

CITY OF AUBURN
AUBURN, NEBRASKA

COMBINED FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

CITY OF AUBURN, NEBRASKA
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Auburn
Auburn, Nebraska

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Auburn, Nebraska as of and for the year ended September 30, 2014, 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 misstatements, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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 Adverse Opinion on the Enterprise Fund on Business-Type Activities

The financial statements referred to above include only the government of the City of Auburn, Nebraska, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. Management has not included the enterprise fund of the Auburn Board of Public Works, which the modified cash basis of accounting requires to be reported with the financial data of the City's financial statements. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the government-wide financial statements has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Enterprise Fund and Qualified Opinion on Business-Type Activity" paragraph, the financial statements referred to above do not present fairly the financial position of the Auburn Board of Public Works, Auburn, Nebraska, as of September 30, 2014, or the changes in financial position thereof for the year then ended in accordance with basis of accounting described in Note 1.

Qualified Opinion

In our opinion, except for the matter described in the "Basis for Adverse Opinion on Enterprise Fund and Qualified Opinion on Business-Type Activities" paragraph, the financial statements referred to above, present fairly, in all material respects, the financial position – modified cash basis of the City of Auburn, Nebraska, as of September 30, 2014 and the changes in financial position – modified cash basis thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, other than the Enterprise Fund, each major fund, and the aggregate remaining fund information for the primary government of the City of Auburn, Nebraska, as of September 30, 2014, and the respective changes in financial position – modified cash basis thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

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

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF NET POSITION - MODIFIED CASH BASIS
SEPTEMBER 30, 2014

ASSETS

Cash in bank	\$ 1,955,694
Certificates of deposit	425,566
Cash in custody of County Treasurer	84,933
Special assessments receivable	213,902
Prepaid expenses	10,000
Other assets	265
Capital assets:	
Non-depreciable	407,023
Depreciable, net	<u>5,332,469</u>
 Total assets	 <u>8,429,852</u>

LIABILITIES

Deferred revenue - special assessments	213,902
Bonds payable:	
Due within one year	140,000
Due in more than one year	<u>1,070,000</u>
 Total liabilities	 <u>1,423,902</u>

NET POSITION

Invested in capital assets, net of related debt	4,529,492
Restricted for:	
Debt service	8,986
Community betterment	79,434
Unrestricted	<u>2,388,038</u>
 Net position	 <u>\$ 7,005,950</u>

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Position</u>
					<u>Governmental</u>
					<u>Activities</u>
Governmental activities:					
General government	\$ 610,707	\$ -	\$ -	\$ -	\$ 610,707
Public health and safety	68,491	-	-	-	68,491
Public works	242,747	-	-	-	242,747
Culture – recreation	384,506	181,694	-	-	202,812
Debt service	47,980	-	-	-	47,980
Keno expenditures	16,608	-	-	-	16,608
CDBG program	170,430	-	-	-	170,430
Depreciation	262,119	-	-	-	262,119
Total governmental activities	<u>1,803,588</u>	<u>181,694</u>	<u>-</u>	<u>-</u>	<u>1,621,894</u>
General revenue:					
Taxes					655,013
Intergovernmental					716,778
Special assessments					23,711
Interest income					3,433
Keno proceeds					21,913
Local option sales tax					427,307
Licenses and permits					14,868
CDBG program					188,750
Community Redevelopment Authority – net					102,490
Miscellaneous					104,974
Total general revenue and transfers					<u>2,259,237</u>
Change in net position					637,343
Net position – beginning of year					<u>6,368,607</u>
Net position – end of year					<u>\$ 7,005,950</u>

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY
PRIMARY GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
SEPTEMBER 30, 2014

ASSETS

	Governmental Fund Types			
	General	Debt Service	Special Revenue Keno	Total
Assets:				
Cash in bank	\$ 1,867,274	\$ 8,986	\$ 79,434	\$ 1,955,694
Certificates of deposit	425,566	-	-	425,566
Cash in custody of County Treasurer	84,933	-	-	84,933
Special assessments receivable	-	213,902	-	213,902
Prepaid expenses	10,000	-	-	10,000
Other assets	265	-	-	265
	<u>\$ 2,388,038</u>	<u>\$ 222,888</u>	<u>\$ 79,434</u>	<u>\$ 2,690,360</u>
Total assets	<u>\$ 2,388,038</u>	<u>\$ 222,888</u>	<u>\$ 79,434</u>	<u>\$ 2,690,360</u>

LIABILITIES AND FUND EQUITY

Liabilities:				
Deferred revenue – special assessments	\$ -	\$ 213.902	\$ -	\$ 213,902
Total liabilities	<u>-</u>	<u>213,902</u>	<u>-</u>	<u>213,902</u>
Fund equity:				
Restricted for:				
Debt service	-	8,986	-	8,986
Community betterment	-	-	79,434	79,434
Unassigned	2,388,038	-	-	2,388,038
	<u>2,388,038</u>	<u>8,986</u>	<u>79,434</u>	<u>2,476,458</u>
Total fund equity	<u>2,388,038</u>	<u>8,986</u>	<u>79,434</u>	<u>2,476,458</u>
Total liabilities and fund equity	<u>\$ 2,388,038</u>	<u>\$ 222,888</u>	<u>\$ 79,434</u>	<u>\$ 2,690,360</u>

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
RECONCILIATION OF COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS – TO STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

Total fund balance – all governmental funds		\$ 2,476,458
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 not reported in the fund financial statement:		
Capital assets	9,454,058	
Accumulated depreciation	<u>(3,714,566)</u>	5,739,492
Long-term liabilities are not due and payable in this current period and therefore, are not reported in the funds:		
Bonds payable		<u>(1,210,000)</u>
Net position of governmental activities		<u>\$ 7,005,950</u>

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES – GENERAL AND DEBT SERVICE FUNDS –
PRIMARY GOVERNMENT – MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Governmental Fund Types			Total
	General	Debt Service	Special Revenue Keno	
Receipts:				
Taxes – personal property	\$ 611,324	\$ 43,689	\$ -	\$ 655,013
Taxes – sales	-	427,307	-	427,307
Special assessments	-	23,711	-	23,711
Licenses and permits	14,868	-	-	14,868
Intergovernmental	716,778	-	-	716,778
Charges for services	181,694	-	-	181,694
Miscellaneous	108,407	-	-	108,407
Total receipts	<u>1,633,071</u>	<u>494,707</u>	<u>-</u>	<u>2,127,778</u>
Disbursements:				
Current:				
General government	610,707	-	-	610,707
Public works	242,747	-	-	242,747
Public health and safety	68,491	-	-	68,491
Cultural and recreational	384,506	-	-	384,506
Debt service:				
Principal retirement	150,000	135,000	-	285,000
Interest	900	46,945	-	47,845
Bond handling fee	-	135	-	135
Total disbursements	<u>1,457,351</u>	<u>182,080</u>	<u>-</u>	<u>1,639,431</u>
Excess of receipts over (under) disbursements	<u>175,720</u>	<u>312,627</u>	<u>-</u>	<u>488,347</u>
Other financing sources:				
CDBG programs	188,750	-	-	188,750
Gross keno proceeds	-	-	21,913	21,913
Community Redevelopment Authority – net	102,490	-	-	102,490
Transfer from other fund	307,471	-	-	307,471
Total other financing sources	<u>598,711</u>	<u>-</u>	<u>21,913</u>	<u>620,624</u>
Other financing uses:				
CDBG programs	170,430	-	-	170,430
Keno expenditures	-	-	16,608	16,608
Capitalized outlays – net	74,524	-	-	74,524
Transfer to other fund	-	307,471	-	307,471
Total other financing uses	<u>244,954</u>	<u>307,471</u>	<u>16,608</u>	<u>569,033</u>
Excess of receipts and other financing sources over disbursements and other financing uses	529,477	5,156	5,305	539,938
Fund balance, beginning of year	1,858,561	3,830	74,129	1,936,520
Fund balance, end of year	<u>\$ 2,388,038</u>	<u>\$ 8,986</u>	<u>\$ 79,434</u>	<u>\$ 2,476,458</u>

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
RECONCILIATION OF STATEMENT OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net change in fund balances – total governmental funds \$ 539,938

Amounts reported for governmental activities in the statement of net activities are different because:

Governmental funds report capital outlays as expenditures while government activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital outlays - net	74,524	
Depreciation	(262,119)	(187,595)

Warrant and bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of warrants and bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayment exceeded proceeds.

285,000

Change in net position of governmental activities \$ 637,343

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

1. Summary of Significant Accounting Policies

The City of Auburn is a political subdivision of the State of Nebraska located in Nemaha County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Nebraska. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

This summary of significant accounting policies of the City of Auburn, Nebraska is presented to assist in understanding the City's financial statements. The combined financial statements and notes are representations of the City's management, which is responsible for their integrity and objectivity.

Reporting Entity

The financial statements include all funds of the City, except for the Board of Public Works. Other than for this exception, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those agencies, offices, organizations, commissions, and public authorities over which the City's elected officials exercise oversight responsibility are included in the financial statements. Manifestations of oversight responsibility are included in the financial statements. Manifestations of oversight responsibility over an entity include: 1) financial interdependency, 2) selection of governing authority, 3) designation of management, 4) ability to significantly influence operations, and 5) accountability for fiscal matters.

Related Organizations

The Auburn Board of Public Works is a related organization but is excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. An audit of the Auburn Board of Public Works will be completed for the year ending December 31, 2014 and will be filed under separate cover.

Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The general services that the City performs for its citizens are classified as governmental activities. The City's utilities including electric, water and sewer are classified as business-type activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column. The governmental and fiduciary activities are reported on a cash basis, and the business-type activity is reported on a full accrual, economic resource basis. The City's net position is reported in three parts – invested in capital assets, net of related debt; restricted for debt services; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

1. Summary of Significant Accounting Policies - Continued

Government-Wide Financial Statements - Continued

The government-wide Statement of Activities reports both the gross and net cost of each of the City's governmental functions and business-type activities. The net costs of each governmental function are also supported by general government revenues (property taxes, sales and use taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the governmental function or business-type activity. Operating grants include operation-specific and discretionary grants while the capital grants column reflects capital-specific grants.

Fund Financial Statements

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

The following fund types are used by the City:

Governmental Fund Types

The focus of the governmental funds' measurement (in the fund statements) is determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than net income. The following is a description of the governmental funds of the City:

General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

In the government-wide financial statements, the activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. On an accrual basis, revenues are recognized when earned. Expenditures are recorded when liabilities are incurred, regardless of the timing of related cash flows.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

1. Summary of Significant Accounting Policies - Continued

Measurement Focus and Basis of Accounting - Continued

In the fund financial statements, both funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, that is, when they become both measureable and available. Available means collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are recognized in the period the liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt are reported as other financing sources in governmental funds.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is to pay the expenditure from restricted fund balance and then from less restrictive classifications – committed, assigned and then unassigned fund balances.

Property tax revenues are recognized when susceptible to accrual. Revenues on special assessments and miscellaneous revenues are recognized as the amounts are collected. Investment earnings are recorded as earned since they are measureable and available.

Financial Statement Accounts

Cash and Certificates of Deposit

The City considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments in debt securities are carried at fair value and cash deposits at financial institutions are carried at cost, which reasonably estimate fair value. Income from investments held by the individual funds is recorded in the respected funds as it is earned.

Capital Assets

Government-Wide Statements

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the government-wide statements. Capital assets are defined as assets that have initial lives that extend beyond a single reporting period. Capital assets are stated at cost or estimated historical cost if actual is unavailable, except for donated assets, which are recorded at their fair values when donated.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

1. Summary of Significant Accounting Policies - Continued

Financial Statement Accounts - Continued

Capital Assets - Continued

The City maintains the following minimum capitalization thresholds for capital assets:

Building and improvements	\$	50,000
Land improvements	\$	20,000
Machinery, equipment and vehicles	\$	15,000
Infrastructure	\$	40,000

The City has elected to capitalize governmental fund type infrastructure, consisting primarily of street improvements, on a prospective basis. Consequently, the financial statements do not include infrastructure prior to October 1, 2003 with the exception of significant street projects.

Major expenditures for property and those which substantially increase useful lives, are capitalized. Maintenance, repairs and minor renewals, and capital assets purchased under the capitalization threshold, are expensed when incurred. When capital assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. Net interest cost relating to construction is capitalized.

Depreciation has been provided using the straight-line method over estimated useful lives as follows:

Buildings	15 - 50 years
Improvements	7 - 30 years
Equipment	7 - 30 years
Vehicles	7 - 15 years
Street	30 - 40 years

Fund Financial Statements

In the fund financial statements, capital assets (arising from cash transactions) 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.

Restricted Assets

Restricted assets include cash and certificates of deposit that are restricted as to their use. The primary restricted assets are related to revenue bonds payable and outstanding warrants payable.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

1. Summary of Significant Accounting Policies - Continued

Financial Statement Accounts - Continued

Long-Term Debt

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions 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 are reported as expenditures.

Net Position/Fund Equity

The government-wide fund financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested in capital assets, net of related debt – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and outstanding balance of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted net position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – This category represents net position of the City not restricted for any project or other purpose.

Fund equity – In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantor or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.
- Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same action it employed to commit those amounts.
- Assigned – Amounts the City intends to use for specific purposes.
- Unassigned – All amounts not included in other classifications.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

1. Summary of Significant Accounting Policies - Continued

Property Tax Revenues

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1, and are payable in two installments on the following May 1 and September 1. All taxes are delinquent the September 1 following the year levied. The County bills and collects property taxes and remits them to the City monthly.

Budgets

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 10, the Mayor submits to the City Council, a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 20, the budget is legally enacted through the passage of an ordinance.

Total expenditures may not legally exceed total budget appropriations. Appropriations lapse at year-end and any revisions require Board approval.

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; accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

All taxes, which are collected through the Nemaha County Treasurer, are from property owners within the City. Consequently, the City's ability to collect the taxes may be affected by economic fluctuations near the City of Auburn, Nebraska. To date, such concentrations of credit risk have not had a material effect on the financial statements.

2. Cash and Certificates of Deposit

Deposit risks include:

- Custodial Credit Risk – for deposits, custodial credit risk is the risk that in the event of the failure of a bank or other counterparty, the City will not be able to recover the value of its deposits or collateral securities in the possession of a third party.
- Credit Risk – for deposits, credit risk is the risk that a bank or other counterparty defaults on its own principal and/or interest payments owed to the City
- Interest Rate Risk – for deposits, interest rate risk is the risk that the value of deposits will decrease as a result of a rise in interest rates