

CITY OF LA PINE
DESCHUTES COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014



12700 SW 72nd Ave.
Tigard, OR 97223

CITY OF LA PINE
DESCHUTES COUNTY, OREGON

2013-2014
FINANCIAL REPORT

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CITY OF LA PINE
DESCHUTES COUNTY, OREGON

2013-2014
FINANCIAL REPORT

<u>CITY COUNCIL</u>	<u>TERM EXPIRES</u>
Ken Mulenex, Mayor	December 31, 2014
Stu Martinez	December 31, 2014
Karen Ward	December 31, 2014
Greg Jones	December 31, 2016
Kathy Agan	December 31, 2016

All Council members receive mail at the address listed below.

ADMINISTRATION

City Hall
P.O. Box 3055
La Pine, Oregon 97739

Rick Allen
Interim City Manager

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CITY OF LA PINE
DESCHUTES COUNTY, OREGON

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**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

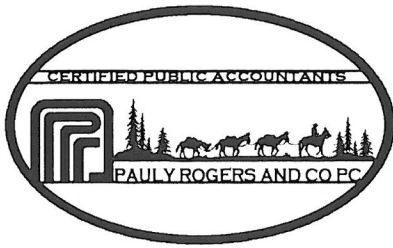
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January 15, 2015

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of La Pine
Deschutes County, Oregon

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Emphasis of a Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison schedules presented as Required Supplementary Information, as listed in the table of contents, have 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 records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The listing of Council members containing their term expiration dates, located before the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2015 on our consideration of the internal control over financial reporting and on compliance and other matters based on the audit of the financial statements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated January 15, 2015, on our consideration of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



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

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City of La Pine

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Mayor
Ken Mullenex
City Council
Stu Martinez
Kathy Agan
Greg Jones
Karen Ward

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of La Pine (City), we offer readers this discussion and analysis of the City's financial performance for the fiscal year ended June 30, 2014. The report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standard Board (GASB). This report should be read in conjunction with the basic financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The City recognized approximately \$235,000 in property tax revenue in 2014, which is a 2.3% increase from the prior year.
- Cash balances of approximately \$1,557,000 related to System Development Charges were transferred from the Business-Type Activities (Water and Sewer) to the SDC fund in the Governmental Activities to facilitate tracking of these restricted balances.
- The City's total net position decreased approximately \$95,000 from operations, the net result of a \$1,629,901 (2.0%) increase in net position from governmental activities and a \$1,725,070 (1.8%) decrease in net position from business-type activities.

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide the reader with a broad overview of the City's finances and are made up of the following two statements: the *Statement of Net Position* and the *Statement of Activities*. Both of these statements are prepared using accounting methods similar to those used by private-sector businesses, which use the economic resources measurement focus and the accrual basis of accounting.

- The *Statement of Net Position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused compensated absences).

Both of the government-wide financial statements differentiate functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include the general fund (including the cemetery fund as required by GASB 54), streets, tourism, and a capital projects fund to track system development charges. The business-type activities (*proprietary fund type*) of the City include the water and sewer operations.

Measurement Focus and Basis of Accounting

Governmental financial reporting is characterized as having two distinct objectives for its financial reporting. These objectives are categorized as governmental activities which are supported by levying taxes and business-type (proprietary) activities which are supported by charges for services. The measurement focus for each of these activities are uniquely different, both the governmental-wide financial statements and the business-type activities focus on the changes in economic resources similar to private-sector businesses. The objective of the proprietary fund operating statement is to answer the question, "*What transactions and events have incurred that increase or decrease the fund's total economic resources during the period?*" Therefore, both the Governmental-wide and the proprietary funds financial statements are based on full accrual accounting.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Accrual accounting measures the effects of transactions, events, and interfund activities when they occur, regardless of the timing of the related cash flows. The measurement focus for governmental funds however, is to view changes in current financial resources. The objective is to answer the question, "*What are the transactions or events of the current period that have increased or decreased the resources available for spending in the near future?*"

Governmental funds use modified accrual accounting in which revenues are not recognized until they are measurable and available, and expenditures are recognized in the period in which governments in general normally liquidate the related liability rather than when the liability is first incurred.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or functions. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into two categories: governmental funds and proprietary funds. Fund financial statements focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. These statements tell how governmental services such as the general fund (including the cemetery fund as required by GASB 54), streets, and tourism were financed in the short term as well as what remains for future spending. Unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. However, this information does not encompass the additional long-term focus of the government-wide statements. Therefore, both the governmental funds financial statements are followed by a reconciliation that explains the relationship or differences between governmental funds and the governmental-wide financial statements.

The City maintains five individual governmental funds. Of these individual funds, the City considers three funds to be *major governmental funds*. These three major governmental funds - represented individually in the balance sheet and the statement of revenues, expenditures, and changes in fund balances - consist of the General Fund, Street Fund, and Tourism Fund. The Cemetery Fund, which is considered a non-major governmental fund, is combined with the General Fund in the balance sheet and the statement of revenues, expenditures, and changes in fund balances. The remaining nonmajor governmental fund is the SDC fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As part of required supplementary information, budgetary comparison statements are presented for the reader's information. These statements compare the original adopted budget along with the final adjusted budget to the year-end actual activities.

Proprietary Funds are similar to business-type activities which utilize full accrual accounting. The City maintains one type of proprietary fund - enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for the City's Water and Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer operations.

The financial statements also include notes that provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 13 of this report.

In addition to the basic financial statements and the accompanying notes, additional pertinent information for the reader, referred to as *Required Supplementary Information* (RSI). The RSI can be found in this report following the notes to the basic financial statements. This section includes budgetary comparisons for the City's major governmental funds.

CONDENSED COMPARATIVE DATA AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Net Position

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City of La Pine, combined net position on June 30, 2014 was approximately \$9.3 million, a \$0.26 million decrease from June 30, 2013. The decrease is the net result of the activities in the various funds and prior period adjustments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 1
CITY OF LA PINE
STATEMENT OF NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$2,790,015	\$835,543	\$2,325,064	\$3,673,498	\$5,115,079	\$4,509,041
Capital assets	3,027,956	3,349,542	5,357,055	5,717,638	8,385,011	9,067,180
Total Assets	5,817,971	4,185,085	7,682,119	9,391,136	13,500,090	13,576,221
Liabilities:						
Current liabilities	217,864	66,144	193,725	198,908	411,589	265,052
Non-current liabilities	455,000	475,000	3,341,754	3,286,750	3,796,754	3,761,750
Total Liabilities	672,864	541,144	3,535,479	3,485,658	4,208,343	4,026,802
Net Position:						
Net Investment in Capital Assets	2,552,956	2,854,542	1,960,621	2,349,928	4,513,577	5,204,470
Restricted	2,022,677	326,719	193,503	1,973,276	2,216,180	2,299,995
Unrestricted	569,474	462,680	1,992,516	1,582,274	2,561,990	2,044,954
Total Net Position	\$5,145,107	\$3,643,941	\$4,146,640	\$5,905,478	\$9,291,747	\$9,549,419

Note: The capital assets reflected within (Table 1) are stated net of accumulated depreciation.

The City's net position is made up of three components: net investment in capital assets, restricted net position, and unrestricted net position. Restricted net position includes amounts that are subject to constraints that are either externally imposed by outside agencies, for example banks or grant agencies, or imposed by law through constitutional provisions or enabling legislation. During the fiscal year, total restricted net position increased by approximately \$0.1 million, the net result of the activities in the various funds and prior period adjustments.

The largest component of the City's \$9.3 million net position is net investments in capital assets (*e.g., land, buildings, improvements, equipment, infrastructure and construction in progress*). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Change in Net Position

Table 2
CITY OF LA PINE
CHANGE IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues/Tranfers:						
Program Revenues	\$ 284,963	\$ 21,161	\$ 1,080,924	\$ 1,063,693	\$ 1,365,887	\$1,084,854
Property taxes	235,401	230,109	-	-	235,401	230,109
Shared revenue	136,786	218,013	-	-	136,786	218,013
Other general revenues	161,309	223,678	(36,228)	34,054	125,081	257,732
Transfers	1,581,345	-	(1,581,345)	-	-	-
Total Revenues/Transfers	2,399,804	692,961	(536,649)	1,097,747	1,863,155	1,790,708
Expenses:						
General	344,386	428,358	-	-	344,386	428,358
Streets	323,791	189,389	-	-	323,791	189,389
Tourism	56,722	-	-	-	56,722	-
Debt Service	45,004	20,766	-	-	45,004	20,766
Water/Sewer	-	-	1,188,421	1,066,915	1,188,421	1,066,915
Total Expenses	769,903	638,513	1,188,421	1,066,915	1,958,324	1,705,428
Debt Principal Adjustment	-	-	-	99,991	-	99,991
Transfer of Operations	-	17,297	-	5,776,609	-	5,793,906
Change in Net position	1,629,901	71,745	(1,725,070)	5,907,432	(95,169)	5,979,177
Net position - beginning	3,643,941	663,826	5,905,478	(1,954)	9,549,419	661,872
Prior Period Adjustment	(128,735)	2,908,370	(33,768)	-	(162,503)	2,908,370
Net position - ending	\$5,145,107	\$ 3,643,941	\$ 4,146,640	\$ 5,905,478	\$ 9,291,747	\$9,549,419

Governmental Activities

Governmental activities represent 55.4% of the City's total net position. The governmental activities net position increased by approximately \$1.5 million in 2014, primarily due to the transfer of system development charges from the Water and Sewer funds. Property taxes and shared revenues increased from the prior year, while franchise fees and other revenues decreased. Prior period adjustments decreased net position by \$128,735.

Business-Type Activities

Business-type activities represent the remaining 44.6% of the City's total net position. These business-type activities consist of the Water and Sewer operations. The business-type activities net position decreased by approximately \$1.76 million in 2014, primarily due to the transfer of system development charges to a capital projects fund to facilitate tracking.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ANALYSIS OF THE CITY'S INDIVIDUAL FUNDS

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

Table 3
CITY OF LA PINE
SUMMARY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS

Fiscal Year 2013-14	General Fund	Street Fund	Tourism Fund	SDC Fund	Total
Total revenues	\$ 529,500	\$ 138,148	\$ 101,215	\$ 48,811	\$ 817,674
Total expenditures	376,896	148,789	56,835	-	582,520
Revenues over/(under) expenditures	152,604	(10,641)	44,380	48,811	235,154
Total other financing sources/(uses)	(39,000)	80,000	(17,000)	1,557,345	1,581,345
Net change in fund balance	113,604	69,359	27,380	1,606,156	1,816,499
Fund balance - beginning	453,702	297,630	11,462	-	762,794
Prior Period Adjustment	(4,425)	-	10,690	-	6,265
Fund balance (deficit) - Ending	\$ 562,881	\$ 366,989	\$ 49,532	\$ 1,606,156	\$ 2,585,558
Fiscal Year 2012-13	General Fund	Street Fund	Tourism Fund		Total
Total revenues	\$ 522,027	\$ 99,602	\$ 74,950		\$ 696,579
Total expenditures	392,154	82,949	63,488		538,591
Revenues over/(under) expenditures	129,873	16,653	11,462		157,988
Special Items	17,297	-	-		17,297
Net change in fund balance	147,170	16,653	11,462		175,285
Fund balance - beginning	306,532	280,977	-		587,509
Fund balance (deficit) - Ending	\$ 453,702	\$ 297,630	\$ 11,462		\$ 762,794

As of fiscal year ended 2014, the City's governmental funds reported a combined ending fund balance of approximately \$2,585,558. During the current fiscal year, the ending fund balance for the General Fund increased \$109,179, primarily due to an excess of property taxes and franchise fees over expenditures. The increase in fund balance for Total Governmental Funds was approximately \$1.8 million, which is primarily related to the transfer of system development charges from the Water and Sewer funds to the SDC fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ANALYSIS OF BUDGETARY VARIATIONS

The City adopted the operating budget for the fiscal year 2013-14 budget in June, 2013 in the amount of \$9,604,101. The General Fund and other major governmental funds budgetary comparisons can be found in the Required Supplementary Information section starting on page 29. Budgetary comparisons for the City's nonmajor governmental funds can be found on page 33, major proprietary funds on pages 34-35, and nonmajor proprietary funds on page 36.

While certain expenditure categories were over-budget, total expenditures in all funds, separately and in total, were substantially lower than budgeted.

CAPITAL ASSETS

The Capital assets of the City are those assets that are used in the performance of the City's functions including infrastructures assets. Capital Assets include buildings, equipment, land, roads, water/sewer systems, and construction in progress.

Capital activity for the fiscal year ended June 30, 2014 included street improvements around City Hall.

LONG-TERM DEBT

The City did not issue new debt in the current fiscal year and made approximately \$28,000 in debt service principal payments. There was an increase of approximately \$36,000 in long-term debt as a result of capitalized interest.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic and other factors considered in developing the FY 2014-15 budget include:

- The City assessed property taxes at a rate of \$1.93/thousand in 2013-14 compared to their maximum permanent rate of \$1.98/thousand. For FY 2014-15, the rate was raised to \$1.98/thousand in order to balance the budget.
- The City implemented new programs such as Business Licenses and Community Development fees.
- Property values are expected to increase 3.0-5.5%.
- The City continues to set aside funds for future capital, including reserves for maintenance, repairs and improvements to City Hall, city streets, and water and sewer infrastructure.
- Substantial capital and other operating projects are expected in FY 2014-15, including completion of sidewalk/streetscape in front of City Hall.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of La Pine's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of La Pine, Attention: City Manager, P.O. Box 2460, La Pine, Oregon 97739; (541) 536-1432; or visit the City's website at www.ci.la-pine.or.us.

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CITY OF LA PINE
DESCHUTES COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

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

ASSETS	GOVERNMENTAL	BUSINESS TYPE	TOTAL
Cash	\$ 647,723	\$ 2,027,734	\$ 2,675,457
Restricted Cash	2,022,677	193,503	2,216,180
Accounts Receivable	109,658	73,525	183,183
Property Taxes Receivable	9,957	-	9,957
Inventory	-	30,302	30,302
Capital Assets - Nondepreciable	287,300	883,299	1,170,599
Capital Assets, Depreciable, Net of Depreciation	2,740,656	4,473,756	7,214,412
Total Assets	5,817,971	7,682,119	13,500,090
LIABILITIES			
Accounts Payable	128,833	47,154	175,987
Deposits Payable	4,425	16,306	20,731
Payroll Liabilities	7,313	8,340	15,653
Unearned Revenue	55,353	-	55,353
Accrued Interest	1,940	60,517	62,457
Compensated Absences	-	6,728	6,728
Current Portion of Non Current Liabilities	20,000	54,680	74,680
Non Current Liabilities:			
Due in more than one year	455,000	3,341,754	3,796,754
Total Liabilities	672,864	3,535,479	4,208,343
NET POSITION			
Net Investment in Capital Assets	2,552,956	1,960,621	4,513,577
Restricted for:			
Highways and Streets	366,989	-	366,989
Capital Projects	1,606,156	-	1,606,156
Tourism	49,532	-	49,532
Debt Service	-	193,503	193,503
Unrestricted	569,474	1,992,516	2,561,990
Total Net Position	\$ 5,145,107	\$ 4,146,640	\$ 9,291,747

See accompanying notes to the basic financial statements.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

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

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>
<u>Governmental Activities</u>				
General	\$ 344,386	\$ 248,963	\$ 1,000	\$ -
Highways and Streets	323,791	-	-	35,000
Tourism	56,722	-	-	-
Debt Service	<u>45,004</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>769,903</u>	<u>248,963</u>	<u>1,000</u>	<u>35,000</u>
<u>Business-Type Activities</u>				
Water	705,687	590,278	-	-
Sewer	<u>482,734</u>	<u>490,646</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>1,188,421</u>	<u>1,080,924</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 1,958,324</u>	<u>\$ 1,329,887</u>	<u>\$ 1,000</u>	<u>\$ 35,000</u>

See accompanying notes to the basic financial statements.

	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
	\$ (94,423)	\$ -	\$ (94,423)
	(288,791)	-	(288,791)
	(56,722)	-	(56,722)
	(45,004)	-	(45,004)
	(484,940)	-	(484,940)
	-	(115,409)	(115,409)
	-	7,912	7,912
	-	(107,497)	(107,497)
	(484,940)	(107,497)	(592,437)
General Revenues			
Property Taxes, Levied for General Purposes	235,401	-	235,401
Transient Room Tax	101,215	-	101,215
State Shared Revenue	136,786	-	136,786
SDC Revenue	48,811	-	48,811
Interest and Miscellaneous	11,283	1,949	13,232
Loss on Disposal of Capital Assets	-	(38,177)	(38,177)
Transfers	1,581,345	(1,581,345)	-
Total General Revenues	2,114,841	(1,617,573)	497,268
Changes in Net Position	1,629,901	(1,725,070)	(95,169)
Net Position - Beginning	3,643,941	5,905,478	9,549,419
Prior Period Adjustment	(128,735)	(33,768)	(162,503)
Net Position - Ending	\$ 5,145,107	\$ 4,146,640	\$ 9,291,747

See accompanying notes to the basic financial statements.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

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

	GENERAL FUND	SPECIAL REVENUE		CAPITAL PROJECTS	TOTAL
		STREET FUND	TOURISM FUND	SDC FUND	
ASSETS					
Cash and Investments	\$ 592,199	\$ 435,412	\$ 40,627	\$ 1,602,162	\$ 2,670,400
Accounts Receivable, Net	49,987	42,503	13,174	3,994	109,658
Taxes Receivable	9,957	-	-	-	9,957
Total Assets	\$ 652,143	\$ 477,915	\$ 53,801	\$ 1,606,156	\$ 2,790,015
LIABILITIES					
Accounts Payable	\$ 53,226	\$ 75,607	\$ -	\$ -	\$ 128,833
Payroll Liabilities	6,994	319	-	-	7,313
Unearned Revenue	16,084	35,000	4,269	-	55,353
Deposits Payable	4,425	-	-	-	4,425
Total Liabilities	80,729	110,926	4,269	-	195,924
DEFERRED INFLOWS OF RESOURCES					
Unavailable Property Taxes	8,533	-	-	-	8,533
Total Deferred Inflows of Resources	8,533	-	-	-	8,533
FUND BALANCE					
Fund Balances					
Restricted for:					
Highways and Streets	-	366,989	-	-	366,989
Capital Projects	-	-	-	1,606,156	1,606,156
Tourism	-	-	49,532	-	49,532
Assigned for:					
Cemetery Maintenance	14,312	-	-	-	14,312
Unassigned	548,569	-	-	-	548,569
Total Fund Balances	562,881	366,989	49,532	1,606,156	2,585,558
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 652,143	\$ 477,915	\$ 53,801	\$ 1,606,156	\$ 2,790,015

See accompanying notes to basic financial statements

CITY OF LA PINE
DESCHUTES COUNTY, OREGON

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

June 30, 2014

Total Fund Balances - Governmental Funds	\$ 2,585,558
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	
Capital Assets, net	3,027,956
Property taxes not collected within sixty days after year-end are not considered current financial resources and are, therefore, not reported in the funds.	
	8,533
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	
Bonds	(475,000)
Accrued interest is not due and payable in the current period and therefore is not reported in the funds.	
Accrued Interest	<u>(1,940)</u>
Net Position	<u><u>\$ 5,145,107</u></u>

See accompanying notes to basic financial statements

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

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

	GENERAL FUND	SPECIAL REVENUE		CAPITAL PROJECTS	TOTAL
		STREET FUND	TOURISM FUND	SDC FUND	
REVENUES					
Property Taxes	\$ 234,617	\$ -	\$ -	\$ -	\$ 234,617
Licenses & Permits	640	-	-	-	640
Intergovernmental Revenues	42,361	130,423	-	-	172,784
Transient Room Tax	-	-	101,215	-	101,215
Franchise Fees	213,513	-	-	-	213,513
Charges for Services	7,695	-	-	-	7,695
Interest & Investment Income	2,185	4	-	-	2,189
System Development Charges	-	-	-	48,811	48,811
Miscellaneous and Other Income	28,489	7,721	-	-	36,210
Total Revenues	529,500	138,148	101,215	48,811	817,674
EXPENDITURES					
Current					
General Government	332,688	-	-	-	332,688
Highways and Streets	-	50,849	-	-	50,849
Tourism	-	-	56,835	-	56,835
Capital Outlay	-	97,940	-	-	97,940
Debt Service	44,208	-	-	-	44,208
Total Expenditures	376,896	148,789	56,835	-	582,520
Excess of Revenues Over (Under) Expenditures	152,604	(10,641)	44,380	48,811	235,154
Other Financing Sources, (Uses)					
Transfers In	46,000	80,000	5,000	1,557,345	1,688,345
Transfers Out	(85,000)	-	(22,000)	-	(107,000)
Total Other Financing Sources, (Uses)	(39,000)	80,000	(17,000)	1,557,345	1,581,345
Net Change in Fund Balance	113,604	69,359	27,380	1,606,156	1,816,499
Beginning Fund Balance	453,702	297,630	11,462	-	762,794
Prior Period Adjustments	(4,425)	-	10,690	-	6,265
Ending Fund Balance	\$ 562,881	\$ 366,989	\$ 49,532	\$ 1,606,156	\$ 2,585,558

See accompanying notes to basic financial statements

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE TO STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014**

Net Change in Fund Balances - Governmental Funds \$ 1,816,499

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

Capitalized Additions	\$	99,101	
Depreciation Expense		(285,687)	
Net Adjustment		(186,586)	(186,586)

The City adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and as a result recognized bond issuance costs that had previously been capitalized on the Governmental Funds Balance Sheet. (20,846)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes in liability balances.

Bond Payable	\$	20,000	
Interest Payable		50	
Net Adjustment		20,050	20,050

Governmental funds do not record property taxes receivable as revenue unless they are collected within sixty days of year-end since they do not provide current financial resources. However, in the government-wide statements, all taxes receivable are recorded as revenue. 784

Change in Net Position \$ 1,629,901

See accompanying notes to basic financial statements

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

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

	WATER FUND	SEWER FUND	TOTAL
ASSETS			
Current Assets:			
Cash and Investments	\$ 882,950	\$ 1,144,784	\$ 2,027,734
Restricted Cash	193,503	-	193,503
Accounts Receivable, Net	54,628	18,897	73,525
Inventory	24,398	5,904	30,302
Total Current Assets	<u>1,155,479</u>	<u>1,169,585</u>	<u>2,325,064</u>
Noncurrent Assets:			
Capital Assets, Nondepreciable	33,500	849,799	883,299
Capital Assets, Depreciable, net	2,951,960	1,521,796	4,473,756
Total Assets	<u>\$ 4,140,939</u>	<u>\$ 3,541,180</u>	<u>\$ 7,682,119</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 36,235	10,919	\$ 47,154
Deposits Payable	16,306	-	16,306
Payroll Liabilities	4,170	4,170	8,340
Compensated Absences	3,364	3,364	6,728
Accrued Interest	60,517	-	60,517
Long-term Liabilities, Current Portion	54,680	-	54,680
Total Current Liabilities	<u>175,272</u>	<u>18,453</u>	<u>193,725</u>
Noncurrent Liabilities:			
Long-term Liabilities	<u>2,498,709</u>	<u>843,045</u>	<u>3,341,754</u>
Total Liabilities	<u>2,673,981</u>	<u>861,498</u>	<u>3,535,479</u>
NET POSITION			
Net Investment in Capital Assets	432,071	1,528,550	1,960,621
Restricted for Debt Service	193,503	-	193,503
Unrestricted	841,384	1,151,132	1,992,516
Total Net Position	<u>1,466,958</u>	<u>2,679,682</u>	<u>4,146,640</u>
Total Liabilities and Net Position	<u>\$ 4,140,939</u>	<u>\$ 3,541,180</u>	<u>\$ 7,682,119</u>

See accompanying notes to basic financial statements

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ENTERPRISE FUNDS
For the Year Ended June 30, 2014**

	WATER FUND	SEWER FUND	TOTAL
Operating Revenues			
Charges for Services	\$ 581,971	\$ 482,525	\$ 1,064,496
Miscellaneous & Other Income	8,307	8,121	16,428
Total Operating Revenues	<u>590,278</u>	<u>490,646</u>	<u>1,080,924</u>
Operating Expenses			
Personnel Services	133,570	131,322	264,892
Materials and Services	144,282	153,861	298,143
Depreciation	300,523	161,248	461,771
Total Operating Expenses	<u>578,375</u>	<u>446,431</u>	<u>1,024,806</u>
Operating Income in Excess of Expenses	<u>11,903</u>	<u>44,215</u>	<u>56,118</u>
Nonoperating Revenues (Expenses)			
Interest Revenue	-	1,949	1,949
Interest Expense	(127,312)	(36,303)	(163,615)
Loss on Disposal of Capital Assets	(10,670)	(27,507)	(38,177)
Total Nonoperating Revenues (Expenses)	<u>(137,982)</u>	<u>(61,861)</u>	<u>(199,843)</u>
Change in Net Position Before Transfers	(126,079)	(17,646)	(143,725)
Transfers			
Transfers In	193,503	-	193,503
Transfers Out	(834,056)	(940,792)	(1,774,848)
Change in Net Position	(766,632)	(958,438)	(1,725,070)
Total Net Position - Beginning	2,274,662	3,630,816	5,905,478
Prior Period Adjustment	(41,072)	7,304	(33,768)
Total Net Position - Ending	<u>\$ 1,466,958</u>	<u>\$ 2,679,682</u>	<u>\$ 4,146,640</u>

See accompanying notes to basic financial statements

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**COMBINING STATEMENT OF CASH FLOWS - ALL ENTERPRISE FUNDS
For the Year Ended June 30, 2014**

	WATER FUND	SEWER FUND	TOTAL
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 587,977	\$ 495,134	\$ 1,083,111
Payments to Suppliers	(122,391)	(151,381)	(273,772)
Payments to Employees	(137,045)	(130,897)	(267,942)
Net Cash From Operations	<u>328,541</u>	<u>212,856</u>	<u>541,397</u>
Cash Flows From Capital and Related Financing Activities:			
Debt Principal Payments	(7,580)	-	(7,580)
Interest Payments	(185,923)	-	(185,923)
Net Cash (Used) By Capital and Related Financing Activities	<u>(193,503)</u>	<u>-</u>	<u>(193,503)</u>
Cash Flows From Non-Capital and Related Financing Activities:			
Interfund Transfers	(640,553)	(940,792)	(1,581,345)
Net Cash (Used) By Non-Capital and Related Financing Activities	<u>(640,553)</u>	<u>(940,792)</u>	<u>(1,581,345)</u>
Cash Flows From Investing Activities			
Capital Acquisition	(51,924)	(87,441)	(139,365)
Interest Received	-	1,949	1,949
Net Cash (Used) By Investing Activities	<u>(51,924)</u>	<u>(85,492)</u>	<u>(137,416)</u>
Net Increase In Cash and Investments	(557,439)	(813,428)	(1,370,867)
Cash and Investments at Beginning of Year	<u>1,633,892</u>	<u>1,958,212</u>	<u>3,592,104</u>
Cash and Investments at End of Year	<u>\$ 1,076,453</u>	<u>\$ 1,144,784</u>	<u>\$ 2,221,237</u>
Reconciliation of Cash Flows From Operating Activities to Operating Income			
Operating Income	\$ 11,903	\$ 44,215	\$ 56,118
Adjustments			
Depreciation/Amortization	300,523	161,248	461,771
(Increase), Decrease in Accounts Receivable	(1,907)	(1,154)	(3,061)
(Increase), Decrease in Inventory	(4,398)	(5,904)	(10,302)
(Increase), Decrease in Other Receivables	-	11,114	11,114
Increase, (Decrease) in Accounts Payable	26,289	8,384	34,673
Increase, (Decrease) in Payroll Liabilities	(3,030)	870	(2,160)
Increase, (Decrease) in Unearned Revenue	-	(5,472)	(5,472)
Increase, (Decrease) in Compensated Absences	(445)	(445)	(890)
Increase, (Decrease) in Customer Deposits	(394)	-	(394)
Net Cash From Operations	<u>\$ 328,541</u>	<u>\$ 212,856</u>	<u>\$ 541,397</u>

See accompanying notes to basic financial statements

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE FINANCIAL REPORTING ENTITY

The City of La Pine, Oregon (the “City”) is governed by an elected mayor and an elected four member council who comprise the City Council. Administrative officials are appointed by the council. The daily functioning is under the supervision of the City Manager. As required by the Generally Accepted Accounting Principles, all activities of the City have been included in these financial statements.

The basic financial statements include all financial activities, organizations, and functions for which the City Council has financial accountability as defined by GASB Statement No. 61. The financial reporting entity consists of (a) the City, (b) organizations for which the City is financially accountable, and (c) governmental organizations for which the City is not financially accountable, but for which the nature and significance of their financial relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the City are financially accountable. In addition, component units can be governmental organizations for which the City is not financially accountable, but for which the nature and significance of their financial relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. No organizational units meet the criteria for inclusion as a component unit.

B. BASIC FINANCIAL STATEMENTS

The Basic financial statements are presented at both the governmental-wide and fund financial level. Governmental activities, which normally are supported by taxes and intergovernmental receipts, 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 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 and the Statement of Activities.

The Statement of Activities 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, there are governmental and proprietary type funds. Major funds are reported as separate columns in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF LA PINE
DESCHUTES COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF PRESENTATION

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

There are stated minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

There are the following major governmental funds:

General Fund - The General Fund is utilized to account for all operations that are not accounted for in another fund. Grants, property taxes, and interest on cash and investments are its principle sources of revenue. Administration and insurance are the major expenditures of the fund. This fund includes Cemetery operations and maintenance.

Street Fund – The fund is utilized to account for the revenue and expenditures of the street fund. Highway monies from the State of Oregon are recorded in this fund as well as expenditures restricted to the improvement of streets in La Pine.

Tourism Fund – The tourism fund contains monies from the Transient Room Tax (TRT). Seventy percent of these monies are given to the La Pine Chamber of Commerce for purposes of promoting tourism and the economic vitality of the greater La Pine region. The remaining 30 percent of the money obtained from the TRT are deposited in the City’s General Fund.

SDC Fund – Water/Sewer – The SDC fund – water/sewer is utilized to account for the water and sewer system development charges which have been collected over the years. As capital projects and other qualifying expenditures are incurred that can legally be paid with SDC funds, the City will pay the expenditure directly from this fund.

There are the following major enterprise funds:

Water Fund – This fund is used to account for operations of the water system. Revenue is derived from charges for services to water users and expenses account for the costs of operation. Within the Statement of Net Position – Enterprise Funds and Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Funds, the Water Fund is combined with the Debt Reserve Fund – Water. The Debt Reserve Fund – Water is utilized to hold the long-term debt service reserve required by the USDA on the Water Fund revenue bonds.

Sewer Fund – This fund is used to account for operations of the sewage disposal system. The primary revenue source is fees for service.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Government-wide Financial Statements are presented on a full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on equity or net position. All transactions and events that affect the total economic resources (net position) during the period are reported. An economic resources measurement is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash inflows and outflows.

Governmental Funds Financial Statements are presented on a modified accrual basis of accounting with a current financial resource measurement focus. This focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus and full accrual accounting, a current financial resource measurement focus is inseparable from a modified accrual basis of accounting. Under modified accrual accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Property taxes, franchise fees, licenses and permits, and interest associated with the current financial period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues are considered to be measurable and available only when cash is received.

A deferred inflow arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable revenue consists primarily of uncollected property taxes not deemed available to finance operations of the current period. In the government-wide Statement of Activities, with a full accrual basis of accounting, revenue is recognized as soon as it is earned regardless of its availability. Thus, the liability created on the Governmental Fund Balance Sheet for unavailable revenue is eliminated. Unearned revenues also arise outside the scope of measurement focus and basis of accounting, such as when resources are received before there is legal claim to them. For instance, when grant moneys are received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as fund liabilities only when due. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the City are recognized. Thus, the expense and related accrued liability for long-term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' reconciliation is provided to explain the differences between the fund based financial statements and the government-wide presentation.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Restricted resources are first applied when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

CITY OF LA PINE
DESCHUTES COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, AND EQUITY

Cash

A common cash pool is maintained. Earnings on pooled cash are credited to each fund monthly based on the average daily balance of each participating fund.

Pooled cash has the general characteristics of a demand deposit account in that any participating fund may deposit additional cash at any time and may also withdraw cash at any time without prior notice or penalty.

Receivables and Payables

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the non-current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Recorded property taxes receivable that are collected within 30 days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as unavailable revenue. Property taxes are levied and become a lien on July 1. Collection dates are November 15, February 15, and May 15 following the lien date. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

Uncollected property taxes are shown in the government-wide statement of net position. Uncollected taxes are deemed by management to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established.

Receivables in enterprise funds are stated net of an allowance for uncollectables.

Inventories

Inventories purchased are valued at cost (first-in, first-out method). Inventory is recorded as expenditures when received rather than as consumed in the governmental funds. For governmental activities, supply balances on hand at year end are not considered material by management.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, AND EQUITY (CONTINUED)

Capital Assets (Continued)

Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Buildings and improvements	50 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-20 years
Vehicles	5-20 years
Utility systems	50
Infrastructure – streets	40

One-half year of depreciation is taken in the year the assets are acquired or retired. Gains or losses from sales or retirements of capital assets are included in operations of the current period.

Long-Term Debt

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

In the governmental fund-type financial statements, bond premiums and discounts are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

The City adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2014. This statement established accounting and financial reporting standards that reclassified, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized, as outflows of resources or inflows of resources, certain items that were reported as assets and liabilities. As a result of adopting GASB Statement No. 65, the City recognized \$20,846 in bond issuance costs that had previously been capitalized on the Governmental Funds Balance Sheet.

Use of Estimates

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

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, AND EQUITY (CONTINTUED)

Net Position

Net position is comprised of the various net earnings from operations, non-operating revenues, expenses and contributions of capital. Net position is classified in the following three categories:

Net Investment in Capital Assets – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of external constraints placed on asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – consists of all other assets that are not included in the other categories previously mentioned.

F. FUND BALANCE

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

- Nonspendable represents amounts that are not in a spendable form.
- Restricted represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.
- Unassigned is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FUND BALANCE (CONTINUED)

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

There were no nonspendable or committed balances at year end.

G. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows consisted of unavailable property taxes.

H. BUDGETARY INFORMATION

Annual budgets for all funds are adopted on a basis consistent with Oregon Revised Statutes (ORS 294-Local Budget Law). The process under which the budget is adopted is described in the following paragraphs.

Each April, the City Budget Officer submits a proposed budget to the Budget Committee (consisting of the City Council and an equal number of citizens of the City). All funds are required to be budgeted for. The budget is prepared for each fund on the modified accrual basis of accounting. For all fund types, inter-fund loans are budgeted as sources and uses in accordance with state budget laws. Estimated receipts and expenditures are budgeted for by fund and function. Information on the past year's actual receipts and expenditures and current-year estimates are included in the budget document.

The Budget Committee conducts public hearings for the purpose of obtaining citizens' comments, and then approves a budget and submits it to the City Council for final adoption. The approved expenditures for each fund may not be increased by more than 10% by Council without returning to the Budget Committee for a second approval. After the Council adopts the budget and certifies the total of ad valorem taxes to be levied, no additional tax levy may be made for that fiscal year.

The Council legally adopts the budget by resolution before July 1. The resolution establishes appropriations for each fund and expenditures cannot legally exceed these appropriations. The level of control established by the resolution for each fund is at the function group level (i.e., personal services, materials and services, capital outlay, debt service, interfund transfers, and contingency). Appropriations lapse as of year-end.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. BUDGETARY INFORMATION (CONTINUED)

The Council may change the budget throughout the year by transferring appropriations between levels of control and by adopting supplemental budgets as authorized by Oregon Revised Statutes. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers and approval by the Council. Expenditure appropriations may not be legally over-expended except in the case of grant receipts that could not be reasonably estimated at the time the budget was adopted, and for debt service on new debt issued during the budget year. Management may transfer budget amounts between individual line items within the function group, but cannot make changes to the function groups themselves, which is the legal level of control.

Expenditure budgets are made at the following levels for each fund:

LEVEL OF CONTROL

Personal Services
Materials and Services
Capital Outlay
Contingency
Transfer to Other Funds

Disbursements of the various funds were within authorized appropriations except in the Water Fund which was over expended in Capital Outlay by \$6,924.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH

Cash balances are maintained in a common pooled account. Interest income is allocated monthly based on each fund's average cash balance.

Cash is comprised of the following at June 30, 2014:

Demand Deposits	\$ 679,482	Cash	\$ 2,675,457
Savings and Money Market	4,211,805	Restricted Cash	<u>2,216,180</u>
Cash on Hand	<u>350</u>		
		Total	<u><u>\$ 4,891,637</u></u>
Total	<u><u>\$ 4,891,637</u></u>		

Deposits

Deposits with financial institutions are comprised of bank demand deposits and certificates of deposit. The total bank balance per the bank statements was \$4,879,287, of which \$500,000 was covered by federal depository insurance and the remainder was collateralized by the Oregon Public Funds Collateralization Program (PFCP). Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury.

Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned. There is no deposit policy for custodial credit risk. As of June 30, 2014, none of the bank balance was exposed to custodial credit risk because it was either insured by the FDIC or is covered by the collateral held in a multiple financial institutions collateral pool administered by the Oregon State Treasurer.

Investments

The investment policy is to follow the State statutes governing cash management. Oregon Revised Statutes authorize investing in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, bankers' acceptances guaranteed by an Oregon financial institution, repurchase agreements, State of Oregon Treasury Local Government Investment Pool, various interest bearing bonds of Oregon municipalities, certificates of deposit, and certain commercial paper among others.

Interest Rate Risk

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

Credit Risk

The Oregon Revised Statutes do not limit investments as to credit rating for securities purchased from U.S. Government Agencies. The investments in U.S. Government Agencies were rated AAA by Standard & Poor's and AAA by Moody's Investor Service. The State Pool is unrated.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

3. CASH (CONTINUED)

Oregon Revised Statutes require banker's acceptances to be guaranteed by and carried on the books of a qualified financial institution, eligible for discount by Federal Reserve System, and issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations.

Concentration of Credit Risk

There were no investments as of June 30, 2014.

4. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2014 was as follows:

GOVERNMENTAL

	<u>JUNE 30, 2013</u>	<u>Adjustments - Prior Period</u>	<u>Additions</u>	<u>Deletions</u>	<u>JUNE 30, 2014</u>
Capital Assets					
Land & Land Improvements	\$ 278,918	\$ -	\$ -	\$ -	\$ 278,918
Buildings & Improvements	466,259	-	-	-	466,259
Infrastructure	5,410,000	-	109,529	-	5,519,529
Equipment & Furniture	15,621	-	-	-	15,621
Construction in Progress	18,810	-	99,101	(109,529)	8,382
Total Capital Assets	<u>6,189,608</u>	-	208,630	(109,529)	<u>6,288,709</u>
Accumulated Depreciation					
Buildings & Improvements	23,568	-	9,325	-	32,893
Infrastructure	2,810,250	135,000	273,238	-	3,218,488
Equipment & Furniture	6,248	-	3,124	-	9,372
Total Accumulated Depreciation	<u>2,840,066</u>	\$ 135,000	\$ 285,687	\$ -	<u>3,260,753</u>
Total Net Capital Assets	<u>\$ 3,349,542</u>				<u>\$ 3,027,956</u>

See Note 11 for further information regarding the prior period adjustment.

Depreciation expense was charged to the functions as follows:

Governmental Activities:

General Government	\$ 12,449
Highways and Streets	<u>273,238</u>
	<u>\$ 285,687</u>

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

4. CAPITAL ASSETS (CONTINUED)

Capital asset activity for business-type activities for the year ended June 30, 2014 was as follows:

	<u>June 30, 2013</u>	<u>Adjustment - PPA</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
Capital Assets					
Land & Land Improvements	\$ 648,680	\$ 166,178	\$ 71,941	\$ (3,500)	\$ 883,299
Construction in Progress	-	-	67,424	(51,924)	15,500
Water/Sewer system	10,301,229	(166,178)	51,924	(29,327)	10,157,648
Building	380,075	-	-	(3,810)	376,265
Equipment	447,411	-	-	(87,662)	359,749
Master plan	50,697	-	-	-	50,697
Total Capital Assets	<u>11,828,092</u>	<u>-</u>	<u>191,289</u>	<u>(176,223)</u>	<u>11,843,158</u>
Accumulated Depreciation					
Water/Sewer System	5,597,261	12,563	423,352	(19,927)	6,013,249
Building	125,728	-	15,149	(1,122)	139,755
Equipment	373,269	-	20,735	(77,636)	316,368
Master Plan	14,196	-	2,535	-	16,731
Total Accumulated Depreciation	<u>6,110,454</u>	<u>12,563</u>	<u>461,771</u>	<u>(98,685)</u>	<u>6,486,103</u>
Total Net Capital Assets	<u><u>\$5,717,638</u></u>				<u><u>\$ 5,357,055</u></u>

See Note 11 for further information regarding the prior period adjustment.

Depreciation Expense was charged to the business-type funds as follows:

Water Fund	\$ 300,523
Sewer Fund	<u>161,248</u>
	<u><u>\$ 461,771</u></u>

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG TERM OBLIGATIONS

The table below presents current year changes in long-term obligations, and the current portions due for each issue.

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities:					
Bond Payable	\$ 495,000	\$ -	\$ 20,000	\$ 475,000	\$ 20,000
Total Governmental Activities	<u>\$ 495,000</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 475,000</u>	<u>\$ 20,000</u>
Business-Type Activities:					
Deschutes County Note (Water)	\$ 60,000	\$ -	\$ -	\$ 60,000	\$ -
Deschutes County Note (Sewer)	806,742	36,303	-	843,045	-
Revenue Bond 2003	2,225,964	-	-	2,225,964	46,759
Revenue Bond 2005	275,005	-	7,580	267,425	7,921
Total Business-Type Activities	<u>\$ 3,367,711</u>	<u>\$ 36,303</u>	<u>\$ 7,580</u>	<u>\$ 3,396,434</u>	<u>\$ 54,680</u>

Loans Payable

On March 15, 2011, a Certificate of Participation was issued for \$520,000 to purchase a new City Hall Building. Terms of this loan calls for repayment over a 20-year period with interest rates ranging from 3-5.7%.

Annual debt service requirements to maturity for this note are as follows:

	Total	Principal	Interest
2014-2015	\$ 43,608	\$ 20,000	\$ 23,608
2015-2016	43,008	20,000	23,008
2016-2017	42,270	20,000	22,270
2017-2018	41,395	20,000	21,395
2018-2019	40,520	20,000	20,520
2019-2024	215,625	130,000	85,625
2024-2029	211,898	165,000	46,898
2029-2031	84,559	80,000	4,559
Totals	<u>\$ 722,883</u>	<u>\$ 475,000</u>	<u>\$ 247,883</u>

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG TERM OBLIGATIONS (CONTINUED)

Revenue Bond, Series 2003

A Revenue Bond was issued in 2003 by the former La Pine Water District in the amount of \$2,826,500. Funds came from the U.S. Department of Agriculture, Rural Development Department. The bond is payable in annual installments of \$173,548, including interest at 4.5% per annum. The bond matures November 24, 2032. The bond requires the City to accumulate \$17,355 per year for ten years up to \$173,548 in a reserve account.

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2014-2015	\$ 173,548	\$ 46,759	\$ 126,789
2015-2016	173,548	75,484	98,064
2016-2017	173,548	78,881	94,667
2017-2018	173,548	82,430	91,118
2018-2019	173,548	86,140	87,408
2019-2024	867,740	492,451	375,289
2024-2029	867,740	613,683	254,057
2029-2033	853,116	750,136	102,980
Totals	<u>\$ 3,456,336</u>	<u>\$ 2,225,964</u>	<u>\$ 1,230,372</u>

During the prior year, an error made on the part of the lender resulted in a \$99,991 principal adjustment to decrease the balance of the loan. This adjustment was reported as a Special Item in the prior year in the basic financial statements. As a result of the error in the prior year, the 2013-2014 payment was applied entirely to interest expense by the USDA.

Revenue Bond, Series 2005

A Revenue Bond was issued in 2005 by the former La Pine Water District in the amount of \$325,000. Funds came from the U.S. Department of Agriculture, Rural Development Department. The bond is payable in annual installments of \$19,955 including interest at 4.5% per annum. The bond matures February 24, 2035. The bond requires the City to accumulate \$1,996 per year for ten years up to \$19,955 in a reserve account.

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2014-2015	\$ 19,955	\$ 7,921	\$ 12,034
2015-2016	19,955	8,277	11,678
2016-2017	19,955	8,650	11,305
2017-2018	19,955	9,039	10,916
2018-2019	19,955	9,446	10,509
2019-2024	99,775	54,001	45,774
2024-2029	99,775	67,295	32,480
2029-2034	99,776	83,861	15,915
2034-2035	19,787	18,935	852
Totals	<u>\$ 418,888</u>	<u>\$ 267,425</u>	<u>\$ 151,463</u>

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG TERM OBLIGATIONS (CONTINUED)

Deschutes County Notes Payable

The District has a non-interest bearing note payable to Deschutes County in the amount of \$60,000 for water system research that the county paid for on behalf of the District. There are no repayment terms on this note: the County does not expect to receive payment within the next year.

On March 15, 2004, the former La Pine Sanitary District entered into an Intergovernmental Agreement with Deschutes County. This agreement required the District to expand its sewer system in order to provide services to the new Crescent Creek subdivision. As part of the agreement, the County agreed to loan the District up to \$1,130,350 to fund its sewer system expansion. The loan accrues interest at a rate of 4.5% per annum. The City, who assumed the debt, repays the loan with System Development Charges (SDCs) that are collected in the Crescent Creek subdivision. The agreement requires that all SDCs collected from Crescent Creek be used for payment of the loan, until the loan is paid in full. No other loan payments are required. The loan terminates in fifty years, even if the loan is not paid in full at that time. The balance on the loan as of June 30, 2014, was \$843,045.

6. OPERATING LEASES

A lease agreement was entered into on October 22, 2011 for a copier. Terms of the lease call for payments over a 5-year period and payments at \$160 a month. At June 30, 2014, the future lease payments totaled \$4,480.

At June 30, 2014, the approximate minimum future payments under this lease are as follows:

2014-15	\$ 1,920
2015-16	1,920
2016-17	<u>640</u>
Total	<u>\$ 4,480</u>

7. DEFERRED COMPENSATION AND DEFINED CONTRIBUTION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees with at least three months of continuous employment, permits them to defer a portion of their salary until future years.

The City also offers its employees retirement benefits under Internal Revenue Code Section 401 (a). The Plan, available to all City employees after three months of continuous employment, provides for employer contributions up to 6% of employee wages. Total benefits paid for the year ended June 30, 2014 were approximately \$22,053.

The assets for both of these plans are held in trust for the exclusive benefit of the Plan participants and their beneficiaries. The plans are administered by AIG. The assets cannot be diverted for any other purpose. The City has little administrative involvement and does not perform the investing functions for these plans.

CITY OF LA PINE
DESCHUTES COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. OTHER POST EMPLOYMENT BENEFITS

Plan Description. The City does not have a formal post-employment benefits plan for any employee groups. However, the City is required by Oregon Revised Statutes 243.303 to provide retirees with group health insurance from the date of retirement to age 65 at the same rate provided to current employees. Although the City does not pay any portion of the retirees' healthcare insurance, a retired employee receives the implicit benefit of a lower healthcare premium which is subsidized among the premium cost of coverage for active employees. GASB Statement 45 is applicable to the City due only to this implicit rate subsidy. This "plan" is not a stand-alone plan, and therefore, does not issue its own financial statements.

Funding Policy. Although the City does not currently have any retirees participating in their health insurance plan, it will, when applicable, collect insurance premiums from all retirees each month and deposit them. The City will then pay healthcare insurance premiums for all retirees at the applicable rate for each family classification. Since the existing coverage is through a multiple-employer plan, given the City's small size in relation to the other employers, the City's rate is not affected by the age of its participants in the Plan. Therefore, there is no implicit benefit considered by management to be earned by current employees. As a result, the City does not report a liability for any potential accrued liability under GASB Statement 45.

9. RISK MANAGEMENT

There is exposure to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City is a member of City/County Insurance Services (CCIS), a public entity risk pool operating as a common risk management and insurance program for participating Oregon cities and counties. An annual premium is paid to CCIS for general insurance coverage and for workers compensation insurance coverage. The agreement with CCIS will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Commercial coverage is purchased for employee health and accident insurance and for errors and omissions insurance. Settled claims have not exceeded this commercial coverage for any of the past three years.

10. PROPERTY TAX LIMITATION

The State of Oregon has a constitutional limit on property taxes for schools and non-school government operations. The limitation provides that property taxes for non-school operations are limited to \$10.00 for each \$1,000 of property market value. Local government taxes in the City currently do not exceed the \$10.00 rate limit; however, this limitation may affect the availability of future tax revenues for the City. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt.

An additional limit reduces the amount of operating property tax revenues available. This reduction was accomplished by rolling property values for 1997-98 back to their 1995-96 values less 10% and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The Constitution also sets restrictive voter approval requirements for most tax and many fee increases and new bond issues.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

11. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$135,000 was made within the governmental activities for depreciation that was not properly recognized in prior years. Prior period adjustments of \$4,425 were made to the Cemetery Fund for headstone deposit liabilities which were not reported in prior years. Prior period adjustments of \$10,690 were also made in the Tourism Fund for hotel/motel taxes receivable in response to the City's change in policy to accrue these 'available revenues. The net effect of these adjustments was a reduction in net position of \$128,735.

A prior period adjustment was made within the Sewer Fund to reclassify \$166,178 of Land Improvement assets improperly recognized as Sewer System assets originally. Prior period adjustments of \$12,880 and \$7,304 were made to the Water Fund and the Sewer Fund, respectively, for supplies inventory balances which were not properly valued in prior years.

A prior period adjustment was made within the Water Fund for \$53,952 for accrued interest that was not properly recorded in the prior year. The net effect of the Sewer and Water Funds was a reduction in net position of \$33,768.

12. SUBSEQUENT EVENTS

On July 23, 2014, the City Council approved Ordinance No. 2014-06 approving the La Pine Urban Renewal Plan for the purpose of rehabilitating and redeveloping the City of La Pine.

The City completed and paid for \$64,000 in sidewalk, asphalt, and landscape construction and improvements during July through September 2014.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

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

	<u>GENERAL FUND</u>			VARIANCE POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES				
Property Taxes	\$ 220,445	\$ 220,445	\$ 234,617	\$ 14,172
Franchise Fees	190,000	190,000	213,513	23,513
Licenses and Permits	-	-	640	640
Land Use Grant (TAG)	1,000	1,000	1,000	-
Rental Income	15,612	15,612	27,116	11,504
Shared Revenue	43,900	43,900	41,361	(2,539)
Planning Fees	5,000	5,000	6,555	1,555
Interest	75	75	2,185	2,110
Miscellaneous	-	-	1,373	1,373
Total Revenues	<u>476,032</u>	<u>476,032</u>	<u>528,360</u>	<u>52,328</u>
EXPENDITURES				
Personnel Services	147,214	147,214 (1)	99,889	47,325
Materials and Services	310,610	285,610 (1)	232,769	52,841
Capital Outlay	-	25,000 (1)	-	25,000
Debt Service	44,208	44,208 (1)	44,208	-
Contingency	25,000	25,000 (1)	-	25,000
Total Expenditures	<u>527,032</u>	<u>527,032</u>	<u>376,866</u>	<u>150,166</u>
Excess of Revenues Over (Under) Expenditures	(51,000)	(51,000)	151,494	202,494
Other Financing Sources, (Uses)				
Transfers In	46,000	46,000	46,000	-
Transfers Out	(85,000)	(85,000) (1)	(85,000)	-
Total Other Financing Sources, (Uses)	<u>(39,000)</u>	<u>(39,000)</u>	<u>(39,000)</u>	<u>-</u>
Net Change in Fund Balance	(90,000)	(90,000)	112,494	202,494
Beginning Fund Balance	<u>315,000</u>	<u>315,000</u>	<u>436,075</u>	<u>121,075</u>
Ending Fund Balance	<u>\$ 225,000</u>	<u>\$ 225,000</u>	548,569	<u>\$ 323,569</u>
Reconciliation to Governmental Fund Balance as required by GASB #54:				
Cemetery Fund			14,312	
Total			<u>\$ 562,881</u>	

(1) Appropriation Level

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS
For the Year Ended June 30, 2014**

<u>STREET FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES				
ODOT Grant	\$ 70,000	\$ 70,000	\$ 35,000	\$ (35,000)
Gas Funds	85,000	85,000	95,423	10,423
Interest and Miscellaneous	5	5	7,725	7,720
Total Revenues	<u>155,005</u>	<u>155,005</u>	<u>138,148</u>	<u>(16,857)</u>
EXPENDITURES				
Personnel Services	14,538	14,538 (1)	10,194	4,344
Materials and Services	380,467	240,467 (1)	40,655	199,812
Capital Outlay	-	120,000 (1)	97,940	22,060
Contingency	-	20,000 (1)	-	20,000
Total Expenditures	<u>395,005</u>	<u>395,005</u>	<u>148,789</u>	<u>246,216</u>
Excess of Revenues Over (Under) Expenditures	(240,000)	(240,000)	(10,641)	229,359
Other Financing Sources, (Uses)				
Transfers In	80,000	80,000	80,000	-
Total Other Financing Sources, (Uses)	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>-</u>
Net Change in Fund Balance	(160,000)	(160,000)	69,359	229,359
Beginning Fund Balance	<u>290,000</u>	<u>290,000</u>	<u>297,630</u>	<u>7,630</u>
Ending Fund Balance	<u>\$ 130,000</u>	<u>\$ 130,000</u>	<u>\$ 366,989</u>	<u>\$ 236,989</u>

(1) Appropriation Level

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS
For the Year Ended June 30, 2014**

<u>TOURISM FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES				
TRT Receipts	\$ 75,000	\$ 75,000	\$ 101,215	\$ 26,215
Total Revenues	<u>75,000</u>	<u>75,000</u>	<u>101,215</u>	<u>26,215</u>
EXPENDITURES				
Materials and Services	<u>67,000</u>	<u>67,000</u> (1)	<u>56,835</u>	<u>10,165</u>
Total Expenditures	<u>67,000</u>	<u>67,000</u>	<u>56,835</u>	<u>10,165</u>
Excess of Revenues Over (Under) Expenditures	8,000	8,000	44,380	36,380
Other Financing Sources, (Uses)				
Transfers In	5,000	5,000	5,000	-
Transfers Out	<u>(22,000)</u>	<u>(22,000)</u> (1)	<u>(22,000)</u>	<u>-</u>
Total Other Financing Sources, (Uses)	<u>(17,000)</u>	<u>(17,000)</u>	<u>(17,000)</u>	<u>-</u>
Net Change in Fund Balance	(9,000)	(9,000)	27,380	36,380
Beginning Fund Balance	16,000	16,000	11,462	(4,538)
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>10,690</u>	<u>10,690</u>
Ending Fund Balance	<u>\$ 7,000</u>	<u>\$ 7,000</u>	<u>\$ 49,532</u>	<u>\$ 42,532</u>

(1) Appropriation Level

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS
For the Year Ended June 30, 2014**

<u>SDC FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES				
SDC Income - Water	\$ -	\$ -	\$ 9,861	\$ 9,861
SDC Income - Sewer	-	-	38,950	38,950
Total Revenues	-	-	48,811	48,811
Other Financing Sources, (Uses)				
Transfers In	-	-	1,557,345	1,557,345
Total Other Financing Sources, (Uses)	-	-	1,557,345	1,557,345
Net Change in Fund Balance	-	-	1,606,156	1,606,156
Beginning Fund Balance	-	-	-	-
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,606,156</u>	<u>\$ 1,606,156</u>

(1) Appropriation Level

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON
SUPPLEMENTARY INFORMATION**

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**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS
For the Year Ended June 30, 2014**

<u>CEMETERY FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES				
Cemetery Plot Sales	\$ 250	\$ 250	\$ 1,140	\$ 890
Total Revenues	<u>250</u>	<u>250</u>	<u>1,140</u>	<u>890</u>
EXPENDITURES				
Materials and Services	10,000	10,000 (1)	30	9,970
Contingency	<u>2,547</u>	<u>2,547 (1)</u>	<u>-</u>	<u>2,547</u>
Total Expenditures	<u>12,547</u>	<u>12,547</u>	<u>30</u>	<u>12,517</u>
Net Change in Fund Balance	(12,297)	(12,297)	1,110	13,407
Beginning Fund Balance	17,297	17,297	17,627	330
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>(4,425)</u>	<u>(4,425)</u>
Ending Fund Balance	<u><u>\$ 5,000</u></u>	<u><u>\$ 5,000</u></u>	<u><u>\$ 14,312</u></u>	<u><u>\$ 9,312</u></u>

Note: This fund's activities have been combined with General Fund activities in accordance with GASB #54 due to its financing resources being derived primarily from General Fund transfers.

(1) Appropriation Level

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS
For the Year Ended June 30, 2014**

<u>WATER FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES				
Water Service	\$ 527,000	\$ 527,000	\$ 563,562	\$ 36,562
Hookup Fees - New Service	-	-	2,695	2,695
Backflow Testing	-	-	15,714	15,714
SDC Income	2,500	2,500	-	(2,500)
Interest	2,000	2,000	-	(2,000)
Miscellaneous	-	-	8,307	8,307
Total Revenues	<u>531,500</u>	<u>531,500</u>	<u>590,278</u>	<u>58,778</u>
EXPENDITURES				
Personnel Services	164,990	144,990 (1)	134,015	10,975
Materials and Services	152,000	152,000 (1)	144,282	7,718
Capital Outlay	5,000	45,000 (1)	51,924	(6,924)
Debt Service	193,503	193,503 (1)	193,503	-
Contingency	200,000	180,000 (1)	-	180,000
Total Expenditures	<u>715,493</u>	<u>715,493</u>	<u>523,724</u>	<u>191,769</u>
Excess of Revenues Over (Under) Expenditures	(183,993)	(183,993)	66,554	250,547
Other Financing Sources, (Uses)				
Transfers Out	(1,366,007)	(1,366,007) (1)	(834,056)	531,951
Total Other Financing Sources, (Uses)	<u>(1,366,007)</u>	<u>(1,366,007)</u>	<u>(834,056)</u>	<u>531,951</u>
Net Change in Fund Balance	(1,550,000)	(1,550,000)	(767,502)	782,498
Beginning Fund Balance	1,650,000	1,650,000	1,659,887	9,887
Prior Period Adjustment	-	-	12,880	12,880
Ending Fund Balance	<u>\$ 100,000</u>	<u>\$ 100,000</u>	905,265	<u>\$ 805,265</u>
Reconciliation to Statement of Net Position				
Capital Assets			2,985,460	
Compensated Absences			(3,364)	
Accrued Interest			(60,517)	
Long-term Debt			(2,553,389)	
Debt Reserve Fund - Water ending fund balance			<u>193,503</u>	
GAAP Net Position			<u>\$ 1,466,958</u>	

(1) Appropriation Level

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS
For the Year Ended June 30, 2014**

	<u>SEWER FUND</u>			VARIANCE POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES				
Sewer Service	\$ 450,000	\$ 450,000	\$ 408,711	\$ (41,289)
Septic Service Received	45,000	45,000	75,999	30,999
Grease Trap Pumping	-	-	1,625	1,625
SDC Income	10,000	10,000	-	(10,000)
Tower Rent	10,000	10,000	-	(10,000)
Interest	2,000	2,000	1,949	(51)
Miscellaneous	5,000	5,000	8,121	3,121
Total Revenues	<u>522,000</u>	<u>522,000</u>	<u>496,405</u>	<u>(25,595)</u>
EXPENDITURES				
Personnel Services	164,990	164,990 (1)	131,767	33,223
Materials and Services	269,000	174,000 (1)	153,861	20,139
Capital Outlay	5,000	100,000 (1)	87,441	12,559
Contingency	200,000	200,000 (1)	-	200,000
Total Expenditures	<u>638,990</u>	<u>638,990</u>	<u>373,069</u>	<u>265,921</u>
Excess of Revenues Over (Under) Expenditures	<u>(116,990)</u>	<u>(116,990)</u>	<u>123,336</u>	<u>240,326</u>
Other Financing Sources, (Uses)				
Transfers Out	<u>(1,933,010)</u>	<u>(1,933,010) (1)</u>	<u>(940,792)</u>	<u>992,218</u>
Total Other Financing Sources, (Uses)	<u>(1,933,010)</u>	<u>(1,933,010)</u>	<u>(940,792)</u>	<u>992,218</u>
Net Change in Fund Balance	(2,050,000)	(2,050,000)	(817,456)	1,232,544
Beginning Fund Balance	2,150,000	2,150,000	1,964,648	(185,352)
Prior Period Adjustment	-	-	7,304	7,304
Ending Fund Balance	<u>\$ 100,000</u>	<u>\$ 100,000</u>	1,154,496	<u>\$ 1,054,496</u>
Reconciliation to Statement of Net Position				
Capital Assets			2,371,595	
Compensated Absences			(3,364)	
Notes Payable			(843,045)	
GAAP Net Position			<u>\$ 2,679,682</u>	

(1) Appropriation Level

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
 ACTUAL AND BUDGET - BUDGETARY BASIS
 For the Year Ended June 30, 2014**

DEBT RESERVE FUND - WATER

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
Other Financing Sources, (Uses)				
Transfers In	\$ -	\$ -	\$ 193,503	\$ 193,503
Total Other Financing Sources, (Uses)	-	-	193,503	193,503
Net Change in Fund Balance	-	-	193,503	193,503
Beginning Fund Balance	-	-	-	-
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 193,503</u>	<u>\$ 193,503</u>

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED
For The Year Ended June 30, 2014**

<u>GENERAL FUND</u>						
<u>TAX YEAR</u>	<u>ORIGINAL LEVY OR BALANCE UNCOLLECTED 7/01/13</u>	<u>DEDUCT DISCOUNTS</u>	<u>ADJUSTMENTS TO ROLLS</u>	<u>ADD INTEREST</u>	<u>CASH COLLECTIONS BY COUNTY TREASURER</u>	<u>BALANCE UNCOLLECTED OR UNSEGREGATED 6/30/14</u>
CURRENT:						
2013-14	\$ 241,294	\$ 5,972	\$ 28	\$ 128	\$ 229,889	\$ 5,589
PRIOR YEARS:						
2012-13	5,487	-	(112)	264	3,352	2,287
2011-12	2,648	-	(263)	272	1,379	1,278
2010-11	1,624	-	(342)	360	1,078	564
2009-10	574	-	(188)	161	407	140
2008-09	146	-	(57)	27	40	76
2007-08 & Prior	14	-	13	32	36	23
Total Prior	10,493	-	(949)	1,116	6,292	4,368
Total All Years	<u>\$ 251,787</u>	<u>\$ 5,972</u>	<u>\$ (921)</u>	<u>\$ 1,244</u>	<u>\$ 236,181</u>	<u>\$ 9,957</u>

RECONCILIATION OF REVENUE:

	<u>Revenue</u>
Cash Collections by County Treasurer Above	\$ 236,181
Accrual of Receivables:	
June 30, 2013	(2,744)
June 30, 2014	1,424
Taxes in lieu	<u>(244)</u>
Total Fund Collections per Financial Statements	<u>\$ 234,617</u>

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED
For The Year Ended June 30, 2014**

SEWER FUND

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED 7/01/13	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED 6/30/14
CURRENT:						
2013-14	\$ 5,450	\$ 135	\$ 1	\$ 3	\$ 5,191	\$ 128
PRIOR YEARS:						
2012-13	168	-	(9)	8	100	67
2011-12	-	-	-	-	-	-
2010-11	-	-	-	-	-	-
2009-10	-	-	-	-	-	-
2008-09	-	-	-	-	-	-
2007-08 & Prior	-	-	-	-	-	-
Total Prior	168	-	(9)	8	100	67
Total All Years	<u>\$ 5,618</u>	<u>\$ 135</u>	<u>\$ (8)</u>	<u>\$ 11</u>	<u>\$ 5,291</u>	<u>\$ 195</u>

RECONCILIATION OF REVENUE:

	<u>Revenue</u>
Cash Collections by County Treasurer Above	\$ 5,291
Taxes in lieu	<u>5</u>
Total Fund Collections per Financial Statements	<u>\$ 5,296</u>

Note: Property tax revenue included in Sewer operations revenue.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

Independent Auditors' Report Required by Oregon State Regulations

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PAULY, ROGERS, AND CO., P.C.
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January 15, 2015

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the City of La Pine, Oregon as of and for the year ended June 30, 2014, and have issued our report thereon dated January 15, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards related to internal control.

Compliance

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

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

- **Deposit of public funds with financial institutions (ORS Chapter 295)**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **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).**
- **Programs funded from outside sources.**

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

1. Expenditures exceeded appropriations as noted on page 20.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal controls over financial reporting.

We noted matters involving the internal control structure and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, which are noted in our management letter dated January 15, 2015.

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

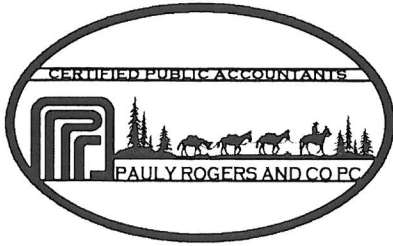


ROY R. ROGERS, CPA
PAULY, ROGERS AND CO., P.C.

**CITY OF LA PINE
DESCHUTES COUNTY, OREGON**

**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government
Auditing Standards* as Required by the United States Department of Agriculture**

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January 15, 2015

To the Honorable Mayor and
Members of the City Council
City of La Pine, Oregon

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of La Pine as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated January 15, 2015.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

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