CITY OF UNION, OREGON

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2015

LEWIS, POE, MOELLER,
GUNDERSON & ROBERTS, LLC
Certified Public Accountants

CITY OF UNION, OREGON
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INTRODUCTORY SECTION

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City Council

Name	Position	Term Expires
Ken McCormack	Mayor	2017
Doug Osburn	Council President	2017
Susan Briggs	Council Member	2015
Open	Council Member	2017
Matthew Later	Council Member	2015
Coy Wilde	Council Member	2017
Bryan Russell	Council Member	2017

Administrative

Sandra Patterson

City Attorney

Doug Hojem
Corey, Byler & Rew, L.L.P
222 S.E. Dorion Avenue
Pendleton, Oregon 97801

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC
CERTIFIED PUBLIC ACCOUNTANTS
1121 ADAMS AVENUE • P.O. BOX 1024
LA GRANDE, OREGON 97850-1024

Independent Auditor's Report

To the City Council
City of Union, Oregon

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash-basis of accounting described in Note 1. This includes determining that the modified cash-basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinions on Capital Assets

Management does not have sufficiently detailed capital asset records for assets acquired prior to 2006 in order to provide the necessary assurance that capital assets have been properly recorded and depreciated under the modified cash basis of accounting.

Qualified Opinions

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Union, Oregon, as of June 30, 2015, and the respective changes in modified cash-basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Report on Supplementary and Other Information

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

The budgetary comparison information presented on pages 24-30 and 36-40, combining and individual nonmajor fund financial statements presented on pages 31-32, and other financial schedules presented on page 42, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The budgetary comparison information, combining and individual nonmajor fund financial statements, and other financial schedules 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 and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information, combining and individual nonmajor fund financial statements, and other financial schedules information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

The introductory section presented on page i has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on such information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2015 on our consideration of the City of Union, Oregon's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Union, Oregon's internal control over financial reporting and on compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash-basis of accounting, which is the basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards of Audits of Oregon Municipal Corporations, we have issued our report dated September 16, 2015, on our consideration of City of Union's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC
Certified Public Accountants

By Yvonne K. Roberts, CPA
Yvonne K. Roberts, CPA
Owner/Member

La Grande, Oregon
September 16, 2015

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BASIC FINANCIAL STATEMENTS

CITY OF UNION, OREGON
Statement of Net Position
Modified Cash Basis
June 30, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	$ 753,760	$ 883,017	$ 1,636,777
Restricted cash	-	224,671	224,671
Notes receivable	343	-	343
Capital assets:			
Land & Streets	1,265,821	-	1,265,821
Sewer System	-	6,659,742	6,659,742
Water System	-	1,815,896	1,815,896
Well Water System	-	1,302,567	1,302,567
Sewer Department Equipment	-	237,244	237,244
Water Department Equipment	-	252,682	252,682
Buildings & Equipment	1,517,622	-	1,517,622
Less: accumulated depreciation	(1,974,189)	(5,503,136)	(7,477,325)
Total capital assets, net of accumulated depreciation	809,254	4,764,995	5,574,249
Total assets	1,563,357	5,872,683	7,436,040
Deferred outflows of resources	-	-	-
Liabilities			
Current liabilities:			
Current bonds and notes payable	-	55,693	55,693
Accrued payroll	1,896	3,459	5,355
Renter security deposits	2,955	-	2,955
Long-term liabilties:			
Revenue Bond payable-Long Term	-	2,118,086	2,118,086
General Obligation Bond Payable-Long Term	-	29,220	29,220
Total liabilities	4,851	2,206,458	2,211,309
Deferred inflows of resources	-	-	-
Net Position			
Net investment in capital assets	804,403	2,558,537	3,371,250
Restricted for:			
Debt service	-	156,237	156,237
Water/Sewer Capital Improvements	-	68,434	68,434
Streets	237,185	-	237,185
Bike and Pedestrian Paths	11,721	-	11,721
Unrestricted	505,197	883,017	1,379,904
Total net position	$ 1,558,506	$ 3,666,225	$ 5,224,731

(The accompanying notes are an integral part of these financial statements)

CITY OF UNION, OREGON
Statement of Activities
Modified Cash Basis
For the Fiscal Year Ended June 30, 2015

		Program Revenues			Net Revenue (Expense) and Changes in Net Position		
Activities	**Expenses**	**Charges for Services**	**Operating Grants & Contributions**	**Capital Grants & Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Primary government:							
Governmental activities:							
General government	$ 78,301	$ 4,125	$ -	$ -	$ (74,176)	$ -	$ (74,176)
Public safety	241,557	203,264	-	-	(38,293)		(38,293)
Culture and recreation	77,703	-	1,219	-	(76,484)		(76,484)
Municipal court	1,593	2,153	-	-	560		560
Planning department	876	-	-	-	(876)		(876)
Transportation and streets	137,773	2,206	113,246	-	(22,321)		(22,321)
Solid waste transfer site	1,096	-	-	-	(1,096)		(1,096)
Rentals	30,890	30,199	-	-	(691)		(691)
Depreciation - unallocated	29,657	-	-	-	(29,657)		(29,657)
Total governmental activities	599,446	241,947	114,465	-	(243,034)		(243,034)
Business-type activities:							
Water/sewer utility	1,061,807	944,780	-	-	-	(117,027)	(117,027)
Total primary government	$ 1,661,253	$ 1,186,727	$ 114,465	$ -	(243,034)	(117,027)	(360,061)
	General Revenues						
	Property taxes				169,211	14,098	183,309
	Franchise fees				94,265	-	94,265
	Grants not restricted				55,400	20,000	75,400
	Interest on investments				474	720	1,194
	Other income				14,612	11,005	25,617
	Transfers				(1,000)	1,000	-
	Total general revenues and transfers				332,962	46,823	379,785
	Change in net position				89,928	(70,204)	19,724
	Net position - beginning				1,468,578	3,736,429	5,205,007
	Net position - ending				$ 1,558,506	$ 3,666,225	$ 5,224,731

(The accompanying notes are an integral part of these financial statements)

CITY OF UNION, OREGON
Balance Sheet
Modified Cash Basis
Governmental Funds
June 30, 2015

	General Fund	State Tax Street Fund	Emergency Services Fund	Aggregate Remaining Funds: Ranger Station Fund	Aggregate Remaining Funds: Downtown Revolving Loan Fund	Total Governmental Funds
Assets and Deferred Outflows of Resources						
Assets:						
Cash	$ 184,814	$ 237,509	$ 299,647	$ 17,730	$ 14,060	$ 753,760
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	$ 184,814	$ 237,509	$ 299,647	$ 17,730	$ 14,060	$ 753,760
Liabilities, Deferred Inflows of Resources, and Fund Balances						
Liabilities:						
Renter security deposits	$ -	$ -	$ -	$ 2,955	$ -	$ 2,955
Accrued payroll	1,223	324	110	239	-	1,896
Total liabilities	1,223	324	110	3,194	-	4,851
Deferred inflows of resources	-	-	-	-	-	-
Fund Balances:						
Restricted	-	237,185	-	-	-	237,185
Committed	-	-	299,537	14,536	14,060	328,133
Unassigned	183,591	-	-	-	-	183,591
Total fund balances	183,591	237,185	299,537	14,536	14,060	748,909
Total liabilities, deferred inflows of resources, and fund balances	$ 184,814	$ 237,509	$ 299,647	$ 17,730	$ 14,060	$ 753,760

(The accompanying notes are an integral part of these financial statements)

CITY OF UNION, OREGON
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
Modified Cash Basis
June 30, 2015

Total fund balances - governmental funds		$ 748,909
Amounts reported for governmental *activities* in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.		
Land & Streets	1,265,821	
Buildings & Equipment	1,517,622	
Less: accumulated depreciation	(1,974,189)	809,254
Notes receivable are not collected in the current period and therefore are not reported in the funds.		
Notes receivable		343
Total net position - governmental activities		$ 1,558,506

(The accompanying notes are an integral part of these financial statements)

CITY OF UNION, OREGON
Statement of Revenues, Expenditures and Changes in Fund Balance
Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General Fund	State Tax Street Fund	Emergency Services Fund	Aggregate Remaining Funds: Ranger Station Fund	Aggregate Remaining Funds: Downtown Revolving Loan Fund	Total Governmental Funds
Revenues						
Property taxes	$ 169,205	$ -	$ 6	$ -	$ -	$ 169,211
Licenses and fees	4,125	-	128,769	-	-	132,894
Intergovernmental	51,499	113,246	3,901	-	-	168,646
Miscellaneous						
Franchise fees	94,265	-	-	-	-	94,265
Charges for services	-	2,206	74,824	-	-	77,030
Fines and forfeitures	2,153	-	-	-	-	2,153
Rental income	-	-	-	30,199	-	30,199
Grants	1,219	-	-	-	-	1,219
Loan repayment income	-	-	-	-	1,200	1,200
Interest on investments	142	169	155	-	8	474
Other income	4,193	5,134	4,885	400	-	14,612
Total revenues	326,801	120,755	212,540	30,599	1,208	691,903
Expenditures						
Current:						
General government	76,603	-	-	-	400	77,003
Public safety	93,499	-	131,722	-	-	225,221
Culture and recreation	76,367	-	-	-	-	76,367
Municipal court	1,593	-	-	-	-	1,593
Planning department	876	-	-	-	-	876
Solid waste transfer site	1,096	-	-	-	-	1,096
Transportation and streets	-	82,190	-	-	-	82,190
Rental expenses	-	-	-	29,841	-	29,841
Capital outlay	-	146,460	-	-	-	146,460
Total expenditures	250,034	228,650	131,722	29,841	400	640,647
Excess of revenues over (under) expenditures	76,767	(107,895)	80,818	758	808	51,256
Other Financing Sources (Uses)						
Transfers in	-	75,000	-	-	-	75,000
Transfers out	(76,000)	-	-	-	-	(76,000)
Total other financing sources (uses)	(76,000)	75,000	-	-	-	(1,000)
Net change in fund balance	767	(32,895)	80,818	758	808	50,256
Beginning fund balance	182,824	270,080	218,719	13,778	13,252	698,653
Ending fund balance	$ 183,591	$ 237,185	$ 299,537	$ 14,536	$ 14,060	$ 748,909

(The accompanying notes are an integral part of these financial statements)

CITY OF UNION, OREGON
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2015

Total net change in fund balances - governmental funds	$	50,256
Amounts reported for governmental *activities* in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized expenditures ($146,371) exceeds deprecation expense.		39,672
Change in net position - governmental activities	$	89,928

(The accompanying notes are an integral part of these financial statements)

CITY OF UNION, OREGON
Statement of Net Position
Modified Cash Basis
Proprietary Funds
June 30, 2015

	Water/Sewer Utility Fund
Assets	
Current assets:	
Cash	$ 883,017
Restricted cash	224,671
Total cash and investments	1,107,688
Noncurrent assets:	
Capital assets:	
Sewer System	6,645,219
Water System	1,815,896
Well Water System	1,302,567
Sewer Department Equipment	251,767
Water Department Equipment	252,682
Less: Accumulated Depreciation	(5,503,136)
Total noncurrent assets	4,764,995
Total assets	5,872,683
Deferred Outflows of Resources	-
Liabilities	
Current liabilities:	
Current bonds and notes payable	55,693
Accrued payroll	3,459
Noncurrent liabilities:	
Revenue Bond payable-Long Term	2,118,086
General Obligation Bond Payable-Long Term	29,220
Total liabilities	2,206,458
Deferred Inflows of Resources	-
Net Position	
Net investment in capital assets	2,558,537
Restricted for debt service	156,237
Restricted for capital improvements	68,434
Unrestricted	883,017
Total net position	$ 3,666,225

(The accompanying notes are an integral part of these financial statements)

CITY OF UNION, OREGON
Statement of Revenues, Expenses and Changes in Fund Net Position
Modified Cash Basis
Proprietary Funds
For the Fiscal Year Ended June 30, 2015

	Water/Sewer Utility Fund
Operating Revenues	
Charges for services	$ 925,702
Operating Expenses	
Water	294,695
Sewer	369,784
Depreciation	276,592
Total operating expenses	941,071
Operating income (loss)	(15,369)
Nonoperating Revenues (Expenses)	
Interest on investments	720
Property taxes	14,098
Grants	20,000
Other income	11,005
Interest expense	(101,658)
Total nonoperating revenues (expenses)	(55,835)
Income (loss) before transfers	(71,204)
Transfers in	15,000
Transfers out	(14,000)
Total transfers	1,000
Change in net position	(70,204)
Total net position - beginning	3,736,429
Total net position - ending	$ 3,666,225

(The accompanying notes are an integral part of these financial statements)

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NOTES TO BASIC FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity

The accompanying financial statements present the activities of the City of Union, Oregon. The City is an Oregon Municipal Corporation which operates under a charter by a council-mayor form of government. The City is legally and financially independent of other state and local government units, has the power to levy taxes, is responsible for its debts and is entitled to any surpluses. The City Administrator oversees the day to day operation of the City and serves at the direction of the City Council. The Council is composed of six elected members and an elected mayor. In addition to other routine services, the City maintains fire protection and city streets, water and sewer utility systems, city park and library.

As discussed in Note 1 - Basis of Accounting, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

Government-Wide Statements
The statement of net position and the statement of activities display information about the City as a whole within the limits of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

Fund Financial Statements
Financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position, fund balance, revenues, and expenditures or expenses. Funds are organized into two major categories: governmental and proprietary. The City presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of the category or type.

b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

c. The government believes the fund activity is of special interest to financial statement users and has elected to show the fund as a major fund.

The major funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The general fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of the specific revenue sources that are either legally restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following major special revenue funds:

State Street Tax Fund - This fund accounts revenues from state gas tax apportionments, miscellaneous revenues and for related expenditures for street maintenance.

Emergency Services Fund - This fund accounts for revenues from EMS user fees, ambulance fees, miscellaneous revenues, and for related expenditures for emergency medical and fire protection services.

Ranger Station Fund - This fund accounts for the rental operations and maintenance of historic forest ranges station located within the City.

Proprietary Funds:

Enterprise Funds - Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges. The measurement of financial activity focuses on net income measurement similar to the private sector. The City reports the following major enterprise funds:

Water/Sewer Utility Fund - This fund accounts for the activities of the City in providing water, and wastewater utility services to the public.

Measurement Focus and Basis of Accounting

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

Measurement Focus
In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined below.

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

a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported.

Basis of Accounting
The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

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

Financial Position

Capital Assets

The City's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation, when appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements - In the government-wide financial statements, capital assets arising from cash transactions or events are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2003. Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2003 are recorded at cost.

Depreciation of all exhaustible capital assets arising from cash transactions or events is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of $5,000 is used for assets that have an initial useful life extending beyond a single reporting period. The range of estimated useful lives by type of asset is as follows:

Asset Class	Estimated Useful Lives
Buildings	30-50 years
Improvements other than buildings	10-25 years
Machinery, furniture and equipment	3-20 years
Utility property and improvements	10-60 years
Infrastructure	25-60 years

Fund Financial Statements - In the fund financial statements, capital assets arising from cash transactions or events acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

Long-Term Debt:

All long-term bonds, notes and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

Net Position/Fund Balance Classifications

Government-Wide Statements - Equity is classified as net position and displayed in three components:

a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

b. Restricted net position - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net position - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

Fund Financial Statements - In the governmental funds the difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. The constraints are defined as follows:

Nonspendable - Resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Restricted - Constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - Reported when the Board passes an ordinance that places specific constraints on how the resources may be used. The Board can modify or rescind the ordinance at any time through passage of an additional ordinance.

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

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

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance, and lastly unassigned fund balance.

The City has no formal minimum fund balance policies or any formal stabilization arrangements in place.

Fund balances by classification for the year ended June 30, 2015 were as follows:

	General Fund	State Tax Street Fund	Emergency Services Fund	Other Governmental Funds	Total Governmental Funds
Fund balances:					
Restricted:					
Streets	$ -	$ 237,185	$ -	$ -	$ 237,185
Committed:					
Emergency Services	-	-	299,537	-	299,537
Ranger Station	-	-	-	14,536	14,536
Downtown RLF	-	-	-	14,060	14,060
Unassigned	183,591	-	-	-	183,591
Total fund balances	$ 183,591	$ 237,185	$ 299,537	$ 28,596	$ 748,909

Revenues, Expenditures and Expenses

Program Revenues - In the Statement of Activities, modified cash basis receipts that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating Revenue and Expenses - Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements - Interfund activity resulting from cash transactions or events, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1) Interfund Loans - Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2) Interfund Services - Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3) Interfund Reimbursements - Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/ expenses in the respective funds.
4) Interfund Transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-Wide Financial Statements - Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1) Internal Balances - Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2) Internal Activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers in the Statement of Activities. The effects of inter-fund services between funds, if any, are not eliminated in the Statement of Activities.

Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property on July 1, when they are levied, and until they are paid. Taxes are due in one-third increments, on November 15, February 15, and May 15. Unpaid taxes are considered delinquent after November 15.

Property tax revenues are recognized when they are collected.

Compensated Absences

The City has policies in place that allow employees to accrue vacation and sick time leave. In accordance with the modified cash basis, the City recognizes the expenditure when the accrued time is taken.

Note 2 - Compliance and Accountability:

Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38 *Certain Financial Statement Note Disclosures*, violations of finance-related legal and contractual provisions, if any, are reported below, along with the actions taken to address such violations.

None Reported

Note 3 - Deposits:

Deposits are comprised of the following at June 30, 2015:

	Carrying Value	Fair Value
Deposits with financial institutions	$ 1,861,448	$ 1,861,448

Deposits are reflected in the government-wide Statement of Net Position as follows:

Cash	$ 1,636,777
Restricted cash	224,671
Total	1,861,448

The City maintains a cash management pool for its cash and cash equivalents in which each fund participates. Interest earnings are distributed monthly based on month end balances.

Deposits

Deposits with financial institutions are comprised of bank demand deposits and certificates of deposit. The total bank balance per the bank statements was $1,879,332 at June 30, 2015. The difference is due to transactions in process. Deposits are secured by federal deposit insurance to legal limits. The remaining amount is secured by collateral in accordance with Oregon Revised Statutes.

Custodial Credit Risk - Deposits

Custodial credit risk on deposits is the risk that in the event of a bank failure, the City's deposits may not be returned. In order to minimize this risk, state statutes require banks holding public funds to become members of the Public Funds Collateralization Program (PFCP), a multiple financial institution collateral pool created by the Office of the State Treasurer. To qualify, participating banks must pledge collateral against any public fund deposits in excess of deposit insurance. The amount of collateral is set by the PFCP between 10% and 110% of each bank's public fund deposits based on their net worth and level of capitalization. Although the PFCP creates a shared liability structure for participating bank depositories, it does not guarantee that all funds are 100% protected.

All accounts are insured by FDIC up to $250,000.

Investments

The City is working to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities. The City council makes investment decisions and then delegates investment responsibilities to the City Recorder/Administrator, who is primarily responsible for implementing the investment policy.

Credit Risk - Investments

State statutes authorize the City to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial papers and the State Treasurer's investment pool, among others. The City has no formal investment policy that further restricts its investment choices.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The City does not have a policy that limits the amount of investments that can be held by counterparties.

Concentration Risk

The City does not have a formal policy that places a limit on the amount that they may be invested in any one investment.

Interest Rate Risk

The City does not have a formal investment policy that explicitly limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

Note 4 - Restricted Assets

Article IX section 3a of the Oregon constitution restricts motor vehicle fuel and use taxes to be used for the maintenance, improvement, repair and operation of roads and streets. Oregon Revised Statutes (ORS 366.514) requires one percent of motor vehicle tax revenues to be used for only bike and pedestrian paths. Restricted assets consist of the unused portion of the restricted gas tax revenues.

United States Department of Agriculture Rural Development (RD) requires a restricted reserve for each loan/bond outstanding. The reserve is to be used only in the event the City has insufficient resources to meet its payment obligation or in the event of a major catastrophe involving the debt finances project. The City is in compliance with reserve requirements. The reserve requirements for the three outstanding RD loans used for sewer system construction are:

Loan Number	Annual Reserve Requirement	Maximum Reserve Requirement	Current Reserve Balance
92-02	$ 480	$ 6,000	$ 6,000
92-03	735	7,350	7,350
92-05	14,289	142,887	142,887
Totals	$ 15,504	$ 156,237	$ 156,237

The City has implemented a policy to collect System Development Charges (SDC's) from developers of property within the City of Union. These charges are levied when new development is connected to the City's water and sewer systems and are in excess of the cost of the actual connection. The collection of SDC's is authorized by ORS 223.297 to 233.314 and these statutes restrict the revenue collected from DC's to be used for only capital improvements which enhance system capacities. The amount restricted as of June 30, 2015 is $68,434.

Note 5 - Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance at July 1, 2014	Increases	Decreases	Balance at June 30, 2015
Governmental Activities:				
Capital assets being depreciated:				
Land and streets	$ 1,119,450	$ 146,371	$ -	$ 1,265,821
Buildings and equipment	1,517,622	-	-	1,517,622
Total capital assets being depreciated	2,637,072	146,371	-	2,783,443
Less: accumulated depreciation:				
Streets	(683,437)	(54,453)	-	(737,890)
Buildings and equipment	(1,184,053)	(52,246)	-	(1,236,299)
Total accumulated depreciation	(1,867,490)	(106,699)	-	(1,974,189)
Governmental Activities - net capital assets	$ 769,582	$ 39,672	$ -	$ 809,254

	Balance at July 1, 2014	Increases	Decreases	Balance at June 30, 2015
Business-Type Activities:				
Capital assets being depreciated:				
Sewer system	$ 6,645,219	$ -	$ -	$ 6,645,219
Water system	1,803,802	12,094	-	1,815,896
Wells	1,302,567	-	-	1,302,567
Sewer department equipment	237,244	14,523	-	251,767
Water department equipment	221,718	30,964	-	252,682
Total capital assets being depreciated	10,210,550	57,581	-	10,268,131
Less: accumulated depreciation:				
Sewer system	(3,110,828)	(171,567)	-	(3,282,395)
Water system	(828,537)	(57,396)	-	(885,933)
Wells	(974,555)	(32,564)	-	(1,007,119)
Sewer department equipment	(155,472)	(6,139)	-	(161,611)
Water department equipment	(157,152)	(8,926)	-	(166,078)
Total accumulated depreciation	(5,226,544)	(276,592)	-	(5,503,136)
Business-Type Activities - net capital assets	$ 4,984,006	$ (219,011)	$ -	$ 4,764,995

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	$ 2,498
Public safety	16,665
Culture and recreation	1,336
Transportation and streets	55,494
Rentals	1,049
Unallocated *	29,657
Total	$ 106,699

Business-Type Activities:	
Water utility	$ 98,886
Sewer utility	177,706
Total	$ 276,592

*Due to the incompleteness of the City's fixed asset records we are unable to allocate a portion of depreciation expense by function for the governmental activities.

Note 6 - Long-Term Obligations:

Long-Term Obligation Activity

Governmental Activities

As of June 30, 2015, the City had no long term debt arising from cash transactions, payable from governmental fund resources.

The City entered into a capital lease obligation to Oshkosh Capital of Columbus, Ohio for the lease/purchase of an fire truck. The lease began on May 27, 2013 and resulted in a purchase price of $224,798 and financed amount of $217,304. Lease payments in the amount of $26,353 are required until maturity of May 27, 2023. At the end of the lease term title to the fire truck will be vested in the City. This lease did not arise from a cash transaction and therefore on the modified cash basis of accounting a liability was not accrued in the Statement of Net Position. The lease payment was expensed when it was paid. Coincidentally on the modified cash basis of accounting the leased portion of the fire truck is not included in Capital Assets.

Business-Type Activities

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2015, are as follows:

	Total	Current Portion	Long-Term Portion
General Obligation Bond			
General Obligation Bond Payable to United Stated Department of Agriculture Rural Development (formerly Farmers Home Administration) dated September 15, 1977 for construction of sewer system improvements. Semi annual payments of $3,674 including interest at 5.0%. Matures September 15, 2017.	$ 30,078	$ 5,917	$ 24,161
General Obligation Bond			
General Obligation Bond Payable to United States Department of Agriculture Rural Development (formerly Farmers Home Administration) dated May 15, 1980 for construction of sewer system improvements. Semi annual payments of $2,332 including interest at 5%. Matures May 15, 2020.	9,310	4,251	5,059
Revenue Bond Payable			
Revenue Bond Payable to United States Department of Agriculture Rural Development dated November 1, 2000 for construction of sewer system improvements. Annual payments of $142,887, including interest at 4.5% with a maturity of November 1, 2040. Secured by future sewer user fees.	2,163,611	45,525	2,118,086
Total Business-Type Activities	$ 2,202,999	$ 55,693	$ 2,147,306

	Payable at July 1, 2014	Increases	Decreases	Payable at June 30, 2015	Due within one year
Business-Type Activities:					
General Obligation Bond Payable	$ 13,356	$ -	$ (4,046)	$ 9,310	$ 4,251
General Obligation Bond Payable	35,709	-	(5,631)	30,078	5,917
Revenue Bond Payable	2,207,175	-	(43,564)	2,163,611	45,525
	$ 2,256,240	$ -	$ (53,241)	$ 2,202,999	$ 55,693

Debt Service Requirements

Debt service requirements on long-term debt at year end are as follows:

General Obligation Bond Payable

General Obligation Bond Payable to United Stated Department of Agriculture Rural Development (formerly Farmers Home Administration) dated September 15, 1977 for construction of sewer system improvements. Semi annual payments of $3,674 including interest at 5.0%. Matures September 15, 2017.

Year ended June 30,	Principal	Interest	Total Requirements
2016	$ 5,917	$ 1,341	$ 7,258
2017	6,217	1,131	7,348
2018	6,532	816	7,348
2019	6,862	486	7,348
2020	4,550	138	4,688
	$ 30,078	$ 3,912	$ 33,990

General Obligation Bond Payable

General Obligation Bond Payable to United States Department of Agriculture Rural Development (formerly Farmers Home Administration) dated May 15, 1980 for construction of sewer system improvements. Semi annual payments of $2,332 including interest at 5%. Matures May 15, 2020.

Year ended June 30,	Principal	Interest	Total Requirements
2016	$ 4,251	$ 413	$ 4,664
2017	4,466	198	4,664
2018	593	15	608
	$ 9,310	$ 626	$ 9,936

Revenue Bond Payable

Revenue Bond Payable to United States Department of Agriculture Rural Development dated November 1, 2000 for construction of sewer system improvements. Annual payments of $142,887, including interest at 4.5% with a maturity of November 1, 2040. Secured by future sewer user fees.

Year ended June 30,	Principal	Interest	Total Requirements
2016	$ 45,525	$ 97,362	$ 142,887
2017	47,573	95,314	142,887
2018	49,714	93,173	142,887
2019	51,951	90,936	142,887
2020	54,289	88,598	142,887
2021	56,732	86,155	142,887
2022	59,285	83,602	142,887
2023	61,953	80,934	142,887
2024	64,740	78,147	142,887
2025	67,653	75,233	142,886
2026	70,698	72,189	142,887
2027	73,880	69,007	142,887
2028	77,204	65,683	142,887
2029	80,678	62,209	142,887
2030	84,309	58,578	142,887
2031	88,103	54,784	142,887
2032	92,067	50,820	142,887
2033	96,210	46,677	142,887
2034	100,540	42,347	142,887
2035	105,064	37,823	142,887
2036	109,792	33,095	142,887
2037	114,733	28,154	142,887
2038	119,896	22,991	142,887
2039	125,291	17,596	142,887
2040	130,929	11,598	142,527
2041	134,802	6,066	140,868
	$ 2,163,611	$ 1,549,071	$ 3,712,682

Interest incurred and charged to expense in the Statement of Activities during the year is as follows:

Business-Type Activities:	
Water/Sewer Utility	$ 101,658

Note 7 - Grants:

In the normal course of operations, the City received grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority to ensure compliance with conditions of the grant. Any liability for reimbursement which may arise as the result of a grantor audit is not believed to be material.

Note 8 - Defined Contribution Pension Plan:

Plan Description

The City maintains a defined contribution pension plan administered by the Variable Annuity Life Insurance Company (VALIC) (a subsidiary of American International Group, Inc.) located at 2020 Allen Parkway, Houston, TX 77019.

The City contributes the total amount necessary to fund the defined contribution plan. Beginning July 1, 2002, the City has been paying the employees' 6% plus the City's contribution of 8% of eligible wages into the plan. Total pension expense for the year ending June 30, 2015 amounted to $ 37,033. All amounts contributed under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or beneficiary) solely the property and rights of the participant, in accordance with the City's 5-year vesting schedule. The employee has a choice of several investment options within the plan and the investment decision is solely that of the employee. The City does not guarantee the investments nor any return on investment. The terms of the plan allow it to be modified or discontinued by the employer at anytime. The City has a contract with the union representing the City employees to maintain the current contribution rate through the expiration of the contract on July 30, 2015.

The city disbanded its police department during February 2007. City police officers who had performed six months of service were covered by the Oregon Public Employees Retirement Plan (PERS). The City has not had any PERS covered employees and has made no PERS contributions in the past six years. The City has no plans to hire any police officers and currently contracts with the Union County Sheriff for police services.

A deferred compensation plan is offered to employees in conjunction with the VALIC pension plan. Employees are offered the option of deferring a portion of their salary into the deferred compensation plan in lieu of cash wages. All amounts deferred are vested immediately.

Compensated Absences

Full time employees have available 12 days of sick leave annually. Unused days are accumulated and are available in future years if an extended illness should occur but are lost upon termination of the employee. Vacation pay and other compensated absences are charged to expense when the benefit is paid. No provision has been made in the financial statements for the $18,541 in vacation time earned but not paid as of June 30, 2015 because compensated absence accruals were not the result of cash transactions.

Note 9 - Internal Transfers:

Internal transfers for the fiscal year ending June 30, 2015, consist of the following:

Fund	Transfers In	Transfers Out
Governmental Funds:		
General Fund	$ -	$ 76,000
Street Fund	75,000	
Proprietary Funds:		
Water/Sewer Utility	15,000	14,000
	$ 90,000	$ 90,000

Transfers are primarily used to move funds from:

* The proprietary and some nonmajor governmental funds to the General Fund for an allocated amount of salaries and benefits and other expenses.
* The General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 10 - Risk Management:

The City is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance, subject to customary deductibles and total coverage limits recommended by the City’s insurance agent of record. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 11 - Litigation

The City is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected fund of the City. It is expected that insurance will cover any liabilities the City might incur.

Note 12 - Related Party Transactions

The City has an outstanding Loan to Roger and Deborah Clark. Roger is a member of the City budget committee, but was not serving on the committee when the note was initiated. The Loan is from Union Downtown Revolving Loan Fund. It was issued 9/21/2009 in the face amount of $4,000 with an interest rate of 0% per annum. The City owes lender a $400 deposit. The note required 35 payments of not less than $114.00. Balance at June 30, 2015 is $343.

The City Administrator's husband is the regional sales manager for Partsmaster. He previously worked for Fastenal. The City purchases supplies from Partsmaster and Fastenal. The transactions are made at arms length and the City Council is aware of the connection. During fiscal year ended June 30, 2015 the City purchased $665 in supplies from Fastenal and $2,745 in supplies from Partsmaster.

SUPPLEMENTARY INFORMATION

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
General Fund - 101
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual
	Original	Final	Amounts
Revenues			
Local Taxes			
Property taxes	$ 158,900	$ 158,900	$ 169,205
Franchise fees	110,000	110,000	94,265
Licenses and fees	2,950	2,950	4,125
Intergovernmental	52,380	52,380	51,499
Fines and forfeitures	1,000	1,000	2,153
Grants	-	1,219	1,219
Interest on investments	300	300	142
Other income	5,000	5,000	4,193
Total revenues	330,530	331,749	326,801
Expenditures			
Personnel services	104,039	119,061	76,603
Public safety	98,518	98,518	93,499
Library	69,950	71,169	71,417
Municipal court	7,471	7,471	1,593
Planning department	22,200	22,200	876
Park	28,200	28,200	4,950
Solid waste transfer site	3,050	3,050	1,096
Non-departmental	300	300	-
Contingency	61,002	45,980	-
Total expenditures	394,730	395,949	250,034
Excess of revenues over (under) expenditures	(64,200)	(64,200)	76,767
Other Financing Sources (Uses)			
Sale of assets	200	200	-
Transfers out	(76,000)	(76,000)	(76,000)
Total other financing sources (uses)	(75,800)	(75,800)	(76,000)
Net change in fund balance	(140,000)	(140,000)	767
Beginning fund balance	140,000	140,000	182,824
Ending fund balance	$ -	$ -	$ 183,591

CITY OF UNION, OREGON
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
State Tax Street Funds
For the Fiscal Year Ended June 30, 2015

	301 Street Fund	315 Bike/Pedestrian Path Fund	Total
Revenues			
Intergovernmental	$ 113,246	$ -	$ 113,246
Miscellaneous			
Charges for services	2,206	-	2,206
Interest on investments	163	6	169
Other income	5,134	-	5,134
Total revenues	120,749	6	120,755
Expenditures			
Current:			
Transportation and streets	78,902	3,288	82,190
Capital outlay	146,460	-	146,460
Total expenditures	225,362	3,288	228,650
Excess of revenues over (under) expenditures	(104,613)	(3,282)	(107,895)
Other Financing Sources (Uses)			
Contingency	-	-	-
Transfers in	75,000	-	75,000
Transfers out	-	-	-
Total other financing sources (uses)	75,000	-	75,000
Net change in fund balance	(29,613)	(3,282)	(32,895)
Beginning fund balance	258,359	11,721	270,080
Ending fund balance	$ 228,746	$ 8,439	$ 237,185

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
Street Fund - 301
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Intergovernmental	$ 102,500	$ 102,500	$ 113,246	$ 10,746
Charges for services	-	-	2,206	2,206
Interest on investments	500	500	163	(337)
Other income	1,000	1,000	5,134	4,134
Total revenues	104,000	104,000	120,749	16,749
Expenditures				
Personnel services	42,450	45,650	34,775	10,875
Materials and services	63,550	66,700	41,182	25,518
Capital outlay	211,000	211,000	149,405	61,595
Contingency	46,000	39,650	-	39,650
Total expenditures	363,000	363,000	225,362	137,638
Excess of revenues over (under) expenditures	(259,000)	(259,000)	(104,613)	154,387
Other Financing Sources (Uses)				
Transfers in	75,000	75,000	75,000	-
Transfers out	(3,000)	(3,000)	-	3,000
Total other financing sources (uses)	72,000	72,000	75,000	3,000
Net change in fund balance	(187,000)	(187,000)	(29,613)	157,387
Beginning fund balance	187,000	187,000	258,359	71,359
Ending fund balance	$ -	$ -	$ 228,746	$ 228,746

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
Bike/Pedestrian Path - 315
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Interest on investments	$ 25	$ 25	$ 6	$ (19)
Expenditures				
Capital outlay	9,525	9,525	3,288	6,237
Excess of revenues over (under) expenditures	(9,500)	(9,500)	(3,282)	6,218
Other Financing Sources (Uses)				
Transfers in	3,000	3,000	-	(3,000)
Net change in fund balance	(6,500)	(6,500)	(3,282)	3,218
Beginning fund balance	6,500	6,500	11,721	5,221
Ending fund balance	$ -	$ -	$ 8,439	$ 8,439

CITY OF UNION, OREGON
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Emergency Services Funds
For the Fiscal Year Ended June 30, 2015

	401 Emergency Services Fund	513 EMS Vehicle Equip Reserve Fund	Total
Revenues			
Property taxes	$ 6	$ -	$ 6
Intergovernmental	3,901	-	3,901
Miscellaneous			
Charges for services	74,824	-	74,824
Licenses and fees	128,769	-	128,769
Interest on investments	155	-	155
Other income	4,885	-	4,885
Total revenues	212,540	-	212,540
Expenditures			
Current:			
Public safety	131,722	-	131,722
Excess of revenues over (under) expenditures	80,818	-	80,818
Net change in fund balance	80,818	-	80,818
Beginning fund balance	198,378	20,341	218,719
Ending fund balance	$ 279,196	$ 20,341	$ 299,537

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
Emergency Service Fund - 401
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Property taxes	$ 30	$ 30	$ 6	$ (24)
Charges for services	175,000	175,000	74,824	(100,176)
Intergovernmental	-	-	3,901	3,901
Licenses and fees	1,500	1,500	128,769	127,269
Other income	5,000	8,072	4,885	(3,187)
Interest on investments	100	100	155	55
Total revenues	181,630	184,702	212,540	27,838
Expenditures				
Personnel services	47,322	49,465	40,333	9,132
Materials and services	99,250	114,500	65,036	49,464
Capital outlay	66,353	66,353	26,353	40,000
Contingency	90,705	73,312	-	73,312
Total expenditures	303,630	303,630	131,722	171,908
Excess of revenues over (under) expenditures	(122,000)	(118,928)	80,818	199,746
Other Financing Sources (Uses)				
Transfers out	(10,000)	(10,000)	-	10,000
Net change in fund balance	(132,000)	(128,928)	80,818	209,746
Beginning fund balance	132,000	132,000	198,378	66,378
Ending fund balance	$ -	$ 3,072	$ 279,196	$ 276,124

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
Ambulance Replacement - 513
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Interest on investments	$ 1,000	$ 1,000	$ -	$ (1,000)
Expenditures				
Capital outlay	21,200	21,200	-	21,200
Excess of revenues over (under) expenditures	(20,200)	(20,200)	-	20,200
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	-	(10,000)
Net change in fund balance	(10,200)	(10,200)	-	10,200
Beginning fund balance	10,200	10,200	20,341	10,141
Ending fund balance	$ -	$ -	$ 20,341	$ 20,341

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
Ranger Station Fund - 505
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Rental income	$ 31,100	$ 31,100	$ 30,199	$ (901)
Other income	400	400	400	-
Interest on investments	100	100	-	(100)
Total revenues	31,600	31,600	30,599	(1,001)
Expenditures				
Personnel services	15,082	17,242	13,871	3,371
Materials and services	17,970	19,577	15,970	3,607
Capital outlay	2,500	2,500	-	2,500
Contingency	8,248	4,481	-	4,481
Total expenditures	43,800	43,800	29,841	13,959
Net change in fund balance	(12,200)	(12,200)	758	12,958
Beginning fund balance	12,200	12,200	13,778	1,578
Ending fund balance	$ -	$ -	$ 14,536	$ 14,536

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
Downtown Revolving Loan Fund - 515
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Loan repayment income	$ 1,300	$ 1,300	$ 1,200	$ (100)
Interest on investments	25	25	8	(17)
Total revenues	1,325	1,325	1,208	(117)
Expenditures				
Materials and services	14,725	14,725	400	14,325
Net change in fund balance	(13,400)	(13,400)	808	14,208
Beginning fund balance	13,400	13,400	13,252	(148)
Ending fund balance	$ -	$ -	$ 14,060	$ 14,060

CITY OF UNION, OREGON
Combining Statement of Net Position
Modified Cash Basis
Proprietary Funds
June 30, 2015

	Water Department	Sewer Department	Total
Assets			
Current assets:			
Cash	$ 499,445	$ 383,572	$ 883,017
Restricted cash	68,434	156,237	224,671
Total cash and investments	567,879	539,809	1,107,688
Noncurrent assets:			
Capital assets:			
Sewer System	-	6,645,219	6,645,219
Water System	1,815,896	-	1,815,896
Well Water System	1,302,567	-	1,302,567
Sewer Department Equipment	-	251,767	251,767
Water Department Equipment	252,682	-	252,682
Less: Accumulated Depreciation	(2,062,283)	(3,440,853)	(5,503,136)
Total noncurrent assets	1,308,862	3,456,133	4,764,995
Total assets	1,876,741	3,995,942	5,872,683
Deferred Outflows of Resources	-	-	-
Liabilities			
Current liabilities:			
Current bonds and notes payable	-	55,693	55,693
Accrued payroll	-	3,459	3,459
Noncurrent liabilities:	-		
Revenue Bond payable-Long Term	-	2,118,086	2,118,086
General Obligation Bond Payable-Long Term	-	29,220	29,220
Total liabilities	-	2,206,458	2,206,458
Deferred Inflows of Resources	-	-	-
Net Position			
Net investment in capital assets	1,308,862	1,249,675	2,558,537
Restricted for debt service	-	156,237	156,237
Restricted for capital improvements	68,434	-	68,434
Unrestricted	499,445	383,572	883,017
Total net position	$ 1,876,741	$ 1,789,484	$ 3,666,225

CITY OF UNION, OREGON
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Modified Cash Basis
Proprietary Funds
For the Fiscal Year Ended June 30, 2015

	Water Fund	Sewer Fund	Total
Operating Revenues			
Charges for services			
Water user fees	$ 408,412	$ -	$ 408,412
Water Installations	5,523		5,523
Sewer user fees		508,017	508,017
Sewer installations		3,750	3,750
Total operating revenues	413,935	511,767	925,702
Operating Expenses			
Water	294,695	-	294,695
Sewer	-	369,784	369,784
Depreciation	102,039	174,553	276,592
Total operating expenses	396,734	544,337	941,071
Operating income (loss)	17,201	(32,570)	(15,369)
Nonoperating Revenues (Expenses)			
Interest on investments	360	360	720
Property taxes	-	14,098	14,098
Grants	3,778	16,222	20,000
Other income	3,778	7,227	11,005
Interest expense	-	(101,658)	(101,658)
Total nonoperating revenues (expenses)	7,916	(63,751)	(55,835)
Income (loss) before transfers	25,117	(96,321)	(71,204)
Transfers in	11,000	4,000	15,000
Transfers out	(11,000)	(3,000)	(14,000)
Total transfers	-	1,000	1,000
Change in net position	25,117	(95,321)	(70,204)
Total net position - beginning	1,851,624	1,884,805	3,736,429
Total net position - ending	$ 1,876,741	$ 1,789,484	$ 3,666,225

CITY OF UNION, OREGON
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Proprietary Funds
For the Fiscal Year Ended June 30, 2015

	201 Water/Sewer Utility Fund	223 Sewer Debt Service Fund	260 Sewer Development Fund	510 Veh/Equip Reserve Fund	511 Blding/Maint Reserve Fund	Total
Revenues						
Water user fees	$ 408,412	$ -	$ -	$ -	$ -	$ 408,412
Sewer user fees	508,017	-	-	-	-	508,017
Water installations	5,523	-	-	-	-	5,523
Sewer installations	3,750	-	-	-	-	3,750
Property taxes	-	14,098	-	-	-	14,098
Intergovernmental	20,000	-	-	-	-	20,000
System development charge	-	-	19,078	-	-	19,078
Interest on investments	612	26	34	15	33	720
Other income	11,005	-	-	-	-	11,005
Total revenues	957,319	14,124	19,112	15	33	990,603
Expenditures						
Current:						
Personnel services	315,970	-	-	-	-	315,970
Materials and services	269,708	-	-	-	-	269,708
Debt service	142,887	-	-	-	-	142,887
Capital outlay	151,578	-	-	2,000	1,882	155,460
Interest expense	-	2,335	-	-	-	2,335
Principal paid	-	9,677	-	-	-	9,677
Total expenditures	880,143	12,012	-	2,000	1,882	896,037
Excess of revenues over (under) expenditures	77,176	2,112	19,112	(1,985)	(1,849)	94,566
Other Financing Sources (Uses)						
Transfers in	-	-	-	10,000	5,000	15,000
Transfers out	(14,000)	-	-	-	-	(14,000)
Total other financing sources (uses)	(14,000)	-	-	10,000	5,000	1,000
Net change in fund balance	63,176	2,112	19,112	8,015	3,151	95,566
Beginning fund balance	825,650	42,850	49,322	29,229	61,612	1,008,663
Ending fund balance	$ 888,826	$ 44,962	$ 68,434	$ 37,244	$ 64,763	1,104,229

Reconciliation to Modified Cash Basis of Accounting:	4,764,995
Capital assets, net	(2,202,999)
Debt, net	
Net position - ending	$ 3,666,225

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
Water/Sewer Utility Fund - 201
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Water user fees	$ 384,000	$ 384,000	$ 408,412	$ 24,412
Sewer user fees	485,000	485,000	508,017	23,017
Water installations	3,200	3,200	5,523	2,323
Sewer installations	1,200	1,200	3,750	2,550
Property taxes	1,000	1,000	-	(1,000)
Interest on investments	500	500	612	112
Intergovernmental	-	-	20,000	20,000
Other income	9,000	9,000	11,005	2,005
Total revenues	883,900	883,900	957,319	73,419
Expenditures				
Personnel services	320,690	360,429	315,970	44,459
Materials and services	315,185	348,532	269,708	78,824
Debt service	144,300	144,300	142,887	1,413
Capital outlay	322,000	322,000	151,578	170,422
Contingency	95,725	22,639	-	22,639
Total expenditures	1,197,900	1,197,900	880,143	317,757
Excess of revenues over (under) expenditures	(314,000)	(314,000)	77,176	391,176
Other Financing Sources (Uses)				
Transfers out	(14,000)	(14,000)	(14,000)	-
Net change in fund balance	(328,000)	(328,000)	63,176	391,176
Beginning fund balance	473,000	473,000	825,650	352,650
Ending fund balance	$ 145,000	$ 145,000	888,826	$ 743,826

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
Sewer Debt Service Fund - 223
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Property taxes	$ 15,750	$ 15,750	$ 14,098	$ (1,652)
Interest on investments	-	-	26	26
Total revenues	15,750	15,750	14,124	(1,626)
Expenditures				
Interest expense	2,700	2,700	2,335	365
Principal paid	10,000	10,000	9,677	323
Total expenditures	12,700	12,700	12,012	688
Net change in fund balance	3,050	3,050	2,112	(938)
Beginning fund balance	39,600	39,600	42,850	3,250
Ending fund balance	$ 42,650	$ 42,650	$ 44,962	$ 2,312

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
System Development Fund - 260
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
System development charge	$ 7,200	$ 7,200	$ 19,078	$ 11,878
Interest on investments	100	100	34	(66)
Total revenues	7,300	7,300	19,112	11,812
Expenditures				
Capital outlay	29,200	29,200	-	29,200
Contingency	28,100	28,100	-	28,100
Total expenditures	57,300	57,300	-	57,300
Net change in fund balance	(50,000)	(50,000)	19,112	69,112
Beginning fund balance	50,000	50,000	49,322	(678)
Ending fund balance	$ -	$ -	$ 68,434	$ 68,434

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
Vehicle/Equipment Reserve Fund - 510
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Interest on investments	$ 200	$ 200	$ 15	$ (185)
Expenditures				
Materials and services	7,000	7,000	-	7,000
Capital outlay	35,000	35,000	2,000	33,000
Total expenditures	42,000	42,000	2,000	40,000
Excess of revenues over (under) expenditures	(41,800)	(41,800)	(1,985)	39,815
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	10,000	-
Net change in fund balance	(31,800)	(31,800)	8,015	39,815
Beginning fund balance	31,800	31,800	29,229	(2,571)
Ending fund balance	$ -	$ -	$ 37,244	$ 37,244

CITY OF UNION, OREGON
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual - Modified Cash Basis
Blding/Maintenance Reserve Fund - 511
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
Interest on investments	$ 50	$ 50	$ 33	$ (17)
Expenditures				
Capital outlay	50,000	50,000	1,882	48,118
Contingency	9,050	9,050	-	9,050
Total expenditures	59,050	59,050	1,882	57,168
Excess of revenues over (under) expenditures	(59,000)	(59,000)	(1,849)	57,151
Other Financing Sources (Uses)				
Transfers in	5,000	5,000	5,000	-
Net change in fund balance	(54,000)	(54,000)	3,151	57,151
Beginning fund balance	54,000	54,000	61,612	7,612
Ending fund balance	$ -	$ -	$ 64,763	$ 64,763

Budgets and Budgetary Accounting

The City budgets all funds which are subject to budget requirements of state law. The City Council legally adopts the budget by resolution before July 1. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. The level of control (total personal services, materials and services, capital outlay, and other expenditures) is established by resolution for all funds. The City does budget sub funds of the water and sewer fund that are combined in the supplemental information and presented as a single fund in the fund financial statements.

The detail budget document, however, is required to contain more specific, detailed information for the aforementioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriations ordinance. A supplemental budget that differs by 10 percent or more of any one of the individual funds contained in the original budget for that fiscal year requires hearings before the public, publications in newspapers, and approval by the City Council. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the City Council. Appropriations that have not been expended at year-end lapse and subsequent actual expenditures are then charged against ensuing year's appropriations.

Appropriations

The City has complied with legal requirements relating to the preparation, adoption and execution of the annual budget for the year ended June 30, 2015.

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OTHER FINANCIAL SCHEDULES

CITY OF UNION, OREGON
Schedule of Property Tax Transactions
For the Fiscal Year Ended June 30, 2015

(Compiled from the records of Union County)

Tax Year	Uncollected Taxes July 1, 2014	Current Tax Levy	Less: Collections 2014-2015	Adjustments & Discounts	Uncollected Taxes June 30, 2015
2014-15	$ -	$ 189,056	$ 176,207	$ 4,900	$ 7,949
2013-14	7,842	-	3,778	15	4,049
2012-13	4,378	-	1,672	17	2,689
2011-12	2,018	-	992	7	1,019
2010-11	925	-	446	10	469
2009-10	904	-	56	9	839
2008-09	59	-	-	7	52
Prior	158	-	15	(1)	144
	$ 16,284	$ 189,056	$ 183,166	$ 4,964	$ 17,210

Reconciliation with City Recorder's books:	General Fund	Water/Sewer Utility Fund	Total
Property tax collections:			
Current	$ 161,773	$ 14,434	$ 176,207
Delinquent	6,316	643	6,959
Total property tax collections	168,089	15,077	183,166
Interest and miscellaneous collections	1,122	(979)	143
Total tax revenue reported in fund statements	$ 169,211	$ 14,098	$ 183,309

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL REQUIRED BY OREGON STATE REGULATIONS

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC
CERTIFIED PUBLIC ACCOUNTANTS
1121 ADAMS AVENUE • P.O. BOX 1024
LA GRANDE, OREGON 97850-1024

Independent Auditor's Report on Compliance and Internal Control Required by Oregon State Regulations

We have audited the basic financial statements of the City of Union as of and for the year ended June 30, 2015 and have issued our report thereon dated September 16, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Union'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 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.

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

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

The independent elected officials of the City of Union do not collect or receive money and are, therefore, not subject to the requirements of OAR 162-10-140.

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

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the City of Union's internal control over financial reporting (internal control) 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 City of Union's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Union's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 2015-01, described in the schedule of findings and responses, to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiencies 2015-02 & 2015-03, described in the accompanying schedule of findings and responses, to be significant deficiencies.

Our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements in accordance with Government Auditing Standards dated September 15, 2015 is presented on pages 45 - 46 of this reporting package.

Purpose of this Report

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

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC
Certified Public Accountants

By Yvonne K. Roberts, CPA
Yvonne K, Roberts, CPA
Owner/Member

La Grande, Oregon
September 16, 2015

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REPORTS REQUIRED BY GOVERNMENTAL AUDITING STANDARDS

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC
CERTIFIED PUBLIC ACCOUNTANTS
1121 ADAMS AVENUE • P.O. BOX 1024
LA GRANDE, OREGON 97850-1024

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the City Council
City of Union, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Union, Oregon as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Union, Oregon's basic financial statements, and have issued our report thereon dated September 16, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 2015-01, described in the accompanying schedule of findings and responses, to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiencies 2015-02 & 2015-03, described in the accompanying schedule of findings and responses, to be significant deficiencies.

Compliance and Other Matters

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

City of Union, Oregon's Response to Findings

City of Union, Oregon's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. City of Union, Oregon's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC
Certified Public Accountants

By Yvonne K. Roberts, CPA
Yvonne K. Roberts, CPA
Owner/Member

La Grande, Oregon
September 16, 2015

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SCHEDULE OF FINDINGS AND RESPONSES

2015-01:

Condition

The City Administrator has the ability to prepare all the individual fund financial statements including the Budgetary Comparison Schedules. However, the City does rely on us as the auditor to assist them in drafting the Government-Wide Financial Statements. In addition, we verify the financial statements, including note disclosures, contain all of the elements required to comply with the accounting principles generally accepted in the United States of America. We do believe the City has staff with the ability to understand, review, and take responsibility for the financial statements required to comply with independence standards outlined under both Government Auditing Standards and AICPA 101-3. However, our assistance in drafting the financial statements described above does produce a material weakness in the City's internal control system.

Criteria

Auditing standards require us to assess the internal control system of the entity. In addition, the standards clearly state that the auditor cannot be relied upon as part of the entity's internal control system. Statement on Auditing Standards defines the reporting requirements for internal control related matters. One aspect of this standard requires us to extend this assessment to controls over financial statement presentation. Proper controls over financial statement presentation require adequate knowledge and involvement to detect errors and omissions in the financial statements.

Cause

This condition is caused by the Financial Officer's limited experience in presenting financial information in the form of financial statements and the City of Union's reliance upon the auditors to perform these functions.

Effect

Since the financial statements and related note disclosures are prepared by independent auditors annually there is no effect caused by this condition.

View of Responsible Officials and Recommendations

We do not recommend any change in the preparation of the financial statements, but the City Council should be aware of this control deficiency and stress the importance of thorough review of the financial statements prior to approval of the audit. The City officials are in agreement with the condition and recommendation stated above.

Action Taken

As recommended above, the City has not made any change in the preparation of the financial statements. The City does not feel it is cost effective to hire additional staff or an independent contractor to prepare the financial statements.

2015-02

Condition

Large journal entries were made to the general ledger which were actually budget adjustments. These adjustments posted duplicate expenses in the general ledger for $101,420. The City Administrator prepares and posts the journal entries with no review. She did consult Chaves on some of the entries and was told they were posted correctly, but they were not. We did note that when an the outside firm of Guyer & Associates reconciled the bank statements, they found a journal entry posting error regarding a grant the city received in the amount of $20,000 and recommended a correcting entry.

Criteria

Auditing standards require us to assess the internal control system of the entity. Journal entries are a key area of financial significance. Proper controls over adjusting journal entries require oversight and involvement to detect errors and omissions.

Cause
This condition is caused by the limited internal controls over adjusting journal entries being posted to the general ledger.

Effect
This does not allow management to detect and correct material misstatements on a timely basis. It is critical to the City's control structure that review and reconciliation of journal entries occurs.

View of Responsible Officials and Recommendations
We recommend the City develops a system of review over journal entries by an individual with an understanding of governmental accounting.

Action Taken
The City will review internal controls over adjusting journal entries and make adjustments.

2015-03

Condition

In reviewing procedures for library operations it was discovered that the City does not appear to be following procedures outlined in Resolution 2013-21 and Fee and Fine Policy for Union Carnegie Library approved by the board January 7, 2014. This policy set in place procedures for waiver of fees or fines and set guides for library to deposit funds with the city. We did not find evidence of any deposits for fines and fees during the fiscal year. In addition, we did not find evidence of any fine and fee waivers being completed.

Criteria
Auditing standards require us to assess the internal control system of the entity. While internal control procedures are outlined for the recording of library revenue and fee waiver, it does not appear they are being implemented.

Cause
This condition is caused by the limited internal controls library revenues.

Effect
This does not allow management to detect and correct material misstatements on a timely basis. It is critical to the City's control structure that outlined procedures be followed.

View of Responsible Officials and Recommendations
We recommend the City follows the resolution and procedures outline din the Fee and Fine Policy for Union Carnegie Library.

Action Taken
As recommended above, the City will enforce compliance with outlined procedures.