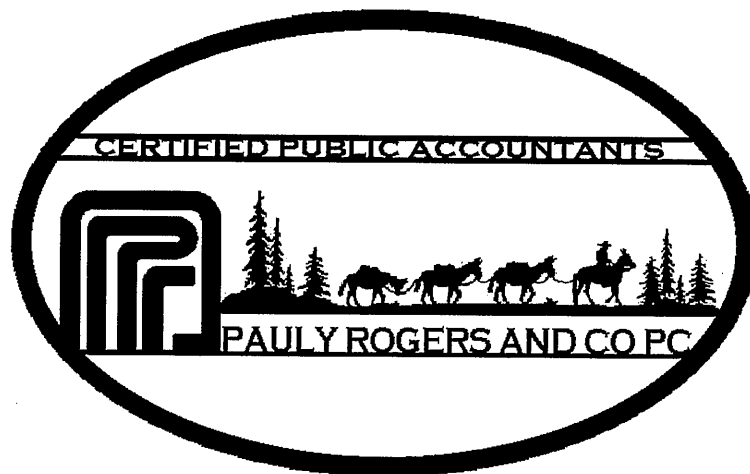


CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011



12700 SW 72nd Ave.
Tigard, OR 97223

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

FOR THE YEAR ENDED JUNE 30, 2011

ANNUAL FINANCIAL REPORT

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CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

CITY COUNCIL

TERM EXPIRES

Bill Currier, Mayor

December 31, 2012

Steven Bittner

December 31, 2012

Charline King

December 31, 2014

Jeff Kubler

December 31, 2012

Ron Mercer

December 31, 2014

All council members receive mail at the address listed below.

ADMINISTRATION

Drew Foster, City Administrator

City of Adair Village
6030 William R. Carr Road
Adair Village, Oregon 97330

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CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

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CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

December 11, 2012

To the Honorable Mayor and
Members of the City Council
City of Adair Village, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Adair Village, Oregon, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements as listed in the table of contents. The basic financial statements are the responsibility of management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Adair Village, Oregon, at June 30, 2011, and the results of its operations and the cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Required Supplementary Information and Supplementary Information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Required Supplementary Information and Supplementary Information, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pauly, Rogers and Co., P.C.

PAULY, ROGERS AND CO., P.C.

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CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

My discussion and analysis of the City of Adair Village's financial position provides an overview of the City's financial activities for the fiscal year ended June 30, 2011.

Please read it in conjunction with the City's basic financial statements, which begin on page 8.

Financial Highlights

- The City's net assets decreased \$327,103, or -6.6 percent, as a result of this year's operations.
- Net assets of our governmental activities decreased by \$62,585 or -3.4 percent.
- Net assets of our business-type activities decreased by \$264,518 or -8.7 percent.
- The total cost of all the City's programs in 2011 was \$1,041,238; in 2010, this cost was \$ 1,030,813.

City's Activities Highlights

Public Works Brought In-house

The City made the decision to end its contract with CH₂MHill/OMI to run the City's water and wastewater facilities. The existing contract did not allow this to happen until August 2011. In preparation for establishing our own Public Works Department, the City hired a new Public Works Supervisor, Tom Shaddon, who began work in January 2011. This enabled a smooth transition and allowed the City to begin work on a number of projects focused on parks, streets and storm drains. This did require that funds be reallocated within the Water and Wastewater Funds from Materials and Services to Personal Services.

Police Department

The Adair Village Police Department started the year with a full-time chief and one full-time officer, plus five reserves. The Chief resigned in December 2011 and our one full-time officer took over as Interim Chief while we recruited for a new Chief. The budget for the department shrank from \$203,770 to \$168,204.

Moving Two Barracks onto City Property

Work on refurbishing the outside of the two 25' x 125' barracks that were donated to the City by Santiam Christian School was completed at a cost of \$112,215. These buildings will be used by the City to establish an interpretive center and a multi-use building.

Urban Growth Boundary Expansion and Annexation

The City completed the Urban Growth Boundary (UGB) expansion begun in 2006. An additional 128 acres was added to the south of the present city limits through an annexation application that was completed in June 2010. This area will be opened primarily for residential development.

Engineering Projects

The City worked with the City Engineer of record, Garrett Pallo of CivilWest, to pursue a number of projects which support preparation for future growth. Costs were over \$470,000 for all engineer work, including general services and the barracks project mentioned above. The primary long-range projects were:

- Infrastructure to the Intersection of Carr and Arnold - \$290,000 + \$70,000.

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

This major capital project used existing System Development Charges (SDC) to bring both water and wastewater lines to the intersection that contains the barracks and that will be the northern edge of the future downtown area. In addition, the overall project included the repair of a dozen manholes throughout town and the replacement of 2000' of sewer line that runs through Adair County Park on the way to the City's Wastewater Plant. These two smaller projects cost \$70,000.

- Water Rights Development - \$25,000

The City has a large (82 cubic feet per second (cfs) water right that it needs to certify. This is an ongoing issue that will ultimately require an application to the Oregon Water Resources Department.

- Urban Design Standards - \$16,000

This project will enable the City to control the quality of infrastructure when development begins in the new UGB.

- Mixing Zone Study - \$27,000

This project was required by Oregon Department of Environmental Quality (DEQ). The City's treated sewage output is delivered into the Willamette River just past the intake for our Water Plant. Per the City's NPDES (National Pollutant Discharge Elimination System), we were required to complete a Level 1 Mixing Zone Study. The study determined that we are meeting the requirements of our permit for appropriate mixing of effluent with toxicity levels below appropriate thresholds

City Council Goals

The City Council gained a new member in 2011 when Ron Mercer, who had originally come to the City as a RARE (Resource Assistance for Rural Environments) intern, was elected to the Council. The City Council held a goal-setting work session to update existing goals. These new goals include:

- Reduce water loss
- Establish water rights and permit
- Upgrade water plant & transmission lines
- Control storm water infiltration & inflow
- Upgrade streets and sidewalks
- Downtown/commercial center planning
- Interior restoration and public use of barracks
- Develop Emergency Management Plan
- Funding for wastewater facility plan
- Develop industrial site
 - Complete Phase II ESA, define clean-up plan, find funding resources for clean-up, development plan

Using This Annual Report

This annual report consists of a set of financial statements. The Statement of Net Assets (pg. 8) and the Statement of Activities (pg. 9) provide information concerning the activities of the City as a whole and present a view of the monetary standing of the City for the fiscal year end date of June 30, 2011. Fund financial statements begin on page 10 and provide information on both governmental and proprietary, or business-type funds. A review of these statements will provide information on the City's revenues, expenditures, capital assets and liabilities and ultimately compare where we were financially when the year started and where we are at the end of the fiscal year.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities provide the background information to determine how the City's financial situation has changed since the previous year. These statements use "accrual-based accounting," which is similar to accounting procedures used in the private sector. Accrual-based accounting records the City's assets and liabilities according to when they were due, not when they were actually paid or received.

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

These statements report the City's "net assets" and how they changed. This allows one to determine the City's fiscal health, or financial position. Net assets represent the difference between what the City owes and what the City owns. Increase or decrease in net assets, taken in conjunction with the actual activities undertaken by the City, determine whether the City's financial health is increasing or decreasing. Actual "activities" include any changes to the City's property tax base through an increase in population and any additions, improvements, or deterioration to the City's capital assets (buildings, land, equipment).

The financial statements divide the City's activities into two areas:

- **Governmental Activities** - The General Fund and the Street Fund are the primary areas here. It includes revenues from other governments, property taxes, leases, franchise fees, and grants. It includes a wide variety of expenses, including contracts for service, utilities, supplies, and general administrative costs. These funds are reported using modified accrual accounting and breaks expenses into basic services-streets, public safety, parks, and general government and planning.
- **Business-type (proprietary) Activities** - Water, Sewer, Storm Drain, and Systems Development Funds are included here. Most revenues come as fee charges for services that the City delivers to our citizens and customers. Expenses include everything needed to provide those services-personal services, materials and services, and capital outlay.

The City's Situation at the End of the Fiscal Year

Table 1 below shows the City's Net Assets by Governmental and Business-type Activities and provides a comparison to last year's assets. Overall the City's Net Assets decreased from \$4,894,805 to \$4,567,702.

Table 1
Net Assets

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|----------------------------|--------------------------------|--------------------|---------------------------------|--------------------|--------------------|--------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Current Assets | \$209,862 | \$397,306 | \$515,032 | \$1,007,030 | \$724,894 | \$1,404,336 |
| Capital Assets | <u>1,650,893</u> | <u>1,570,034</u> | <u>2,670,309</u> | <u>2,474,466</u> | <u>4,321,203</u> | <u>4,044,500</u> |
| TOTAL ASSETS | <u>1,860,755</u> | <u>1,967,340</u> | <u>3,185,341</u> | <u>3,481,496</u> | <u>5,046,097</u> | <u>5,448,836</u> |
| Current Liabilities | 72,960 | 103,911 | 110,417 | 103,906 | 179,731 | 207,817 |
| Non-current Liabilities | <u>14,093</u> | <u>27,142</u> | <u>280,925</u> | <u>319,072</u> | <u>295,018</u> | <u>346,214</u> |
| TOTAL LIABILITIES | <u>87,053</u> | <u>131,053</u> | <u>391,342</u> | <u>422,978</u> | <u>478,395</u> | <u>554,031</u> |
| Net Assets: | | | | | | |
| Invested in Capital Assets | 1,623,751 | 1,530,810 | 2,346,561 | 2,112,953 | 3,970,312 | 3,643,763 |
| Restricted for: | - | - | | | | |
| Streets System Development | 32,629 | 29,913 | 188,932 | 483,174 | 32,629 | 29,913 |
| Unrestricted | <u>117,322</u> | <u>275,564</u> | <u>258,305</u> | <u>462,391</u> | <u>375,627</u> | <u>737,955</u> |
| TOTAL NET | <u>\$1,773,702</u> | <u>\$1,836,287</u> | <u>\$2,794,000</u> | <u>\$3,058,518</u> | <u>\$4,567,702</u> | <u>\$4,894,805</u> |

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

Net assets decreased 6.7 percent. Unrestricted net assets-the portion of that are used to finance day-to-day operation without outside restraints, such as debt covenants, legislation, or other legal requirements-actually decreased from \$695,530 to \$408,256 or -41.30 percent. These decreases turned primarily on the Adair Village Police Department and on the investment in engineering projects in preparation for expected growth, which has not come to pass.

Table 2 below shows the Change in Revenues and Expenditures by Governmental and Business-type Activities and provides a comparison to last year's assets.

Table 2

Change in Revenues and Expenses

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|-------------------------------|--------------------------------|----------------|---------------------------------|----------------|----------------|----------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charge for services | \$122,339 | \$100,085 | \$413,664 | \$408,152 | \$540,461 | \$ 536,198 |
| Grants | 6,029 | 4,500 | - | - | 6,029 | 4,500 |
| General Revenues: | | | | | | |
| Property Taxes | 91,520 | 88,726 | - | - | 91,520 | 88,726 |
| Highway Fund Allocation | 44,362 | 38,606 | - | - | 44,362 | 38,606 |
| Intergovernmental | 18,300 | 18,141 | - | - | 18,300 | 18,141 |
| Earnings on Investments | 1,910 | 3,947 | 2,625 | 5,777 | 4,534 | 9,723 |
| Insurance Proceeds | - | - | - | - | - | - |
| Capital Lease Management Fees | - | - | - | - | - | - |
| Miscellaneous Income | <u>8,928</u> | <u>7,841</u> | <u>4,458</u> | <u>10,247</u> | <u>8,928</u> | <u>4,615</u> |
| TOTAL REVENUES | <u>293,388</u> | <u>261,846</u> | <u>420,747</u> | <u>424,176</u> | <u>714,134</u> | <u>686,022</u> |
| Program Expenses: | | | | | | |
| Governmental Activities: | | | | | | |
| General Government | 169,609 | 179,188 | - | - | 169,609 | 179,188 |
| Public Safety | 168,204 | 203,770 | - | - | 168,204 | 203,770 |
| Street Maintenance | 44,832 | 39,540 | - | - | 44,832 | 39,540 |
| Culture & Recreation | 26,435 | 34,216 | - | - | 26,435 | 34,216 |
| Unallocated | 2,976 | 3,881 | - | - | 2,976 | 3,881 |

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

| Proprietary Activities: | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Water | - | - | 365,109 | 310,682 | 365,310 | 310,682 |
| Wastewater | - | - | 255,997 | 257,195 | 255,997 | 257,195 |
| Storm Drain | <u>-</u> | <u>-</u> | <u>8,076</u> | <u>2,341</u> | <u>8,075</u> | <u>2,341</u> |
| TOTAL EXPENSES | <u>412,056</u> | <u>460,595</u> | <u>629,182</u> | <u>570,218</u> | <u>1,041,438</u> | <u>1,030,813</u> |
| Increase (decrease) in net assets | (62,585) | (198,749) | (264,518) | (146,042) | (327,304) | (344,791) |
| Net assets-Beginning of year | <u>1,836,287</u> | <u>2,035,036</u> | <u>3,058,518</u> | <u>3,204,560</u> | <u>4,894,804</u> | <u>5,239,596</u> |
| Net assets-End of year | <u>\$1,773,702</u> | <u>\$1,836,287</u> | <u>\$2,794,000</u> | <u>\$3,058,518</u> | <u>\$4,567,500</u> | <u>\$4,894,805</u> |

The City's total revenues increased by \$28,112. Total expenses increased by \$11,025. Specifics on those changes can be found under "City's Activity Highlights" above.

General Budgetary Highlights

Over the year, the City Council revised the City's budget in three areas.

- Funds were transferred within the Water (\$22,000) and Wastewater (\$12,000) Funds from Personal Services to Materials and Services to hire a supervisor for the City's new Public Works Department.
- Funds were transferred from the SDC (Systems Development Charges) Fund to Water (\$197,903) and Wastewater (113,843) Funds for the work undertaken to bring water and sewer lines to our planned downtown area. The funds were planned within the existing budget. This action specified the exact amounts needed to be transferred.
- Funds were transferred (\$56,083) from the Reserve Fund to the General Fund to prepare the Barracks buildings connection to the water system.

Areas of legal appropriations are personal services, material and services, capital outlay, transfers, debt service, and contingencies. The General Fund has five sub-funds-Administration/Planning, Building, Non-Departmental, Parks, and public Safety.

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Assets

At the end of June 30, 2011, the City had \$4,321,203 invested in land, buildings and improvements, streets, and equipment. This represents an increase (net of depreciation) of \$276,703 or 6.84 percent.

Table 3
Capital Assets at Year-end
Net Depreciation

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|-------------------------------|--------------------------------|--------------------|---------------------------------|--------------------|--------------------|--------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Land and Improvements | \$ 132,757 | \$ 132,757 | \$79,557 | \$79,557 | \$212,314 | \$212,314 |
| Buildings and Improvements | 765,459 | 653,244 | 745,029 | 739,004 | 1,510,488 | 1,300,933 |
| Water and Sewer System | - | - | 3,744,934 | 3,442,329 | 3,744,934 | 3,442,329 |
| Streets | 1,075,533 | 1,075,533 | - | - | 1,075,533 | 1,075,533 |
| Park Improvements | 70,993 | 70,993 | - | - | 70,993 | 70,993 |
| Equipment | 92,911 | 92,911 | 464,091 | 472,491 | 557,021 | 550,557 |
| Less accumulated depreciation | <u>(486,760)</u> | <u>(455,404)</u> | <u>(2,363,320)</u> | <u>(2,258,915)</u> | <u>(2,850,080)</u> | <u>(2,714,319)</u> |
| Total | <u>\$1,650,893</u> | <u>\$1,570,034</u> | <u>\$2,670,310</u> | <u>\$2,474,466</u> | <u>\$4,321,203</u> | <u>\$4,044,500</u> |

Economic Factors and Next Year's Budgets and Rates

The Budget Committee (five City Council members and five citizen members) considered a wide range of factors when establishing the budget for the fiscal year ending June 30, 2011. Estimates were made for a range of revenues, including property taxes, shared state revenues, grants, franchise fees, leases, and charges for utility service. Water and Wastewater utility rates were raised for the first time since 2001-02. This was done for a two-fold purpose. First, since there had been no change in water rates for 10 years, the City was no longer covering all the costs of providing the utility services. Second, the City needed to bring water and sewer utility rates up to the Federal "Affordability Index (AI)" in order to be able to qualify for Federal grants for the work that will be needed in the future to our water and wastewater plants. The plan is to bring our rates to the AI in four steps over two years. Resolution 2011-#4 (April 19, 2011) authorized the first two steps. The first increase took place in March 2011 and the second in September 2011. For the 2010-11 budget year, the water rate was increased from \$37.17 to \$42.99. The wastewater rate increased from \$36.69 to \$40.28. The second step will be reported in the 2011-12 budget document.



Drew Foster, City Administrator
Name/Title

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

BASIC FINANCIAL STATEMENTS

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**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**STATEMENT OF NET ASSETS
June 30, 2011**

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| Cash and Investments | \$ 176,449 | \$ 471,589 | \$ 648,038 |
| Receivables: | | | |
| Accounts | 28,377 | 43,443 | 71,820 |
| Taxes | 5,036 | - | 5,036 |
| Capital Assets: | | | |
| Land | 132,757 | 79,557 | 212,314 |
| Other Capital Assets, Net of Accumulated Depreciation | <u>1,518,136</u> | <u>2,590,753</u> | <u>4,108,889</u> |
| Total Assets | <u>1,860,755</u> | <u>3,185,342</u> | <u>5,046,097</u> |
| LIABILITIES AND NET ASSETS | | | |
| Liabilities: | | | |
| Accounts Payable | 22,641 | 40,468 | 63,109 |
| Payroll Liabilities | 25,699 | 18,255 | 43,954 |
| Accrued Compensated Absences | 3,668 | 3,589 | 7,257 |
| Unearned Revenue | 7,535 | - | 7,535 |
| Accrued Interest | 369 | 5,483 | 5,852 |
| Long Term Debt: | | | |
| Due Within One Year | 13,049 | 42,622 | 55,671 |
| Due in More Than One Year | <u>14,093</u> | <u>280,925</u> | <u>295,018</u> |
| Total Liabilities | <u>87,053</u> | <u>391,342</u> | <u>478,395</u> |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | 1,623,751 | 2,346,763 | 3,970,514 |
| Restricted for: | | | |
| Streets | 32,629 | - | 32,629 |
| System Development | - | 188,932 | 188,932 |
| Unrestricted | <u>117,322</u> | <u>258,305</u> | <u>375,627</u> |
| Total Net Assets | <u>\$ 1,773,702</u> | <u>\$ 2,794,000</u> | <u>\$ 4,567,702</u> |

See accompanying notes to the basic financial statements.

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

| | Expenses | Program Revenues | |
|-------------------------------------|---------------------|----------------------|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions |
| <u>Functions/Programs</u> | | | |
| Primary Government | | | |
| Governmental Activities | | | |
| General Government | \$ 169,609 | \$ 122,339 | \$ 6,029 |
| Public Safety | 168,204 | - | - |
| Street Maintenance and Construction | 44,832 | - | - |
| Culture and Recreation | 26,435 | - | - |
| Unallocated Interest Expense | 2,976 | - | - |
| Total Governmental Activities | <u>412,056</u> | <u>122,339</u> | <u>6,029</u> |
| Business -Type Activities | | | |
| Water | 365,109 | 244,908 | - |
| Wastewater | 255,997 | 154,564 | - |
| Other | 8,076 | 14,192 | - |
| Total Business - Type Activities | <u>629,182</u> | <u>413,664</u> | <u>-</u> |
| Total Primary Government | <u>\$ 1,041,238</u> | <u>\$ 536,003</u> | <u>\$ 6,029</u> |

See accompanying notes to the basic financial statements.

Net Revenues (Expenses) and
Changes in Net Assets

| Net Revenues (Expenses) | Governmental Activities | Business-Type Activities | Total |
|----------------------------|----------------------------|-----------------------------|---------------------|
| \$ (41,241) | \$ (41,241) | \$ - | \$ (41,241) |
| (168,204) | (168,204) | - | (168,204) |
| (44,832) | (44,832) | - | (44,832) |
| (26,435) | (26,435) | - | (26,435) |
| (2,976) | (2,976) | - | (2,976) |
| <u>(283,688)</u> | <u>(283,688)</u> | <u>-</u> | <u>(283,688)</u> |
| (120,201) | - | (120,201) | (120,201) |
| (101,433) | - | (101,433) | (101,433) |
| 6,116 | - | 6,116 | 6,116 |
| <u>(215,518)</u> | <u>-</u> | <u>(215,518)</u> | <u>(215,518)</u> |
| <u>\$ (499,206)</u> | <u>(283,688)</u> | <u>(215,518)</u> | <u>(499,206)</u> |
| General Revenues: | | | |
| Property Taxes | 91,520 | - | 91,520 |
| Highway Taxes | 44,362 | - | 44,362 |
| Intergovernmental | 18,300 | - | 18,300 |
| Earnings on Investments | 1,910 | 2,625 | 4,535 |
| Miscellaneous | 8,928 | 4,458 | 13,386 |
| Transfers | 56,083 | (56,083) | - |
| Total General Revenues | <u>221,103</u> | <u>(49,000)</u> | <u>172,103</u> |
| Change in Net Assets | (62,585) | (264,518) | (327,103) |
| Beginning Net Assets | <u>1,836,287</u> | <u>3,058,518</u> | <u>4,894,805</u> |
| Ending Net Assets | <u>\$ 1,773,702</u> | <u>\$ 2,794,000</u> | <u>\$ 4,567,702</u> |

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

| | GENERAL FUND | STREET FUND | TOTAL |
|---------------------------------------|-----------------|----------------|------------|
| ASSETS: | | | |
| Cash and Investments | \$ 143,536 | \$ 32,913 | \$ 176,449 |
| Receivables: | | | |
| Accounts | 24,399 | 3,978 | 28,377 |
| Taxes | 5,036 | - | 5,036 |
| Total Assets | \$ 172,971 | \$ 36,891 | \$ 209,862 |
| LIABILITIES AND FUND BALANCES: | | | |
| Liabilities: | | | |
| Accounts Payable | \$ 20,257 | \$ 2,384 | \$ 22,641 |
| Payroll Liabilities | 23,821 | 1,878 | 25,699 |
| Deferred Revenue - Taxes | 4,339 | - | 4,339 |
| Deferred Revenue - Other | 7,535 | - | 7,535 |
| Total Liabilities | 55,952 | 4,262 | 60,214 |
| Fund Balances: | | | |
| Restricted for: | | | |
| Streets | - | 32,629 | 32,629 |
| System Development | - | - | - |
| Unassigned | 117,019 | - | 117,019 |
| Total Fund BalanceS | 117,019 | 32,629 | 149,648 |
| Total Liabilities and Fund Balances | \$ 172,971 | \$ 36,891 | \$ 209,862 |

See accompanying notes to the basic financial statements.

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS
June 30, 2011

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets.

| | | |
|---|----|-------------------------|
| Fund Balances | \$ | 149,648 |
| <p>The cost of capital assets (land, buildings, improvements, machinery and equipment, and infrastructure) is reported as an expenditure in governmental funds. The statement of net assets includes those capital assets among the assets of the City as a whole.</p> | | |
| Net Capital Assets | | 1,650,893 |
| <p>Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.</p> | | |
| Accrued Compensated Absences | \$ | (3,668) |
| Accrued Interest | | (369) |
| Capital Lease Payable | | <u>(27,142)</u> |
| | | (31,179) |
| <p>Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.</p> | | |
| Deferred Property Taxes | | <u>4,339</u> |
| Total Net Assets | \$ | <u><u>1,773,702</u></u> |

See accompanying notes to the basic financial statements.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011**

| | GENERAL FUND | STREET FUND | TOTAL |
|--|-------------------|------------------|-------------------|
| REVENUES: | | | |
| Property Taxes | \$ 91,366 | \$ - | \$ 91,366 |
| Highway Taxes | - | 44,362 | 44,362 |
| Franchise Fees | 29,886 | - | 29,886 |
| Intergovernmental | 18,300 | - | 18,300 |
| Grants | 6,029 | - | 6,029 |
| Traffic Safety Funds | 2,660 | - | 2,660 |
| Property Leases/Rents | 58,918 | - | 58,918 |
| Permits and Fees | 33,535 | - | 33,535 |
| Interest Income | 1,865 | 45 | 1,910 |
| Miscellaneous | 6,268 | - | 6,268 |
| Total Revenues | <u>248,827</u> | <u>44,407</u> | <u>293,234</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| Personal Services | 169,480 | 11,867 | 181,347 |
| Materials and Services | 169,249 | 29,824 | 199,073 |
| Capital Outlay | 112,215 | - | 112,215 |
| Debt Service | 15,221 | - | 15,221 |
| Total Expenditures | <u>466,165</u> | <u>41,691</u> | <u>507,856</u> |
| Excess of Revenues Over, (Under) Expenditures | (217,338) | 2,716 | (214,622) |
| Other Financing Sources, (Uses) | | | |
| Transfers In | 56,083 | - | 56,083 |
| Total Other Financing Sources, (Uses) | <u>56,083</u> | <u>-</u> | <u>56,083</u> |
| Net Change in Fund Balance | (161,255) | 2,716 | (158,539) |
| Fund Balance - Beginning of Year | <u>278,274</u> | <u>29,913</u> | <u>308,187</u> |
| Fund Balance - End of Year | <u>\$ 117,019</u> | <u>\$ 32,629</u> | <u>\$ 149,648</u> |

See accompanying notes to the basic financial statements.

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - TO
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011**

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

Net Change in Fund Balance \$ (158,539)

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

| | | |
|-----------------------|-----------------|--------|
| Capitalized Additions | \$ 112,215 | |
| Depreciation Expense | <u>(31,356)</u> | |
| Net Adjustment | | 80,859 |

Repayment of long-term debt is an expenditure in the governmental funds; however, repayment reduces long-term liabilities in the statement of net assets.

| | | |
|--|--------------|--------|
| Capital Lease Principal Payments | \$ 12,082 | |
| Change in Accrued Interest | 163 | |
| Change in Accrued Compensated Absences | <u>2,696</u> | |
| | | 14,941 |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | | |
|-------------------------|--|---------------------------|
| Deferred Property Taxes | | \$ 154 |
| | | <hr/> |
| Change in Net Assets | | <u><u>\$ (62,585)</u></u> |

See accompanying notes to the basic financial statements.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**COMBINED STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011**

| | WATER FUND | WASTEWATER FUND | SYSTEMS DEVELOPMENT FUND | NONMAJOR PROPRIETARY FUNDS | TOTAL |
|--|---------------------|---------------------|--------------------------------|----------------------------------|---------------------|
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| Cash and Investments | \$ 277,972 | \$ - | \$ 172,514 | \$ 21,103 | \$ 471,589 |
| Accounts Receivable | 23,617 | 18,249 | - | 1,577 | 43,443 |
| Due From Other Funds | 110,790 | - | - | - | 110,790 |
| Total Current Assets | <u>412,379</u> | <u>18,249</u> | <u>172,514</u> | <u>22,680</u> | <u>625,822</u> |
| Noncurrent Assets: | | | | | |
| Land | 77,086 | 2,471 | - | - | 79,557 |
| Other Capital Assets, Net | 1,157,858 | 1,424,127 | - | 8,768 | 2,590,753 |
| Total Noncurrent Assets | <u>1,234,944</u> | <u>1,426,598</u> | <u>-</u> | <u>8,768</u> | <u>2,670,310</u> |
| Total Assets | <u>\$ 1,647,323</u> | <u>\$ 1,444,847</u> | <u>\$ 172,514</u> | <u>\$ 31,448</u> | <u>\$ 3,296,132</u> |
| LIABILITIES AND NET ASSETS: | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | \$ 29,174 | \$ 11,105 | \$ - | \$ 189 | \$ 40,468 |
| Payroll Liabilities | 10,993 | 7,262 | - | - | 18,255 |
| Accrued Interest Payable | 3,120 | 2,363 | - | - | 5,483 |
| Due To Other Funds | - | 110,790 | - | - | 110,790 |
| Compensated Absences | 2,158 | 1,431 | - | - | 3,589 |
| Bonds Payable, Due Within One Year | 27,622 | 15,000 | - | - | 42,622 |
| Total Current Liabilities | <u>73,067</u> | <u>147,951</u> | <u>-</u> | <u>189</u> | <u>221,207</u> |
| Long Term Liabilities: | | | | | |
| Bonds Payable, Due in More Than One Year | 172,750 | 108,175 | - | - | 280,925 |
| Total Long Term Liabilities | <u>172,750</u> | <u>108,175</u> | <u>-</u> | <u>-</u> | <u>280,925</u> |
| Total Liabilities | <u>245,817</u> | <u>256,126</u> | <u>-</u> | <u>189</u> | <u>502,132</u> |
| Net Assets | | | | | |
| Invested in Capital Assets, Net of Related Debt | 1,034,572 | 1,303,423 | - | 8,768 | 2,346,763 |
| Restricted For: | | | | | |
| System Development | - | - | 172,514 | 16,418 | 188,932 |
| Unrestricted | 366,934 | (114,702) | - | 6,073 | 258,305 |
| Total Net Assets | <u>1,401,506</u> | <u>1,188,721</u> | <u>172,514</u> | <u>31,259</u> | <u>2,794,000</u> |
| Total Liabilities and Net Assets | <u>\$ 1,647,323</u> | <u>\$ 1,444,847</u> | <u>\$ 172,514</u> | <u>\$ 31,448</u> | <u>\$ 3,296,132</u> |

See accompanying notes to the basic financial statements.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011**

| | WATER FUND | WASTEWATER FUND | SYSTEMS DEVELOPMENT FUND | NONMAJOR PROPRIETARY FUNDS | TOTAL |
|--|---------------------|---------------------|--------------------------------|----------------------------------|---------------------|
| OPERATING REVENUES | | | | | |
| Charges for Services | \$ 244,908 | \$ 154,564 | \$ - | \$ 14,192 | \$ 413,664 |
| Miscellaneous Revenues | 2,853 | 1,605 | - | - | 4,458 |
| Total Revenues | <u>247,761</u> | <u>156,169</u> | <u>-</u> | <u>14,192</u> | <u>418,122</u> |
| OPERATING EXPENSES | | | | | |
| Personal Services | 80,631 | 54,895 | - | - | 135,526 |
| Materials and Services | 224,766 | 128,067 | - | 7,756 | 360,589 |
| Depreciation | 47,548 | 64,936 | - | 320 | 112,804 |
| Total Expenses | <u>352,945</u> | <u>247,898</u> | <u>-</u> | <u>8,076</u> | <u>608,919</u> |
| Operating Income | (105,184) | (91,729) | - | 6,116 | (190,797) |
| NON OPERATING REVENUES (EXPENSES) | | | | | |
| Interest Income | 1,105 | 254 | 1,086 | 180 | 2,625 |
| Interest Expense | (12,164) | (8,099) | - | - | (20,263) |
| Total Non-Operating Revenues (Expenses) | <u>(11,059)</u> | <u>(7,845)</u> | <u>1,086</u> | <u>180</u> | <u>(17,638)</u> |
| Income (Loss) Before Transfers | (116,243) | (99,574) | 1,086 | 6,296 | (208,435) |
| Transfers In (Out) | 197,903 | 113,843 | (311,746) | (56,083) | (56,083) |
| Change in Net Assets | 81,660 | 14,269 | (310,660) | (49,787) | (264,518) |
| Beginning Net Assets | <u>1,319,846</u> | <u>1,174,452</u> | <u>483,174</u> | <u>81,046</u> | <u>3,058,518</u> |
| Ending Net Assets | <u>\$ 1,401,506</u> | <u>\$ 1,188,721</u> | <u>\$ 172,514</u> | <u>\$ 31,259</u> | <u>\$ 2,794,000</u> |

See accompanying notes to the basic financial statements.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2011**

| | WATER FUND | WASTEWATER FUND | SYSTEMS DEVELOPMENT FUND | NONMAJOR PROPRIETARY FUNDS | TOTAL |
|---|--------------------|--------------------|--------------------------------|----------------------------------|--------------------|
| Cash Flows From Operating Activities: | | | | | |
| Cash Received From Customers | \$ 241,283 | \$ 151,340 | \$ - | \$ 13,825 | \$ 406,448 |
| Cash Payments To Suppliers | (218,927) | (138,320) | - | (7,567) | (364,814) |
| Cash Payments To Employees | (72,730) | (51,452) | - | - | (124,182) |
| Other Receipts | 2,853 | 1,605 | - | - | 4,458 |
| Net Cash From/(Used) By Operations | <u>(47,521)</u> | <u>(36,827)</u> | <u>-</u> | <u>6,258</u> | <u>(78,090)</u> |
| Cash Flows From Non-Capital Financing Activities: | | | | | |
| Cash (Payment) Receipt to/from Other Funds | 148,964 | 164,372 | (311,746) | (57,672) | (56,082) |
| Net Cash From/(Used) By Non-Capital Financing Activities | <u>148,964</u> | <u>164,372</u> | <u>(311,746)</u> | <u>(57,672)</u> | <u>(56,082)</u> |
| Cash Flows From Capital and Related Financing Activities: | | | | | |
| Purchases of Capital Assets | (203,928) | (104,720) | - | - | (308,648) |
| Payment of Principal of Bonds, Contracts Payable | (23,269) | (14,696) | - | - | (37,965) |
| Payment of Interest on Long-Term Debt | (12,670) | (8,383) | - | - | (21,053) |
| Net Cash From/(Used) By Capital and Related Financing Activities | <u>(239,867)</u> | <u>(127,799)</u> | <u>-</u> | <u>-</u> | <u>(367,666)</u> |
| Cash Flows From Investing Activities: | | | | | |
| Interest on Investments | 1,105 | 254 | 1,086 | 180 | 2,625 |
| Net Cash From Investing Activities | <u>1,105</u> | <u>254</u> | <u>1,086</u> | <u>180</u> | <u>2,625</u> |
| Net Increase/(Decrease) In Cash and Investments | (137,319) | - | (310,660) | (51,234) | (499,213) |
| Balances - Beginning of Year | 415,291 | - | 483,174 | 72,337 | 970,802 |
| Balances - End of Year | <u>\$ 277,972</u> | <u>\$ -</u> | <u>\$ 172,514</u> | <u>\$ 21,103</u> | <u>\$ 471,589</u> |
| Reconciliation of Cash Flows From Operating Activities to Operating Income | | | | | |
| Operating Income | \$ (105,184) | \$ (91,729) | \$ - | \$ 6,116 | \$ (190,797) |
| Adjustments | | | | | |
| Depreciation/Amortization | 47,548 | 64,936 | - | 319 | 112,803 |
| (Increase), Decrease in Accounts Receivable | (3,625) | (3,224) | - | (366) | (7,215) |
| Increase, (Decrease) in Accounts Payable | 5,839 | (10,253) | - | 189 | (4,225) |
| Increase, (Decrease) in Compensated Absences | 810 | 83 | - | - | 893 |
| Increase, (Decrease) in Payroll Liabilities | 7,091 | 3,360 | - | - | 10,451 |
| Net Cash From Operations | <u>\$ (47,521)</u> | <u>\$ (36,827)</u> | <u>\$ -</u> | <u>\$ 6,258</u> | <u>\$ (78,090)</u> |

See accompanying notes to the basic financial statements.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in conformity with accounting principles generally accepted in the United State of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies are described below.

THE FINANCIAL REPORTING ENTITY

The City of Adair Village is a municipal corporation, incorporated in 1976 under the authority of Oregon Revised Statutes Section 221, and operates with a five member elected City Council comprised of the mayor and four council members. The City Council appoints the City Administrator, who is responsible for the day to day management of the City. The City operates water and wastewater systems and maintains city streets and parks.

Accounting principles generally accepted in the United States of America require that these financial statements present the City (the primary government) and all component units, if any. Component units, as defined by the Governmental Accounting Standards Board (GASB) Statement No. 39, are separate organizations that are included in the reporting entity because of the significance of their operational or financial relationships with the City. There are no component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The effect of interfund activity has been removed from these statements.

The statement of activities reports the activities by function. The major functions are general government, police services, and water/sewer services. The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., general government, public safety, streets, etc.) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. Remaining proprietary funds are reported in aggregate as non-major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available (susceptible to accrual). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Also, inventory is expensed when purchased, capital outlay is expensed rather than capitalized, and depreciation on capital assets is not recorded.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received.

There are two *major governmental* funds:

General Fund – This is the primary operating fund. It accounts for all financial operations except those required to be accounted for in another fund. The principal revenue sources are property taxes, franchise fees, state shared revenue, charges for services and interest on investments. Primary expenditures are for general government, police protection and culture and recreation.

Street Fund – This fund accounts for the construction or reconstruction of streets and sidewalks. These costs are paid primarily from moneys received pursuant to the State of Oregon Gas Tax Apportionment.

There are three major proprietary funds:

Water Fund - This fund accounts for the revenues and expenses of the water utility. The primary revenue source is fees for services.

Wastewater Fund - This fund accounts for the revenues and expenses of the wastewater utility. The primary revenue source is fees for services.

Systems Development (SDC) Fund – This fund accounts for the system development charges which are assessed for new construction. SDC fees are the main revenue source.

There are two non-major proprietary funds:

Storm Drain Fund – This fund accounts for revenues and expenses of the storm drain utility. The primary revenue source is fees for services.

Reserve Fund – This fund accounts for capital outlay expenditures for the water plant. The primary revenue source is transfers from other funds.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

BUDGETS

A budget is prepared for all funds in accordance with the modified accrual basis of accounting and legal requirements set forth in the Oregon Local Budget Law. The budgets for all funds are adopted on a basis consistent with generally accepted accounting principles except that property taxes received more than 60 days after year-end are not considered budgetary resources in the funds, inventory is expensed when purchased, debt is recorded as an expenditure when paid, capital outlay is recorded as an expenditure rather than capitalized, and depreciation is not recorded on capital assets.

The budget process begins early in each fiscal year with the establishment of the Budget Committee. Recommendations are developed through late winter with the Budget Committee approving the budget in early spring. Public notices of the budget hearing are published generally in early spring with a public hearing being held approximately three weeks later. The Council may amend the budget prior to adoption; however, budgeted expenditures for each fund may not be increased by more than ten percent. The budget is then adopted, appropriations are made and the tax levy declared no later than June 30th.

Expenditure budgets are appropriated at the following levels for each fund.

LEVEL OF CONTROL

Personal Services

Materials and Services

Capital Outlay

Interfund Transactions

Debt Service

Operating Contingency

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS (CONTINUED)

Expenditures cannot legally exceed the above appropriation levels except in the case of grants which could not be estimated at the time of budget adoption. All annual appropriations lapse at fiscal year end. Management may amend line items in the budget without Council approval as long as appropriation levels (the legal level of control) are not changed. Supplemental appropriations may occur if the City Council approves them due to a need which exists which was not determined at the time the budget was adopted.

Budget amounts shown in the basic financial statements reflect the original budget amount and final budget amounts, which include several appropriation transfers. Expenses of the various funds were within authorized appropriations for the year ended June 30, 2011, except for the General Fund: Debt Service over expended by \$15,221; Street Fund: Personal Services over expended by \$4,792; Wastewater Fund: Materials and Services over expended by \$7,147, and Debt Service over expended by \$129; and the Storm Drain Fund: Materials and Services over expended by \$3,755.

ESTIMATES

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

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and cash and investments in the State Local Government Investment Pool. Investments, including equity in pooled cash and investments, are stated at fair value.

Receivables and Payables

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

Uncollected property taxes are shown in the combined balance sheet. Uncollected taxes are deemed by management to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established. Property taxes collected within approximately 60 days of the fiscal year-end are recognized as revenue. The remaining balance of taxes receivable is recorded as deferred revenue because it is not deemed by management to be available to finance operations of the current period.

Receivables of the enterprise funds are recognized as revenue when earned, including services provided but not billed. Receivables in enterprise funds are deemed by management to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectibles has been established.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

| | |
|----------------------------|-------------|
| Buildings and Improvements | 30-50 years |
| Infrastructure | 20-50 years |
| Equipment | 7-10 years |

Supply Inventories

Inventories are expensed as purchased. Inventories are not recorded as an asset because they are considered by management to be immaterial at year end.

Compensated Absences

Accumulated vested compensated absences are accrued in the government-wide and enterprise fund financial statements as earned by the employees. Sick pay, which does not vest, is recorded when leave is taken. A liability for vacation pay is not accrued in the governmental funds because it is not expected that vacation pay will be liquidated with expendable available resources.

Deferred Revenue

On the fund financial statements, deferred revenue arises when resources do not satisfy both the measurable and available criteria for recognition in the current year, for example, if property taxes are received more than 60 days after year-end. In subsequent periods, when recognition criteria are met, the liability for deferred revenue is removed and revenue is recognized. Also, the City owns several properties that are leased out to third parties. If the lessee prepays their rent, the amount of rent that is prepaid at year end is deferred and recognized in the subsequent year.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

Long-term Obligations

In the government-wide financial statements and proprietary fund types fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance/Net assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Net assets comprise the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net assets are classified in the following three categories.

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

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

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

Fund Balance

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

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

Fund Balance (Continued)

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

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

There were no non-spendable, committed, or assigned fund balances at June 30, 2011.

Cash Flow Statements

For purposes of the statement of cash flows, enterprise funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalent. Accordingly, all investments are considered to be cash equivalents.

Property Tax Calendar

Property taxes attach as an enforceable lien on July 1 for real property and personal property. Taxes are levied as of July 1 and payable in three installments on November 15, February 15, and May 15. Real property taxes unpaid on May 16 are considered delinquent. Uncollected taxes, including delinquent amounts, are deemed by management to be substantially collectible or recoverable through liens. Therefore, no allowance for uncollectibles has been established.

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS

A cash pool is maintained that is available for use by all funds. Each portion of this pool is reported on the balance sheet as Cash and Investments.

Cash and Investments at June 30, 2011 (recorded at cost) consisted of:

| | |
|---|-------------------|
| Cash on hand | \$ 130 |
| Deposits with financial institutions | 27,877 |
| Oregon State Treasurer's Local Government Investment Pool | 620,031 |
| | <u>\$ 648,038</u> |

Cash and Investments are reflected in the government-wide Statement of Net Assets as follows:

| | |
|----------------------------|-------------------|
| Governmental Activities | \$ 176,449 |
| Business-Type Activities | 471,589 |
| Total cash and investments | <u>\$ 648,038</u> |

Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the deposits may not be returned. There is no formal deposit policy for custodial credit risk. Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited in an approved depository as identified by the Treasury. For the fiscal year ended June 30, 2011, the bank balance was \$27,877. All of the bank balance was covered by Federal Depository Insurance.

Investments

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

There is participation in the Oregon State Treasurer's Local Government Investment Pool (LGIP or Pool), an open-ended, no-load diversified portfolio created under ORS 294.805 to 294.895. The Pool is not registered with the U.S. Securities and Exchange Commission as an investment company and is not rated. The State's investment policies are governed by the Oregon Revised Statutes and the Oregon Investment Council. The State Treasurer is the investment officer for the Pool and is responsible for all funds in the Pool. These funds must be invested and managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Pool are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board (OSTFB), which establishes diversification percentages and specifies the types and maturities of investments. The Oregon Audits Division of the Secretary of State's Office audits the Pool annually. A copy of the State's Comprehensive Annual Financial Report may be obtained at the Oregon State Treasury, 350 Winter St. NE, Salem, Oregon 97310-0840.

Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2011 there were the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in months)</u> | | |
|-----------------------------------|-------------------|--|---------------|----------------|
| | | <u>Less than 3</u> | <u>3 - 17</u> | <u>18 - 59</u> |
| State Treasurer's Investment Pool | \$ 620,031 | \$ 620,031 | \$ - | \$ - |
| Total | \$ 620,031 | \$ 620,031 | \$ - | \$ - |

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. The City manages exposure to declines in fair values by limiting the weighted average maturity of the investment portfolio to levels required by State statute.

Credit Risk

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

Oregon Revised Statutes require banker's acceptances to be guaranteed by and carried on the books of a qualified financial institution, eligible for discount by Federal Reserve System, and issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations. There are no investments in banker's acceptances.

Concentration of Credit Risk

At June 30, 2011, 100% of total investments were in the Oregon State Treasury's Local Government Investment Pool. State statutes do not limit the percentage of investment in the Pool.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

4. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2011 is as follows:

| Description | GOVERNMENTAL ACTIVITIES CAPITAL ASSETS | | | |
|--------------------------------------|--|-----------|-----------|---------------------|
| | June 30, 2010 | Additions | Disposals | June 30, 2011 |
| Land | \$ 132,757 | \$ - | \$ - | \$ 132,757 |
| Total Non-Depreciable Capital Assets | 132,757 | - | - | 132,757 |
| Buildings & Improvements | 653,244 | 112,215 | - | 765,459 |
| Equipment | 92,911 | - | - | 92,911 |
| Streets | 1,075,533 | - | - | 1,075,533 |
| Park Improvements | 70,993 | - | - | 70,993 |
| Total Depreciable Capital Assets | 1,892,681 | 112,215 | - | 2,004,896 |
| Less Accumulated Depreciation | 455,404 | 31,356 | - | 486,760 |
| Net Depreciable Capital Assets | 1,437,277 | | | 1,518,136 |
| Net Capital Assets | <u>\$ 1,570,034</u> | | | <u>\$ 1,650,893</u> |

Depreciation Expense for governmental activities is charged to functions as follows:

| Function | |
|-------------------------------------|------------------|
| General Government | \$ 13,001 |
| Public Safety | 12,893 |
| Street Maintenance and Construction | 3,436 |
| Culture and Recreation | 2,026 |
| Total | <u>\$ 31,356</u> |

Capital asset activity for business-type activities for the year ended June 30, 2011 is as follows:

| Description | BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS | | | |
|--------------------------------------|---|-----------|-----------|---------------------|
| | June 30, 2010 | Additions | Disposals | June 30, 2011 |
| Land | \$ 79,557 | \$ - | \$ - | \$ 79,557 |
| Total Non-Depreciable Capital Assets | 79,557 | - | - | 79,557 |
| Buildings | 739,004 | 6,025 | - | 745,029 |
| Water and Sewer System | 3,442,329 | 302,624 | - | 3,744,953 |
| Machinery and Equipment | 472,491 | - | (8,400) | 464,091 |
| Total Depreciable Capital Assets | 4,653,824 | 308,649 | (8,400) | 4,954,073 |
| Less Accumulated Depreciation | 2,258,915 | 112,805 | (8,400) | 2,363,320 |
| Net Depreciable Capital Assets | 2,394,909 | | | 2,590,753 |
| Net Capital Assets | <u>\$ 2,474,466</u> | | | <u>\$ 2,670,310</u> |

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

4. CAPITAL ASSETS (CONTINUED)

Depreciation expense for business-type activities is charged to functions as follows:

| <u>Function</u> | |
|-----------------|-------------------|
| Water | \$ 47,548 |
| Wastewater | 64,936 |
| Storm Drainage | <u>320</u> |
| Total | <u>\$ 112,804</u> |

5. LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2011 were as follows:

| | <u>Interest Rates</u> | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> | <u>Due within One Year</u> |
|----------------------------------|---------------------------|------------------------------|-----------------|------------------|---------------------------|--------------------------------|
| <i>Governmental Activities:</i> | | | | | | |
| Capital Leases | | | | | | |
| Police Vehicle Lease | 8.00% | \$ 39,224 | \$ - | \$ 12,082 | \$ 27,142 | \$ 13,049 |
| Compensated absences | | <u>6,363</u> | <u>3,670</u> | <u>6,364</u> | <u>3,668</u> | <u>3,668</u> |
| Total governmental activities | | <u>\$ 45,587</u> | <u>\$ 3,670</u> | <u>\$ 18,446</u> | <u>\$ 30,810</u> | <u>\$ 16,717</u> |
| <i>Business-type Activities:</i> | | | | | | |
| Compensated absences | | \$ 2,696 | \$ 3,589 | \$ 2,696 | \$ 3,589 | \$ 3,589 |
| Bonds payable: | | | | | | |
| 1980 Water Bonds | 5% | 41,507 | - | 3,677 | 37,830 | 7,622 |
| 1997 Water Bonds | 4.5-5.75% | 185,000 | - | 20,000 | 165,000 | 20,000 |
| Bond Discount | | (2,867) | - | (409) | (2,458) | - |
| 1997 Wastewater Bonds | 4.5-5.75% | 140,000 | - | 15,000 | 125,000 | 15,000 |
| Bond Discount | | <u>(2,129)</u> | <u>-</u> | <u>(304)</u> | <u>(1,825)</u> | <u>-</u> |
| Total business-type activities | | <u>\$ 364,207</u> | <u>\$ 3,589</u> | <u>\$ 40,660</u> | <u>\$ 327,136</u> | <u>\$ 46,211</u> |

Capital Lease

On April 24, 2009, two police vehicles were acquired, totaling \$65,633, through a capital lease. The lease calls for annual payments of \$15,221, which includes interest at 8.00 percent. The lease will be fully paid in 2013.

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

| | <u>Total</u> | <u>Principal</u> | <u>Interest</u> |
|-----------|------------------|------------------|-----------------|
| 2011-2012 | \$ 15,221 | \$ 13,049 | \$ 2,172 |
| 2012-2013 | <u>15,221</u> | <u>14,093</u> | <u>1,128</u> |
| Totals | <u>\$ 30,442</u> | <u>\$ 27,142</u> | <u>\$ 3,300</u> |

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG-TERM OBLIGATIONS (CONTINUED)

Bonds Payable

On June 10, 1980, revenue water bonds were issued, (series 1980) in the amount of \$100,000. Proceeds from this bond issue were used to fund construction of a water distribution system. This issue calls for varying principal and interest annual repayments, which includes interest at 5.00 percent. The unobligated net revenue of the Water Fund is pledged to the payment of principal and interest. Although this bond is exchangeable upon ninety (90) days notice, no action has been taken to call any portion of the outstanding bond as of June 30, 2011.

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

| | <u>Total</u> | <u>Principal</u> | <u>Interest</u> |
|-----------|------------------|------------------|-----------------|
| 2011-2012 | \$ 9,423 | \$ 7,622 | \$ 1,800 |
| 2012-2013 | 9,423 | 8,013 | 1,409 |
| 2013-2014 | 9,423 | 8,417 | 1,006 |
| 2014-2015 | 9,421 | 8,843 | 580 |
| 2015-2016 | 5,067 | 4,935 | 132 |
| Totals | <u>\$ 42,757</u> | <u>\$ 37,830</u> | <u>\$ 4,927</u> |

On October 7, 1997, revenue water bonds were issued, (series 1997) in the amount of \$345,000. Proceeds from this bond issue were used to fund improvements to the Water Plant. This issue calls for varying principal and interest annual repayments, which includes interest that varies between 4.50 percent to 5.75 percent, depending on the maturity date of the bond. The bonds were sold at a discount of \$8,189 and mature over a twenty-year period. The unobligated net revenue of the Water Fund is pledged to the payment of principal and interest.

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

| | <u>Total</u> | <u>Principal</u> | <u>Interest</u> |
|-----------|-------------------|-------------------|------------------|
| 2011-2012 | \$ 28,913 | \$ 20,000 | \$ 8,913 |
| 2012-2013 | 27,763 | 20,000 | 7,763 |
| 2013-2014 | 26,613 | 20,000 | 6,613 |
| 2014-2015 | 30,319 | 25,000 | 5,319 |
| 2015-2016 | 28,881 | 25,000 | 3,881 |
| 2016-2018 | 58,306 | 55,000 | 3,306 |
| Totals | <u>\$ 200,795</u> | <u>\$ 165,000</u> | <u>\$ 35,795</u> |

On October 7, 1997, revenue wastewater bonds were issued, (series 1997) in the amount of \$255,000. Proceeds from this bond issue were used to fund improvements to the Wastewater Plant. This issue calls for varying principal and interest annual repayments, which includes interest that varies between 4.50 percent to 5.75 percent, depending on the maturity date of the bond. The bonds were sold at a discount of \$6,081 and mature over a twenty-year period. The unobligated net revenue of the Wastewater Fund is pledged to the payment of principal and interest.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG-TERM OBLIGATIONS (CONTINUED)

Bonds Payable (Continued)

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

| | <u>Total</u> | <u>Principal</u> | <u>Interest</u> |
|-----------|-------------------|-------------------|------------------|
| 2011-2012 | \$ 21,756 | \$ 15,000 | \$ 6,756 |
| 2012-2013 | 20,894 | 15,000 | 5,894 |
| 2013-2014 | 20,031 | 15,000 | 5,031 |
| 2014-2015 | 24,025 | 20,000 | 4,025 |
| 2015-2016 | 22,875 | 20,000 | 2,875 |
| 2016-2018 | 42,300 | 40,000 | 2,300 |
| Totals | <u>\$ 151,881</u> | <u>\$ 125,000</u> | <u>\$ 26,881</u> |

6. REVENUE BOND RESERVE FUNDS

The 1997 Water and Wastewater Revenue Bonds agreements require the establishment of fund reserve accounts. The reserve accounts for both the Water and Wastewater Funds are to be used to make the bond payments in the event that revenue from user fees is insufficient. As of June 30, 2011, the reserve requirements of the 1997 Water and Wastewater Revenue Bonds were not met by cash in the Reserve Fund.

7. PENSION PLAN

Contributions are made to the State of Oregon Public Employees Retirement system (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Oregon Public Employees Retirement System. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Oregon Revised Statutes 238 assigns the authority to establish and amend benefits provisions to the PERS Board of Trustees and the State Legislature.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan ("OPSRP") is effective for all new employees hired on or after August 29, 2003. The new plan consists of a defined benefit program (the "Pension Program") and a defined contribution portion (the Individual Account Program or "IAP"). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service and a factor that varies based on type of service (general versus police or fire).

Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account. Those employees who had established a PERS membership prior to creation of OPSRP will be members of both the PERS and OPSRP system as long as they remain in covered employment.

PERS is administered under Oregon Revised Statutes Chapter 238 and Chapter 238A by the Public Employees Retirement Board. Participation by most political subdivisions is optional but irrevocable if elected. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report can be obtained by writing to PERS, P.O. Box 23700, Tigard, OR 97281-3700 or by calling 1-503-598-7377.

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

7. PENSION PLAN (CONTINUED)

Members of PERS are required to contribute 6% of their salary covered under the plan. The City is required by ORS 238.225 to contribute at an actuarially determined rate. The rate effective July 1, 2009 is 12.57% of salary covered under the plan for Tier 1 and Tier 2 (PERS) employees and 12.61% for employees covered under the Oregon Public Services Retirement Plan (OPSRP). The City pays the employee 6% contribution for the City Administrator. The PERS Board has statutory authority to revise employer contributions as necessary to ensure the promised benefits will be funded on a sound basis. Contributions to the plan for the years ending June 30, 2011, 2010, and 2009 were \$32,999, \$25,863, and \$21,756, respectively.

8. INTERFUND BALANCES AND TRANSFERS

Details of the interfund receivables and payables are as follows:

| | |
|-----------------------|-------------------|
| Due from other funds: | |
| Water Fund | <u>\$ 110,790</u> |
| Due to other funds: | |
| Wastewater Fund | <u>\$ 110,790</u> |

Interfund transfers are made to finance operations between funds.

9. DEFERRED COMPENSATION PLAN

Employees are offered a deferred compensation plan created in accordance with Internal Revenue Code Section 457. An employee may enter into an agreement to defer a portion of their compensation, subject to certain limitations provided by law, by means of payroll deduction. Contributions to the plan and earnings thereon are deferred until the employee is separated from service.

Money accumulated under the deferred compensation plan has been deposited with Variable Annuity Life Insurance Company (VALIC). Monies held by VALIC are placed in various investments at the discretion of the employee. These investments are uninsured and unregistered securities held by VALIC or their agents, but not in the City's name.

10. PROPERTY TAX LIMITATIONS

The State of Oregon has set a constitutional limit on property taxes for schools and nonschool government operations. The limitation provides that property taxes for nonschool operations are limited to \$10.00 for each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt.

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

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

11. RISK MANAGEMENT

There is exposure to various risks: loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The League of Oregon Cities joined together with the Association of Oregon Cities to form City County Insurance Services (CCIS), a public entity risk pool currently operating as a common risk management and insurance program for approximately 265 municipal corporations and associated entities in the State of Oregon. CCIS is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$2 million for each insured event. Insurance is carried through CCIS to help mitigate these risks, and commercial insurance is carried for other risks of loss, including workers' compensation. Settled claims have not exceeded insurance coverage in any of the last three fiscal years.

12. DEFICIT FUND BALANCE

At June 30, 2011, the Wastewater Fund had a negative budgetary ending fund balance of \$110,908. The deficit fund balance will be remedied in the next fiscal year through transfers from the General Fund.

13. SUBSEQUENT EVENT

On February 16, 2012, a loan agreement was entered into with the Oregon Department of Environmental Quality, Clean Water State Revolving Fund for improvements to the wastewater treatment facility. The loan is in the amount of \$150,000, payable at an interest rate of 1.04% and due September 1, 2017. The City grants DEQ a security interest in and irrevocably pledges its net operating revenues to secure repayment of the loan.

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

| | <u>Total</u> | <u>Principal</u> | <u>Interest</u> |
|-----------|-------------------|-------------------|-----------------|
| 2012-2013 | \$ 960 | \$ - | \$ 960 |
| 2013-2014 | 34,206 | 32,731 | 1,475 |
| 2014-2015 | 34,206 | 33,072 | 1,134 |
| 2015-2016 | 34,206 | 33,417 | 789 |
| 2016-2017 | 34,206 | 33,766 | 440 |
| 2017-2018 | 17,102 | 17,014 | 88 |
| Totals | <u>\$ 154,886</u> | <u>\$ 150,000</u> | <u>\$ 4,886</u> |

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CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

REQUIRED SUPPLEMENTARY DATA

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**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS
For the Year Ended June 30, 2011**

GENERAL FUND

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE |
|---|--------------------|-----------------|-------------------|-------------------|
| REVENUES: | | | | |
| Property Taxes: | | | | |
| Current year | \$ 85,000 | \$ 85,000 | \$ 89,828 | \$ 4,828 |
| Prior years | 1,800 | 1,800 | 1,538 | (262) |
| Franchise Fees | 31,000 | 31,000 | 29,886 | (1,114) |
| Intergovernmental: | | | | |
| State revenue sharing | 6,000 | 6,000 | 6,215 | 215 |
| Liquor tax | 9,350 | 9,350 | 10,732 | 1,382 |
| Cigarette tax | 1,130 | 1,130 | 1,353 | 223 |
| Park Grant | - | - | 2,000 | 2,000 |
| DLCD Grant | 1,000 | 1,000 | - | (1,000) |
| BVP Grant | - | - | - | - |
| Traffic Safety Funds | - | - | 2,660 | 2,660 |
| Other Public Safety Grants | - | - | 4,029 | 4,029 |
| Property Lease/Rent | 48,800 | 48,800 | 58,918 | 10,118 |
| Building and Electrical Permits | 6,000 | 6,000 | 13,061 | 7,061 |
| Planning Fees | 5,000 | 5,000 | 560 | (4,440) |
| Ordinances and Court Fines | 1,500 | 1,500 | 19,604 | 18,104 |
| Other Fees and Fines | - | - | 310 | 310 |
| Refunds | 1,000 | 1,000 | 4,115 | 3,115 |
| Interest Income | 3,500 | 3,500 | 1,865 | (1,635) |
| Miscellaneous | 1,500 | 1,500 | 2,153 | 653 |
| Total Revenue | <u>202,580</u> | <u>202,580</u> | <u>248,827</u> | <u>46,247</u> |
| EXPENDITURES: | | | | |
| Personal Services | 187,464 | 187,464 (1) | 169,480 | 17,984 |
| Materials and Services | 219,104 | 219,104 (1) | 169,249 | 49,855 |
| Capital Outlay | 74,721 | 130,804 (1) | 112,215 | 18,589 |
| Debt Service | - | - | 15,221 | (15,221) |
| Contingency | 1,291 | 1,291 (1) | - | 1,291 |
| Total Expenditures | <u>482,580</u> | <u>538,663</u> | <u>466,165</u> | <u>72,498</u> |
| Excess of Revenues Over, (Under) Expenditures | (280,000) | (336,083) | (217,338) | 118,745 |
| Other Financing Sources, (Uses) | | | | |
| Transfers In | - | 56,083 | 56,083 | - |
| Total Other Financing Sources, (Uses) | <u>-</u> | <u>56,083</u> | <u>56,083</u> | <u>-</u> |
| Net Change in Fund Balance | (280,000) | (280,000) | (161,255) | 118,745 |
| Beginning Fund Balance | <u>280,000</u> | <u>280,000</u> | <u>278,274</u> | <u>(1,726)</u> |
| Ending Fund Balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 117,019</u> | <u>\$ 117,019</u> |

(1) Appropriation Level

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS
For the Year Ended June 30, 2011**

STREET FUND

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE |
|--|--------------------|-----------------|------------------|------------------|
| REVENUES: | | | | |
| State Highway Tax | \$ 36,000 | \$ 36,000 | \$ 44,362 | \$ 8,362 |
| Refunds | - | - | 45 | 45 |
| Interest Income | 100 | 100 | - | (100) |
| Miscellaneous | 100 | 100 | - | (100) |
| Total Revenues | 36,200 | 36,200 | 44,407 | 8,207 |
| EXPENDITURES: | | | | |
| Personal Services | 7,075 | 7,075 (1) | 11,867 | (4,792) |
| Materials and Services | 36,500 | 36,500 (1) | 29,824 | 6,676 |
| Capital Outlay | 79,805 | 79,805 (1) | - | 79,805 |
| Contingency | 8,000 | 8,000 (1) | - | 8,000 |
| Total Expenditures | 131,380 | 131,380 | 41,691 | 89,689 |
| Excess of Revenues Over, (Under) Expenditures | (95,180) | (95,180) | 2,716 | 97,896 |
| Other Financing Sources, (Uses): | | | | |
| Transfers In | 35,180 | 35,180 | - | (35,180) |
| Total Other Financing Sources, (Uses) | 35,180 | 35,180 | - | (35,180) |
| Net Change in Fund Balance | (60,000) | (60,000) | 2,716 | 62,716 |
| Beginning Fund Balance | 60,000 | 60,000 | 29,913 | (30,087) |
| Ending Fund Balance | \$ - | \$ - | \$ 32,629 | \$ 32,629 |

(1) Appropriation Level

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

SUPPLEMENTARY DATA

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**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS**

For the Year Ended June 30, 2011

WATER FUND

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|----------------------------|-------------------------|---------------------|-------------------|
| REVENUES: | | | | |
| Charges for Services | | | | |
| Water service fees | \$ 250,000 | \$ 250,000 | \$ 241,309 | \$ (8,691) |
| Connection fees | 600 | 600 | 3,599 | 2,999 |
| Refunds | 100 | 100 | 2,853 | 2,753 |
| Interest income | 2,500 | 2,500 | 1,105 | (1,395) |
| Miscellaneous | 100 | 100 | - | (100) |
| | <u>253,300</u> | <u>253,300</u> | <u>248,866</u> | <u>(4,434)</u> |
| EXPENDITURES: | | | | |
| Personal Services | 60,947 | 82,947 (1) | 79,821 | 3,126 |
| Materials and Services | 246,900 | 224,900 (1) | 224,766 | 134 |
| Capital Outlay | 520,922 | 520,922 (1) | 203,928 | 316,994 |
| Debt Service | 36,200 | 36,200 (1) | 35,939 | 261 |
| Contingency | 54,000 | 54,000 (1) | - | 54,000 |
| | <u>918,969</u> | <u>918,969</u> | <u>544,454</u> | <u>374,515</u> |
| Excess of Revenues Over, (Under) Expenditures | (665,669) | (665,669) | (295,588) | 370,081 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | 335,669 | 335,669 | 197,903 | (137,766) |
| | <u>335,669</u> | <u>335,669</u> | <u>197,903</u> | <u>(137,766)</u> |
| Net Change in Fund Balance | (330,000) | (330,000) | (97,685) | 232,315 |
| Beginning Fund Balance | 330,000 | 330,000 | 469,897 | 139,897 |
| Ending Fund Balance | <u>\$ -</u> | <u>\$ -</u> | 372,212 | <u>\$ 372,212</u> |
| Reconciliation to Net Assets: | | | | |
| Capital Assets, Net of Depreciation | | | \$ 1,234,944 | |
| Bonds Payable, Net of Discounts | | | (200,372) | |
| Accrued Interest on Long-Term Debt | | | (3,120) | |
| Accrued Vacation | | | (2,158) | |
| | | | <u>1,401,506</u> | |
| Total Net Assets | | | <u>\$ 1,401,506</u> | |

(1) Appropriation Level

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS
For the Year Ended June 30, 2011**

| <u>WASTEWATER FUND</u> | | | | |
|--|----------------------------|-------------------------|---------------------|---------------------|
| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
| REVENUES: | | | | |
| Charges for Services | | | | |
| Wastewater service fees | \$ 155,000 | \$ 155,000 | \$ 154,564 | \$ (436) |
| Connection fees | 500 | 500 | - | (500) |
| Refunds | 100 | 100 | 1,605 | 1,505 |
| Property lease | 650 | 650 | - | (650) |
| Interest Income | - | - | 254 | 254 |
| Miscellaneous | 2,000 | 2,000 | - | (2,000) |
| <u>Total Revenues</u> | <u>158,250</u> | <u>158,250</u> | <u>156,423</u> | <u>(1,827)</u> |
| EXPENDITURES: | | | | |
| Personal Services | 43,531 | 55,531 (1) | 54,811 | 720 |
| Materials and Services | 132,920 | 120,920 (1) | 128,067 | (7,147) |
| Capital Outlay | 225,000 | 195,519 (1) | 104,721 | 90,798 |
| Debt Service | 22,950 | 22,950 (1) | 23,079 | (129) |
| Contingency | - | - (1) | - | - |
| <u>Total Expenditures</u> | <u>424,401</u> | <u>394,920</u> | <u>310,678</u> | <u>84,242</u> |
| Excess of Revenues Over, (Under) Expenditures | (266,151) | (236,670) | (154,255) | 82,415 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | 166,151 | 136,670 | 113,843 | (22,827) |
| <u>Total Other Financing Sources (Uses)</u> | <u>166,151</u> | <u>136,670</u> | <u>113,843</u> | <u>(22,827)</u> |
| Net Change in Fund Balance | (100,000) | (100,000) | (40,412) | 59,588 |
| Beginning Fund Balance | 100,000 | 100,000 | (70,496) | (170,496) |
| Ending Fund Balance | <u>\$ -</u> | <u>\$ -</u> | (110,908) | <u>\$ (110,908)</u> |
| Reconciliation to Net Assets: | | | | |
| Capital Assets, Net of Depreciation | | | \$ 1,426,598 | |
| Bonds Payable, Net of Discount | | | (123,175) | |
| Accrued Interest on Long-Term Debt | | | (2,363) | |
| Accrued Vacation | | | (1,431) | |
| <u>Total Net Assets</u> | | | <u>\$ 1,188,721</u> | |

(1) Appropriation Level

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS
For the Year Ended June 30, 2011**

| <u>SYSTEMS DEVELOPMENT FUND</u> | | | | |
|--|----------------------------|-------------------------|-------------------|-------------------|
| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
| REVENUES: | | | | |
| Charges for Services | \$ 5,460 | \$ 5,460 | \$ - | \$ (5,460) |
| Interest | 2,200 | 2,200 | 1,086 | (1,114) |
| Total Revenues | <u>7,660</u> | <u>7,660</u> | <u>1,086</u> | <u>(6,574)</u> |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess of Revenues Over, (Under) Expenditures | <u>7,660</u> | <u>7,660</u> | <u>1,086</u> | <u>6,574</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers Out | <u>(507,519)</u> | <u>(507,519) (1)</u> | <u>(311,746)</u> | <u>195,773</u> |
| Total Other Financing Sources (Uses) | <u>(507,519)</u> | <u>(507,519)</u> | <u>(311,746)</u> | <u>195,773</u> |
| Net Change in Fund Balance | <u>(499,859)</u> | <u>(499,859)</u> | <u>(310,660)</u> | <u>189,199</u> |
| Beginning Fund Balance | <u>499,859</u> | <u>499,859</u> | <u>483,174</u> | <u>(16,685)</u> |
| Ending Fund Balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 172,514</u> | <u>\$ 172,514</u> |

(1) Appropriation Level

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS**

June 30, 2011

| | <u>STORM DRAIN</u> | <u>RESERVE</u> | <u>TOTAL</u> |
|--|--------------------|------------------|------------------|
| ASSETS: | | | |
| Current Assets: | | | |
| Cash and Investments | \$ 4,685 | \$ 16,418 | \$ 21,103 |
| Accounts Receivable | 1,577 | - | 1,577 |
| Total Current Assets | <u>6,262</u> | <u>16,418</u> | <u>22,680</u> |
| Noncurrent Assets: | | | |
| Capital Assets, Net of Accumulated Depreciation | 8,768 | - | 8,768 |
| Total Noncurrent Assets | <u>8,768</u> | <u>-</u> | <u>8,768</u> |
| Total Assets | <u>\$ 15,030</u> | <u>\$ 16,418</u> | <u>\$ 31,448</u> |
| LIABILITIES AND NET ASSETS: | | | |
| Current Liabilities: | | | |
| Accounts Payable | \$ 189 | \$ - | \$ 189 |
| Total Liabilities | <u>189</u> | <u>-</u> | <u>189</u> |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 8,768 | - | 8,768 |
| Restricted for Capital Projects | - | 16,418 | 16,418 |
| Unrestricted | 6,073 | - | 6,073 |
| Total Net Assets | <u>14,841</u> | <u>16,418</u> | <u>31,259</u> |
| Total Liabilities and Net Assets | <u>\$ 15,030</u> | <u>\$ 16,418</u> | <u>\$ 31,448</u> |

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended June 30, 2011**

| | STORM DRAIN | RESERVE | TOTAL |
|--|-------------|-----------|-----------|
| OPERATING REVENUES | | | |
| Charges for Services | \$ 14,192 | \$ - | \$ 14,192 |
| Total Operating Revenues | 14,192 | - | 14,192 |
| OPERATING EXPENSES | | | |
| Materials and Services | 7,756 | - | 7,756 |
| Depreciation | 320 | - | 320 |
| Total Operating Expenses | 8,076 | - | 8,076 |
| Operating Income | 6,116 | - | 6,116 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest Income | 16 | 164 | 180 |
| Total Nonoperating Revenues (Expenses) | 16 | 164 | 180 |
| Income (Loss) Before Transfers | 6,132 | 164 | 6,296 |
| Transfers Out | - | (56,083) | (56,083) |
| Change in Net Assets | 6,132 | (55,919) | (49,787) |
| Beginning Net Assets | 8,709 | 72,337 | 81,046 |
| Ending Net Assets | \$ 14,841 | \$ 16,418 | \$ 31,259 |

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR PROPRIETARY FUNDS
For the Year Ended June 30, 2011**

| | <u>STORM DRAIN</u> | <u>RESERVE</u> | <u>TOTAL</u> |
|---|--------------------|----------------|--------------|
| Cash Flows From Operating Activities: | | | |
| Cash Received From Customers | \$ 13,826 | \$ - | \$ 13,826 |
| Cash Payments To Suppliers | (7,567) | - | (7,567) |
| Net Cash From Operations | 6,259 | - | 6,259 |
| Cash Flows From Noncapital Financing Activities: | | | |
| Cash (Payment) Receipt to/from Other Funds | (1,590) | (56,083) | (57,673) |
| Net Cash Provided (Used) by Noncapital Financing Activities | (1,590) | (56,083) | (57,673) |
| Cash Flows From Investing Activities: | | | |
| Interest on Investments | 16 | 164 | 180 |
| Net Cash Provided By Investing Activities | 16 | 164 | 180 |
| Net Increase (Decrease) In Cash and Investments | 4,685 | (55,919) | 6,439 |
| Balances - Beginning of Year | - | 72,337 | 72,337 |
| Balances - End of Year | \$ 4,685 | \$ 16,418 | \$ 21,103 |
| Reconciliation of Cash Flows From Operating Activities to Operating Income | | | |
| Operating Income | \$ 6,116 | \$ - | \$ 6,116 |
| Adjustments | | | |
| Depreciation/Amortization | 320 | - | 320 |
| (Increase), Decrease in Accounts Receivable | (366) | - | (366) |
| Increase, (Decrease) in Accounts Payable | 189 | - | 189 |
| Increase, (Decrease) in Accrued Vacation | - | - | - |
| Increase, (Decrease) in Customer Deposits | - | - | - |
| Net Cash From Operations | \$ 6,259 | \$ - | \$ 6,259 |

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET - BUDGETARY BASIS
For the Year Ended June 30, 2011**

| <u>STORM DRAIN FUND</u> | | | | |
|--------------------------------------|----------------------------|-------------------------|------------------|-----------------|
| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
| REVENUES: | | | | |
| Charges for Service | \$ 15,700 | \$ 15,700 | \$ 14,192 | \$ (1,508) |
| Interest Income | 30 | 30 | 16 | (14) |
| Total Revenues | <u>15,730</u> | <u>15,730</u> | <u>14,208</u> | <u>(1,522)</u> |
| EXPENDITURES: | | | | |
| Materials and Services | 4,000 | 4,000 (1) | 7,756 | (3,756) |
| Capital Outlay | 5,129 | 5,129 (1) | - | 5,129 |
| Total Expenditures | <u>9,129</u> | <u>9,129</u> | <u>7,756</u> | <u>1,373</u> |
| Net Change in Fund Balance | 6,601 | 6,601 | 6,452 | (149) |
| Beginning Fund Balance | <u>(6,601)</u> | <u>(6,601)</u> | <u>(379)</u> | <u>6,222</u> |
| Ending Fund Balance | <u>\$ -</u> | <u>\$ -</u> | 6,073 | <u>\$ 6,073</u> |
| Reconciliation to Net Assets: | | | | |
| Capital Assets, Net of Depreciation | | | <u>8,768</u> | |
| Total Net Assets | | | <u>\$ 14,841</u> | |

(1) Appropriation Level

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET- BUDGETARY BASIS
For the Year Ended June 30, 2011

RESERVE FUND

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|----------------------------|-------------------------|------------------|------------------|
| REVENUES: | | | | |
| Interest Income | \$ 200 | \$ 200 | \$ 164 | \$ (36) |
| Total Revenues | <u>200</u> | <u>200</u> | <u>164</u> | <u>(36)</u> |
| EXPENDITURES: | | | | |
| Capital Outlay | <u>71,473</u> | <u>15,390 (1)</u> | <u>-</u> | <u>15,390</u> |
| Total Expenditures | <u>71,473</u> | <u>15,390</u> | <u>-</u> | <u>15,390</u> |
| Excess of Revenues Over, (Under) Expenditures | (71,273) | (15,190) | 164 | 15,354 |
| Other Financing Sources, (Uses) | | | | |
| Transfer Out | <u>-</u> | <u>(56,083) (1)</u> | <u>(56,083)</u> | <u>-</u> |
| Total Other Financing Sources, (Uses) | <u>-</u> | <u>(56,083)</u> | <u>(56,083)</u> | <u>-</u> |
| Net Change in Fund Balance | (71,273) | (71,273) | (55,919) | 15,354 |
| Beginning Fund Balance | <u>71,273</u> | <u>71,273</u> | <u>72,337</u> | <u>1,064</u> |
| Ending Fund Balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 16,418</u> | <u>\$ 16,418</u> |

(1) Appropriation Level

**CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON**

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED
For the Year Ended June 30, 2011**

| TAX YEAR | IMPOSED LEVY OR BALANCE UNCOLLECTED AT 7/1/10 | DEDUCT DISCOUNTS | ADJUSTMENTS TO ROLLS | ADD INTEREST | CASH COLLECTIONS BY COUNTY TREASURER | BALANCE UNCOLLECTED OR UNSEGREGATED AT 6/30/11 |
|--------------------|---|---------------------|----------------------------|-----------------|---|--|
| Current: | | | | | | |
| 2010-11 | \$ 94,075 | \$ 2,135 | \$ (344) | \$ 59 | \$ 89,363 | \$ 2,292 |
| Prior Years: | | | | | | |
| 2009-10 | 2,179 | - | 564 | 52 | 962 | 1,833 |
| 2008-09 | 935 | - | (379) | 47 | 93 | 510 |
| 2007-08 | 393 | - | (548) | 45 | (298) | 188 |
| 2006-07 | 191 | - | (94) | 32 | 66 | 63 |
| Prior | 1,075 | - | 133 | 13 | 1,071 | 150 |
| Total Prior | 4,773 | - | (324) | 189 | 1,894 | 2,744 |
| Total All Funds | <u>\$ 98,848</u> | <u>\$ 2,135</u> | <u>\$ (668)</u> | <u>\$ 248</u> | <u>\$ 91,257</u> | <u>\$ 5,036</u> |

RECONCILIATION TO REVENUE:

| | |
|--|------------------|
| Cash Collections by County Treasurer Above | \$ 91,257 |
| Accrual of Receivables: | |
| June 30, 2011 | 697 |
| June 30, 2010 | (334) |
| Taxes in Lieu | (254) |
| Total Revenue | <u>\$ 91,366</u> |

ALL
FUNDS

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CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

INDEPENDENT AUDITORS' REPORT REQUIRED BY OREGON STATE REGULATIONS

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
• (503) 620-2632 • FAX (503) 684-7523

December 11, 2012

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the City of Adair Village as of and for the year ended June 30, 2011, and have issued our report thereon dated December 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

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

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

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

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

1. We found no evidence of quotes being obtained for three purchases over \$5,000.
2. Road funds were used for payment of insurance, which appears to not be in compliance with the intent of ORS 373, allowing for expenditures exclusively for the constructions, reconstruction, improvement, repairs, maintenance, and operation and use of roads and highways.
3. Expenditures exceeded appropriations as indicated on page 20.
4. Changes to the budget appropriations exceeded 10% in the Reserve Fund and a special hearing of the Board to discuss the budget was not advertised to the public as required by ORS 294.480(4).

OAR 162-10-0230 Internal Control

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

We noted matters involving the internal control structure and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, which are noted in our management letter dated December 11, 2012.

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

Pauly, Rogers and Co. P.C.
PAULY, ROGERS AND CO., P.C.