

***CITY OF AURORA, OREGON
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2015***

CITY OF AURORA, OREGON

CITY OFFICIALS

JUNE 30, 2015

MAYOR

Bill Graupp

14629 Ehlen Road NE
Aurora, Oregon 97002

CITY COUNCIL MEMBERS

Jason Sahlin

21011 Main Street NE
Aurora, Oregon 97002

Rick Vlcek

21340 Main Street NE
Aurora, Oregon 97002

Kris Sallee

21544 Liberty Street NE
Aurora, Oregon 97002

Bob Southard

21187 Highway 99E
Aurora, Oregon 97002

CITY ADMINISTRATION

Kelly Richardson, City Recorder
35296 S. Sawtelle Road
Molalla, Oregon 97038

Mary Lambert, Finance Officer
11280 S Riggs Damm Road
Canby, Oregon 97013

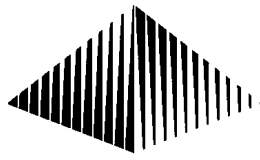
Dennis E. Koho, City Attorney
5305B River Road N.
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Keizer, Oregon 97307

MAILING ADDRESS

21420 Main Street NE
Aurora, Oregon 97002

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GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council Members
City of Aurora
21420 Main Street NE
Aurora, Oregon 97002

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Aurora, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Aurora, as of June 30, 2015, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in the notes to the financial statements.

Basis of Accounting

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

Other Matters

Report on Supplemental and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the City's basic financial statements. Management's discussion and analysis, budgetary comparison information, combining nonmajor fund financial statements, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.


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

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

Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 1, 2015, on our consideration of the City's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

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

By: 
Devan W. Esch, A Shareholder
December 1, 2015

CITY OF AURORA, OREGON

Management's Discussion and Analysis June 30, 2015

As management of the City of Aurora, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2015.

Financial Highlights

	June 30,		change
	2015	2014	
Net position	\$ 1,547,836	\$ 1,299,683	\$ 248,153
Change in net position	248,153	278,525	(30,372)
Governmental net position	850,185	725,610	124,575
Proprietary net position	697,651	574,073	123,578
Change in governmental net position	124,575	119,726	4,849
Change in proprietary net position	123,578	158,799	(35,221)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Aurora'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 financial statements. This report also contains supplementary and other information in addition to the basic financial statements themselves.

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

The Statement of Net Position (Modified Cash Basis). This presents information on the assets and liabilities of the City as of the date on the statement. 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 (Modified Cash Basis). The *statement of activities* presents information showing how the net position of the City changed over the most recent fiscal year by tracking revenues, expenditures and other transactions that increase or reduce net position.

In the government-wide financial statements, the City's activities are shown as governmental and business-type activities. Governmental activities include all basic City government functions, such as administration, city hall, legal, parks, streets and police. These activities are primarily financed through property taxes and other intergovernmental activities. Business-type activities are those which are primarily financed through charges to customers, and include water and sewer operations.

Fund financial statements. The *fund financial statements* provide more detailed information about the City’s funds, focusing on its most significant or “major” funds – not the City of Aurora as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Aurora, like state and other local 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.

Governmental funds. The *governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful in obtaining an understanding of each fund’s activity.

Proprietary funds. Proprietary funds are used to account for funds which are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Proprietary funds whose primary user is the public are known as enterprise funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

Government-wide Financial Analysis

**Statements of Net Position (modified cash basis)
June 30,**

	2015			2014		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 850,185	\$ 697,651	\$ 1,547,836	\$ 725,610	\$ 574,073	\$ 1,299,683
Liabilities	-	-	-	-	-	-
Net Position:						
Restricted	288,118	116,842	404,960	240,426	113,352	353,778
Unrestricted	562,067	580,809	1,142,876	485,184	460,721	945,905
Total Net Position	<u>\$ 850,185</u>	<u>\$ 697,651</u>	<u>\$ 1,547,836</u>	<u>\$ 725,610</u>	<u>\$ 574,073</u>	<u>\$ 1,299,683</u>

Statement of Net Position (modified cash basis). The *statement of net position* (modified cash basis) is provided on a comparative basis. 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 Aurora, assets exceeded liabilities by \$1,547,836 as of June 30, 2015.

Restricted net position represents sources that are subject to external restrictions on their use, such as debt service or capital projects.

Unrestricted net position is available for general operations of the City.

Statements of Activities (modified cash basis)
Year ended June 30,

	2015			2014		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues						
Program revenues						
Charges for service	\$ 84,654	\$ 560,611	\$ 645,265	\$ 117,866	\$ 562,347	\$ 680,213
Operating grants	53,596	-	53,596	53,565	-	53,565
Capital grants	10,905	22,725	33,630	18,215	30,300	48,515
General revenues						
Taxes and assessments	240,785	297,706	538,491	229,363	317,784	547,147
Franchise taxes	63,723	-	63,723	59,231	-	59,231
Intergovernmental	23,918	-	23,918	22,872	-	22,872
Proceeds from disposition of assets	-	-	-	25,797	-	25,797
Miscellaneous	30,207	5,902	36,109	36,717	5,655	42,372
<i>Total revenues</i>	507,788	886,944	1,394,732	563,626	916,086	1,479,712
Expenses						
General government	98,545	-	98,545	90,552	-	90,552
Public safety	156,996	-	156,996	176,701	-	176,701
Highways and streets	53,934	-	53,934	67,921	-	67,921
Community development	81,738	-	81,738	116,726	-	116,726
Water	-	247,033	247,033	-	233,174	233,174
Sewer	-	508,333	508,333	-	516,113	516,113
<i>Total expenses</i>	391,213	755,366	1,146,579	451,900	749,287	1,201,187
Transfers	8,000	(8,000)	-	8,000	(8,000)	-
Change in net position	124,575	123,578	248,153	119,726	158,799	278,525
Net position, beginning of year	725,610	574,073	1,299,683	605,884	415,274	1,021,158
Net position, end of year	\$ 850,185	\$ 697,651	\$ 1,547,836	\$ 725,610	\$ 574,073	\$ 1,299,683

Statement of Activities (modified cash basis). During the current fiscal year, the City's total net position increased by \$248,153 to \$1,547,836 from \$1,299,683 at the beginning of the year. The key elements of the change in the City's net position for the year ended June 30, 2015 are as follows:

Governmental activities - The City's net position increased by \$124,575 from governmental activities. Revenues and expenses were both less than in the prior year.

Business type activities - The City's net position increased by \$123,578 from business type activities. This increase is comparable to the increase in the prior year.

Financial Analysis of the City of Aurora's Government Funds

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

Governmental funds. The focus of the City's governmental funds is to provide information on relatively short-term cash flow and funding for future basic services. Such information is useful in assessing the City's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

As of June 30, 2015, the City's governmental funds reported combined ending fund balances of \$850,185 an increase of \$124,575 over the prior year.

Business-type funds. The business-type funds account for the City's water and sewer operations. Operating revenues exceeded operating expenses by \$174,482 for the year ended June 30, 2015.

General Fund Budgetary Highlights

The governing body made no changes to the General Fund budget for the fiscal year ended June 30, 2015.

Significant Fund Transactions

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following information details significant fund transactions during the year.

Major Governmental Funds:

- General: the General fund had an increase in fund balance of \$66,380 during this year, which was primarily due to expenditures less than what was budgeted.
- Street/Storm: the Street/Storm Fund had an increase in fund balance of \$22,837 during this year, which was primarily due to not expending for capital outlay.
- City Hall Building: the City Hall Building Fund had an increase in fund balance of \$2,352 during the year, which was due to collections of revenues but no expenditures.

Major Proprietary Funds:

- Water: the Water Fund had an increase in net position of \$12,656 during the year, which was primarily due to capital outlay expenditures less than what was budgeted.
- Sewer: the Sewer Fund had an increase in net position of \$78,812 during the year, which was primarily due to materials and services expenditures less than what was budgeted.
- G.O. Wastewater Bond: the Wastewater Bond Fund had a decrease in net position of \$11,386 during the year, which was less of a decrease than had been budgeted.

Debt Administration

The City had total debt outstanding of \$2,815,065 at the end of the current fiscal year.

During the current fiscal year, the City's total debt decreased by \$207,272 (7%).

State statutes limit the amount of general obligation debt a governmental entity may issue to 3 percent of its total assessed valuation. The assessed valuation of the City of Aurora is \$139,777,108 for the current year; therefore, the current debt limitation is \$4,193,313 for the City of Aurora. The City had no general obligation debt subject to the limitation at June 30, 2015.

**City of Aurora
Outstanding Debt**

	Business-type Activities	
	2015	2014
General obligation bonds	\$2,540,000	\$2,735,000
Loans	275,065	287,337
Total	<u>\$2,815,065</u>	<u>\$3,022,337</u>

Additional information on the City of Aurora’s long-term debt can be found in the notes to the basic financial statements of this report.

Economic Factors and the Next Year’s Budget

The City of Aurora’s Budget Committee considered all the following factors while preparing the City budget for the 2015-16 fiscal year:

- a. Prior history of revenues and expenditures
- b. Capital projects in the water and sewer funds
- c. Expected property tax revenues

Requests for Information

This financial report is designed to present the user (citizens, taxpayers, investors and creditors) with a general overview of the City’s finances and to demonstrate the City’s accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City Recorder
City of Aurora
21420 Main Street NE
Aurora, Oregon 97002

BASIC FINANCIAL STATEMENTS

CITY OF AURORA, OREGON
STATEMENT OF NET POSITION (MODIFIED CASH BASIS)
JUNE 30, 2015

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 850,185	\$ 697,651	\$ 1,547,836
LIABILITIES			
	-	-	-
NET POSITION			
Restricted for:			
Customer deposits	-	7,830	7,830
Debt service	-	21,790	21,790
Capital outlay	83,593	87,222	170,815
Streets	204,525	-	204,525
Unrestricted	562,067	580,809	1,142,876
<i>Total Net Position</i>	<u>\$ 850,185</u>	<u>\$ 697,651</u>	<u>\$ 1,547,836</u>

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

CITY OF AURORA, OREGON
STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)
YEAR ENDED JUNE 30, 2015

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
FUNCTIONS/PROGRAMS				
Governmental activities:				
General government	\$ 98,545	\$ 7,267	\$ -	\$ -
Public safety	156,996	18,973	-	-
Highways and streets	53,934	35,903	53,596	8,700
Community development	81,738	22,511	-	2,205
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Governmental activities</i>	391,213	84,654	53,596	10,905
Business-type activities:				
Water	247,033	285,393	-	16,629
Sewer	508,333	275,218	-	6,096
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Business-type activities</i>	755,366	560,611	-	22,725
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Activities</i>	<u>\$ 1,146,579</u>	<u>\$ 645,265</u>	<u>\$ 53,596</u>	<u>\$ 33,630</u>
General Revenues:				
Property taxes				
Franchise taxes				
Intergovernmental				
Miscellaneous				
<i>Total General Revenues</i>				
Transfers				
Change in net position				
Net Position - beginning of year				
Net Position - end of year				

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

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
\$ (91,278)	\$ -	\$ (91,278)
(138,023)	-	(138,023)
44,265	-	44,265
(57,022)	-	(57,022)
(242,058)	-	(242,058)
-	54,989	54,989
-	(227,019)	(227,019)
-	(172,030)	(172,030)
(242,058)	(172,030)	(414,088)
240,785	297,706	538,491
63,723	-	63,723
23,918	-	23,918
30,207	5,902	36,109
358,633	303,608	662,241
8,000	(8,000)	-
124,575	123,578	248,153
725,610	574,073	1,299,683
<u>\$ 850,185</u>	<u>\$ 697,651</u>	<u>\$ 1,547,836</u>

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

CITY OF AURORA, OREGON

BALANCE SHEET (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS

JUNE 30, 2015

		<u>Special Revenue</u>	<u>Capital Projects</u>
	<u>General</u>	<u>Street / Storm Operating</u>	<u>City Hall Building</u>
ASSETS			
Cash and cash equivalents	\$ 400,734	\$ 181,892	\$ 120,480
LIABILITIES AND FUND BALANCE			
Liabilities:	\$ -	\$ -	\$ -
Fund Balance:			
Restricted for:			
Capital outlay	-	-	-
Streets	-	181,892	-
Committed to:			
Capital outlay	-	-	120,480
Unassigned	400,734	-	-
<i>Total Fund Balance</i>	400,734	181,892	120,480
<i>Total Liabilities and Fund Balance</i>	\$ 400,734	\$ 181,892	\$ 120,480

<i>Other Governmental Funds</i>	<i>Total</i>
\$ 147,079	\$ 850,185
-	-
83,593	83,593
22,633	204,525
40,853	161,333
-	400,734
147,079	850,185
\$ 147,079	\$ 850,185

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

CITY OF AURORA, OREGON**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
(MODIFIED CASH BASIS) – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

		<u>Special Revenue</u>	<u>Capital Projects</u>
	<u>General</u>	<u>Street / Storm Operating</u>	<u>City Hall Building</u>
REVENUES			
Taxes and assessments	\$ 240,785	\$ -	\$ -
Fines and forfeitures	18,973	-	-
Licenses and permits	91,738	-	1,763
Charges for services	-	22,365	-
Intergovernmental	23,918	53,596	-
Miscellaneous	28,244	811	589
<i>Total Revenues</i>	403,658	76,772	2,352
EXPENDITURES			
General government	98,544	-	-
Public safety	156,996	-	-
Highways and streets	-	53,935	-
Community development	81,738	-	-
<i>Total Expenditures</i>	337,278	53,935	-
REVENUES OVER (UNDER) EXPENDITURES	66,380	22,837	2,352
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
NET CHANGE IN FUND BALANCE	66,380	22,837	2,352
FUND BALANCE, beginning of year	334,354	159,055	118,128
FUND BALANCE, end of year	\$ 400,734	\$ 181,892	\$ 120,480

<i>Other Governmental Funds</i>	<i>Total</i>
\$ -	\$ 240,785
-	18,973
10,905	104,406
13,538	35,903
-	77,514
563	30,207
25,006	507,788
-	98,544
-	156,996
-	53,935
-	81,738
-	391,213
25,006	116,575
8,000	8,000
33,006	124,575
114,073	725,610
\$ 147,079	\$ 850,185

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

CITY OF AURORA, OREGON

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

JUNE 30, 2015

	<u>Water</u>	<u>Sewer</u>	<u>G.O. Wastewater Bond Fund</u>
ASSETS			
Cash and cash equivalents	\$ 229,615	\$ 256,530	\$ 21,790
LIABILITIES	-	-	-
NET POSITION			
Restricted for:			
Customer deposits	7,830	-	-
Debt service	-	-	21,790
Construction	-	-	-
Unrestricted	221,785	256,530	-
 <i>Total Net Position</i>	 \$ 229,615	 \$ 256,530	 \$ 21,790

<i>Other Business- type Funds</i>	<i>Total</i>
\$ 189,716	\$ 697,651
-	-
-	7,830
-	21,790
87,222	87,222
102,494	580,809
\$ 189,716	\$ 697,651

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

CITY OF AURORA, OREGON**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
(MODIFIED CASH BASIS) - ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2015**

	<u>Water</u>	<u>Sewer</u>
OPERATING REVENUES		
Charges for services	\$ 285,393	\$ 275,218
Miscellaneous	1,287	1,087
<i>Total Operating Revenues</i>	<u>286,680</u>	<u>276,305</u>
OPERATING EXPENSES		
Personal services	82,843	75,769
Materials and services	109,696	120,195
<i>Total Operating Expenses</i>	<u>192,539</u>	<u>195,964</u>
OPERATING INCOME	94,141	80,341
NONOPERATING REVENUES (EXPENSES)		
Taxes and assessments	-	-
Interest revenue	1,009	1,040
Capital acquisitions	(33,602)	(2,569)
Debt payments		
Principal	(12,272)	-
Interest	(8,620)	-
<i>Total Nonoperating Revenues (Expenses)</i>	<u>(53,485)</u>	<u>(1,529)</u>
NET INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	40,656	78,812
Capital contributions	-	-
Transfers in	-	-
Transfers out	(28,000)	-
CHANGE IN NET POSITION	12,656	78,812
NET POSITION, beginning of year	<u>216,959</u>	<u>177,718</u>
NET POSITION, end of year	<u>\$ 229,615</u>	<u>\$ 256,530</u>

<i>G.O. Wastewater Bond Fund</i>	<i>Other Business- type Funds</i>	<i>Total</i>
\$ -	\$ -	\$ 560,611
-	-	2,374
-	-	562,985
-	-	158,612
-	-	229,891
-	-	388,503
-	-	174,482
297,706	-	297,706
708	771	3,528
-	-	(36,171)
(195,000)	-	(207,272)
(114,800)	-	(123,420)
(11,386)	771	(65,629)
(11,386)	771	108,853
-	22,725	22,725
-	30,000	30,000
-	(10,000)	(38,000)
(11,386)	43,496	123,578
33,176	146,220	574,073
\$ 21,790	\$ 189,716	\$ 697,651

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Aurora, Oregon is governed by an elected mayor and four council members who comprise the City Council. The City Council exercises supervisory responsibilities over City operations, but day-to-day management control is the responsibility of a city recorder. All significant activities and organizations for which the City is financially accountable are included in the basic financial statements.

There are certain governmental agencies and various service districts which provide services within the City. These agencies have independently elected governing boards and the City is not financially accountable for these organizations. Therefore, financial information for these agencies is not included in the accompanying basic financial statements.

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

Basic Financial Statements

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

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

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

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

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary. Currently, the City has governmental funds (general, special revenue, and capital projects) and proprietary type funds (enterprise). Major individual governmental funds and proprietary funds are reported as separate columns in the fund financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

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

Accounting principles generally accepted in the United States of America set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures / expenses of either fund category or the government and enterprise combined) for the determination of major funds.

The City reports the following governmental funds as major funds:

General Fund

This fund accounts for the basic governmental financial operations of the City. Principal sources of revenues are property taxes, licenses and permits, franchise taxes and State shared revenues. Primary expenditures are for administration, police protection, parks, community development and municipal court.

Street/Storm Operating Fund

Gas tax apportionments received from the State are recorded in this fund. Expenditures are for road construction and maintenance.

City Hall Building Fund

This fund accounts for monies set aside by the City for the renovation of the City Hall building.

The following governmental funds are considered non-major:

Park SDC Fund

This fund was established to account for revenues from park system development charges and to provide for future parks capital improvement projects.

Park Reserve Fund

This fund accounts for monies set aside by the City Council and designated for park projects.

Street/Storm SDC Fund

This fund was established to account for revenues from street/storm system development charges and to provide for future capital improvements to the street and storm system.

Street/Storm Reserve Fund

This fund was established to account for revenues set aside to provide for future street/storm capital improvement projects.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued)

SPWF Project Maintenance Fund

This fund was established to account for monies to be used for future payments of the local improvement district loan. Since the loan has been paid off, the money is used for capital outlay related to public works.

Proprietary funds are used to account for the acquisition, operation, maintenance and debt service of the sewer and water systems. These funds are entirely or predominantly self-supported through user charges to customers.

The City reports the following proprietary funds as major funds:

Water Fund

Financial activities of the City's water utility are recorded in this fund. Revenues consist primarily of user charges. Expenditures are primarily for operation of the utility and for acquisition of property, plant and equipment.

Sewer Fund

Financial activities of the City's sewer utility are recorded in this fund. Revenues consist primarily of user charges. Expenses are primarily for operation of the utility and for acquisition of property, plant and equipment.

General Obligation Wastewater Bond Fund

This fund was established to account for revenues set aside for debt service on the general obligation bond and loan repayments. Taxes and interfund transfers are the primary revenues. Payments are for debt service.

The following proprietary funds are considered non-major:

Water SDC Fund

This fund was established to account for revenues from water system development charges and to provide for future capital improvements to the water system.

Water Reserve Fund

This fund is used to accumulate resources for major repairs and improvements to the water system through transfers from other funds.

Sewer SDC Fund

This fund was established to account for revenues from sewer system development charges and to provide for future capital improvements to the sewer system.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued)

Sewer Reserve Fund

This fund accumulates resources for major repairs and improvements to the sewer system through transfers from other funds.

Fund Balance

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

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

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

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

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

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

Definitions of Governmental Fund Types

The General Fund is used to account for the basic operations of the City, which include general government, public safety, highways and streets, and community development.

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

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

CITY OF AURORA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

CITY OF AURORA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

Cash and Cash Equivalents

The City maintains cash and cash equivalents in a common pool that is available for use by all funds. Each fund type's portion of this pool is displayed as cash and cash equivalents. The City considers cash on hand, demand deposits and savings accounts, and short-term investments with an original maturity of three months or less from the date of acquisition to be cash and cash equivalents.

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

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments in the Local Government Investment Pool are stated at cost, which approximates fair value.

Property Taxes

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

Capital Assets

The City does not maintain historical cost or depreciation records for capital assets. Therefore, capital assets are not reported on the government-wide Statement of Net Position or the enterprise funds statements of Fund Net Position.

CITY OF AURORA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Debt

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

Accrued Compensated Absences

Accumulated unpaid vacation pay is not accrued. Earned but unpaid sick pay is recorded as an expenditure / expense when paid.

Budget and Budgetary Accounting

The City adopts the budget on an object basis; therefore, expenditures of a specific object within a fund may not legally exceed that object's appropriations. The City Council may amend the budget to expend unforeseen revenues by supplemental appropriations. All supplemental appropriations are included in the budget comparison statements. Appropriations lapse at year end and may not be carried over. The City does not use encumbrance accounting.

Use of Estimates

The preparation of basic financial statements in conformity with the modified cash basis of accounting 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 basic financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following at June 30, 2015:

	<i>Carrying Value</i>	<i>Fair Value</i>
Cash	<hr/>	<hr/>
Cash on hand	\$ 400	\$ 400
Deposits with financial institutions	92,783	92,783
Local Government Investment Pool	1,454,653	1,454,653
	<hr/>	<hr/>
	\$ 1,547,836	\$ 1,547,836
	<hr/> <hr/>	<hr/> <hr/>

Deposits

The City's deposits with various financial institutions had a book value of \$92,783 a bank value of \$127,785 as of June 30, 2015. The difference is due to transactions in process. Bank deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

CITY OF AURORA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2015

CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits with financial institutions for up to \$250,000 for the aggregate of all demand deposits and the aggregate of all time deposit and savings accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2015 all of the City's bank balances were covered by FDIC insurance.

Local Government Investment Pool

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations.

The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2015, the fair value of the position in the Oregon State Treasurer's Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. The LGIP is not rated for credit quality.

Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

Interest Rate Risk

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

Custodial Credit Risk - Investments

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

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund

CITY OF AURORA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk – Investments (Continued)

Board, which has established diversification percentages and specifies the types and maturities of the investments.

The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

LONG-TERM DEBT

As a result of the use of the modified cash basis of accounting in this report, obligations related to long term debt and other obligations are not reported as liabilities in the financial statements. Long-term debt transactions for the year were as follows:

	<u>Original Issue</u>	<u>Outstanding July 1, 2014</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2015</u>	<u>Due Within One Year</u>
<i>Business-type activities</i>						
General Obligation Bonds issued May 2009, semi-annual payments through 2024 with interest from 2.5% to 4.5%	\$ 3,530,000	\$ 2,735,000	\$ -	\$ (195,000)	\$ 2,540,000	\$ 215,000
Safe Drinking Water Revolving Loan Fund Award Contract Loan issued through OECDD issued 2011 with interest and principal payments of \$20,892 through 2031 with interest at 3.0%	310,818	287,337	-	(12,272)	275,065	12,640
	<u>\$ 3,840,818</u>	<u>\$ 3,022,337</u>	<u>\$ -</u>	<u>\$ (207,272)</u>	<u>\$ 2,815,065</u>	<u>\$ 227,640</u>

Debt payments on the general obligation bonds are made from the G.O. Wastewater Bond Fund.

CITY OF AURORA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

LONG-TERM DEBT (Continued)

Future debt service requirements are as follows:

<i>Fiscal Year</i> <i>Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2016	\$ 227,640	\$ 116,227	\$ 343,867
2017	248,019	107,248	355,267
2018	263,410	97,457	360,867
2019	283,812	87,055	370,867
2020	309,226	75,841	385,067
2021-2025	1,352,796	168,188	1,520,984
2026-2030	90,186	14,273	104,459
2031-2032	39,976	1,806	41,782
	<u>\$ 2,815,065</u>	<u>\$ 668,095</u>	<u>\$ 3,483,160</u>

PENSION PLAN

Defined Benefit Plan

Name of the pension plan: The Oregon Public Employees Retirement System (OPERS) is a cost-sharing multiple-employer defined benefit plan.

Plan description. Employees of the City are provided with pensions through OPERS. All the benefits of OPERS are established by the Oregon legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. OPERS issues a publicly available financial report. This report can be obtained at the PERS website: http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

Benefits provided under Chapter 238-Tier One / Tier Two

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

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

CITY OF AURORA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Benefits provided under Chapter 238-Tier One / Tier Two (Continued)

2. *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:
 - Member was employed by a OPERS employer at the time of death,
 - Member died within 120 days after termination of OPERS-covered employment,
 - Member died as a result of injury sustained while employed in a OPERS-covered job, or
 - Member was on an official leave of absence from a OPERS-covered job at the time of death.
3. *Disability Benefits.* A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including OPERS judge members) for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.
4. *Benefit Changes After Retirement.* Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

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

1. *Pension Benefits.* The ORS 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.

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

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

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

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

CITY OF AURORA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

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

2. *Death Benefits.* Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.
3. *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.
4. *Benefit Changes After Retirement.* Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

Contributions

OPERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. 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, 2011 actuarial valuation, as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013. The state of Oregon and certain schools, community colleges, and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced.

Employer contributions for the year ended June 30, 2015 were \$22,503, excluding amounts to fund employer specific liabilities. These contributions were allocated \$11,222 to PERS/OPSRP, \$10,373 to the IAP, and \$908 to the Retiree Health Insurance accounts.

The rates in effect for the fiscal year ended June 30, 2015 were: (1) Tier1/Tier 2 – 7.76%, (2) OPSRP general service – 6.64%, and (3) OPSRP uniformed – 9.37%.

Actuarial Valuations

The employer contribution rates effective July 1, 2013, through June 30, 2015, 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 16 years.

CITY OF AURORA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Actuarial Valuations (Continued)

Actuarial Methods and Assumptions

Valuation Date	December 31, 2012 rolled forward to June 30, 2014
Experience Study Report	2012, published September 18, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years.
Asset Valuation Method	Market value of assets
Actuarial Assumptions:	
Inflation Rate	2.75 percent
Investment Rate of Return	7.75 percent
Projected Salary Increases	3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service.
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2012 Experience Study which reviewed experience for the four-year period ending on December 31, 2012.

Discount Rate

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

CITY OF AURORA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

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. 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 Oregon PERS:

- Oregon 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.

Assumed Asset Allocation

<u>Asset Class/Strategy</u>	<u>Low Range</u>	<u>High Range</u>	<u>OIC 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	16.0	24.0	20.0
Real Estate	9.5	15.5	12.5
Alternative Equity	0.0	10.0	10.0
Opportunity Portfolio	0.0	3.0	0.0
Total			<u>100.0 %</u>

CITY OF AURORA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit 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 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

<u>Asset Class</u>	<u>Target</u>	<u>Compound Annual Return (Geometric)</u>
Core Fixed Income	7.20 %	4.50 %
Short-Term Bonds	8.00	3.70
Intermediate-Term Bonds	3.00	4.10
High Yield Bonds	1.80	6.66
Large Cap US Equities	11.65	7.20
Mid Cap US Equities	3.88	7.30
Small Cap US Equities	2.27	7.45
Developed Foreign Equities	14.21	6.90
Emerging Foreign Equities	5.49	7.40
Private Equity	20.00	8.26
Opportunity Funds/Absolute Return	5.00	6.01
Real Estate (Property)	13.75	6.51
Real Estate (REITS)	2.50	6.76
Commodities	7.71	6.07
Assumed Inflation - Mean		2.75

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

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Proportionate share of the net pension liability	\$ 98,949	\$ (46,726)	\$ (169,933)

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

CITY OF AURORA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

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

At June 30, 2015, the City had an asset of \$46,726 for its proportionate share of the net pension asset. As the City utilizes the modified cash basis of accounting, this asset is not reported on the Statement of Net Position. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2012 and rolled forward to June 30, 2014. The City's net pension liability does not include amounts paid in the current year. The City's proportion of the net pension asset was based on the City's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers.

Rates of every employer have at least two major components:

1. Normal Cost Rate: The economic value, stated as a percent of payroll, for the portion of each active member's total projected retirement benefit that is allocated to the upcoming year of service. The rate is in effect for as long as each member continues in OPERS-covered employment. The current value of all projected future Normal Cost Rate contributions is the Present Value of Future Normal Costs (PVFNC). The PVFNC represents the portion of the projected long-term contribution effort related to future service.
2. UAL Rate: If system assets are less than the actuarial liability, an Unfunded Actuarial Liability (UAL) exists. UAL can arise in a biennium when an event such as experience differing from the assumptions used in the actuarial valuation occurs. An amortization schedule is established to eliminate the UAL that arises in a given biennium over a fixed period of time if future experience follows assumption. The UAL Rate is the upcoming year's component of the cumulative amortization schedules, stated as a percent of payroll. The present value of all projected UAL Rate contributions is simply the Unfunded Actuarial Liability (UAL) itself. The UAL represents the portion of the projected long-term contribution effort related to past service.
3. Looking at both rate components, the projected long-term contribution effort is just the sum of the PVFNC and the UAL. The PVFNC part of the contribution effort pays for the value of future service while the UAL part of the contribution effort pays for the value of past service not already funded by accumulated contributions and investment earnings.

The UAL has Tier 1/Tier 2 and OPSRP pieces. The Tier 1/Tier 2 piece is based on the employer's Tier 1/Tier 2 pooling arrangement. If an employer participates in one of the two large Tier 1/Tier 2 rate pools [State & Local Government Rate Pool (SLGRP) or School Districts Rate Pool], then the employer's Tier 1/Tier 2 UAL is just their pro-rata share of their pool's UAL. The pro-rata calculation is based on the employer's payroll in proportion to the pool's total payroll. For example, if the employer's payroll is one percent of the pool's total payroll, the employer will be allocated one percent of the pool's UAL. The OPSRP piece of the UAL follows a parallel pro-rata approach, as OPSRP experience is mandatorily pooled at a state-wide level. Employers that do not participate in a Tier 1/Tier 2 pooling arrangement, who are referred to as "Independent Employers", have their Tier 1/Tier 2 UAL tracked separately in the actuarial valuation. The division of the UAL across employers is shown graphically below.

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

CITY OF AURORA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

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

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

Since many governments in Oregon have sold pension obligation bonds and deposited the proceeds with OPERS (referred to as side accounts or transitional liability or surplus), adjustments are required. After each employer's projected long-term contribution effort is calculated, that amount is reduced by the value of the employer's side account, transitional liability/surplus, and pre-SLGRP liability/surplus (if any). This is done as those balances increase/decrease the employer's projected long-term contribution effort because side accounts are effectively pre-paid contributions.

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

At June 30, 2015, the City's proportion was 0.00206139%.

For the year ended June 30, 2015, the City reported pension expense of \$12,477.

Changes in Plan Provisions Subsequent to Measurement Date

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. The City will make restoration payments to those benefit recipients.

PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

This is a change in benefit terms subsequent to the measurement date of June 30, 2014, and will not be included in the net pension liability (asset) proportionate shares provided to employers in June 2015.

It is estimated that this change will increase overall PERS net pension liability by \$178 million.

Changes in Assumptions

A summary of key changes implemented since the December 31, 2011 valuation are described briefly below. Additional detail and a comprehensive list of changes in methods and assumptions can be found in the 2012 Experience Study for the System, which was published on September 18, 2013, and can be found at the PERS website: <http://www.oregon.gov/pers/docs/2012%20Exp%20Study%20Updated.pdf>.

CITY OF AURORA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Changes in Actuarial Methods and Allocation Procedures

Actuarial Cost Method

The Actuarial Cost Method was changed from the Projected Unit Credit (PUC) Cost Method to the Entry Age Normal (EAN) Cost Method. This change will allow PERS to use the same cost method for contribution rate calculations as required for financial reporting under GASB Statements 67 and 68.

Tier 1/Tier 2 UAL Amortization

In combination with the change in cost method, the Board chose to re-amortize the outstanding Tier 1/Tier 2 UAL as of December 31, 2013 over a closed period of 20 years as a level percentage of projected payroll. Gains and losses between subsequent rate-setting valuations will be amortized over a closed 20 year period from the valuation in which they are first recognized.

Contribution Rate Stabilization Method

The “grade-in range” over which the rate collar gradually doubles was modified so that the collar doubles as funded status (excluding side accounts) decreases from 70% to 60% or increases from 130% to 140%. Previously the ranges had been 80% to 70% and 120% to 130%. The modification to the grade-in range was made in combination with the change to actuarial cost method, as discussed at the July 2013 PERS Board public meeting.

Allocation of Liability for Service Segments

For purposes of allocating Tier 1/Tier 2 member’s actuarial accrued liability among multiple employers, the valuation uses a weighted average of the Money Match methodology and the Full Formula methodology used by PERS when the member retires. The weights are determined based on the prevalence of each formula among the current Tier 1/Tier 2 population. For the December 31, 2010 and December 31, 2011 valuations, the Money Match was weighted 40 percent for General Service members and 10 percent for Police & Fire members. For the December 31, 2012 and December 31, 2013 valuations, this weighting has been adjusted to 30 percent for General Service members and 5 percent for Police & Fire members, based on a projection of the proportion of liability attributable to Money Match benefits at those valuation dates.

Changes in Economic Assumptions

Investment Return and Interest Crediting

The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.75%. Previously, the assumed investment return and interest crediting to regular account balances was 8.00% and the assumed interest crediting to variable account balances was 8.25%.

OPSRP Administrative Expenses

Assumed administrative expenses for the OPSRP System were reduced from \$6.6 million per year to \$5.5 million per year.

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Changes in Economic Assumptions (Continued)

Healthcare Cost Inflation

The healthcare cost inflation for the maximum RHIPA subsidy was updated based on analysis performed by Milliman's healthcare actuaries. This analysis includes the consideration of the excise tax that will be introduced in 2018 by the Patient Protection and Affordable Care Act.

Changes in Demographic Assumptions

Healthy Mortality

The healthy mortality assumption is based on the RP2000 generational mortality tables with group-specific class and setback adjustments. The group-specific adjustments have been updated to more closely match recently observed system experience.

Disabled Mortality

The disabled mortality assumption base was changed from the RP2000 healthy tables to the RP2000 disabled tables. Gender-specific adjustments were applied to align the assumption with recently observed system experience.

Disability, Retirement from Active Status, and Termination

Rates for disability, retirement from active status, and termination were adjusted. Termination rates were changed from being indexed upon age to being indexed upon duration from hire date.

Changes in Salary Increase Assumptions

Merit Increases, Unused Sick Leave, and Vacation Pay

Assumed merit increases were lowered for School District members. Unused Sick Leave and Vacation Pay rates were adjusted.

Retiree Healthcare Participation

The RHIA participation rate for healthy retirees was reduced from 48% to 45%. The RHIPA participation rate was changed from a uniform rate of 13% to a service-based table of rates. (Source: December 31, 2012 Actuarial Valuation p.89)

PENSION PLAN (Continued)

Defined Contribution Plan

OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

Participants in OPERS defined benefit pension plans also participate in their defined contribution plan. 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 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.

Contributions

The City has chosen not to pay the employees contributions to the plan. 6% of covered payroll is paid by general service employees and 6% of covered payroll is paid by firefighters and police officers.

Recordkeeping

PERS contracts with VOYA Financial to maintain IAP participant records

CITY OF AURORA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY OF THE OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Last Two Fiscal Years¹

	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability (asset)	0.00206139%	0.00206139%
Proportionate share of the net pension liability (asset)	\$ (46,726)	\$ 105,196
Covered-employee payroll	183,725	174,014
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-25.43%	60.45%

CONTRIBUTIONS TO THE OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Last Two Fiscal Years¹

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 12,477	\$ 12,925
Contributions in relation to the contractually required contribution	12,477	12,925
Contribution deficiency (excess)	-	-
City's covered-employee payroll	183,725	174,014
Contributions as a percentage of covered-employee payroll	6.79%	7.43%

¹ Ten year trend information as required by GASB Statement No. 68 will be presented prospectively.

CITY OF AURORA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

TRANSFERS

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
SPWF Maintenance	\$ 8,000	\$ -
Water	-	28,000
Sewer Reserve	10,000	-
Sewer SDC	-	10,000
Water Reserve	20,000	-
	<u>\$ 38,000</u>	<u>\$ 38,000</u>

Transfers are used to (1) move resources from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move revenues restricted to debt service from the funds collecting the revenues to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CONTINGENCIES

The City purchases commercial insurance to cover all commonly insurable risks, which includes property damage, liability and employee bonds. Most policies carry a small deductible amount. No insurance claims settled in each of the prior three years have exceeded policy coverage.

NEW PRONOUNCEMENTS

GASB Statement No. 68 “Accounting and Reporting for Pension Plans—an amendment of GASB Statement No. 27.” The statement establishes accounting and financial reporting requirements related to pensions provided by governments. The statement was implemented in the current year.

GASB Statement No. 69 “Government Combinations and Disposals of Government Operations.” The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The statement was implemented in the current year.

GASB Statement No. 71 “Pension Transition for Contributions Made Subsequent to the Measurement Date”. The statement amends transition provisions of GASB Statement No. 68, establishes accounting and financial reporting standards for recognition of contributions made between the measurement date of the net pension liability and implementation of GASB Statement No. 68. The statement was implemented in the current year.

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

GASB Statement No. 72 “Fair Value Measurement and Application” addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes, as well as guidance for applying fair value to certain investments, and disclosures related to all fair value measurements. The statement is effective for fiscal years beginning after June 15, 2015.

CITY OF AURORA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2015

NEW PRONOUNCEMENTS (Continued)

GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”, completes the suite of pension standards. The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. The statement is generally effective for fiscal years beginning after June 15, 2015.

GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. It requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. The statement is effective for fiscal years beginning after June 15, 2016.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 1, 2015, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

CITY OF AURORA, OREGON

COMBINING BALANCE SHEET (MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2015

	<i>Capital Projects</i>		
	<i>Park SDC</i>	<i>Park Reserve</i>	<i>Street / Storm SDC</i>
ASSETS			
Cash and cash equivalents	\$ 31,523	\$ 1,143	\$ 22,633
LIABILITIES AND FUND BALANCE			
Liabilities:	\$ -	\$ -	\$ -
Fund Balance:			
Restricted for:			
Capital outlay	31,523	-	-
Streets	-	-	22,633
Committed to:			
Capital outlay	-	1,143	-
<i>Total Fund Balance</i>	31,523	1,143	22,633
<i>Total Liabilities and Fund Balance</i>	\$ 31,523	\$ 1,143	\$ 22,633

<i>Capital Projects</i>		
<i>Street / Storm Reserve</i>	<i>SPWF Project Maintenance</i>	<i>Total</i>
\$ 52,070	\$ 39,710	\$ 147,079
\$ -	\$ -	\$ -
52,070	-	83,593
-	-	22,633
-	39,710	40,853
52,070	39,710	147,079
\$ 52,070	\$ 39,710	\$ 147,079

CITY OF AURORA, OREGON**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS****YEAR ENDED JUNE 30, 2015**

	Capital Projects		
	Park SDC	Park Reserve	Street / Storm SDC
REVENUES			
Licenses and permits	\$ 2,205	\$ -	\$ 8,700
Charges for services	-	-	-
Miscellaneous	154	7	93
<i>Total Revenues</i>	2,359	7	8,793
EXPENDITURES	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	2,359	7	8,793
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
NET CHANGE IN FUND BALANCE	2,359	7	8,793
FUND BALANCE, beginning of year	29,164	1,136	13,840
FUND BALANCE, end of year	\$ 31,523	\$ 1,143	\$ 22,633

Capital Projects

<i>Street / Storm Reserve</i>	<i>SPWF Project Maintenance</i>	<i>Total</i>
\$ -	\$ -	\$ 10,905
13,538	-	13,538
165	144	563
13,703	144	25,006
-	-	-
13,703	144	25,006
-	8,000	8,000
13,703	8,144	33,006
38,367	31,566	114,073
\$ 52,070	\$ 39,710	\$ 147,079

CITY OF AURORA, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - GENERAL FUND****YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 232,089	\$ 232,089	\$ 240,785	\$ 8,696
Fines and forfeitures	25,000	25,000	18,973	(6,027)
Licenses and permits	96,500	96,500	91,738	(4,762)
Intergovernmental	23,000	23,000	23,918	918
Miscellaneous	48,800	48,800	28,244	(20,556)
<i>Total Revenues</i>	425,389	425,389	403,658	(21,731)
EXPENDITURES				
Personal services	88,688	88,688	67,549	21,139
Materials and services	341,100	341,100	269,729	71,371
Contingency	259,601	259,601	-	259,601
<i>Total Expenditures</i>	689,389	689,389	337,278	352,111
NET CHANGE IN FUND BALANCE	(264,000)	(264,000)	66,380	330,380
FUND BALANCE, beginning of year	264,000	264,000	334,354	70,354
FUND BALANCE, end of year	\$ -	\$ -	\$ 400,734	\$ 400,734

CITY OF AURORA, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - STREET/STORM OPERATING FUND****YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 22,663	\$ 22,663	\$ 22,365	\$ (298)
Intergovernmental	103,510	103,510	53,596	(49,914)
Miscellaneous	480	480	811	331
<i>Total Revenues</i>	126,653	126,653	76,772	(49,881)
EXPENDITURES				
Personal services	27,131	27,131	25,891	1,240
Materials and services	71,400	71,400	28,044	43,356
Capital outlay	69,500	69,500	-	69,500
Contingency	106,022	106,022	-	106,022
<i>Total Expenditures</i>	274,053	274,053	53,935	220,118
NET CHANGE IN FUND BALANCE	(147,400)	(147,400)	22,837	170,237
FUND BALANCE, beginning of year	147,400	147,400	159,055	11,655
FUND BALANCE, end of year	\$ -	\$ -	\$ 181,892	\$ 181,892

CITY OF AURORA, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – CITY HALL BUILDING FUND
YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 1,300	\$ 1,300	\$ 1,763	\$ 463
Miscellaneous	620	620	589	(31)
<i>Total Revenues</i>	1,920	1,920	2,352	432
EXPENDITURES				
Capital outlay	119,827	119,827	-	119,827
NET CHANGE IN FUND BALANCE	(117,907)	(117,907)	2,352	120,259
FUND BALANCE, beginning of year	117,907	117,907	118,128	221
FUND BALANCE, end of year	\$ -	\$ -	\$ 120,480	\$ 120,480

CITY OF AURORA, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – PARK SDC FUND

YEAR ENDED JUNE 30, 2015

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 2,205	\$ 2,205	\$ 2,205	\$ -
Miscellaneous	120	120	154	34
<i>Total Revenues</i>	2,325	2,325	2,359	34
EXPENDITURES				
Capital outlay	27,069	27,069	-	27,069
NET CHANGE IN FUND BALANCE	(24,744)	(24,744)	2,359	27,103
FUND BALANCE, beginning of year	24,744	24,744	29,164	4,420
FUND BALANCE, end of year	\$ -	\$ -	\$ 31,523	\$ 31,523

CITY OF AURORA, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – PARK RESERVE FUND

YEAR ENDED JUNE 30, 2015

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 10	\$ 10	\$ 7	\$ (3)
EXPENDITURES				
Capital outlay	1,146	1,146	-	1,146
NET CHANGE IN FUND BALANCE	(1,136)	(1,136)	7	1,143
FUND BALANCE, beginning of year	1,136	1,136	1,136	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 1,143	\$ 1,143

CITY OF AURORA, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – STREET/STORM SDC FUND
YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 11,200	\$ 11,200	\$ 8,700	\$ (2,500)
Miscellaneous	72	72	93	21
<i>Total Revenues</i>	11,272	11,272	8,793	(2,479)
EXPENDITURES				
Capital outlay	22,192	22,192	-	22,192
NET CHANGE IN FUND BALANCE	(10,920)	(10,920)	8,793	19,713
FUND BALANCE, beginning of year	10,920	10,920	13,840	2,920
FUND BALANCE, end of year	\$ -	\$ -	\$ 22,633	\$ 22,633

CITY OF AURORA, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

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

YEAR ENDED JUNE 30, 2015

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 13,410	\$ 13,410	\$ 13,538	\$ 128
Miscellaneous	280	280	165	(115)
<i>Total Revenues</i>	13,690	13,690	13,703	13
EXPENDITURES				
Capital outlay	51,993	51,993	-	51,993
NET CHANGE IN FUND BALANCE	(38,303)	(38,303)	13,703	52,006
FUND BALANCE, beginning of year	38,303	38,303	38,367	64
FUND BALANCE, end of year	\$ -	\$ -	\$ 52,070	\$ 52,070

CITY OF AURORA, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – SPWF PROJECT MAINTENANCE FUND

YEAR ENDED JUNE 30, 2015

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 156	\$ 156	\$ 144	\$ (12)
EXPENDITURES				
Materials and services	39,717	39,717	-	39,717
REVENUES OVER (UNDER) EXPENDITURES	(39,561)	(39,561)	144	39,705
OTHER FINANCING SOURCES (USES)				
Transfers in	8,000	8,000	8,000	-
NET CHANGE IN FUND BALANCE	(31,561)	(31,561)	8,144	39,705
FUND BALANCE, beginning of year	31,561	31,561	31,566	5
FUND BALANCE, end of year	\$ -	\$ -	\$ 39,710	\$ 39,710

CITY OF AURORA, OREGON

**COMBINING STATEMENT OF FUND NET POSITION (MODIFIED CASH BASIS) –
NONMAJOR ENTERPRISE FUNDS**

JUNE 30, 2015

	<u>Water SDC</u>	<u>Water Reserve</u>	<u>Sewer SDC</u>
ASSETS			
Cash and cash equivalents	\$ 62,359	\$ 46,710	\$ 24,863
LIABILITIES	-	-	-
NET POSITION			
Restricted for:			
Construction	62,359	-	24,863
Unrestricted	-	46,710	-
 <i>Total Net Position</i>	 \$ 62,359	 \$ 46,710	 \$ 24,863

<u><i>Sewer Reserve</i></u>	<u><i>Total</i></u>
\$ 55,784	\$ 189,716
-	-
-	87,222
55,784	102,494
\$ 55,784	\$ 189,716

CITY OF AURORA, OREGON**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
(MODIFIED CASH BASIS) - NONMAJOR ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2015**

	<u>Water SDC</u>	<u>Water Reserve</u>	<u>Sewer SDC</u>
OPERATING REVENUES	\$ -	\$ -	\$ -
OPERATING EXPENSES	-	-	-
OPERATING INCOME	-	-	-
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	252	143	144
NET INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	252	143	144
Capital contributions	16,629	-	6,096
Transfers in	-	20,000	-
Transfers out	-	-	(10,000)
CHANGE IN NET POSITION	16,881	20,143	(3,760)
NET POSITION, beginning of year	45,478	26,567	28,623
NET POSITION, end of year	<u>\$ 62,359</u>	<u>\$ 46,710</u>	<u>\$ 24,863</u>

<u><i>Sewer Reserve</i></u>	<u><i>Total</i></u>
\$ -	\$ -
-	-
-	-
232	771
232	771
-	22,725
10,000	30,000
-	(10,000)
10,232	43,496
45,552	146,220
\$ 55,784	\$ 189,716

CITY OF AURORA, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - WATER FUND****YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 282,000	\$ 282,000	\$ 285,393	\$ 3,393
Miscellaneous	-	-	1,287	1,287
Interest earnings	900	900	1,009	109
<i>Total Revenues</i>	282,900	282,900	287,689	4,789
EXPENDITURES				
Personal services	89,089	89,089	82,843	6,246
Materials and services	131,177	131,177	109,696	21,481
Debt service				
Principal	12,272	12,272	12,272	-
Interest	8,620	8,620	8,620	-
Capital outlay	46,500	46,500	33,602	12,898
Contingency	182,342	182,342	-	182,342
<i>Total Expenditures</i>	470,000	470,000	247,033	222,967
REVENUES OVER (UNDER) EXPENDITURES	(187,100)	(187,100)	40,656	227,756
OTHER FINANCING SOURCES (USES)				
Transfers out	(28,000)	(28,000)	(28,000)	-
CHANGE IN FUND BALANCE	(215,100)	(215,100)	12,656	227,756
FUND BALANCE, beginning of year	215,100	215,100	216,959	1,859
FUND BALANCE, end of year	\$ -	\$ -	\$ 229,615	\$ 229,615

CITY OF AURORA, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - SEWER FUND****YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 273,500	\$ 273,500	\$ 275,218	\$ 1,718
Miscellaneous	-	-	1,087	1,087
Interest earnings	800	800	1,040	240
<i>Total Revenues</i>	274,300	274,300	277,345	3,045
EXPENDITURES				
Personal services	81,318	81,318	75,769	5,549
Materials and services	185,769	185,769	120,195	65,574
Capital outlay	3,000	3,000	2,569	431
Contingency	166,213	166,213	-	166,213
<i>Total Expenditures</i>	436,300	436,300	198,533	237,767
CHANGE IN FUND BALANCE	(162,000)	(162,000)	78,812	240,812
FUND BALANCE, beginning of year	162,000	162,000	177,718	15,718
FUND BALANCE, end of year	\$ -	\$ -	\$ 256,530	\$ 256,530

CITY OF AURORA, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – GENERAL OBLIGATION WASTEWATER BOND FUND
YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 291,700	\$ 291,700	\$ 297,706	\$ 6,006
Interest earnings	800	800	708	(92)
<i>Total Revenues</i>	292,500	292,500	298,414	5,914
EXPENDITURES				
Debt service				
Principal	195,000	195,000	195,000	-
Interest	114,800	114,800	114,800	-
<i>Total Expenditures</i>	309,800	309,800	309,800	-
CHANGE IN FUND BALANCE	(17,300)	(17,300)	(11,386)	5,914
FUND BALANCE, beginning of year	27,300	27,300	33,176	5,876
FUND BALANCE, end of year	\$ 10,000	\$ 10,000	\$ 21,790	\$ 11,790

CITY OF AURORA, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

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

YEAR ENDED JUNE 30, 2015

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 20,326	\$ 20,326	\$ 16,629	\$ (3,697)
Interest earnings	160	160	252	92
<i>Total Revenues</i>	20,486	20,486	16,881	(3,605)
EXPENDITURES				
Capital outlay	60,398	60,398	-	60,398
CHANGE IN FUND BALANCE	(39,912)	(39,912)	16,881	56,793
FUND BALANCE, beginning of year	39,912	39,912	45,478	5,566
FUND BALANCE, end of year	\$ -	\$ -	\$ 62,359	\$ 62,359

CITY OF AURORA, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – WATER RESERVE FUND
YEAR ENDED JUNE 30, 2015**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Interest earnings	\$ 120	\$ 120	\$ 143	\$ 23
EXPENDITURES				
Capital outlay	46,681	46,681	-	46,681
REVENUES OVER (UNDER) EXPENDITURES	(46,561)	(46,561)	143	46,704
OTHER FINANCING SOURCES (USES)				
Transfers in	20,000	20,000	20,000	-
CHANGE IN FUND BALANCE	(26,561)	(26,561)	20,143	46,704
FUND BALANCE, beginning of year	26,561	26,561	26,567	6
FUND BALANCE, end of year	\$ -	\$ -	\$ 46,710	\$ 46,710

CITY OF AURORA, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – SEWER SDC FUND

YEAR ENDED JUNE 30, 2015

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 6,096	\$ 6,096	\$ 6,096	\$ -
Interest earnings	100	100	144	44
<i>Total Revenues</i>	6,196	6,196	6,240	44
EXPENDITURES				
Capital outlay	22,778	22,778	-	22,778
REVENUES OVER (UNDER)	(16,582)	(16,582)	6,240	22,822
OTHER FINANCING SOURCES (USES)				
Transfers out	(10,000)	(10,000)	(10,000)	-
CHANGE IN FUND BALANCE	(26,582)	(26,582)	(3,760)	22,822
FUND BALANCE, beginning of year	26,582	26,582	28,623	2,041
FUND BALANCE, end of year	\$ -	\$ -	\$ 24,863	\$ 24,863

CITY OF AURORA, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – SEWER RESERVE FUND

YEAR ENDED JUNE 30, 2015

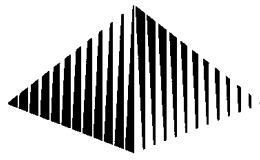
	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Interest earnings	\$ 180	\$ 180	\$ 232	\$ 52
EXPENDITURES				
Capital outlay	55,727	55,727	-	55,727
REVENUES OVER (UNDER) EXPENDITURES	(55,547)	(55,547)	232	55,779
OTHER FINANCING SOURCES (USES)				
Transfers in	10,000	10,000	10,000	-
CHANGE IN FUND BALANCE	(45,547)	(45,547)	10,232	55,779
FUND BALANCE, beginning of year	45,547	45,547	45,552	5
FUND BALANCE, end of year	\$ -	\$ -	\$ 55,784	\$ 55,784

OTHER SCHEDULES

CITY OF AURORA, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2015

<i>Tax Year</i>	<i>Uncollected Balance July 1, 2014</i>	<i>2014-2015 Levy</i>	<i>Added To Rolls</i>	<i>Interest, Discounts & Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balance June 30, 2015</i>
2014-2015	\$ -	\$ 547,457	\$ 50	\$ (16,064)	\$ (517,172)	\$ 14,271
2013-2014	16,628	-	-	(177)	(9,225)	7,226
2012-2013	8,727	-	-	(138)	(4,076)	4,513
2011-2012	4,819	-	-	(52)	(3,084)	1,683
2010-2011	1,741	-	-	(37)	(1,082)	622
2009-2010	595	-	-	(30)	(134)	431
2008-2009	352	-	-	(27)	(77)	248
Prior Years	863	-	-	(62)	(53)	748
Total	\$ 33,725	\$ 547,457	\$ 50	\$ (16,587)	\$ (534,903)	\$ 29,742

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Honorable Mayor and Council Members
City of Aurora
21420 Main Street NE
Aurora, Oregon 97002

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the City of Aurora, Oregon as of and for the year ended June 30, 2015, and have issued our report thereon dated December 1, 2015.

Compliance and Other Matters

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

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

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

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

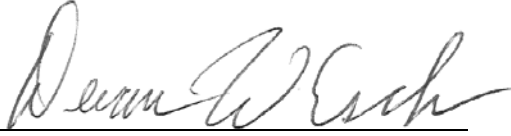
Internal Control Over Financial Reporting

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

Restriction on Use

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

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

By: 
Devan W. Esch, A Shareholder
December 1, 2015