial statements. The following is a summary of the assets purchased, constructed or received through contributions during the fiscal year ended June 30, 2017:

| | |
|---|---------------------|
| Partial City Hall Foundation Repointing | \$ 20,000 |
| Samo Swim Heating System | 238,753 |
| Samo Swim Shower Improvements | 13,321 |
| Cemetery Office Reroof | 7,963 |
| Cemetery Office Reside | 9,994 |
| Airport F.S.S. Building Reroof | 12,887 |
| Taxiway Apron Rehabilitation Project (In Process) | 846,167 |
| Hydro-Generator Exciter Rectifier | 5,948 |
| Cedar Acres Park Equipment | 23,718 |
| Body Camera System | 17,942 |
| Body Camera Server | 5,145 |
| Total Station | 21,229 |
| New Phone System for City Hall and Fire Department (In Process) | 6,916 |
| Autocad GIS System | 9,014 |
| Stormwater Pipe Curing | 19,216 |
| Grind/Inlay at Pocahontas, Cedar and 17 th Street | 36,323 |
| Elgin Crosswind Street Sweeper | 253,533 |
| Differential System Enhancement for Grader | 6,251 |
| Nissan Frontier | 29,767 |
| Ford F-150 Super Cab Pickup | 28,020 |
| Crusher Bucket | 77,500 |
| AS400 Utility Billing Software Enhancements | 15,536 |
| Generator Building at the Water Treatment Facility (Additional Costs) | 5,396 |
| Water Reservoir 3M Gallon Water Meter | 21,457 |
| Mountain Line NEPA Study (Additional Costs) | 2,778 |
| Mountain Line Pipeline System – Little Mill to Big Mill | 196,317 |
| GSI Groundwater Evaluation & Design (In Process) | 1,745 |
| 8" Water Main Installation at the High School | 50,086 |
| Water System Enhancements | 63,920 |
| SCADA System Upgrade | 23,353 |
| 1000' Sewer Camera Cable | 6,208 |
| Wastewater Pipe Curing | 142,824 |
| Wastewater System Enhancements | 26,372 |
| Wastewater Main Replacement at Eccles and 4 th Street | 36,760 |
| Effluent Water Disposal Options | 5,596 |
| Chevrolet Traverse | 27,317 |
| Golf Course Irrigation Replacement Plan (Additional Costs) | 4,788 |
| Total | <u>\$ 2,320,060</u> |

**BAKER CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

CONDITIONS AFFECTING THE CITY'S FINANCIAL SITUATION

The following are currently known facts, decisions, or conditions that are expected to have a significant impact on the City's financial health:

- Measure 50, a tax limitation measure, established a permanent property tax rate of \$6.3314 per \$1,000 of assessed value. Growth in existing assessed value is limited to a maximum of three percent per year plus new construction's assessed value. In addition, Measure 5 limits the combined property tax rates to \$10 for all local governments except schools. City property taxes not assessed due to this \$10 limit (compression) decreased in 2017-18 for the first time in the past ten years from \$138,997 to \$115,781. The annual increase in property taxes is not enough to keep up with annual salary, health insurance and PERS benefits cost increases discussed below. On June 13, 2017, the City enacted an ordinance to create a public safety fee to help overcome this shortfall. Effective July 1, 2017 the public safety fee was set at \$3.00 per month for residential and \$6.00 per month for commercial properties. The ordinance which enacts the public safety fee will sunset on June 30, 2020.
- AFSCME Local 2175 Baker City Employees Association, Baker City Police Association and Baker City Professional Firefighters labor contracts were negotiated for periods of three-plus years. Increases for non-represented staff have not been set for future years. The known impacts of these actions are listed in the table below.

| | <u>Police</u> | <u>Fire</u> | <u>AFSCME</u> | <u>Non-Represented</u> |
|---------------------------------|---------------|-------------|---------------|------------------------|
| July 1, 2017 Salary Increase | 1.5% | 1.5% | 1.25% | TBD |
| July 1, 2018 Salary Increase | 1.5% | 1.5% | 1.25% | TBD |
| July 1, 2019 Salary Increase | 1.5% | 1.5% | TBD | TBD |

The PERS rates are set for a period of two years and are listed in the table below. Currently it is anticipated that the July 1, 2019 to June 30, 2021 PERS rates will continue to increase significantly.

| | <u>Tier 1 & Tier 2</u> | <u>OPSRP General Service</u> | <u>OPSRP Police & Fire</u> |
|---|----------------------------|------------------------------|--------------------------------|
| Rates for July 1, 2017 to June 30, 2019 | 22.77% | 13.63% | 18.40% |

**BAKER CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

- Street fund resources (mainly state gas taxes and property taxes) are not sufficient to maintain the City's streets in good condition. If the City's streets are not properly maintained (i.e. overlays, chip sealing, fog sealing, crack sealing) they will continue to deteriorate. The 2017 pavement management plan highlighted this need with 41.7% of the City's streets listed as fair condition and 1.73% listed as poor condition.
- On March 8, 2016, Council adopted the Water Facilities Master Plan prepared by Murray, Smith & Associates (MSA). This plan included a comprehensive review and evaluation of the City's water systems and consideration of needed capital improvement for the transmission, treatment and distribution systems. MSA identified the need for \$6.2 million in capital improvement projects over the 5-year horizon and a potential of \$33.4 million over the 6-to-20 year horizon due to an aging infrastructure. Although the City Council increased water rates by 11.2% as of July 1, 2016 and 10% as of July 1, 2017 these infrastructure needs will not be met without the continuation of significant annual water rate increases or other funding mechanisms in the future.
- Due to state and federal regulatory requirements the City's wastewater system will require significant modifications and improvements in the future. The City recently received a DEQ approved plan which includes the requirement for the City to switch from its current effluent disposal method of discharging into the Powder River to a land application disposal method. The current wastewater reserves and user rates will not be sufficient to fund these required enhancements. City staff estimates that up to \$12,000,000 in project costs may need to be financed resulting in an estimated annual debt payment of approximately \$900,000. Current wastewater rates are not sufficient to cover the debt repayment and would, therefore, need to be increased in order to repay the debt financing.

REQUESTS FOR INFORMATION

The City's financial statements are designed to present the users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information please contact the City's Finance Director, Jeanie Dexter at PO Box 650, Baker City, OR 97814 or via email at jdexter@bakercity.com.

Basic Financial Statements

BAKER CITY
STATEMENT OF NET POSITION
JUNE 30, 2017

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|----------------------|
| ASSETS: | | | |
| Cash and Cash Equivalents | \$ 4,200,634 | \$ 4,893,646 | \$ 9,094,280 |
| Accounts Receivable (Net of Allowance for Uncollectible Accounts) | 471,337 | 214,061 | 685,398 |
| Interest Receivable | 297 | 302 | 599 |
| Prepaid Expenses | 5,758 | 8,303 | 14,061 |
| Taxes Receivable (Net of Allowance for Uncollectible Accounts) | 237,430 | - | 237,430 |
| Intergovernmental Receivable | 912,389 | 75 | 912,464 |
| Note Receivable | - | 76,000 | 76,000 |
| Contracts and Special Assessments Receivable | 401,114 | 36,509 | 437,623 |
| Internal Balances | (399,441) | 399,441 | - |
| Inventories | 314,756 | - | 314,756 |
| Capital Assets (Net of Accumulated Depreciation): | | | |
| Land | 2,150,002 | 1,342,160 | 3,492,162 |
| Construction in Process | 1,008,530 | 35,159 | 1,043,689 |
| Buildings | 2,342,836 | 220,420 | 2,563,256 |
| Improvements Other than Buildings | 14,604 | 81,439 | 96,043 |
| Machinery and Equipment | 1,164,892 | 415,773 | 1,580,665 |
| Infrastructure | 13,034,246 | 23,034,787 | 36,069,033 |
| Other Assets | 266,217 | - | 266,217 |
| Total Assets | <u>\$ 26,125,601</u> | <u>\$ 30,758,075</u> | <u>\$ 56,883,676</u> |
| DEFERRED OUTFLOWS: | | | |
| Deferred Outflows Related to Pension Obligations | 2,875,402 | 927,523 | 3,802,925 |
| Total Assets and Deferred Outflows | <u>29,001,003</u> | <u>31,685,598</u> | <u>60,686,601</u> |
| LIABILITIES: | | | |
| Accounts Payable | \$ 931,678 | \$ 50,963 | \$ 982,641 |
| Accrued Payroll Taxes and Benefits Payable | 235,812 | 94,166 | 329,978 |
| Accrued Interest Payable | - | 33,624 | 33,624 |
| Customer Deposits and Other Payables | 76,055 | 40,853 | 116,908 |
| Notes Payable | - | 1,623,687 | 1,623,687 |
| Compensated Absences Payable | 242,595 | 106,359 | 348,954 |
| Net Pension Liability | 5,407,499 | 1,744,306 | 7,151,805 |
| Total Liabilities | <u>6,893,639</u> | <u>3,693,958</u> | <u>10,587,597</u> |
| DEFERRED INFLOWS: | | | |
| Deferred Inflows Related to Pension Obligations | 380,455 | 122,723 | 503,178 |
| Total Liabilities and Deferred Inflows | <u>7,274,094</u> | <u>3,816,681</u> | <u>11,090,775</u> |
| NET POSITION: | | | |
| Invested in Capital Assets, Net of Related Debt Restricted: | 19,715,110 | 23,414,799 | 43,129,909 |
| Cemetery Care | 274,061 | - | 274,061 |
| 2089 Celebration | 2,983 | - | 2,983 |
| Street Trees | 20,739 | - | 20,739 |
| Car Seats | 2,177 | - | 2,177 |
| Nonexpendable | 782,954 | - | 782,954 |
| Unrestricted | 928,885 | 4,454,118 | 5,383,003 |
| Total Net Position | <u>\$ 21,726,909</u> | <u>\$ 27,868,917</u> | <u>\$ 49,595,826</u> |

The notes to the financial statements are an integral part of this statement.

BAKER CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

| Functions / Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|----------------------|--------------------------------------|------------------------------------|----------------------------------|---|--------------------------|----------------------|
| | | Fines, Fees and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental Activities: | | | | | | | |
| General Government | \$ 510,986 | \$ 59,393 | \$ 2,294 | \$ 8,000 | \$ (441,299) | \$ - | \$ (441,299) |
| Public Safety | 4,571,634 | 693,896 | 116,288 | 12,526 | (3,748,924) | - | (3,748,924) |
| Highways and Streets | 1,527,443 | 69,619 | 592,342 | - | (865,482) | - | (865,482) |
| Culture and Recreation | 361,946 | 71 | - | 9,258 | (352,617) | - | (352,617) |
| Airport | 161,989 | 8,406 | - | 841,538 | 687,955 | - | 687,955 |
| Cemetery | 144,721 | 70,582 | - | - | (74,139) | - | (74,139) |
| Hydro-electric Plant | 6,294 | 32,817 | - | - | 26,523 | - | 26,523 |
| Economic and Community Development | 113,492 | - | 31,596 | - | (81,896) | - | (81,896) |
| Interest on Long Term Debt | 3,181 | - | - | - | (3,181) | - | (3,181) |
| Total Governmental Activities | 7,401,686 | 934,784 | 742,520 | 871,322 | (4,853,060) | - | (4,853,060) |
| Business-type Activities: | | | | | | | |
| Water Utility | 1,770,350 | 2,561,852 | - | - | - | 791,502 | 791,502 |
| Wastewater Utility | 1,160,967 | 1,303,063 | - | - | - | 142,096 | 142,096 |
| Golf Operation | 67,893 | - | - | - | - | (67,893) | (67,893) |
| Building Inspection | 328,170 | 366,080 | - | - | - | 37,910 | 37,910 |
| Total Business-type Activities | 3,327,380 | 4,230,995 | - | - | - | 903,615 | 903,615 |
| Total Government | \$ 10,729,066 | \$ 5,165,779 | \$ 742,520 | \$ 871,322 | (4,853,060) | 903,615 | (3,949,445) |
| General Revenues: | | | | | | | |
| Property Taxes | | | | | 3,231,766 | - | 3,231,766 |
| Franchise Taxes | | | | | 864,235 | - | 864,235 |
| Grants and Contributions Not Restricted to a Particular Program | | | | | 264,424 | - | 264,424 |
| Rental Income | | | | | 34,701 | 47,625 | 82,326 |
| Interest on Investments | | | | | 58,355 | 49,246 | 107,601 |
| SAIF Refund | | | | | 31,428 | - | 31,428 |
| Miscellaneous | | | | | 56,804 | 281,531 | 338,335 |
| Transfers: | | | | | | | |
| Operating | | | | | (46,000) | 46,000 | - |
| Total General Revenue and Transfers | | | | | 4,495,713 | 424,402 | 4,920,115 |
| Change in Net Position | | | | | (357,347) | 1,328,017 | 970,670 |
| Net Position July 1, 2016 | | | | | 22,084,256 | 26,540,900 | 48,625,156 |
| Net Position June 30, 2017 | | | | | <u>\$ 21,726,909</u> | <u>\$ 27,868,917</u> | <u>\$ 49,595,826</u> |

The notes to the financial statements are an integral part of this statement.

**BAKER CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

| | <u>General Fund</u> | <u>State Tax Street Fund</u> | <u>LID Repayment Fund</u> | <u>State and Federal Grants Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------------|-----------------------------------|--|---|---|
| Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 907,127 | \$ 1,137,202 | \$ 33,564 | \$ 93,780 | \$ 1,634,266 | \$ 3,805,939 |
| Accounts Receivable (Net of Allowance for Uncollectible Accounts) | 427,995 | - | - | 2,130 | 3,141 | 433,266 |
| Interest Receivable | - | - | 297 | - | - | 297 |
| Prepaid Expenses | 3,169 | 2,589 | - | - | - | 5,758 |
| Taxes Receivable | 187,309 | 43,854 | - | - | 6,267 | 237,430 |
| Contracts and Special Assessments Receivable | - | - | 194,260 | 206,854 | - | 401,114 |
| Due From Other Funds | - | - | - | - | 49,524 | 49,524 |
| Advances to Other Funds | - | - | - | - | 179,099 | 179,099 |
| Intergovernmental Receivable | 53,050 | 50,881 | - | 808,458 | - | 912,389 |
| Other Assets | 265,329 | - | - | - | 888 | 266,217 |
| Total Assets | \$ 1,843,979 | \$ 1,234,526 | \$ 228,121 | \$ 1,111,222 | \$ 1,873,185 | \$ 6,291,033 |
| Liabilities: | | | | | | |
| Accounts Payable | \$ 69,201 | \$ 9,089 | \$ - | \$ 803,126 | \$ 8,267 | \$ 889,683 |
| Wages, Payroll Taxes and Benefits Payable | 200,329 | 24,663 | - | 491 | 2,452 | 227,935 |
| Other Payables | 76,055 | - | - | - | - | 76,055 |
| Due to Other Funds | - | - | 30,847 | - | 7,659 | 38,506 |
| Advances from Other Funds | - | - | 106,524 | - | 31,341 | 137,865 |
| Total Liabilities | 345,585 | 33,752 | 137,371 | 803,617 | 49,719 | 1,370,044 |
| Deferred Inflows: | | | | | | |
| Deferred Revenue | 727,247 | 41,549 | 194,557 | 336,215 | 9,078 | 1,308,646 |
| Fund Balance (Deficit): | | | | | | |
| Nonspendable | 265,329 | - | - | - | 783,842 | 1,049,171 |
| Restricted for 2089 Celebration | - | - | - | - | 2,983 | 2,983 |
| Restricted for Cemetery Care | - | - | - | - | 274,061 | 274,061 |
| Restricted for Street Trees | - | - | - | - | 20,739 | 20,739 |
| Restricted for Car Seat Program | - | - | - | 2,177 | - | 2,177 |
| Committed for Cemetery Care | - | - | - | - | 505,223 | 505,223 |
| Committed for Sidewalks | - | - | - | - | 166,191 | 166,191 |
| Assigned for Street Trees | - | - | - | - | 4,227 | 4,227 |
| Assigned for Big Deal Grants | - | - | - | 5,000 | - | 5,000 |
| Assigned for Wellness | - | - | - | 1,416 | - | 1,416 |
| Assigned for Public Safety | - | - | - | 6,598 | - | 6,598 |
| Assigned for Skate Park | - | - | - | 4,206 | - | 4,206 |
| Assigned for Fire Equipment | - | - | - | - | 75,268 | 75,268 |
| Assigned for Samo Swim Maintenance | - | - | - | - | - | - |
| Assigned for Parks | - | - | - | 27,958 | - | 27,958 |
| Assigned for Trees | - | - | - | 790 | - | 790 |
| Assigned for Streets | - | 1,159,225 | - | - | - | 1,159,225 |
| Unassigned | 505,818 | - | (103,807) | (76,755) | (18,146) | 307,110 |
| Total Fund Balance (Deficit) | 771,147 | 1,159,225 | (103,807) | (28,610) | 1,814,388 | 3,612,343 |
| Total Liabilities, Deferred Inflows and Fund Balance | \$ 1,843,979 | \$ 1,234,526 | \$ 228,121 | \$ 1,111,222 | \$ 1,873,185 | \$ 6,291,033 |

The notes to the financial statements are an integral part of this statement.

BAKER CITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2017

| | | |
|-------------------------------------|--|--------------|
| Fund Balances of Governmental Funds | | \$ 3,612,343 |
|-------------------------------------|--|--------------|

| | | |
|--|--|-----------|
| The Statement of Net Position reports receivables at their net realizable value. However, receivables not available to pay for current period expenditures are deferred in governmental funds. | | 1,308,646 |
|--|--|-----------|

| | | |
|---|--|------------|
| Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Position at their net depreciable value. | | 19,133,656 |
|---|--|------------|

| | | |
|---|--|-----------|
| All liabilities are reported in the Statement of Net Position. However, if they are not due and payable in the current period, they are not recorded in governmental funds. | | |
| - Compensated absences payable | | (235,199) |

Internal service funds are proprietary-type funds and are not reported with the governmental funds. However, because internal service funds are expected to benefit primarily governmental activities, their assets, liabilities, and net position are reported along with governmental activities in the Statement of Net Position.

| | | |
|--|------------|-----------|
| - Current assets and interfund receivable | \$ 921,146 | |
| - Capital assets - net | 581,454 | |
| - Current liabilities and interfund payable | (54,803) | |
| - Compensated absences payable | (7,396) | |
| - Noncurrent liabilities - net pension liability | (101,059) | |
| - Deferred outflows related to pension obligations | 53,737 | |
| - Deferred inflows related to pension obligations | (7,110) | |
| Subtotal | | 1,385,969 |

| | | |
|--|--|-----------|
| That portion of internal service fund net position arising from transactions with enterprise-type funds are included in internal balances between governmental activities and business-type activities on the Statement of Net Position. | | (620,386) |
|--|--|-----------|

Pension assets, liabilities and deferred outflows are recorded based on actuarially determined amounts in the statement of net position but are not recorded in the fund financial statements as they are not expected to be liquidated with current resources:

| | | |
|---|-------------|-------------|
| - Net pension liability | (5,306,440) | |
| - Deferred outflows related to pensions | 2,821,665 | |
| - Deferred inflows related to pensions | (373,345) | |
| Subtotal | | (2,858,120) |

| | | |
|---|--|---------------|
| Net Position of Governmental Activities | | \$ 21,726,909 |
|---|--|---------------|

The notes to the financial statements are an integral part of this statement.

BAKER CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
JUNE 30, 2017

| | <u>General Fund</u> | <u>State Tax Street Fund</u> | <u>LID Repayment Fund</u> | <u>State and Federal Grants Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------------|-----------------------------------|--|---|---|
| Revenue: | | | | | | |
| Taxes: | | | | | | |
| Property | \$ 2,584,432 | \$ 605,113 | \$ - | \$ - | \$ 86,412 | \$ 3,275,957 |
| Franchise | 864,235 | - | - | - | - | 864,235 |
| Licenses and Permits | 10,023 | - | - | - | - | 10,023 |
| Intergovernmental | 397,247 | 591,651 | - | 728,476 | 900 | 1,718,274 |
| Charges for Services | 763,875 | 11,504 | - | 711 | 57,960 | 834,050 |
| Fines and Forfeitures | 41,725 | - | - | - | - | 41,725 |
| Rental Income | 35,752 | - | - | - | - | 35,752 |
| Interest and Dividends | 11,355 | 12,371 | 5,649 | 675 | 21,849 | 51,899 |
| SAIF Refund | 31,428 | - | - | - | - | 31,428 |
| Miscellaneous | 17,816 | 691 | 46,261 | 52,805 | 52,061 | 169,634 |
| Total Revenue | <u>4,757,888</u> | <u>1,221,330</u> | <u>51,910</u> | <u>782,667</u> | <u>219,182</u> | <u>7,032,977</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General Government | 397,825 | - | 13 | - | - | 397,838 |
| Public Safety | 3,968,346 | - | - | 20,009 | 23,206 | 4,011,561 |
| Highways and Streets | - | 1,050,533 | - | - | - | 1,050,533 |
| Sidewalks | - | - | - | - | 25,080 | 25,080 |
| Parks and Recreation | 116,078 | - | - | 4,004 | 75,215 | 195,297 |
| Airport | 46,531 | - | - | - | - | 46,531 |
| Cemetery | 138,341 | - | - | - | - | 138,341 |
| Hydro-electric Plant | 6,197 | - | - | - | - | 6,197 |
| Economic and Community Development | 82,606 | - | - | 1,000 | 12,730 | 96,336 |
| Debt Service: | | | | | | |
| Principal | - | - | - | - | - | - |
| Interest | - | - | 3,181 | - | - | 3,181 |
| Capital Outlay: | | | | | | |
| General Government | 24,859 | - | - | - | - | 24,859 |
| Public Safety | 23,087 | - | - | - | - | 23,087 |
| Highways and Streets | - | 65,035 | - | - | - | 65,035 |
| Sidewalks | - | - | - | - | - | - |
| Parks and Recreation | - | - | - | 18,695 | 252,074 | 270,769 |
| Airport | 12,887 | - | - | 846,167 | - | 859,054 |
| Cemetery | 17,957 | - | - | - | - | 17,957 |
| Hydro-electric Plant | 5,948 | - | - | - | - | 5,948 |
| Total Expenditures: | <u>4,840,662</u> | <u>1,115,568</u> | <u>3,194</u> | <u>889,875</u> | <u>388,305</u> | <u>7,237,604</u> |
| Excess (Deficit) of Revenues Over Expenditures | <u>(82,774)</u> | <u>105,762</u> | <u>48,716</u> | <u>(107,208)</u> | <u>(169,123)</u> | <u>(204,627)</u> |
| Other Financing Sources (Uses): | | | | | | |
| Transfers In | 8,373 | 10,000 | - | 12,000 | 24,000 | 54,373 |
| Transfers Out | (82,000) | - | - | - | (18,373) | (100,373) |
| Total Other Financing Sources (Uses) | <u>(73,627)</u> | <u>10,000</u> | <u>-</u> | <u>12,000</u> | <u>5,627</u> | <u>(46,000)</u> |
| Net Change in Fund Balance | (156,401) | 115,762 | 48,716 | (95,208) | (163,496) | (250,627) |
| Fund Balance (Deficit), July 1, 2016 | <u>927,548</u> | <u>1,043,463</u> | <u>(152,523)</u> | <u>66,598</u> | <u>1,977,884</u> | <u>3,862,970</u> |
| Fund Balance (Deficit), June 30, 2017 | <u>\$ 771,147</u> | <u>\$ 1,159,225</u> | <u>\$ (103,807)</u> | <u>\$ (28,610)</u> | <u>\$ 1,814,388</u> | <u>\$ 3,612,343</u> |

The notes to the financial statements are an integral part of this statement.

BAKER CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

| | | |
|---|----|-------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | (250,627) |
| Governmental funds defer revenue that does not provide current financial resources. However, the Statement of Activities recognizes such revenues at their net realizable value when earned, regardless of when received. | | 51,727 |
| Capital outlays net of dispositions, are reported as expenditures in governmental funds. However, the Statement of Activities allocates the cost of capital outlays over their estimated useful lives as depreciation expense. | | 342,387 |
| Donations of capital assets are not reported in the fund financial statements as they do not affect current resources. However, the resulting increase in net position is reported in the Statement of Activities. | | 5,023 |
| Proceeds from the issuance of long-term debt provide current financial resources and are reported as revenues. In the same way, repayments of long-term debt use current financial resources and are reported as expenditures in governmental funds. However, neither the receipt of debt proceeds nor the payment of debt principal affect the Statement of Activities, but are reported as increases or decreases in noncurrent liabilities in the Statement of Net Position. | | |
| - Change in compensated absences payable | \$ | (1,847) |
| - Repayment of long term debt | | <u>-</u> |
| Subtotal | | (1,847) |
| Internal Service Funds are used by management to charge the costs of certain activities, such as inventory and fleet management. The net revenue (expense) of certain internal service funds is reported with governmental activities. | | 76,945 |
| That portion of the change in net position of internal service funds arising from transactions with business-type funds is an adjustment to internal balances between governmental activities and business-type activities on the Statement of Net Position. | | (43,632) |
| Pension costs are determined based on actuarially determined amounts. The change in the actuarially determined liability amount is reported as an increase or decrease in the Statement of Net Position. | | <u>(537,323)</u> |
| Change in Net Position of Governmental Activities | \$ | <u><u>(357,347)</u></u> |

The notes to the financial statements are an integral part of this statement.

BAKER CITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

| | <u>Business-Type Activities - Enterprise Funds</u> | | | | | Governmental Activities - Internal Service Funds |
|--|--|-------------------------------|----------------------------------|---------------------------------|----------------------|---|
| | <u>Water Utility</u> | <u>Wastewater Utility</u> | <u>Golf Course Operation</u> | <u>Building Inspections</u> | <u>Totals</u> | |
| Assets: | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 2,883,232 | \$ 1,719,646 | \$ 25,523 | \$ 265,245 | \$ 4,893,646 | \$ 394,695 |
| Accounts Receivable (Net of Allowance for Uncollectible Accounts) | 139,041 | 75,020 | - | - | 214,061 | 38,071 |
| Prepaid Expenses | 4,225 | 4,042 | - | 36 | 8,303 | - |
| Special Assessments Receivable | - | 3,477 | - | - | 3,477 | - |
| Intergovernmental Receivable | - | - | - | 75 | 75 | - |
| Note Receivable | 826 | - | - | - | 826 | - |
| Interest Receivable | 302 | - | - | - | 302 | - |
| Due From Other Funds | 4,931 | - | - | - | 4,931 | 39,261 |
| Inventories | - | - | - | - | - | 314,756 |
| Total Current Assets | 3,032,557 | 1,802,185 | 25,523 | 265,356 | 5,125,621 | 786,783 |
| Noncurrent Assets: | | | | | | |
| Advances to Other Funds | - | - | - | - | - | 134,363 |
| Special Assessments Receivable | - | 33,032 | - | - | 33,032 | - |
| Note Receivable | 75,174 | - | - | - | 75,174 | - |
| Capital Assets: | | | | | | |
| Land | 180,258 | 103,798 | 1,058,104 | - | 1,342,160 | - |
| Construction in Process | 7,717 | 27,068 | - | 374 | 35,159 | - |
| Buildings | 293,250 | 35,037 | 106,146 | - | 434,433 | 58,399 |
| Improvements other than Buildings | - | - | 381,790 | - | 381,790 | - |
| Infrastructure | 26,261,080 | 9,397,311 | - | - | 35,658,391 | - |
| Machinery, Equipment, and Vehicles | 359,153 | 526,294 | 241,690 | 47,230 | 1,174,367 | 2,609,683 |
| Less: Accumulated Depreciation | (8,088,978) | (5,340,122) | (448,090) | (19,372) | (13,896,562) | (2,086,628) |
| Net Capital Assets | 19,012,480 | 4,749,386 | 1,339,640 | 28,232 | 25,129,738 | 581,454 |
| Total Noncurrent Assets | 19,087,654 | 4,782,418 | 1,339,640 | 28,232 | 25,237,944 | 715,817 |
| Total Assets | 22,120,211 | 6,584,603 | 1,365,163 | 293,588 | 30,363,565 | 1,502,600 |
| Deferred Outflows: | | | | | | |
| Deferred Outflows Related to Pensions | 492,903 | 356,963 | 265 | 77,392 | 927,523 | 53,737 |
| Total Assets and Deferred Outflows | \$ 22,613,114 | \$ 6,941,566 | \$ 1,365,428 | \$ 370,980 | \$ 31,291,088 | \$ 1,556,337 |
| Liabilities: | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts Payable | \$ 27,583 | \$ 7,727 | \$ 1,174 | \$ 14,479 | \$ 50,963 | \$ 41,995 |
| Customer Deposits | 40,853 | - | - | - | 40,853 | - |
| Due to Other Funds | - | - | 50,279 | - | 50,279 | 4,931 |
| Accrued Payroll Taxes and Benefits Payable | 55,885 | 29,688 | 50 | 8,543 | 94,166 | 7,877 |
| Compensated Absences Payable | 66,792 | 34,258 | - | 5,309 | 106,359 | 7,396 |
| Accrued Interest Payable | 33,624 | - | - | - | 33,624 | - |
| Current Portion of Long Term Debt | 66,049 | - | - | - | 66,049 | - |
| Total Current Liabilities | 290,786 | 71,673 | 51,503 | 28,331 | 442,293 | 62,199 |
| Long-Term Liabilities: | | | | | | |
| Notes Payable | 1,557,638 | - | - | - | 1,557,638 | - |
| Advances From Other Funds | - | - | 175,597 | - | 175,597 | - |
| Total Long-Term Liabilities | 1,557,638 | - | 175,597 | - | 1,733,235 | - |
| Other Liabilities: | | | | | | |
| Net Pension Liability | 926,957 | 671,307 | 498 | 145,544 | 1,744,306 | 101,059 |
| Total Liabilities | 2,775,381 | 742,980 | 227,598 | 173,875 | 3,919,834 | 163,258 |
| Deferred Inflows: | | | | | | |
| Deferred Inflows Related to Pensions | 65,217 | 47,231 | 35 | 10,240 | 122,723 | 7,110 |
| Total Liabilities and Deferred Inflows | 2,840,598 | 790,211 | 227,633 | 184,115 | 4,042,557 | 170,368 |
| Net Position: | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 17,388,793 | 4,749,386 | 1,113,764 | 28,232 | 23,280,175 | 581,454 |
| Unrestricted | 2,383,723 | 1,401,969 | 24,031 | 158,633 | 3,968,356 | 804,515 |
| Total Net Position | \$ 19,772,516 | \$ 6,151,355 | \$ 1,137,795 | \$ 186,865 | 27,248,531 | \$ 1,385,969 |

Adjustment to Reflect the Consolidation of Internal Service Fund Activity Related to Enterprise Funds
Related to Net Position of Business-type Activities

620,386

Net Position of Business-Type Activities

\$ 27,868,917

The notes to the financial statements are an integral part of this statement.

BAKER CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | <u>Business-Type Activities - Enterprise Funds</u> | | | | | Governmental Activities - Internal Service Funds |
|---|--|-------------------------------|----------------------------------|---------------------------------|---------------------|---|
| | <u>Water Utility</u> | <u>Wastewater Utility</u> | <u>Golf Course Operation</u> | <u>Building Inspections</u> | <u>Totals</u> | |
| Operating Revenue: | | | | | | |
| Charges for Sales and Services | \$ 2,561,852 | \$ 1,303,063 | \$ - | \$ 366,080 | \$ 4,230,995 | \$ 591,427 |
| Miscellaneous | 14,886 | 45,338 | - | 406 | 60,630 | 4,916 |
| Total Operating Revenue | <u>2,576,738</u> | <u>1,348,401</u> | <u>-</u> | <u>366,486</u> | <u>4,291,625</u> | <u>596,343</u> |
| Operating Expenses: | | | | | | |
| Cost of Sales and Services | 1,241,736 | 965,024 | - | 324,379 | 2,531,139 | 415,234 |
| Depreciation | 491,210 | 217,991 | - | 3,791 | 712,992 | 104,776 |
| Total Operating Expenses | <u>1,732,946</u> | <u>1,183,015</u> | <u>-</u> | <u>328,170</u> | <u>3,244,131</u> | <u>520,010</u> |
| Operating Income (Loss) | <u>843,792</u> | <u>165,386</u> | <u>-</u> | <u>38,316</u> | <u>1,047,494</u> | <u>76,333</u> |
| Nonoperating Revenue (Expense): | | | | | | |
| Gain (Loss) on Property and Equipment Sale | 220,901 | - | - | - | 220,901 | (5,844) |
| Investment Earnings | 27,319 | 18,981 | 213 | 2,733 | 49,246 | 6,456 |
| Rental Income | 3,000 | 3,782 | 40,843 | - | 47,625 | - |
| Depreciation and Expenses - Rental Property | - | - | (65,164) | - | (65,164) | - |
| Interest Expense | (58,584) | - | (3,133) | - | (61,717) | - |
| Total Nonoperating Revenue (Expense) | <u>192,636</u> | <u>22,763</u> | <u>(27,241)</u> | <u>2,733</u> | <u>190,891</u> | <u>612</u> |
| Income (Loss) Before Transfers | <u>1,036,428</u> | <u>188,149</u> | <u>(27,241)</u> | <u>41,049</u> | <u>1,238,385</u> | <u>76,945</u> |
| Other Financing Sources (Uses): | | | | | | |
| Transfers In | - | - | 46,000 | - | 46,000 | - |
| Total Other Financing Sources | <u>-</u> | <u>-</u> | <u>46,000</u> | <u>-</u> | <u>46,000</u> | <u>-</u> |
| Change in Net Position | 1,036,428 | 188,149 | 18,759 | 41,049 | 1,284,385 | 76,945 |
| Net Position, July 1, 2016 | <u>18,736,088</u> | <u>5,963,206</u> | <u>1,119,036</u> | <u>145,816</u> | | <u>1,309,024</u> |
| Net Position, June 30, 2017 | <u>\$ 19,772,516</u> | <u>\$ 6,151,355</u> | <u>\$ 1,137,795</u> | <u>\$ 186,865</u> | | <u>\$ 1,385,969</u> |
| Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds | | | | | 43,632 | |
| Change in Net Position of Business-Type Activities | | | | | <u>\$ 1,328,017</u> | |

The notes to the financial statements are an integral part of this statement.

BAKER CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | <u>Business-type Activities - Enterprise Funds</u> | | | | | Governmental Activities-- Internal Service Funds |
|--|--|-------------------------------|----------------------------------|---------------------------------|---------------------|---|
| | <u>Water Utility</u> | <u>Wastewater Utility</u> | <u>Golf Course Operation</u> | <u>Building Inspections</u> | <u>Totals</u> | |
| Cash From Operating Activities: | | | | | | |
| Receipts from Customers and Users | \$ 2,511,054 | \$ 1,282,269 | \$ - | \$ 366,252 | \$ 4,159,575 | \$ 1,236 |
| Receipts from Interfund Services Provided | - | - | - | - | - | 589,964 |
| Other Receipts | 14,881 | 45,338 | - | 406 | 60,625 | 1,508 |
| Payments to Suppliers | (214,188) | (187,808) | - | (122,277) | (524,273) | (307,437) |
| Payments to Employees | (675,642) | (506,753) | - | (150,769) | (1,333,164) | (134,464) |
| Payments for Interfund Services Used | (322,675) | (227,032) | - | (24,031) | (573,738) | (73) |
| Net Cash Provided (Used) by Operating Activities | 1,313,430 | 406,014 | - | 69,581 | 1,789,025 | 150,734 |
| Cash Flows From Non Capital Financing Activities: | | | | | | |
| Advances from (to) Other Funds | (4,931) | - | 46,000 | - | 41,069 | (34,069) |
| Repayments from LID for Line Extension | - | 3,477 | - | - | 3,477 | - |
| Repayments from (to) Other Funds | - | - | - | - | - | 38,646 |
| Net Cash Provided (Used) by Noncapital Financing Activities | (4,931) | 3,477 | 46,000 | - | 44,546 | 4,577 |
| Cash Flows From Capital and Related Financing Activities: | | | | | | |
| Receipts from the Sale of Capital Assets | 176,290 | - | - | - | 176,290 | 10,175 |
| Acquisition/Construction of Capital Assets | (463,486) | (228,203) | (16,224) | (27,691) | (735,604) | (318,246) |
| Other Receipts | - | - | - | - | - | - |
| Advances from (to) Other Funds | - | - | - | - | - | - |
| Principal Paid on Long Term or Interfund Debt | (63,785) | - | (57,429) | - | (121,214) | - |
| Interest Paid on Long Term or Interfund Debt | (59,905) | - | (3,133) | - | (63,038) | - |
| Net Cash Provided (Used) by Capital Financing Activities | (410,886) | (228,203) | (76,786) | (27,691) | (743,566) | (308,071) |
| Cash Flows From Investing Activities: | | | | | | |
| Rental Income | 2,750 | 3,782 | 40,843 | - | 47,375 | - |
| Expenses Rental Property | - | - | (14,055) | - | (14,055) | - |
| Interest on Investments | 27,017 | 18,981 | 213 | 2,733 | 48,944 | 6,456 |
| Net Cash Provided (Used) by Investing Activities | 29,767 | 22,763 | 27,001 | 2,733 | 82,264 | 6,456 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 927,380 | 204,051 | (3,785) | 44,623 | 1,172,269 | (146,304) |
| Cash and Cash Equivalents, July 1, 2016 | 1,955,852 | 1,515,595 | 29,308 | 220,622 | 3,721,377 | 540,999 |
| Cash and Cash Equivalents, June 30, 2017 | \$ 2,883,232 | \$ 1,719,646 | \$ 25,523 | \$ 265,245 | \$ 4,893,646 | \$ 394,695 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | | | |
| Operating Income (Loss) | \$ 843,792 | \$ 165,386 | \$ - | \$ 38,316 | \$ 1,047,494 | \$ 76,333 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | | | | |
| Depreciation Expense | 491,210 | 217,991 | - | 3,791 | 712,992 | 104,776 |
| (Increase) Decrease in Accounts Receivable Related to Operating Activities (Net of Allowance for Uncollectible Accounts)** | (55,311) | (20,794) | - | 172 | (75,933) | (3,635) |
| (Increase) Decrease in Prepaid Expenses | (4,225) | (4,042) | - | (36) | (8,303) | - |
| (Increase) Decrease in Inventories | - | - | - | - | - | (40,323) |
| Increase (Decrease) in Customer Deposits | 4,508 | - | - | - | 4,508 | - |
| Increase (Decrease) in Accounts Payable Related to Operating Activities* | (8,970) | (11,154) | - | (1,443) | (21,567) | 12,355 |
| Increase (Decrease) in Payroll Taxes, Benefits and Withholdings Payable | 22,222 | 7,034 | - | 4,031 | 33,287 | 2,221 |
| Increase (Decrease) in Compensated Absences Asset/Liability | 9,900 | (419) | - | 941 | 10,422 | 4,385 |
| Net Change in Pension Asset/Liabilities | 10,304 | 52,012 | - | 23,809 | 86,125 | (5,378) |
| Total Adjustments | 469,638 | 240,628 | - | 31,265 | 741,531 | 74,401 |
| Net Cash Provided (Used) by Operating Activities | \$ 1,313,430 | \$ 406,014 | \$ - | \$ 69,581 | \$ 1,789,025 | \$ 150,734 |

The notes to the financial statements are an integral part of this statement.

*Increase (Decrease) in Accounts Payable Related to the Acquisition/Construction of Capital Assets is as follows - Water Fund \$14,595, Wastewater Fund \$2,839, and Equipment & Vehicle Fund \$325.

**Increase in accounts receivable related to the sale of fixed assets is as follows: Water Fund \$608 and Equipment & Vehicle Fund \$33,850.

**A non-cash transaction occurred when a capital asset in the Water Fund was sold in return for a \$76,000 Notes Receivable.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Baker City is an Oregon municipal corporation governed by a separately elected seven member council, which includes a mayor. The current City Charter was adopted May 16, 2000 and is a Council-Manager form of Government. The accompanying financial statements present the City in its entirety. There are no other entities for which the City is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities report information on all activities of the City of Baker City, except fiduciary activities. Eliminations have been made to minimize the double counting of interfund activities. 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 segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Eliminations have been made to minimize the double counting of internal activities in the Statement of Activities. 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, (2) operating grants and contributions that are restricted to a particular function or segment and (3) capital grants or contributions that are restricted to a particular function or segment. Revenues that are not classified as program revenues, including property taxes and franchise taxes, are presented as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

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

Net position is reported as restricted when constraints placed on net asset use are either externally restricted, imposed by creditors (such as through grantors, contributors or laws) or through constitutional provisions or enabling resolutions.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, donations and similar items are recognized as revenues in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within two months 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, expenditures related to compensated absences, claims and judgments and pension liabilities are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in the governmental funds.

Property taxes, franchise taxes, intergovernmental revenues, licenses, grants, airport fuel taxes 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The State Tax Street Fund accounts for gas tax apportionments from the State of Oregon. These funds are designated by State law for use in maintenance of the City's street system. It also accounts for property taxes allocated by the City to be used for maintenance and repair of the City's street system.

The LID Repayment Fund is used to track the payments and outstanding balances of local improvement district receivables.

The State and Federal Grants Fund is used to track the receipt and disbursement of grant dollars.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major proprietary funds:

The Water Utility Fund accounts for the operation and maintenance of the City's Water service and distribution facilities.

The Wastewater Utility Fund accounts for the operation and maintenance of the City's sewer system including the collection lines and the sewage treatment lagoons.

The Golf Course Operation Fund accounts for the revenues and expenses from the lease of the City's 18-hole golf course.

The Building Inspections Fund accounts for county-wide building inspection activity.

Additionally, the City reports the following fund types:

Special revenue funds account for funds restricted to a particular purpose. These include property taxes allocated to swimming pool operation and revenues dedicated to cemetery operation and improvements.

The capital projects fund accounts for the accumulation of money for major fire and emergency medical supply (EMS) equipment purchases.

Internal service funds account for fleet, inventory and insurance management provided to other departments or agencies of the City on a cost reimbursement basis.

The City has three permanent funds: the One Hundred Year Trust Fund, the Mt. Hope Trust Fund and the Anthony Silvers Street Tree Trust Fund. The One Hundred Year Trust Fund was started with donations in 1989 and will be used to accumulate money to fund a public amenity, fund a community celebration in the year 2089, and provide seed money for another one hundred year trust. By city ordinance the Mt. Hope Trust Fund's trust corpus cannot be spent but the investment earnings are to be used for cemetery maintenance. The Anthony Silvers Street Tree Trust Fund was created by a bequest from Anthony Silvers and its corpus can never be spent but the investment earnings are to be used for planting and/or replanting of street trees within the City of Baker City.

The City has applied Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement codifies certain FASB and AICPA Pronouncements into GASB authoritative literature.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. For example, the General Fund charges other funds for centralized expenses. The revenue and expenses in the General Fund are reduced by the centralized expenses that are charged to other funds. Exceptions to this general rule are payments-in-lieu of franchise taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Utility, Wastewater Utility, and the Building Inspections funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, interest expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. For example, the revenue and expenses associated with the lease of the City's 18-hole golf course are non-operating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Assets, Liabilities, and Net Position or Equity

Cash, Cash Equivalents and Investments

The City's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the City consisted of the State Treasurer's Investment Pool (LGIP). The City's investments are stated at cost which approximates fair value.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Position or Equity (Continued)

Cash, Cash Equivalents and Investments (Continued)

The Oregon State Treasury administers the LGIP. It 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. The purpose of the Board is to advise the Oregon State Treasury in the management and investment options of the LGIP.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables, are shown net of an allowance for uncollectibles. The allowance for uncollectibles is calculated for each type of receivable based on past collection history. Property taxes receivable are deemed to be 100% collectible as they are secured by a lien on real property with foreclosure proceedings to commence at four years past due.

Property taxes are levied July 1 on property values assessed as of January 1. The tax levy is divided into three installments: the first installment is due on November 15, the second installment is due February 15 and the third installment is due May 15. The taxes are considered past due after May 15, at which time the applicable property is subject to penalties and interest.

Inventories

All inventories are valued using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Position or Equity (Continued)

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 by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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 repair that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The construction of the U.V. treatment facility was funded in part by a \$1,750,000 note payable to the State of Oregon – Infrastructure Finance Authority. The interest accrued of \$7,251 while the U.V. treatment facility was under construction was included in the capitalized value of the asset.

Property, plant, and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|--------------------------|-------|
| Buildings & Improvements | 25-40 |
| Land Improvements | 10-20 |
| Machinery & Equipment | 5-10 |
| Vehicles | 5-10 |
| Utility Systems | 25-40 |
| Infrastructure | 20-40 |

Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. Vacation liabilities are accrued when earned.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Position or Equity (Continued)

Long-Term Obligations

In the government-wide financial statements and fund financial statements (proprietary funds) long-term debt and other long-term obligations are reported as liabilities of the applicable governmental activities. Business-type discounts and issuance costs are deferred and amortized over the life of the debt using the effective interest method. Debt payable is reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize issuance costs, as well as 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.

Deferred Inflows and Outflows of Resources

In the governmental fund statements, amounts that will not be collected within two months of the fiscal year end are considered deferred inflows. These amounts include past due property taxes, franchise fees, intergovernmental revenues and trade accounts receivable.

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

Fund Equity

Government-Wide Statements

Equity is classified as net position and displayed in the following four components:

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

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Position or Equity (Continued)

Government-Wide Statements (Continued)

- *Restricted net position* – Consists of net position with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.
- *Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt”.
- *Nonexpendable* – Includes permanent endowments and permanent fund principal amounts and is required to be retained in perpetuity.

It is the City’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Financial Statements

Proprietary fund equity is classified the same as in the government-wide statements. Governmental fund equity is classified in the following categories of fund balance:

- *Nonspendable* – amounts that are not in a spendable form (such as inventory and electric cooperative capital credits) or are required to remain intact (such as the corpus of an endowment fund).
- *Restricted* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.
- *Committed* – amounts constrained to specific purposes by the City itself at the highest level of decision making authority. This generally occurs by the adoption of an ordinance by the City Council.
- *Assigned* – amounts the City intends to use for a specific purpose. Assignment can be made by the designation of revenue sources to a particular fund, such as franchise fees designated to be received by the Street Fund, by informal motion of the City Council or by decision of management.
- *Unassigned* – amounts that are available for any purpose.

When more than one class of net equity is available it is the City’s policy to first expend the net equity from the class with the highest level of restriction. Restricted fund balance is comprised of the following:

The will of John Schmitz bequeathed a sum of money to the City to be used exclusively to benefit Mt. Hope Cemetery. Ordinance No. 2663 requires that the John Schmitz Memorial

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Position or Equity (Continued)

Fund Financial Statements (Continued)

Trust Funds be maintained for cemetery purposes and that the income earned from investments be used for maintenance, upkeep, improvements or other benefits of the cemetery. This is accomplished by transferring interest income into the General Fund. The City annually spends significantly more than this interest amount for cemetery maintenance.

On November 15, 1989, the City entered into a trust agreement which established the One Hundred Year Trust Fund. The terms of this agreement require the principal and interest to accumulate for 100 years. In the year 2089 the funds are to be used for a community wide celebration, \$5,000 to establish the next one hundred year trust fund and construction of a public amenity related to public recreation.

The will of Anthony Silvers bequeathed a sum of money to the City and provided that the principal thereof be perpetually maintained in an account designated as the Anthony Silvers Street Tree Trust Fund and that the income thereof be used solely for the purpose of the planting and/or replanting of street trees within the City of Baker City.

Amounts restricted for airport and car seats were restricted by their grantors.

Use of Estimates

The preparation of the City's general purpose financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from the estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with Oregon Local Budget Law for Municipal Corporations for all funds. All annual appropriations lapse at fiscal year end.

Before June 30, the proposed budget is presented to the City's budget committee for review. The Committee holds public hearings, makes changes as approved by the majority, and then approves the budget. The budget then goes to the City Council for an additional hearing, final changes and approval. The final budget must be prepared and adopted no later than June 30.

The budget is prepared by fund and program unit. The government's department heads may make transfers of appropriations within a program unit. Transfers of appropriations between program units require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the program unit, and where there is no clearly defined program unit legal budgetary control is by fund and category. The Council made several transfers of budgetary appropriations throughout the year.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Deficit Fund Equity

The LID Repayment Fund had a deficit fund balance of \$103,807 and the Samo Swim Maintenance Fund had a deficit fund balance of \$18,146 as of June 30, 2017. The City funded these deficits through interfund loans. These funds do not have deficit fund balances on a budget basis.

The State and Federal Grants Fund had a deficit fund balance of \$28,610 as of June 30, 2017 on a generally accepted accounting principles (GAAP) basis as well as on a budget basis. The deficit fund balance is due to a Connect Oregon VI grant that was not susceptible to accrual due to the timing of the grant reimbursement.

3. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

At June 30, 2017, the City's carrying amount of deposits was \$191,005 and the bank balance was \$275,975. In addition, the City had \$36,270 of cash on hand. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has no formal investment policy but does follow the requirements of Chapter 295 of the Oregon Revised Statutes (ORS) for managing custodial credit risk. Effective July 1, 2008, the Oregon State Treasurer became responsible for monitoring public funds held by bank depositories in excess of FDIC insured amounts. ORS Chapter 295 requires depository banks to deposit with a third party bank custodian, securities which have a value of 10%, 25% or 110% of public funds on deposit in excess of FDIC insurance limits depending on the capitalization level of the depository bank. This collateral is to be in the name of the Oregon State Treasurer (Treasurer). Should a bank holding public funds in amounts in excess of FDIC insurance limits fail, the Treasurer shall have the authority to recover losses of public funds due to the bank failure from the collateral pledged by the failed bank to the Treasurer and if there is a deficiency, recover the deficient amount from collateral pledged by all banks participating in this public funds deposit collateral program. All of the City's banks participate in this program, however, since the collateral is not held in the City's name, deposits in excess of FDIC insurance are still considered to be exposed to custodial credit risk. As of June 30, 2017 the City's bank deposit balance was categorized by custodial credit risk as follows:

| | |
|--------------------------------|------------|
| Insured by FDIC | \$ 275,975 |
| Uninsured and uncollateralized | - |
| Total | \$ 275,975 |

At June 30, 2017, the City had an investment of \$8,867,006 in the Oregon Short Term Fund (OSTF), an external investment pool administered by the Oregon State Treasurer. The OSTF is regulated under the statutes of the State of Oregon (ORS 294.805-294.895). The OSTF invests in US Agency Securities, Corporate Bonds, Commercial Paper and Certificates of Deposit. The City considers its investment in the OSTF to be a cash equivalent since there is no limitation on the withdrawal of these funds.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

3. DETAILED NOTES ON ALL FUNDS (Continued)

Receivables

Receivables as of year-end for the City's governmental individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Street Fund | LID Repayment Fund | State and Federal Grants Fund | Non-major and Other Funds | Total |
|---------------------------------------|-----------------|-------------|--------------------------|-------------------------------------|---------------------------------|--------------|
| Interest | \$ - | \$ - | \$ 297 | \$ - | \$ - | \$ 297 |
| Property Taxes | 187,309 | 43,854 | - | - | 6,267 | 237,430 |
| Franchise Taxes | 131,714 | - | - | - | - | 131,714 |
| Trade Accounts | 569,755 | - | - | 2,130 | 3,192 | 575,077 |
| Special Assessments | - | - | - | 206,854 | - | 206,854 |
| LID Receivables | - | - | 194,260 | - | - | 194,260 |
| Intergovernmental | 53,050 | 50,881 | - | 808,458 | - | 912,389 |
| Gross Receivables | 941,828 | 94,735 | 194,557 | 1,017,442 | 9,459 | 2,258,021 |
| Less: Allowance for Uncollectibles | (273,474) | - | - | - | (51) | (273,525) |
| Total Receivables | \$ 668,354 | \$ 94,735 | \$ 194,557 | \$ 1,017,442 | \$ 9,408 | \$ 1,984,496 |

Internal Service Funds have trade account receivables at year-end of \$38,071 which are included with governmental activities in the Statement of Net Position.

Receivables as of year end for the City's individual business-type major funds, including the applicable allowances for uncollectible accounts, are as follows:

| | Water Utility Fund | Wastewater Utility Fund | Building Inspection Fund | Golf Course Operation Fund | Total |
|---------------------------------------|--------------------------|----------------------------|--------------------------------|----------------------------------|------------|
| Trade Accounts | \$ 141,285 | \$ 76,162 | \$ - | \$ - | \$ 217,447 |
| Special Assessments | - | 36,509 | - | - | 36,509 |
| Intergovernmental | - | - | 75 | - | 75 |
| Gross Receivables | 141,285 | 112,671 | 75 | - | 254,031 |
| Less: Allowance for Uncollectibles | (2,244) | (1,142) | - | - | (3,386) |
| Total Receivables | \$ 139,041 | \$ 111,529 | \$ 75 | \$ - | \$ 250,645 |

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

3. DETAILED NOTES ON ALL FUNDS (Continued)

Receivables (Continued)

On May 3, 2017, the City entered into an agreement with Orrin and Tera Bigelow to accept a \$76,000 promissory note as partial payment on the purchase of property located at Salmon Creek. This promissory note is due and payable on June 9, 2022 with interest at 5% per annum. The Salmon Creek property was owned by the City's Water Fund which is a business-type fund. The note receivable has been recorded and the proceeds have been recognized in the financial statements for the fiscal year ended June 30, 2017. The maturity schedule for the promissory note is as follows:

| Fiscal Year | Principal | Interest | Totals |
|-------------|-----------|-----------|-----------|
| 2016-2017 | - | - | - |
| 2017-2018 | 826 | 4,070 | 4,896 |
| 2018-2019 | 1,164 | 3,732 | 4,896 |
| 2019-2020 | 1,223 | 3,673 | 4,896 |
| 2020-2021 | 1,286 | 3,610 | 4,896 |
| 2021-2022 | 71,501 | 3,621 | 75,122 |
| Total | \$ 76,000 | \$ 18,706 | \$ 94,706 |

Governmental funds report deferred revenue in connection with receivables when revenues are not considered available to pay liabilities for the fiscal period ended June 30. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

| | Deferred Revenue |
|--|------------------|
| Trade Accounts Receivable | \$ 273,123 |
| Intergovernmental Receivable | 143,834 |
| Delinquent Property Taxes Receivable | 224,949 |
| Special Assessments Not Due | 206,854 |
| Local Improvement District Receivables Not Due | 194,260 |
| Interest Receivable | 297 |
| Oregon Trail Electric Cooperative Capital Credits | 265,329 |
| Total Deferred/Unearned Revenue – Governmental Funds | \$ 1,308,646 |

Of these deferred revenues, the Oregon Trail Electric Cooperative capital credits (recorded as an Other Asset) of \$265,329, special assessments receivable in the amount of \$206,854, contracts receivable included in trade receivables of \$725, and the local improvement district receivables of \$194,260 are not expected to be collected within one year.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

| | <u>Beginning Balance</u> | <u>Increase/ Transfer</u> | <u>Decrease/ Transfer</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------------------|-------------------------------|---------------------------|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Construction in process | \$ 154,751 | \$ 853,779 | \$ - | \$ 1,008,530 |
| Land | 2,150,002 | - | - | 2,150,002 |
| Total capital assets, not being depreciated | <u>2,304,753</u> | <u>853,779</u> | <u>-</u> | <u>3,158,532</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 5,339,653 | 302,918 | (47,364) | 5,595,207 |
| Improvements other than buildings | 119,151 | - | - | 119,151 |
| Machinery and equipment | 5,269,482 | 354,349 | (296,067) | 5,327,764 |
| Infrastructure | 36,420,808 | 79,257 | - | 36,500,065 |
| Total capital assets being depreciated | <u>47,149,094</u> | <u>736,524</u> | <u>(343,431)</u> | <u>47,542,187</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (3,152,989) | (127,513) | 28,131 | (3,252,371) |
| Improvements other than buildings | (103,071) | (1,476) | - | (104,547) |
| Machinery and equipment | (4,156,590) | (251,069) | 244,787 | (4,162,872) |
| Infrastructure | (22,837,422) | (628,397) | - | (23,465,819) |
| Total accumulated depreciation | <u>(30,250,072)</u> | <u>(1,008,455)</u> | <u>272,918</u> | <u>(30,985,609)</u> |
| Total capital assets, being depreciated, net | <u>16,899,022</u> | <u>(271,931)</u> | <u>(70,513)</u> | <u>16,556,578</u> |
| Governmental activities capital assets, net | <u>\$ 19,203,775</u> | <u>\$ 581,848</u> | <u>\$ (70,513)</u> | <u>\$ 19,715,110</u> |

As of June 30, 2017, construction in process for governmental activities of \$1,008,530 is comprised of the following projects taxiway apron rehabilitation project in process \$1,000,918; the VOIP phone system project at \$5,420 and the Autocad GIS project of \$2,192.

During the year ended June 30, 2017, the City received donated labor from the Oregon Parks and Recreation MACs program for the installation of the new playground equipment at Cedar Acres Park valued at \$5,023.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

3. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

| | <u>Beginning Balance</u> | <u>Increase/ Transfer</u> | <u>Decrease/ Transfer</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------------------|-------------------------------|---------------------------|
| Business-type Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Construction in process | \$ 420,699 | \$ 28,621 | \$ (414,161) | \$ 35,159 |
| Land | 1,342,160 | - | - | 1,342,160 |
| Total capital assets, not being depreciated | 1,762,859 | 28,621 | (414,161) | 1,377,319 |
| Capital assets, being depreciated: | | | | |
| Buildings | 410,705 | 23,728 | - | 434,433 |
| Machinery and equipment | 1,034,320 | 140,047 | - | 1,174,367 |
| Improvements other than buildings | 389,380 | 25,205 | (32,795) | 381,790 |
| Infrastructure | 34,732,074 | 926,317 | - | 35,658,391 |
| Total capital assets, being depreciated | 36,566,479 | 1,115,297 | (32,795) | 37,648,981 |
| Less accumulated depreciation for: | | | | |
| Buildings | (203,976) | (10,037) | - | (214,013) |
| Machinery and equipment | (701,016) | (57,578) | - | (758,594) |
| Improvements other than buildings | (282,546) | (18,604) | 799 | (300,351) |
| Infrastructure | (11,944,857) | (678,747) | - | (12,623,604) |
| Total accumulated depreciation | (13,132,395) | (764,966) | 799 | (13,896,562) |
| Total capital assets, being depreciated, net | 23,434,084 | 350,331 | (31,996) | 23,752,419 |
| Business-type activities capital assets, net | <u>\$ 25,196,943</u> | <u>\$ 378,952</u> | <u>\$ (446,157)</u> | <u>\$ 25,129,738</u> |

As of June 30, 2017, construction in process for business-type activities of \$35,159 is comprised of \$5,596 for the effluent disposal options project; \$6,822 for the Autocad GIS project; \$1,745 for the groundwater evaluation project; \$1,496 for the VOIP phone system project; and \$19,500 for the wastewater facility plan.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

| | |
|--|-----------|
| General government | \$ 44,287 |
| Public safety | 162,707 |
| Highway and streets, including depreciation of general infrastructure assets | 428,847 |
| Culture and recreation | 145,408 |
| Economic and Community Development | 4,859 |
| Airport | 114,305 |
| Cemetery | 3,266 |
| Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets | 104,776 |

Total depreciation expense - governmental activities

\$ 1,008,455

Business-type activities:

| | |
|----------------------|------------|
| Water utility | \$ 491,210 |
| Wastewater utility | 217,991 |
| Building inspections | 3,791 |
| Golf operation | 51,974 |

Total depreciation expense-business-type activities

\$ 764,966

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

3. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2017 is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|-----------------------------------|------------------------|------------------|
| Equipment and Vehicle | Golf Course Operations | \$ 31,602 |
| Anthony Silvers Street Tree Trust | LID Repayment | 30,847 |
| Mt Hope Trust | Golf Course Operations | 18,677 |
| Equipment and Vehicle | Samo Swim Maintenance | 7,659 |
| Water Utility | Central Stores | 4,931 |
| Total | | <u>\$ 93,716</u> |

Advances from/to other funds (interfund loans due after one year):

| <u>Advances From</u> | <u>Advances To</u> | <u>Amount</u> |
|-----------------------------------|------------------------|-------------------|
| Equipment and Vehicle | Golf Course Operations | \$ 103,022 |
| Anthony Silvers Street Tree Trust | LID Repayment | 106,524 |
| Mt. Hope Trust | Golf Course Operations | 72,575 |
| Equipment and Vehicle | Samo Swim Maintenance | 31,341 |
| Total | | <u>\$ 313,462</u> |

Interfund balances are primarily used to fund activities that would normally be financed with loans from outside sources. The City has determined that it is in the City's economic interest for the City funds with excess cash to loan money to funds short on cash and pay interest internally rather than pay interest to outsiders.

Routine transfers made during the year ended June 30, 2017 are as follows:

| | <u>General Fund</u> | <u>State Tax Street Fund</u> | <u>S&F Grant Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Enterprise Funds</u> | <u>Total</u> |
|---------------------------------|---------------------|----------------------------------|-------------------------------|--|-----------------------------|-------------------|
| Transfer from: | | | | | | |
| General Fund | \$ - | \$ - | \$ 12,000 | \$ 24,000 | \$ 46,000 | \$ 82,000 |
| Non Major Governmental Funds | 8,373 | 10,000 | - | - | - | 18,373 |
| Total Transfers | <u>\$ 8,373</u> | <u>\$ 10,000</u> | <u>\$ 12,000</u> | <u>\$ 24,000</u> | <u>\$ 46,000</u> | <u>\$ 100,373</u> |

The City uses interfund transfers on a routine basis to transfer interest earnings from the permanent funds to be used for cemetery maintenance; for matching grant funds; to transfer funds to pay for capital assets.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

3. DETAILED NOTES ON ALL FUNDS (Continued)

Contracts, Notes and Capital Lease Obligations

The following is a summary of the City's business-type outstanding debt at June 30, 2017:

| | Business-Type Activities Long-Term Obligations |
|---|---|
| <p>Note Payable to the Oregon Infrastructure Finance Authority (IFA) for \$1,750,000 dated May 16, 2014 for the construction of the U.V. Treatment Facility, the first annual installment of \$130,940 was due December 1, 2015 with annual installments of \$123,690 due December 1, thereafter, including interest at 3.55%. The note payable is secured by the pledge of the City's full faith and credit and taxing power within the limitations of Article XI, section 11 and 11b, of the Oregon Constitution and by the "Net Revenues" of the City's water system after payment of operation and maintenance costs of the system.</p> | <p style="border-top: 1px solid black;">\$ 1,623,687</p> |
| <p>Total Business-Type Long-Term Liabilities</p> | <p style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 1,623,687</p> |

The following is a summary of maturities of the governmental activity long-term liability as of June 30, 2017:

| Fiscal Year | Principal | Interest | Totals |
|--------------------|------------------|-----------------|---------------|
| 2017-2018 | 66,049 | 57,641 | 123,690 |
| 2018-2019 | 68,393 | 55,296 | 123,689 |
| 2019-2020 | 70,821 | 52,868 | 123,689 |
| 2020-2021 | 73,336 | 50,354 | 123,690 |
| 2021-2022 | 75,939 | 47,751 | 123,690 |
| 2022-2027 | 422,098 | 196,350 | 618,448 |
| 2027-2032 | 502,532 | 115,916 | 618,448 |
| 2032-2034 | 344,519 | 24,680 | 369,199 |
| Total | \$ 1,623,687 | \$ 600,856 | \$ 2,224,543 |

Long-term liability activity for the year ended June 30, 2017, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---------------------------------|----------------------|------------|--------------|-------------------|------------------------|
| Governmental Activities: | | | | | |
| Compensated absences | \$ 236,363 | \$ 320,953 | \$ (314,722) | \$ 242,594 | \$ 242,594 |

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

3. DETAILED NOTES ON ALL FUNDS (Continued)

Contracts, Notes and Capital Lease Obligations

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------------------|----------------------|-------------------|---------------------|---------------------|------------------------|
| Business-Type Activities: | | | | | |
| Compensated absences | \$ 95,937 | \$ 119,901 | \$ (109,479) | \$ 106,359 | \$ 106,359 |
| Note payable – OR IFA | 1,687,472 | - | (63,785) | 1,623,687 | 66,049 |
| Business-type activity | | | | | |
| Long-term liabilities | <u>\$ 1,783,409</u> | <u>\$ 119,901</u> | <u>\$ (173,264)</u> | <u>\$ 1,730,046</u> | <u>\$ 172,408</u> |

The compensated absences liability for the Internal Service Funds is \$7,396 and is included in the above totals for governmental activities.

4. OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters for which the City carries commercial insurance. There have been no significant decreases in coverage from the prior year and settlements have not exceeded coverage in the past three years. The City obtains most of its insurance coverage through CityCounty Insurance Services (CIS) under an insurance pooling arrangement in which many cities and counties in Oregon participate. The City maintains a retrospective liability plan with CIS for its general liability insurance. This type of plan provides for a reduced upfront premium cost with the City repaying CIS for any liability claims up to a set amount each plan year. The City has a related contingent liability of \$85,232 for the plan year ended June 30, 2017 and \$32,935 for the plan year ended June 30, 2016. The City also has a contingent liability for future claims (including certain claims with no statute of limitations) that may be filed related to plan years ending June 30, 2015 and prior of \$119,020, where a contingent liability still remains. The City believes that any such future payments will not be significant.

Employee Retirement System and Pension Plans

General Information - Plan description

Employees of the City are provided with pensions through the Oregon Public Employees Retirement System (PERS or the System) a cost-sharing multiple-employer defined benefit pension plan. The Oregon Legislature has delegated authority to the Public Employees Retirement Board to administer and manage the system. All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

4. OTHER INFORMATION (Continued)

Pension Plan (Continued)

The Pension Program, established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. OPERS issues a publicly available Comprehensive Annual Financial Report and Actuarial Valuation that can be obtained at http://sos.oregon.gov/audits/Documents/auditsearch/agency/public_retirement.html.

Benefits provided

1. Tier One/Tier Two Retirement Benefit ORS Chapter 238

Pension Benefits

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

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

Death Benefits

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

- the member was employed by a PERS employer at the time of death,
- the member died within 120 days after termination of PERS-covered employment,

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

4. OTHER INFORMATION (Continued)

Pension Plan (Continued)

1. Tier One/Tier Two Retirement Benefit ORS Chapter 238 (Continued)

Death Benefits (Continued)

- the member died as a result of injury sustained while employed in a PERS covered job, or
- the member was on an official leave of absence from a PERS-covered job at the time of death.

Disability Benefits

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

Benefit Changes

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes (COLA). The COLA is capped at 2.0 percent.

OPSRP Pension Program (OPSRP DB)

Pension Benefits

The Pension Program (ORS Chapter 238A) provides benefits to members hired on or after August 29, 2003. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

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

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

4. OTHER INFORMATION (Continued)

Pension Plan (Continued)

2. OPSRP Pension Program (OPSRP DB) (Continued)

Pension Benefits (Continued)

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

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

Benefits

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

Disability Benefits

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

Benefit Changes After Retirement

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes (COLA). The COLA is capped at 2.0 percent.

3. OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

4. OTHER INFORMATION (Continued)

Pension Plan (Continued)

3. OPSRP Individual Account Program (OPSRP IAP) (Continued)

Pension Benefits (Continued)

years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Recordkeeping

PERS contracts with VOYA Financial to maintain IAP participant records.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation as subsequently modified by 2015 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2015. Employer contributions for the year ended June 30, 2017 were \$547,839, excluding amounts to fund employer specific liabilities. Additional contributions of \$216,000 were made to the OPSRP IAP for the year ended June 30, 2017. The rates in effect for the fiscal year ended June 30, 2016 were 18.00 percent for Tier One/Tier Two Members, 10.69 percent for OPSRP Pension Program General Service Members, 14.80 percent for OPSRP Pension Program Police and Fire Members, and 6 percent for OPSRP Individual Account Program.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

4. OTHER INFORMATION (Continued)

Pension Plan (Continued)

Pension Assets, Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the City reported a liability of \$7,151,805 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to June 30, 2016. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was 0.04763956 percent, which was decreased from its proportion of 0.05454563 measured as of June 30, 2015.

For the year ended June 30, 2017, the City's recognized pension expense (income) of \$618,106. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 236,613 | \$ - |
| Changes of assumptions | 1,525,308 | - |
| Net difference between projected and actual earnings on investments | 1,412,896 | - |
| Changes in proportionate share | | 400,519 |
| Differences between employer contributions and proportionate share of system contributions | 80,269 | 102,660 |
| Total (prior to post-MD contributions) | 3,255,086 | 503,179 |
| Contributions subsequent to the MD | 547,839 | - |
| Total | \$ 3,802,925 | \$ 503,179 |

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

4. OTHER INFORMATION (Continued)

Pension Plan (Continued)

Pension Assets, Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Deferred Outflows | | Deferred Inflows | |
|---------------------|--------------|---------------------|------------|
| Amortization Period | | Amortization Period | |
| FY2018 | \$ 1,137,873 | FY2018 | \$ 126,663 |
| FY2019 | 590,034 | FY2019 | 126,663 |
| FY2020 | 1,110,954 | FY2020 | 124,017 |
| FY2021 | 843,492 | FY2021 | 99,897 |
| FY2022 | 120,572 | FY2022 | 25,939 |
| Total | \$ 3,802,925 | Total | \$ 503,179 |

Actuarial Assumptions

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

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

4. OTHER INFORMATION (Continued)

Pension Plan (Continued)

Actuarial Assumptions (Continued)

| | |
|-----------------------------------|---|
| Valuation Date | December 31, 2014 |
| Measurement Date | June 30, 2016 |
| Experience Study Report | 2014, published September 2015 |
| Actuarial Cost Method | Entry Age Normal |
| Actuarial Assumptions: | |
| Inflation Rate | 2.50 percent |
| Investment Rate of Return | 7.50 percent |
| Discount Rate | 7.50 percent |
| Projected Salary Increases | 3.50 percent overall payroll growth |
| Cost of Living Adjustments (COLA) | Blend of 2.00% COLA and graded COLA |
| Mortality | <p>Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p>Active Members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.</p> |

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

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

4. OTHER INFORMATION (Continued)

Pension Plan (Continued)

Long-Term Expected Rate of Return

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

| <u>Asset Class/Strategy</u> | <u>Assumed Asset Allocation</u> | | |
|-----------------------------|---------------------------------|-------------------|---------------|
| | <u>Low Range</u> | <u>High Range</u> | <u>Target</u> |
| Cash | 0.0% | 3.0% | 0.0% |
| Debt Securities | 15.0% | 25.0% | 20.0% |
| Public Equity | 32.5% | 42.5% | 37.5% |
| Private Equity | 13.5% | 21.5% | 17.5% |
| Real Estate | 9.5% | 15.5% | 12.5% |
| Alternative Equity | 0.0% | 12.5% | 12.5% |
| Opportunity Portfolio | 0.0% | 3.0% | 0.0% |
| Total | | | <u>100.0%</u> |

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

4. OTHER INFORMATION (Continued)

Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

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

Depletion Date Projection

GASB 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 will often require that the actuary perform complex projections of future benefit payments and asset values.

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

4. OTHER INFORMATION (Continued)

Pension Plan (Continued)

Depletion Date Projection (Continued)

GASB 67 (paragraph 43) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

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

- PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 67 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

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

Discount Rate

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percent lower (6.50 percent) or 1-percent higher (8.5 percent) than the current rate:

BAKER CITY
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

4. OTHER INFORMATION (Continued)

Pension Plan (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Continued)

| | <u>1% Decrease (6.50%)</u> | <u>Discount Rate (7.50%)</u> | <u>1% Increase (8.50%)</u> |
|---|----------------------------|------------------------------|----------------------------|
| City's proportionate share of the net pension liability (asset) | \$ 11,547,779 | \$ 7,151,805 | \$ 3,477,538 |

Pension Plan Fiduciary Net Position

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

Commitments, Contingencies and Subsequent Events

Accrued liabilities do not include sick leave of approximately \$772,087 which was earned as of June 30, 2017, but is payable only for absences from work under the City's sick leave plan.

Amounts received or receivable from grants agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is involved in certain other legal matters that, in the opinion of the City's legal counsel, will not have a material adverse effect on the financial condition of the City.

The City has evaluated subsequent events through February 28, 2018, the date the financials were available to be issued. On May 3, 2017, the City entered into a \$76,000 promissory note agreement with Orrin and Tera Bigelow as payment on the purchase of property located at Salmon Creek. This promissory note was due and payable on June 9, 2022 with interest at 5% per annum. On October 12, 2017, the City received \$75,741 from Orrin and Tera Bigelow which satisfied the promissory note in full.

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**Required
Supplementary
Information**

BAKER CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|---|----------------------|-------------------|-------------------|------------------|-------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| GENERAL FUND | | | | | |
| Revenue: | | | | | |
| Property Taxes | \$ 2,479,655 | \$ 2,479,655 | \$ 2,584,432 | \$ - | \$ 2,584,432 |
| Franchise Taxes | 839,287 | 839,287 | 864,235 | - | 864,235 |
| Licenses and Permits | 8,525 | 8,525 | 10,023 | - | 10,023 |
| Intergovernmental | 356,167 | 356,167 | 397,247 | - | 397,247 |
| Charges for Services | 1,067,600 | 1,067,600 | 763,875 | - | 763,875 |
| Fines and Forfeitures | 38,750 | 38,750 | 41,725 | - | 41,725 |
| Rental Income | 36,873 | 36,873 | 35,752 | - | 35,752 |
| Interest and Dividends | 6,000 | 6,000 | 11,355 | - | 11,355 |
| SAIF Refund | - | - | 31,428 | - | 31,428 |
| Property Sale | 286,000 | 286,000 | - | - | - |
| Miscellaneous | 41,100 | 41,100 | 17,816 | - | 17,816 |
| Overhead Charges to Other Funds | 340,000 | 340,000 | 328,508 | (328,508) | - |
| Total Revenues | 5,499,957 | 5,499,957 | 5,086,396 | (328,508) | 4,757,888 |
| Expenditures: | | | | | |
| General Government: | | | | | |
| Administration | 1,061,706 | 1,061,706 | 1,003,470 | (643,508) | 359,962 |
| Planning | 61,500 | 63,350 | 62,722 | - | 62,722 |
| Total General Government | 1,123,206 | 1,125,056 | 1,066,192 | (643,508) | 422,684 |
| Public Safety: | | | | | |
| Police | 2,012,300 | 2,012,300 | 1,963,479 | 315,000 | 2,278,479 |
| Fire | 1,846,524 | 1,846,524 | 1,712,954 | - | 1,712,954 |
| Total Public Safety | 3,858,824 | 3,858,824 | 3,676,433 | 315,000 | 3,991,433 |
| Parks | 141,809 | 141,809 | 116,078 | - | 116,078 |
| Airport | 62,123 | 62,123 | 59,418 | - | 59,418 |
| Cemetery | 182,629 | 182,629 | 156,298 | - | 156,298 |
| Hydro Electric Plant | 9,271 | 15,271 | 12,145 | - | 12,145 |
| Community Development | 104,018 | 102,168 | 82,606 | - | 82,606 |
| Operating Contingency | 100,000 | 94,000 | - | - | - |
| Total Expenditures | 5,581,880 | 5,581,880 | 5,169,170 | (328,508) | 4,840,662 |
| Excess (Deficit) of Revenues Over Expenditures | (81,923) | (81,923) | (82,774) | - | (82,774) |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | 7,200 | 7,200 | 8,373 | - | 8,373 |
| Transfers Out | (82,000) | (82,000) | (82,000) | - | (82,000) |
| Total Other Financing Sources (Uses) | (74,800) | (74,800) | (73,627) | - | (73,627) |
| Net Change in Fund Balance | (156,723) | (156,723) | (156,401) | - | (156,401) |
| Fund Balance, July 1, 2016 | 979,279 | 979,279 | 927,548 | - | 927,548 |
| Fund Balance, June 30, 2017 | \$ 822,556 | \$ 822,556 | \$ 771,147 | \$ - | \$ 771,147 |

BAKER CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - STATE TAX STREET FUND
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|---|----------------------|-------------------|------------------|------------|------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| STATE TAX STREET FUND | | | | | |
| Revenue: | | | | | |
| Taxes | \$ 580,545 | \$ 580,545 | \$ 605,113 | \$ - | \$ 605,113 |
| Intergovernmental | 694,474 | 694,474 | 591,651 | - | 591,651 |
| Charges for Services | 13,000 | 13,000 | 11,504 | - | 11,504 |
| Interest | 3,500 | 3,500 | 12,371 | - | 12,371 |
| Miscellaneous | 891 | 891 | 691 | - | 691 |
| Total Revenues | 1,292,410 | 1,292,410 | 1,221,330 | - | 1,221,330 |
| Expenditures: | | | | | |
| Maintenance | 930,209 | 930,209 | 591,925 | - | 591,925 |
| Storm Water Maintenance | 158,833 | 158,833 | 73,229 | - | 73,229 |
| Preventative Maintenance | 696,157 | 696,157 | 58,000 | - | 58,000 |
| Street Lighting | 91,009 | 91,009 | 79,969 | - | 79,969 |
| Snow and Ice Control | 92,602 | 342,602 | 311,944 | - | 311,944 |
| Street Construction | 8,021 | 8,021 | 501 | - | 501 |
| Operating Contingency | 100,000 | - | - | - | - |
| Total Expenditures | 2,076,831 | 2,226,831 | 1,115,568 | - | 1,115,568 |
| Excess (Deficit) of Revenues Over Expenditures | (784,421) | (934,421) | 105,762 | - | 105,762 |
| Other Financing Sources: | | | | | |
| Transfers In | 10,000 | 10,000 | 10,000 | - | 10,000 |
| Total Other Financing Uses | 10,000 | 10,000 | 10,000 | - | 10,000 |
| Net Change in Fund Balance | (774,421) | (924,421) | 115,762 | - | 115,762 |
| Fund Balance, July 1, 2016 | 1,021,770 | 1,021,770 | 1,043,463 | - | 1,043,463 |
| Fund Balance, June 30, 2017 | \$ 247,349 | \$ 97,349 | \$ 1,159,225 | \$ - | \$ 1,159,225 |

BAKER CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - LID REPAYMENT FUND
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|---|----------------------|-------------------|------------------|---------------------|---------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| LID REPAYMENT FUND | | | | | |
| Revenue: | | | | | |
| Interest | \$ 1,750 | \$ 1,750 | \$ 191 | \$ 5,458 | \$ 5,649 |
| Special Assessments/LID Repayments | 20,000 | 20,000 | 51,719 | (5,458) | 46,261 |
| Total Revenues | <u>21,750</u> | <u>21,750</u> | <u>51,910</u> | <u>-</u> | <u>51,910</u> |
| Expenditures: | | | | | |
| Administration | 500 | 500 | 13 | - | 13 |
| Debt Service | - | - | - | 3,181 | 3,181 |
| Total Expenditures | <u>500</u> | <u>500</u> | <u>13</u> | <u>3,181</u> | <u>3,194</u> |
| Excess (Deficit) of Revenues Over Expenditures | 21,250 | 21,250 | 51,897 | (3,181) | 48,716 |
| Other Financing Sources and (Uses): | | | | | |
| Interfund Loan Transfers Out | (28,850) | (28,850) | (28,850) | 28,850 | - |
| Total Other Financing Uses | <u>(28,850)</u> | <u>(28,850)</u> | <u>(28,850)</u> | <u>28,850</u> | <u>-</u> |
| Net Change in Fund Balance | (7,600) | (7,600) | 23,047 | 25,669 | 48,716 |
| Fund Balance (Deficit), July 1, 2016 | <u>7,600</u> | <u>7,600</u> | <u>10,518</u> | <u>(163,041)</u> | <u>(152,523)</u> |
| Fund Balance (Deficit), June 30, 2017 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 33,565</u> | <u>\$ (137,372)</u> | <u>\$ (103,807)</u> |

BAKER CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - STATE AND FEDERAL GRANTS FUND
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|---|----------------------|------------------|--------------------|-------------|--------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| STATE & FEDERAL GRANTS FUND | | | | | |
| Revenue: | | | | | |
| Intergovernmental | \$ 1,640,973 | \$ 1,640,973 | \$ 728,476 | \$ - | \$ 728,476 |
| Charges for Services | 600 | 600 | 711 | - | 711 |
| Interest | - | - | 675 | - | 675 |
| Miscellaneous | 35,350 | 35,350 | 52,805 | - | 52,805 |
| Total Revenues | 1,676,923 | 1,676,923 | 782,667 | - | 782,667 |
| Expenditures: | | | | | |
| Administration | 1,400 | 1,400 | - | - | - |
| Public Safety | 44,840 | 44,840 | 20,009 | - | 20,009 |
| Transportation and Streets | 1,640,000 | 1,640,000 | 846,167 | - | 846,167 |
| Parks and Recreation | 37,482 | 37,482 | 22,699 | - | 22,699 |
| Economic/Community Development | 5,000 | 5,000 | 1,000 | - | 1,000 |
| Operating Contingency | 9,973 | 9,973 | - | - | - |
| Total Expenditures | 1,738,695 | 1,738,695 | 889,875 | - | 889,875 |
| Excess (Deficit) of Revenues Over Expenditures | (61,772) | (61,772) | (107,208) | - | (107,208) |
| Other Financing Sources: | | | | | |
| Transfers In | 12,000 | 12,000 | 12,000 | - | 12,000 |
| Total Other Financing Sources | 12,000 | 12,000 | 12,000 | - | 12,000 |
| Net Change in Fund Balance | (49,772) | (49,772) | (95,208) | - | (95,208) |
| Fund Balance, July 1, 2016 | 70,647 | 70,647 | 66,598 | - | 66,598 |
| Fund Balance, June 30, 2017 | \$ 20,875 | \$ 20,875 | \$ (28,610) | \$ - | \$ (28,610) |

BAKER CITY
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Last Four Fiscal Years

| Year Ended June 30, | (a) City's Proportion of the Net Pension Liability (Asset) | (b) City's Proportionate Share of the Net Pension Liability (Asset) | (c) City's Covered Payroll | (b/c) City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---------------------------|--|---|-------------------------------------|--|--|
| 2017 | 0.04763956% | \$ 7,151,805 | \$ 3,557,881 | 201.01% | 83.10% |
| 2016 | 0.05454563% | 3,131,716 | 3,370,480 | 92.92% | 80.50% |
| 2015 | 0.05671163% | (1,285,491) | 3,466,206 | -37.09% | 91.90% |
| 2014 | 0.04763956% | 2,894,078 | 3,431,864 | 84.33% | 103.60% |

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

BAKER CITY
SCHEDULE OF CONTRIBUTIONS
For the Last Four Fiscal Years

| Year Ended June 30, | (a) Statutorily required contribution | (b) Contributions in relation to the statutorily required contribution | (a-b) Contribution deficiency (excess) | (c) City's covered payroll | (b/c) Contributions as a percent of covered payroll |
|---------------------------|--|--|---|-------------------------------------|---|
| 2017 | \$ 547,839 | \$ 547,839 | \$ - | \$ 3,611,905 | 15.17% |
| 2016 | 556,962 | 556,962 | - | 3,557,881 | 15.65% |
| 2015 | 468,775 | 468,775 | - | 3,370,480 | 13.91% |
| 2014 | 486,539 | 486,539 | - | 3,466,206 | 14.04% |

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

BAKER CITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2017

CHANGES OF ASSUMPTIONS

Details and a comprehensive list of changes in methods and assumptions can be found in the 2014 Experience Study for the System, which was published on September 23, 2015. This report can be found at:

<http://www.oregon.gov/PERS/Documents/Financials/Actuarial/2015/Experience-Study.pdf>.

BAKER CITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

BUDGET TO GAAP RECONCILIATION

Sections of Oregon Revised Statutes (Oregon Budget Law) require most transactions to be budgeted on the modified accrual basis of accounting. However, there are certain transactions where the statutory budget requirements conflict with generally accepted accounting principles (GAAP). The following discusses the differences between the budget basis and GAAP basis of accounting for the General Fund and the major special revenue funds.

| | <u>General Fund</u> | <u>State Tax Street Fund</u> | <u>LID Repayment Fund</u> | <u>State and Federal Grants Fund</u> |
|--|-------------------------|----------------------------------|-----------------------------------|--|
| Net Change in Fund Balance - Budget Basis | \$ (156,401) | \$ 115,762 | \$ 23,047 | \$ (95,208) |
| <i>Budget resources not qualifying as revenues or other financing sources under GAAP:</i> | | | | |
| Interest included in LID repayments received is reclassified to interest income. | - | - | - | - |
| Indirect and other cost reimbursements received are reported as revenues or other financing sources on a budget basis. Such receipts are reclassified as a reduction of expenditures on a GAAP basis. | (328,508) | - | - | - |
| <i>Budget expenditures not qualifying as expenditures or other financing uses under GAAP:</i> | | | | |
| Indirect and other costs reimbursed are reported as expenditures or other financing uses on a budget basis. Such disbursements are reclassified as a reduction of revenues and other financing sources on a GAAP basis. | 328,508 | - | - | - |
| Loans or loan payments made to other funds are reported as an other financing use (transfer) on a budget basis. Such loans are reclassified as either interfund loans payable (current portion) or advances from other funds (long-term portion) or, as a reduction in interfund loans payable or advances from other funds. The interest portion of interfund loans repaid is reclassified to debt service. | - | - | 25,669 | - |
| <i>Budget expenditures reclassified under GAAP:</i> | | | | |
| 911 dispatch expenditures of \$330,000 were budgeted as General Fund administration expenditures and were reclassified to Public Safety for GAAP basis. | - | - | - | - |
| Net Change in Fund Balance - GAAP Basis | <u>\$ (156,401)</u> | <u>\$ 115,762</u> | <u>\$ 48,716</u> | <u>\$ (95,208)</u> |

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**Other
Supplementary
Information**

Non-Major Governmental Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Sam-O Swim Maintenance Levy Fund: This fund accounts for property tax collections used for the maintenance of the City swimming pool.

John Schmitz Memorial Trust Fund: This fund accounts for monies left to the City by the late John Schmitz. His will designated these monies to be used for the cemetery. The earnings are transferred to the General Fund which uses them to pay for cemetery operations.

Tree City Fund: This fund accounts for sidewalk variance fees and OTEC tree vouchers designated for street tree planting.

Sidewalk Utility Fund: This fund accounts for sidewalk utility fees. The fees are transferred to this fund to be used for grants to repair and replace existing public sidewalks and for City sidewalk projects.

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by Proprietary Funds.

Fire Equipment Reserve Fund: This fund is used to account for the acquisition of major pieces of firefighting or EMS equipment.

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Mt Hope Trust Fund: The principal is restricted by City ordinance but the interest earned on the corpus is transferred to the General Fund and used for cemetery maintenance.

One Hundred Year Trust: This fund is an investment account that started with donations in 1989 and will be used to accumulate interest to fund a community celebration and build a public amenity in 2089 as well as provide seed money for another 100 year trust.

Anthony Silvers Street Tree Trust: This fund was created by a bequest from Anthony Silvers. The principal can never be expended but the interest earned on the corpus is to be used solely for the purpose of the planting and/or replanting of street trees within the City of Baker City.

**BAKER CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017**

| | Special Revenue | | | Capital | Permanent Funds | | | Total Nonmajor Governmental Funds | |
|---|--------------------------|-----------------------|-------------------|-----------------------------|------------------------------|---------------------|---------------------------|---|---|
| | Samo Swim Maintenance | John Schmitz Trust | Tree City Fund | Sidewalk Utility Fund | Fire Equipment Reserve | Mount Hope Trust | One Hundred Year Trust | | Anthony Silvers Street Tree Trust |
| Assets: | | | | | | | | | |
| Cash and Cash Equivalents | \$ 26,679 | \$ 274,061 | \$ 4,501 | \$ 166,544 | \$ 76,960 | \$ 413,971 | \$ 2,983 | \$ 668,567 | \$ 1,634,266 |
| Accounts Receivable (Net of Allowance) | - | - | - | 3,141 | - | - | - | - | 3,141 |
| Taxes Receivable | 6,267 | - | - | - | - | - | - | - | 6,267 |
| Due from Other Funds | - | - | - | - | - | 18,677 | - | 30,847 | 49,524 |
| Advances to Other Funds | - | - | - | - | - | 72,575 | - | 106,524 | 179,099 |
| Other Investments | - | - | - | - | - | 888 | - | - | 888 |
| Total Assets | \$ 32,946 | \$ 274,061 | \$ 4,501 | \$ 169,685 | \$ 76,960 | \$ 506,111 | \$ 2,983 | \$ 805,938 | \$ 1,873,185 |
| Liabilities: | | | | | | | | | |
| Accounts Payable | \$ 6,023 | \$ - | \$ 109 | \$ - | \$ 1,692 | \$ - | \$ - | \$ 443 | \$ 8,267 |
| Due to Other Funds | 7,659 | - | - | - | - | - | - | - | 7,659 |
| Advances from Other Funds | 31,341 | - | - | - | - | - | - | - | 31,341 |
| Accrued Payroll Taxes | 132 | - | 165 | 353 | - | - | - | 1,802 | 2,452 |
| Total Liabilities | 45,155 | - | 274 | 353 | 1,692 | - | - | 2,245 | 49,719 |
| Deferred Inflows: | | | | | | | | | |
| Deferred Revenue | 5,937 | - | - | 3,141 | - | - | - | - | 9,078 |
| Fund Balance: | | | | | | | | | |
| Restricted for 2089 Celebration | - | - | - | - | - | - | 2,983 | - | 2,983 |
| Restricted for Cemetery Care | - | 274,061 | - | - | - | - | - | - | 274,061 |
| Restricted for Street Trees | - | - | - | - | - | - | - | 20,739 | 20,739 |
| Committed for Cemetery Care | - | - | - | - | - | 505,223 | - | - | 505,223 |
| Committed for Sidewalks | - | - | - | 166,191 | - | - | - | - | 166,191 |
| Assigned for Street Trees | - | - | 4,227 | - | - | - | - | - | 4,227 |
| Assigned for Fire Equipment | - | - | - | - | 75,268 | - | - | - | 75,268 |
| Unassigned | (18,146) | - | - | - | - | - | - | - | (18,146) |
| Nonspendable | - | - | - | - | - | 888 | - | 782,954 | 783,842 |
| Total Fund Balance | (18,146) | 274,061 | 4,227 | 166,191 | 75,268 | 506,111 | 2,983 | 803,693 | 1,814,388 |
| Total Liabilities, Deferred Inflows and Fund Balance | \$ 32,946 | \$ 274,061 | \$ 4,501 | \$ 169,685 | \$ 76,960 | \$ 506,111 | \$ 2,983 | \$ 805,938 | \$ 1,873,185 |

BAKER CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

| | Special Revenue | | | Capital Projects | Permanent Funds | | | Total Nonmajor Governmental Funds | |
|--|-----------------------|--------------------|----------------|-----------------------|------------------------|------------------|------------------------|-----------------------------------|----------------------------------|
| | Samo Swim Maintenance | John Schmitz Trust | Tree City Fund | Sidewalk Utility Fund | Fire Equipment Reserve | Mount Hope Trust | One Hundred Year Trust | | Anthony Silvers Street Tree Fund |
| Revenue: | | | | | | | | | |
| Taxes | \$ 86,412 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 86,412 |
| Intergovernmental | - | - | 900 | - | - | - | - | - | 900 |
| Charges for Services | - | - | - | 57,960 | - | - | - | - | 57,960 |
| Interest | 509 | 2,956 | 75 | 1,636 | 904 | 5,489 | 32 | 10,248 | 21,849 |
| Miscellaneous | 38,097 | - | - | - | 13,320 | - | - | 644 | 52,061 |
| Bequest | - | - | - | - | - | - | - | - | - |
| Total Revenue | 125,018 | 2,956 | 975 | 59,596 | 14,224 | 5,489 | 32 | 10,892 | 219,182 |
| Expenditures: | | | | | | | | | |
| Public Safety | - | - | - | - | 23,206 | - | - | - | 23,206 |
| Community Development | - | - | 5,500 | - | - | - | - | 7,230 | 12,730 |
| Sidewalks | - | - | - | 25,080 | - | - | - | - | 25,080 |
| Parks and Recreation | 327,289 | - | - | - | - | - | - | - | 327,289 |
| Total Expenditures | 327,289 | - | 5,500 | 25,080 | 23,206 | - | - | 7,230 | 388,305 |
| Excess (Deficit) of Revenues Over Expenditures | (202,271) | 2,956 | (4,525) | 34,516 | (8,982) | 5,489 | 32 | 3,662 | (169,123) |
| Other Financing Sources (Uses): | | | | | | | | | |
| Transfers In | - | - | 4,000 | - | 20,000 | - | - | - | 24,000 |
| Transfers Out | - | (2,956) | - | (10,000) | - | (5,417) | - | - | (18,373) |
| Total Other Financing Sources (Uses) | - | (2,956) | 4,000 | (10,000) | 20,000 | (5,417) | - | - | 5,627 |
| Net Change in Fund Balance | (202,271) | - | (525) | 24,516 | 11,018 | 72 | 32 | 3,662 | (163,496) |
| Fund Balance, July 1, 2016 | 184,125 | 274,061 | 4,752 | 141,675 | 64,250 | 506,039 | 2,951 | 800,031 | 1,977,884 |
| Fund Balance, June 30, 2017 | \$ (18,146) | \$ 274,061 | \$ 4,227 | \$ 166,191 | \$ 75,268 | \$ 506,111 | \$ 2,983 | \$ 803,693 | \$ 1,814,388 |

BAKER CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|---|----------------------|-------------------|------------------|--------------------|--------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| SAMO SWIM MAINTENANCE FUND | | | | | |
| Revenue: | | | | | |
| Taxes | \$ 82,980 | \$ 82,980 | \$ 86,412 | \$ - | \$ 86,412 |
| Interest | 450 | 450 | 509 | - | 509 |
| Miscellaneous | 33,000 | 33,000 | 38,097 | - | 38,097 |
| Total Revenues | <u>116,430</u> | <u>116,430</u> | <u>125,018</u> | <u>-</u> | <u>125,018</u> |
| Expenditures: | | | | | |
| Samo Swim Center | <u>334,260</u> | <u>334,260</u> | <u>327,289</u> | <u>-</u> | <u>327,289</u> |
| Total Expenditures | <u>334,260</u> | <u>334,260</u> | <u>327,289</u> | <u>-</u> | <u>327,289</u> |
| Excess (Deficit) of Revenues Over Expenditures | (217,830) | (217,830) | (202,271) | - | (202,271) |
| Other Financing Sources: | | | | | |
| Interfund Loan Transfer In | <u>39,000</u> | <u>39,000</u> | <u>39,000</u> | <u>(39,000)</u> | <u>-</u> |
| Net Change in Fund Balance | (178,830) | (178,830) | (163,271) | (39,000) | (202,271) |
| Fund Balance, July 1, 2016 | <u>178,830</u> | <u>178,830</u> | <u>184,125</u> | <u>-</u> | <u>184,125</u> |
| Fund Balance, June 30, 2017 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 20,854</u> | <u>\$ (39,000)</u> | <u>\$ (18,146)</u> |

| | Budget | | Actual | | |
|---------------------------------|----------------------|-------------------|-------------------|-------------|-------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| JOHN SCHMITZ TRUST FUND | | | | | |
| Revenue: | | | | | |
| Interest | \$ 3,000 | \$ 3,000 | \$ 2,956 | \$ - | \$ 2,956 |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | - | - | - | - | - |
| Transfers Out | <u>(3,000)</u> | <u>(3,000)</u> | <u>(2,956)</u> | <u>-</u> | <u>(2,956)</u> |
| Total Other Financing Sources | <u>(3,000)</u> | <u>(3,000)</u> | <u>(2,956)</u> | <u>-</u> | <u>(2,956)</u> |
| Net Change in Fund Balance | - | - | - | - | - |
| Fund Balance, July 1, 2016 | <u>274,061</u> | <u>274,061</u> | <u>274,061</u> | <u>-</u> | <u>274,061</u> |
| Fund Balance, June 30, 2017 | <u>\$ 274,061</u> | <u>\$ 274,061</u> | <u>\$ 274,061</u> | <u>\$ -</u> | <u>\$ 274,061</u> |

BAKER CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|-----------------------------|----------------------|-------------------|-----------------|-------------|-----------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| TREE CITY FUND | | | | | |
| Revenue: | | | | | |
| Interest | \$ 20 | \$ 20 | \$ 75 | \$ - | \$ 75 |
| Intergovernmental | 1,000 | 1,000 | 900 | - | 900 |
| Miscellaneous | - | - | - | - | - |
| Total Revenues | <u>1,020</u> | <u>1,020</u> | <u>975</u> | <u>-</u> | <u>975</u> |
| Expenditures: | | | | | |
| Community Development | <u>7,720</u> | <u>7,720</u> | <u>5,500</u> | <u>-</u> | <u>5,500</u> |
| Other Financing Sources: | | | | | |
| Transfers In | <u>4,000</u> | <u>4,000</u> | <u>4,000</u> | <u>-</u> | <u>4,000</u> |
| Net Change in Fund Balance | (2,700) | (2,700) | (525) | - | (525) |
| Fund Balance, July 1, 2016 | <u>2,700</u> | <u>2,700</u> | <u>4,752</u> | <u>-</u> | <u>4,752</u> |
| Fund Balance, June 30, 2017 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,227</u> | <u>\$ -</u> | <u>\$ 4,227</u> |

| | Budget | | Actual | | |
|-------------------------------|----------------------|-------------------|-------------------|-------------|-------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| SIDEWALK UTILITY FUND | | | | | |
| Revenue: | | | | | |
| Charges for Services | \$ 55,000 | \$ 55,000 | \$ 57,960 | \$ - | \$ 57,960 |
| Interest | 700 | 700 | 1,636 | - | 1,636 |
| Total Revenues | <u>55,700</u> | <u>55,700</u> | <u>59,596</u> | <u>-</u> | <u>59,596</u> |
| Expenditures: | | | | | |
| Sidewalk Grants | 41,390 | 41,390 | 25,080 | - | 25,080 |
| Sidewalk Projects | 65,160 | 65,160 | - | - | - |
| Operating Contingency | <u>20,000</u> | <u>20,000</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Expenditures | <u>126,550</u> | <u>126,550</u> | <u>25,080</u> | <u>-</u> | <u>25,080</u> |
| Other Financing Uses: | | | | | |
| Transfers Out | <u>(10,000)</u> | <u>(10,000)</u> | <u>(10,000)</u> | <u>-</u> | <u>(10,000)</u> |
| Total Other Financing Sources | <u>(10,000)</u> | <u>(10,000)</u> | <u>(10,000)</u> | <u>-</u> | <u>(10,000)</u> |
| Net Change in Fund Balance | (80,850) | (80,850) | 24,516 | - | 24,516 |
| Fund Balance, July 1, 2016 | <u>121,000</u> | <u>121,000</u> | <u>141,675</u> | <u>-</u> | <u>141,675</u> |
| Fund Balance, June 30, 2017 | <u>\$ 40,150</u> | <u>\$ 40,150</u> | <u>\$ 166,191</u> | <u>\$ -</u> | <u>\$ 166,191</u> |

BAKER CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|---|----------------------|-------------------|------------------|-------------|------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| FIRE EQUIPMENT RESERVE FUND | | | | | |
| Revenue: | | | | | |
| Interest | \$ 400 | \$ 400 | \$ 904 | \$ - | \$ 904 |
| Intergovernmental | 448,620 | 448,620 | - | - | - |
| Miscellaneous | 1,000 | 1,000 | 13,320 | - | 13,320 |
| Total Revenues | <u>450,020</u> | <u>450,020</u> | <u>14,224</u> | <u>-</u> | <u>14,224</u> |
| Expenditures: | | | | | |
| Fire and EMS Equipment | 464,620 | 464,620 | 23,206 | - | 23,206 |
| Operating Contingency | 69,600 | 69,600 | - | - | - |
| Total Expenditures | 534,220 | 534,220 | 23,206 | - | 23,206 |
| Excess (Deficit) of Revenues Over Expenditures | (84,200) | (84,200) | (8,982) | - | (8,982) |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | 20,000 | 20,000 | 20,000 | - | 20,000 |
| Net Change in Fund Balance | (64,200) | (64,200) | 11,018 | - | 11,018 |
| Fund Balance, July 1, 2016 | 64,200 | 64,200 | 64,250 | - | 64,250 |
| Fund Balance, June 30, 2017 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 75,268</u> | <u>\$ -</u> | <u>\$ 75,268</u> |

BAKER CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - PERMANENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|--------------------------------------|----------------------|-------------------|-------------------|------------------|-------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| MT HOPE TRUST FUND | | | | | |
| Revenue: | | | | | |
| Interest | \$ 3,375 | \$ 3,375 | \$ 4,272 | \$ 1,217 | \$ 5,489 |
| Total Revenues | 3,375 | 3,375 | 4,272 | 1,217 | 5,489 |
| Other Financing Sources (Uses): | | | | | |
| Transfers Out | (4,200) | (4,200) | (5,417) | - | (5,417) |
| Interfund Loan Transfers In | 20,000 | 20,000 | 20,000 | (20,000) | - |
| Total Other Financing Sources (Uses) | 15,800 | 15,800 | 14,583 | (20,000) | (5,417) |
| Net Change in Fund Balance | 19,175 | 19,175 | 18,855 | (18,783) | 72 |
| Fund Balance, July 1, 2016 | 396,020 | 396,020 | 396,004 | 110,035 | 506,039 |
| Fund Balance, June 30, 2017 | <u>\$ 415,195</u> | <u>\$ 415,195</u> | <u>\$ 414,859</u> | <u>\$ 91,252</u> | <u>\$ 506,111</u> |

| | Budget | | Actual | | |
|-------------------------------|----------------------|-------------------|-----------------|-------------|-----------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| ONE HUNDRED YEAR TRUST | | | | | |
| Revenue: | | | | | |
| Interest | \$ 12 | \$ 12 | \$ 32 | \$ - | \$ 32 |
| Total Revenues | 12 | 12 | 32 | - | 32 |
| Net Change in Fund Balance | 12 | 12 | 32 | - | 32 |
| Fund Balance, July 1, 2016 | 2,948 | 2,948 | 2,951 | - | 2,951 |
| Fund Balance, June 30, 2017 | <u>\$ 2,960</u> | <u>\$ 2,960</u> | <u>\$ 2,983</u> | <u>\$ -</u> | <u>\$ 2,983</u> |

| | Budget | | Actual | | |
|-------------------------------------|----------------------|-------------------|-------------------|-------------------|-------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| A. SILVERS STREET TREE TRUST | | | | | |
| Revenue: | | | | | |
| Interest | \$ 4,000 | \$ 4,000 | \$ 7,067 | \$ 3,181 | \$ 10,248 |
| Miscellaneous | - | - | 644 | - | 644 |
| Total Revenues | 4,000 | 4,000 | 7,711 | 3,181 | 10,892 |
| Expenditures: | | | | | |
| Community Development | 14,000 | 14,000 | 7,230 | - | 7,230 |
| Other Financing Sources: | | | | | |
| Interfund Loan Transfers In | 28,850 | 28,850 | 28,850 | (28,850) | - |
| Total Other Financing Sources | 28,850 | 28,850 | 28,850 | (28,850) | - |
| Net Change in Fund Balance | 18,850 | 18,850 | 29,331 | (25,669) | 3,662 |
| Fund Balance, July 1, 2016 | 629,000 | 629,000 | 636,990 | 163,041 | 800,031 |
| Fund Balance, June 30, 2017 | <u>\$ 647,850</u> | <u>\$ 647,850</u> | <u>\$ 666,321</u> | <u>\$ 137,372</u> | <u>\$ 803,693</u> |

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Major Business-Type Funds

Enterprise Funds are proprietary funds that are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City Council is that the costs of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges.

Water Utility Fund: This fund accounts for the operation and maintenance of the City's water service and distribution facilities.

Wastewater Utility Fund: This fund accounts for the operation and maintenance of the City's sewer system including the collection lines and sewage treatment lagoons.

Reclaimed Water Use Fund: This fund accounts for the acquisition and construction of major capital projects that will be used for compliance with future Department of Environmental Quality (DEQ) requirements for treated wastewater effluent disposal. It is funded by a portion of wastewater service charges that were designated by Council. While separately budgeted for Oregon budget law purposes it is a division of the wastewater enterprise activity and is combined with the Wastewater Utility Fund in the GAAP presentation of the financial statements.

Golf Course Operation Fund: This fund is used to account for the operation and maintenance of the City's 18 hole golf course.

Golf Course Capital Projects Fund: This fund accounts for the acquisition of golf course equipment and other golf course capital projects. It is funded by lease payments paid by the golf course concessionaire. While separately budgeted for Oregon budget law purposes it is a division of the golf course enterprise activity and is combined with the Golf Course Operation Fund in the GAAP presentation of the financial statements.

Building Inspections Fund: This fund is used to account for the operation of the City's Building Inspections Department. The City performs building inspection services both within the City and throughout Baker County.

BAKER CITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|--|----------------------|---------------------|---------------------|----------------------|----------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| WATER UTILITY FUND | | | | | |
| Revenue: | | | | | |
| Charges for Services | \$ 2,473,664 | \$ 2,473,664 | \$ 2,561,852 | \$ - | \$ 2,561,852 |
| Interest | 6,000 | 6,000 | 27,319 | - | 27,319 |
| Miscellaneous | 22,500 | 22,500 | 270,784 | (252,898) | 17,886 |
| Gain on Property and Equipment Sale | - | - | - | 220,901 | 220,901 |
| Sales to Other Funds | 13,000 | 13,000 | 13,000 | (13,000) | - |
| Total Revenues | 2,515,164 | 2,515,164 | 2,872,955 | (44,997) | 2,827,958 |
| Expenses: | | | | | |
| Maintenance | 1,613,677 | 1,613,677 | 1,278,079 | (36,343) | 1,241,736 |
| Construction | 917,368 | 917,368 | 560,846 | (560,846) | - |
| Depreciation | - | - | - | 491,210 | 491,210 |
| Loss on Property and Equipment Sale | - | - | - | - | - |
| Interest Expense | - | - | - | 58,584 | 58,584 |
| Operating Contingency | 200,000 | 200,000 | - | - | - |
| Total Expenses | 2,731,045 | 2,731,045 | 1,838,925 | (47,395) | 1,791,530 |
| Excess (Deficit) of Revenues Over Expenses | (215,881) | (215,881) | 1,034,030 | 2,398 | 1,036,428 |
| Net Change in Fund Balance | (215,881) | (215,881) | 1,034,030 | 2,398 | 1,036,428 |
| Fund Balance, July 1, 2016 | 1,934,507 | 1,934,507 | 1,866,907 | 16,869,181 | 18,736,088 |
| Fund Balance, June 30, 2017 | <u>\$ 1,718,626</u> | <u>\$ 1,718,626</u> | <u>\$ 2,900,937</u> | <u>\$ 16,871,579</u> | <u>\$ 19,772,516</u> |

BAKER CITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - ENTERPRISE FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|------------------------------------|----------------------|-------------------|---------------------|---------------------|---------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| WASTEWATER UTILITY FUND* | | | | | |
| Revenue: | | | | | |
| Charges for Services | \$ 1,082,257 | \$ 1,082,257 | \$ 1,187,343 | \$ 115,720 | \$ 1,303,063 |
| Rental Income | 3,782 | 3,782 | 3,782 | - | 3,782 |
| Interest | 6,000 | 6,000 | 12,643 | 6,338 | 18,981 |
| Special Assessments/LID Repayments | 660 | 660 | 762 | (762) | - |
| Intergovernmental | 20,000 | 20,000 | - | - | - |
| Miscellaneous | 43,500 | 43,500 | 45,338 | - | 45,338 |
| Total Revenues | 1,156,199 | 1,156,199 | 1,249,868 | 121,296 | 1,371,164 |
| Expenses: | | | | | |
| Maintenance | 1,058,150 | 1,058,150 | 922,149 | 42,875 | 965,024 |
| Construction | 424,383 | 424,383 | 211,552 | (211,552) | - |
| Depreciation | - | - | - | 217,991 | 217,991 |
| Operating Contingency | 100,000 | 100,000 | - | - | - |
| Total Expenses | 1,582,533 | 1,582,533 | 1,133,701 | 49,314 | 1,183,015 |
| Net Change in Fund Balance | (426,334) | (426,334) | 116,167 | 71,982 | 188,149 |
| Fund Balance, July 1, 2016 | 1,097,867 | 1,097,867 | 1,046,302 | 4,916,904 | 5,963,206 |
| Fund Balance, June 30, 2017 | <u>\$ 671,533</u> | <u>\$ 671,533</u> | <u>\$ 1,162,469</u> | <u>\$ 4,988,886</u> | <u>\$ 6,151,355</u> |

| | Budget | | Actual | | |
|---|----------------------|-------------------|-------------------|---------------------|-------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| RECLAIMED WATER USE FUND - CAPITAL PROJECTS* | | | | | |
| Revenue: | | | | | |
| Interest | \$ 2,500 | \$ 2,500 | \$ 5,576 | \$ (5,576) | \$ - |
| Miscellaneous | - | - | - | - | - |
| Charges for Services | 109,825 | 109,825 | 115,720 | (115,720) | - |
| Total Revenues | 112,325 | 112,325 | 121,296 | (121,296) | - |
| Expenditures: | | | | | |
| Maintenance | 5,491 | 5,491 | 5,786 | (5,786) | - |
| Construction | 25,000 | 25,000 | - | - | - |
| Operating Contingency | 90,000 | 90,000 | - | - | - |
| Total Expenses | 120,491 | 120,491 | 5,786 | (5,786) | - |
| Net Change in Fund Balance | (8,166) | (8,166) | 115,510 | (115,510) | - |
| Fund Balance, July 1, 2016 | 459,596 | 459,596 | 459,053 | (459,053) | - |
| Fund Balance, June 30, 2017 | <u>\$ 451,430</u> | <u>\$ 451,430</u> | <u>\$ 574,563</u> | <u>\$ (574,563)</u> | <u>\$ -</u> |

*The Reclaimed Water Use Fund is a division of the wastewater enterprise activity and is combined with the Wastewater Utility Fund in the GAAP presentation of the financial statements.

BAKER CITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - ENTERPRISE FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|---|----------------------|-------------------|------------------|---------------------|---------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| GOLF COURSE OPERATION FUND | | | | | |
| Revenue: | | | | | |
| Interest | \$ - | \$ - | \$ - | \$ 213 | \$ 213 |
| Rental Income | - | - | - | 40,843 | 40,843 |
| Total Revenues | <u>-</u> | <u>-</u> | <u>-</u> | <u>41,056</u> | <u>41,056</u> |
| Expenses: | | | | | |
| Maintenance | 26,000 | 26,000 | 13,155 | 35 | 13,190 |
| Capital Outlay | 5,000 | 5,000 | 4,788 | (4,788) | - |
| Debt Service | - | - | - | 3,133 | 3,133 |
| Depreciation | - | - | - | 51,974 | 51,974 |
| Operating Contingency | 5,000 | 5,000 | - | - | - |
| Total Expenses | <u>36,000</u> | <u>36,000</u> | <u>17,943</u> | <u>50,354</u> | <u>68,297</u> |
| Excess (Deficit) of Revenues Over Expenses | <u>(36,000)</u> | <u>(36,000)</u> | <u>(17,943)</u> | <u>(9,298)</u> | <u>(27,241)</u> |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | 46,000 | 46,000 | 46,000 | - | 46,000 |
| Transfers Out | (20,000) | (20,000) | (20,000) | 20,000 | - |
| Total Other Financing Sources (Uses) | <u>26,000</u> | <u>26,000</u> | <u>26,000</u> | <u>20,000</u> | <u>46,000</u> |
| Net Change in Fund Balance | (10,000) | (10,000) | 8,057 | 10,702 | 18,759 |
| Fund Balance, July 1, 2016 | <u>10,000</u> | <u>10,000</u> | <u>15,275</u> | <u>1,103,761</u> | <u>1,119,036</u> |
| Fund Balance, June 30, 2017 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 23,332</u> | <u>\$ 1,114,463</u> | <u>\$ 1,137,795</u> |
| GOLF COURSE PROJECTS FUND | | | | | |
| CAPITAL PROJECTS* | | | | | |
| | Budget | | Actual | | |
| | Adopted | Budget | Budget Basis | Adjustment | GAAP Basis |
| Revenue: | | | | | |
| Interest | \$ - | \$ - | \$ 213 | \$ (213) | \$ - |
| Rental Income | 40,562 | 40,562 | 40,843 | (40,843) | - |
| Total Revenues | <u>40,562</u> | <u>40,562</u> | <u>41,056</u> | <u>(41,056)</u> | <u>-</u> |
| Expenditures: | | | | | |
| Golf Course Equipment/Irrigation Plan | - | - | - | - | - |
| Total Expenses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficit) of Revenues Over Expenditures | 40,562 | 40,562 | 41,056 | (41,056) | - |
| Other Financing (Uses): | | | | | |
| Transfers Out | (40,562) | (40,562) | (40,562) | 40,562 | - |
| Total Other Financing (Uses) | <u>(40,562)</u> | <u>(40,562)</u> | <u>(40,562)</u> | <u>40,562</u> | <u>-</u> |
| Net Change in Fund Balance | - | - | 494 | (494) | - |
| Fund Balance, July 1, 2016 | <u>-</u> | <u>-</u> | <u>472</u> | <u>(472)</u> | <u>-</u> |
| Fund Balance, June 30, 2017 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 966</u> | <u>\$ (966)</u> | <u>\$ -</u> |

*The Golf Course Capital Projects Fund is a division of the golf course enterprise activity and is combined with the Golf Course Operation Fund in the GAAP presentation of the financial statements.

BAKER CITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - ENTERPRISE FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|--|----------------------|-------------------|-------------------|--------------------|-------------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| BUILDING INSPECTIONS FUND | | | | | |
| Revenue: | | | | | |
| Charges for Services | \$ 304,518 | \$ 304,518 | \$ 366,080 | \$ - | \$ 366,080 |
| Interest | 850 | 850 | 2,733 | - | 2,733 |
| Miscellaneous | 1,000 | 1,000 | 406 | - | 406 |
| Total Revenues | <u>306,368</u> | <u>306,368</u> | <u>369,219</u> | <u>-</u> | <u>369,219</u> |
| Expenditures: | | | | | |
| Personnel Services | 162,090 | 162,090 | 155,741 | 23,809 | 179,550 |
| Materials and Services | 126,390 | 146,390 | 145,203 | (374) | 144,829 |
| Capital Outlay | 28,000 | 28,000 | 27,317 | (27,317) | - |
| Depreciation | - | - | - | 3,791 | 3,791 |
| Operating Contingency | 20,000 | - | - | - | - |
| Total Expenses | <u>336,480</u> | <u>336,480</u> | <u>328,261</u> | <u>(91)</u> | <u>328,170</u> |
| Excess (Deficit) of Revenues Over Expenses | <u>(30,112)</u> | <u>(30,112)</u> | <u>40,958</u> | <u>91</u> | <u>41,049</u> |
| Fund Balance, July 1, 2016 | <u>163,566</u> | <u>163,566</u> | <u>196,067</u> | <u>(50,251)</u> | <u>145,816</u> |
| Fund Balance, June 30, 2017 | <u>\$ 133,454</u> | <u>\$ 133,454</u> | <u>\$ 237,025</u> | <u>\$ (50,160)</u> | <u>\$ 186,865</u> |

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Internal Service Funds

Internal Service Funds are Proprietary Funds that are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City and to other government units on a cost reimbursement basis.

Central Stores Fund: This fund is used to account for the materials and supplies inventory kept on hand by the City to facilitate repairs and construction of City facilities and infrastructure.

Equipment and Vehicle Fund: This fund accounts for the acquisition, maintenance and operation of City owned vehicles and equipment. This fund provides for this equipment to be used by other funds on a cost reimbursement basis.

BAKER CITY
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2017

| | <u>Central Stores</u> | <u>Equipment and Vehicle</u> | <u>Total Internal Service Funds</u> |
|--|-----------------------|----------------------------------|---|
| Assets: | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ - | \$ 394,695 | \$ 394,695 |
| Accounts Receivable (Net of Allowance for Uncollectible Accounts) | 313 | 37,758 | 38,071 |
| Due From Other Funds | - | 39,261 | 39,261 |
| Inventories | 314,756 | - | 314,756 |
| Total Current Assets | <u>315,069</u> | <u>471,714</u> | <u>786,783</u> |
| Noncurrent Assets: | | | |
| Advances to Other Funds | - | 134,363 | 134,363 |
| Capital Assets: | | | |
| Buildings | - | 58,399 | 58,399 |
| Equipment and Vehicles | - | 2,609,683 | 2,609,683 |
| Less: Accumulated Depreciation | - | (2,086,628) | (2,086,628) |
| Total Capital Assets | <u>-</u> | <u>581,454</u> | <u>581,454</u> |
| Total Noncurrent Assets | <u>-</u> | <u>715,817</u> | <u>715,817</u> |
| Total Assets | <u>315,069</u> | <u>1,187,531</u> | <u>1,502,600</u> |
| Deferred Outflows: | | | |
| Deferred Outflows Related to Pension | <u>-</u> | <u>53,737</u> | <u>53,737</u> |
| Total Assets and Deferred Outflows | <u>\$ 315,069</u> | <u>\$ 1,241,268</u> | <u>\$ 1,556,337</u> |
| Current Liabilities: | | | |
| Accounts Payable | \$ 32,866 | \$ 9,129 | \$ 41,995 |
| Due to Other Funds | 4,931 | - | 4,931 |
| Accrued Payroll Taxes and Benefits Payable | - | 7,877 | 7,877 |
| Compensated Absences Payable | - | 7,396 | 7,396 |
| Total Current Liabilities | <u>37,797</u> | <u>24,402</u> | <u>62,199</u> |
| Other Liabilities: | | | |
| Net Pension Liability | <u>-</u> | <u>101,059</u> | <u>101,059</u> |
| Total Liabilities | <u>37,797</u> | <u>125,461</u> | <u>163,258</u> |
| Deferred Inflows: | | | |
| Deferred Inflows Related to Pension | <u>-</u> | <u>7,110</u> | <u>7,110</u> |
| Total Liabilities and Deferred Inflows | <u>37,797</u> | <u>132,571</u> | <u>170,368</u> |
| Net Position: | | | |
| Invested in Capital Assets | - | 581,454 | 581,454 |
| Unrestricted | 277,272 | 527,243 | 804,515 |
| Total Net Position | <u>\$ 277,272</u> | <u>\$ 1,108,697</u> | <u>\$ 1,385,969</u> |

BAKER CITY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | Central Stores | Equipment and Vehicle | Total Internal Service Funds |
|--------------------------------------|-------------------|--------------------------|---------------------------------|
| Operating Revenue: | | | |
| Charges for Sales and Services | \$ 95,586 | \$ 495,841 | \$ 591,427 |
| Miscellaneous Income | - | 4,916 | 4,916 |
| Total Revenue | <u>95,586</u> | <u>500,757</u> | <u>596,343</u> |
| Operating Expenses: | | | |
| Cost of Sales and Services | 102,103 | 313,131 | 415,234 |
| Depreciation | - | 104,776 | 104,776 |
| Total Expenses | <u>102,103</u> | <u>417,907</u> | <u>520,010</u> |
| Operating Income (Loss) | (6,517) | 82,850 | 76,333 |
| Nonoperating Revenue (Expense): | | | |
| Interest Income | 30 | 6,426 | 6,456 |
| Loss on Equipment Sale | - | (5,844) | (5,844) |
| Total Nonoperating Revenue (Expense) | <u>30</u> | <u>582</u> | <u>612</u> |
| Change in Net Position | (6,487) | 83,432 | 76,945 |
| Net Position July 1, 2016 | <u>283,759</u> | <u>1,025,265</u> | <u>1,309,024</u> |
| Net Position June 30, 2017 | <u>\$ 277,272</u> | <u>\$ 1,108,697</u> | <u>\$ 1,385,969</u> |

BAKER CITY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | Central Stores | Equipment and Vehicle | Total Internal Service Funds |
|---|--------------------|--------------------------|---------------------------------|
| Cash from Operating Activities: | | | |
| Receipts from Customers and Users | \$ 1,236 | \$ - | \$ 1,236 |
| Receipts from Interfund Services Provided | 94,123 | 495,841 | 589,964 |
| Other Receipts | - | 1,508 | 1,508 |
| Payments to Suppliers | (114,071) | (193,366) | (307,437) |
| Payments to/for Employees | - | (134,464) | (134,464) |
| Payments for Interfund Services Used | - | (73) | (73) |
| Net Cash Provided (Used) by Operating Activities | <u>(18,712)</u> | <u>169,446</u> | <u>150,734</u> |
| Cash Flows from Non Capital Financing Activities: | | | |
| Advances from (to) Other Funds | 4,931 | (39,000) | (34,069) |
| Repayments from (to) Other Funds | - | 38,646 | 38,646 |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>4,931</u> | <u>(354)</u> | <u>4,577</u> |
| Receipts on Sale of Capital Assets | - | 10,175 | 10,175 |
| Purchases of Capital Assets | - | (318,246) | (318,246) |
| Net Cash Provided (Used) by Capital Financing Activities | <u>-</u> | <u>(308,071)</u> | <u>(308,071)</u> |
| Cash Flows from Investing Activities: | | | |
| Interest on Investments | 30 | 6,426 | 6,456 |
| Net Cash Provided (Used) by Investing Activities | <u>30</u> | <u>6,426</u> | <u>6,456</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (13,751) | (132,553) | (146,304) |
| Cash and Cash Equivalents, July 1, 2016 | 13,751 | 527,248 | 540,999 |
| Cash and Cash Equivalents, June 30, 2017 | <u>\$ -</u> | <u>\$ 394,695</u> | <u>\$ 394,695</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Operating Income (Loss) | \$ (6,517) | \$ 82,850 | \$ 76,333 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | |
| Depreciation Expense | - | 104,776 | 104,776 |
| (Increase) Decrease in Accounts Receivable Related to Operating Activities (Net of Allowance for Uncollectible Accounts)** | (227) | (3,408) | (3,635) |
| (Increase) Decrease in Inventories | (40,323) | - | (40,323) |
| Increase (Decrease) in Accounts Payable Related to Operating* Activities | 28,355 | (16,000) | 12,355 |
| Increase (Decrease) in Payroll Taxes, Benefits and Withholdings Payable | - | 2,221 | 2,221 |
| Increase (Decrease) in Compensated Absences Payable | - | 4,385 | 4,385 |
| Net Change in Pension Assets/Liabilities | - | (5,378) | (5,378) |
| Total Adjustments | <u>(12,195)</u> | <u>86,596</u> | <u>74,401</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (18,712)</u> | <u>\$ 169,446</u> | <u>\$ 150,734</u> |

*Increase in accounts payable related to the acquisition/construction of capital assets is as follows: Equipment & Vehicle Fund \$325.

**Increase in accounts receivable related to the sale of fixed assets is as follows: Equipment & Vehicle Fund \$33,850.

BAKER CITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | Budget | | Actual | | |
|-------------------------------|-------------------|----------------|--------------|------------|------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| CENTRAL STORES FUND | | | | | |
| Revenue: | | | | | |
| Charges for Services | \$ 162,435 | \$ 162,435 | \$ 95,586 | \$ - | \$ 95,586 |
| Interest | - | - | 30 | - | 30 |
| Total Revenues | 162,435 | 162,435 | 95,616 | - | 95,616 |
| Expenses: | | | | | |
| Cost of Inventory Sold | 140,000 | 140,000 | 102,103 | - | 102,103 |
| Operating Contingency | 50,000 | 50,000 | - | - | - |
| Total Expenses | 190,000 | 190,000 | 102,103 | - | 102,103 |
| Other Financing Sources: | | | | | |
| Interfund Transfer In | - | - | - | - | - |
| Total Other Financing Sources | - | - | - | - | - |
| Net Change in Fund Balance | (27,565) | (27,565) | (6,487) | - | (6,487) |
| Fund Balance, July 1, 2016 | 255,000 | 255,000 | 283,759 | - | 283,759 |
| Fund Balance, June 30, 2017 | \$ 227,435 | \$ 227,435 | \$ 277,272 | \$ - | \$ 277,272 |

| | Budget | | Actual | | |
|--|-------------------|----------------|--------------|------------|--------------|
| | Budget as Adopted | Revised Budget | Budget Basis | Adjustment | GAAP Basis |
| EQUIPMENT & VEHICLE FUND | | | | | |
| Revenue: | | | | | |
| Charges for Services | \$ 605,781 | \$ 605,781 | \$ 495,841 | \$ - | \$ 495,841 |
| Interest | 2,750 | 2,750 | 4,510 | 1,916 | 6,426 |
| Miscellaneous | 5,000 | 5,000 | 48,942 | (44,026) | 4,916 |
| Total Revenues | 613,531 | 613,531 | 549,293 | (42,110) | 507,183 |
| Expenses: | | | | | |
| Equipment Operations | 397,669 | 397,669 | 325,760 | (12,629) | 313,131 |
| Equipment Purchases | 313,000 | 313,000 | 311,320 | (311,320) | - |
| Loss on Equipment Sales | - | - | - | 5,844 | 5,844 |
| Depreciation | - | - | - | 104,776 | 104,776 |
| Operating Contingency | 200,000 | 200,000 | - | - | - |
| Total Expenses | 910,669 | 910,669 | 637,080 | (213,329) | 423,751 |
| Excess (Deficit) of Revenues Over Expenses | (297,138) | (297,138) | (87,787) | 171,219 | 83,432 |
| Other Financing Sources: | | | | | |
| Interfund Loan Transfer Out | (39,000) | (39,000) | (39,000) | 39,000 | - |
| Interfund Loan Transfers In | 40,562 | 40,562 | 40,562 | (40,562) | - |
| Total Other Financing Sources | 1,562 | 1,562 | 1,562 | (1,562) | - |
| Net Change in Fund Balance | (295,576) | (295,576) | (86,225) | 169,657 | 83,432 |
| Fund Balance, July 1, 2016 | 464,000 | 464,000 | 494,279 | 530,986 | 1,025,265 |
| Fund Balance, June 30, 2017 | \$ 168,424 | \$ 168,424 | \$ 408,054 | \$ 700,643 | \$ 1,108,697 |

Summary of Property Tax Transactions

BAKER CITY
SUMMARY OF PROPERTY TAX TRANSACTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| <u>Tax Year</u> | <u>Taxes Receivable June 30, 2016</u> | <u>2016-2017 Tax Levy as Extended by the County</u> | <u>Less Discounts</u> | <u>Plus Interest</u> | <u>Adjustments</u> | <u>Less Collections</u> | <u>Taxes Receivable June 30, 2017</u> |
|-----------------|---|---|-----------------------|----------------------|--------------------|-------------------------|---|
| 2016-17 | | \$ 3,288,692 | \$ (82,879) | \$ 814 | \$ (1,974) | \$ (3,114,060) | \$ 90,593 |
| 2015-16 | \$ 110,634 | | | 2,970 | (358) | (52,145) | 61,101 |
| 2014-15 | 72,273 | | | 4,376 | (214) | (35,334) | 41,101 |
| 2013-14 | 48,941 | | | 6,500 | (211) | (36,513) | 18,717 |
| 2012-13 | 29,035 | | | 5,622 | (237) | (25,629) | 8,790 |
| Prior | 18,180 | | | 243 | (354) | (942) | 17,128 |
| | <u>\$ 279,063</u> | <u>\$ 3,288,692</u> | <u>\$ (82,879)</u> | <u>\$ 20,525</u> | <u>\$ (3,348)</u> | <u>\$ (3,264,623)</u> | <u>\$ 237,430</u> |

Taxes Receivable June 30, 2017 by Fund

| <u>Tax Year</u> | <u>General Fund</u> | <u>State Tax Street Fund</u> | <u>Sam-O Swim Maintenance Fund</u> |
|-----------------|---------------------|----------------------------------|--|
| 2016-17 | \$ 71,469 | \$ 16,733 | \$ 2,392 |
| 2015-16 | 48,203 | 11,285 | 1,612 |
| 2014-15 | 32,425 | 7,592 | 1,085 |
| 2013-14 | 14,766 | 3,457 | 494 |
| 2012-13 | 6,934 | 1,624 | 232 |
| Prior | 13,512 | 3,164 | 452 |
| | <u>\$ 187,309</u> | <u>\$ 43,854</u> | <u>\$ 6,267</u> |

Collections by Fund

| | <u>Total</u> | <u>General Fund</u> | <u>State Tax Street Fund</u> | <u>Sam-O Swim Maintenance Fund</u> |
|---------------------|---------------------|---------------------|----------------------------------|--|
| Current Year | | | | |
| Levy | \$ 3,113,246 | \$ 2,456,071 | \$ 575,048 | \$ 82,128 |
| Interest | 814 | 642 | 150 | 21 |
| Total | <u>\$ 3,114,060</u> | <u>\$ 2,456,713</u> | <u>\$ 575,198</u> | <u>\$ 82,149</u> |
| Prior Years | | | | |
| Taxes & Interest | <u>\$ 150,563</u> | <u>\$ 118,782</u> | <u>\$ 27,810</u> | <u>\$ 3,972</u> |

Audit Comments

**Independent Auditor's Report
Required by Oregon State Regulations**

We have audited the basic financial statements of the City of Baker City, Oregon, as of and for the year ended June 30, 2017, and have issued our report thereon dated February 28, 2018. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the City of Baker City, Oregon'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 Baker City, Oregon 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 over-expenditures in the Mt. Hope Trust Fund Transfers Out of (\$1,217).

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the City of Baker City, Oregon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Baker City, Oregon's internal control over financial reporting. Our report on internal control over financial reporting in accordance with Government Auditing Standards can be found on pages 81-82 of this reporting package. We have included our comments on internal control in a separate letter to the City Council dated February 28, 2018.

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


Guyer & Associates

Certified Public Accountants

A Professional Corporation

Baker City, Oregon

February 28, 2018

Single Audit



Scott A. Martin
Jacob J. Collier

Megan R. Adams
Michael J. Rudi

Randell C. Guyer, Jr.
Kent J. Bailey

David F. Lindley
Linda L. Cyr

Kara J. Bond

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

The Honorable Mayor
And the Members of the City Council
City of Baker City, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Baker City, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Baker City, Oregon's basic financial statements, and have issued our report thereon dated February 28, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompany schedule of finding and questioned costs that we consider to be a significant deficiency (Finding 2017-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Baker City, Oregon's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material

effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to the management of Baker City, Oregon in a separate letter dated February 28, 2018.

City of Baker City, Oregon's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Guyer & Associates
Certified Public Accountants
A Professional Corporation

February 28, 2018
By: 
Kent J. Bailey

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

The Honorable Mayor
And the Members of the City Council
City of Baker City, Oregon

Report on Compliance for Each Major Federal Program

We have audited the City of Baker City, Oregon's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City of Baker City, Oregon's major federal programs for the year ended June 30, 2017. The City of Baker City, Oregon's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the City of Baker City, Oregon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 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 purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Guyer & Associates
Certified Public Accountants
A Professional Corporation

February 28, 2018

City of Baker City
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

| FEDERAL GRANTOR – PASS THROUGH GRANTOR – PROGRAM TITLE | Federal CFDA Number | Pass-Through Entity identifying Number | Federal Expenditures |
|--|---------------------------|--|-------------------------|
| FEDERAL DEPARTMENT OF AGRICULTURE Watershed Enhancement | 10.699 | 16-PA 1106/600-020 | \$ 2,854 |
| FEDERAL DEPARTMENT OF INTERIOR PASSED THROUGH THE STATE OF OREGON HERITAGE DEPARTMENT: Certified Local Government Grant | 15.904 | - | 8,000 |
| FEDERAL AVIATION ADMINISTRATION Airport Improvement Program | 20.106 | 3-41-0005-014-2015 | 5,821 |
| Airport Improvement Program | 20.106 | 3-41-0005-014-2016 | 708,281 |
| DEPARTMENT OF JUSTICE Public Safety Partnership and Community Policing Grants | 16.710 | - | <u>68,374</u> |
| Total Expenditures of Federal Awards | | | <u>\$793,330</u> |

The notes to the schedule of expenditures of federal awards are an integral part of this statement.

CITY OF BAKER CITY
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Baker City, Oregon under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Baker City, Oregon, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Baker City, Oregon.

2. Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. The reported expenditures were incurred during the year ended June 30, 2017. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The City of Baker City, Oregon has not elected to use the 10% de minimus indirect cost rate.

CITY OF BAKER CITY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

SUMMARY OF AUDITOR'S REPORT

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Baker City.
2. A deficiency in internal control over financial reporting was disclosed during the audit of the City of Baker City, Oregon's financial statements, which was considered to be a significant deficiency.
3. No instances of noncompliance material to the financial statements of the City of Baker City which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. The auditor's report on internal control over compliance over major programs in accordance with the Uniform Guidance does not disclose any significant deficiencies in internal control over compliance.
5. The auditor's report on compliance for the major federal award programs (listed below) for the City of Baker City expresses an unqualified opinion on its major federal program.
6. Audit findings that are required to be reported in accordance with the Uniform Guidance are reported in this schedule.
7. The programs tested as major programs include:
Federal Aviation Administration:
 1. Airport Improvement Program CFDA # 20.106
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The City of Baker City, Oregon, was determined to be a high-risk auditee.

CITY OF BAKER CITY
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2017

FINDINGS – FINANCIAL STATEMENTS AUDIT

FINDING 2017-001: Significant Deficiency – Financial Close and Reporting Process:

We believe there is a deficiency in the City of Baker City's financial close and reporting process. The City's accounting department needs at least one additional employee with an accounting education/background to provide a means of collaboration to help ensure proper application of generally accepted accounting principles (GAAP), to assist with year-end closing procedures, and provide backup for the Finance Director. The Finance Director is proficient in GAAP, and has the necessary education and experience. The financial reporting environment has become much more complex, and proper compliance has become more difficult and time consuming. Additional trained personnel are necessary to ensure timely and accurate preparation of financial information in the current environment. In addition to understanding GAAP, the role of Finance Director requires a thorough understanding of all the City's activities and computer systems. We believe it would be advisable for the City to ensure such knowledge is vested in more than one person.

We recommend the City hire additional experienced accounting staff in an effort to provide an opportunity for delegation of financial reporting duties, and promote discussion as to how to implement new or current accounting policies that adhere to GAAP. In addition, there is a significant amount of work that goes into both the monthly and annual financial reporting process that could not be performed by anyone other than the Finance Director at this time. Hiring additional staff with the necessary accounting skill and experience will provide a backup source for the City's vital financial reporting knowledge and for the Finance Director.

Management Response and Corrective Action Plan: The City currently has a retirement scheduled for April 1, 2018 for a staff member within the accounting department. The City Manager and the Finance Director have already determined that when the position is filled, if at all possible, it will be with an individual with the education and experience to provide the necessary backup and assistance to the Finance Director. However, there is the possibility that with the limited employment pool in the area that the City may not have the right candidate apply. In this case, the City would have to provide additional training to help ensure that the individual hired would be able to provide the necessary assistance to the Finance Director.

Responsible contact person: Jeanie Dexter, Finance Director

Anticipated completion date: June 1 to December 31, 2018 depending on available candidates.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings to report.