

CITY OF ADAIR VILLAGE, OREGON

FINANCIAL REPORT

for the year ended June 30, 2017



CITY OF ADAIR VILLAGE, OREGON

CITY COUNCIL

TERM EXPIRES

Bill Currier, Mayor

December 31, 2018

Susan Canfield

December 31, 2020

Nicole Real

December 31, 2020

Dusty Andrews

December 31, 2018

Charline King

December 31, 2018

All council members receive mail at the address listed below.

ADMINISTRATIVE

Pat Hare, City Administrator

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

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CITY OF ADAIR VILLAGE, OREGON

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Adair Village, Oregon

Report on the Financial Statements

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 City of Adair Village, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Adair Village, Oregon's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Adair Village, Oregon, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the management's discussion and analysis, schedule of the proportionate share of the net pension liability, and schedule of contributions, as listed in the table of contents under required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison schedules, as listed in the table of contents under required supplementary information, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Adair Village, Oregon's basic financial statements. The principal officials and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The principal officials section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017 on our consideration of City of Adair Village, Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is issued separately and is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Adair Village, Oregon's internal control over financial reporting and compliance.

Other Reporting Required by *Minimum Standards for Audits of Oregon Municipal Corporations*

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated October 23, 2017, on our consideration of City of Adair Village, Oregon's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

A handwritten signature in black ink, appearing to read "Jonny Niff". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

For Merina & Company, LLP
West Linn, Oregon
October 23, 2017



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Adair Village, OR 97330
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**CITY OF ADAIR VILLAGE
MANAGEMENT DISCUSSION AND ANALYSIS**
For the year ended June 30, 2017

Our 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, 2017.

Please read it in conjunction with the City's basic financial statements.

FINANCIAL HIGHLIGHTS

The City's net position decreased \$85,425, or (2.12) percent, as a result of this year's:

- Net position of our governmental activities decreased by \$56,741 or (3.65) percent.
- Net position of our business-type activities decreased by \$28,684 or (1.15) percent.
- The total cost of all the City's programs in 2017 was \$1,202,018; in 2016 this cost was \$1,168,836.

CITY'S ACTIVITIES HIGHLIGHTS

General Fund

In the General Fund contract services and engineering were higher than previous years due to projects that the City was trying to catch up on. The City needed additional financial consulting to catch up on past audits that were not completed. Additional Engineering services were also needed due to the volume of building projects that were in the planning stages.

Street Fund

The Street Fund also had higher expenditures than prior years because the City had the opportunity to partner with Benton County to do some crack sealing. The City budgeted \$10,000 for road improvements but the project ran over that by approximately \$3,000. The City however saved almost \$10,000 dollars on the crack sealing project by partnering with Benton County and was able to stay within budget appropriations due to savings in other materials and services.

Water and Wastewater Utilities

The Water Fund was much larger this year due to the IFA Loan received to replace existing water storage with two new 1 million gallon tanks. The loan was for \$2.8 million with \$515,000 of that as a forgivable loan. The majority of this was received and paid out in the 2017 fiscal year. Roughly \$500,000 of that will be carried over into fiscal year 2018.

In the Wastewater Fund the City has been running a negative over the last few years due to additional maintenance cost and engineering. The City did a rate increase of \$3.50 at the beginning of fiscal year 2018 to bring this fund into a positive position. The additional engineering costs are associated with a joint partnership between the City and Republic Service to build a new facility that would treat not only municipal waste water but the landfills leachate as well.

Governmental Fund Balances

Fund balance in the General Fund decreased about two percent and the Street Fund increased less than one percent in the fiscal year ending June 30, 2017. Revenues were up in both funds compared to the prior fiscal year. Expenditures increased in both funds as costs for the Oregon Public Employee Retirement System (OPERS) increased and the City paid for three audits and related services to bring it current by the end of fiscal year 2016-17. The Street Fund also repaired more streets in fiscal year 2016-17 compared to the prior year.

CITY COUNCIL GOALS

Preparing for the fiscal year ending in 2017, the City Council focused on funding for major projects and identifying immediate needs. Many of the Council goals from the previous budget years have remained the same because they had not been completed. The Council has set new goals for the 2018 fiscal year. Through the budgetary process the council and staff focused on the year ending June 30, 2018 with these objectives:

Administration

Develop policies that will increase efficiencies and protect the City

- Objective: Adopt policies to enhance fiscal responsibility
- Objective: Completing audits in a timely manner
- Objective: Look at staffing needs

Public Works

Upgrade City's Utilities and Prepare for Growth

- Objective: Finish water tank project
- Objective: Monitor/Track water loss
- Objective: System maintenance plans
- Objective: Upgrade streets and sidewalks
- Objective: Stay within DEQ compliance
- Objective: Funding for water plant
- Objective: Funding for wastewater plant

Industrial Site

Redevelop Industrial Site to Expand Local Employment Opportunities

- Objective: Industrial site economic planning
- Objective: Engage DEQ for mitigation
- Objective: Start cleanup process

Downtown Development

Develop a Downtown with Commercial/Retail Opportunities

- Objective: Restoration of barracks interior
- Objective: Public use of barracks
- Objective: Downtown district planning
- Objective: Ownership of County property
- Objective: Ownership of apartments

Public Safety
Provide Stable and Consistent Services

Objective: Develop emergency plan
Objective: Renew Contract with Benton County

Community Development
Improve City's Amenities and Appearance and Outside Perception

Objective: Facilitate residential growth
Objective: Trails and connectivity
Objective: Correct economic demographics
Objective: Better event coordination
Objective: Zip code specific to Adair Village
Objective: Frontage road closure
Objective: Improve city appearance

USING THIS ANNUAL REPORT

This annual report consists of a set of financial statements. The Statement of Net Position and the Statement of Activities 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, 2017. Fund financial statements provide information on both governmental and proprietary, or business-type funds (Storm Drain, Wastewater, Water, System Development Charges and Reserve). 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 Position 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.

These statements report the City's "net position" and how it changed. This allows one to determine the City's fiscal health, or financial position. Net position represents the difference between what the City owes and what the City owns. Increase or decrease in net position, 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, and 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. Governmental activities include 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, Wastewater, Systems Development, Storm Drain, and Reserve 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 position by Governmental and Business-type Activities and provides a comparison to last year's net position. Overall, the City's net position decreased from \$4,049,175 to \$3,963,750 this year. This decrease was primarily due to the effects of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which accounted for a decrease in net position of \$66,867.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 271,512	\$ 291,634	\$ 894,357	\$ 641,193	\$ 1,165,869	\$ 932,827
Capital assets	1,323,122	1,352,531	4,664,612	2,486,987	5,987,734	3,839,518
	<u>1,594,634</u>	<u>1,644,165</u>	<u>5,558,969</u>	<u>3,128,180</u>	<u>7,153,603</u>	<u>4,772,345</u>
Deferred outflows related to pensions	79,288	8,536	194,132	21,791	273,420	30,327
Current liabilities	21,423	38,172	325,760	162,539	347,183	200,711
Non-current liabilities	146,493	43,790	2,941,486	451,640	3,087,979	495,430
	<u>167,916</u>	<u>81,962</u>	<u>3,267,246</u>	<u>614,179</u>	<u>3,435,162</u>	<u>696,141</u>
Deferred inflows related to pensions	8,152	16,144	19,959	41,212	28,111	-
Net position:						
Net investment in capital assets	1,323,122	1,352,531	1,999,035	2,255,413	3,322,157	3,607,944
Restricted for:						
Streets	69,280	72,694	-	-	69,280	72,694
System development	-	-	251,775	219,836	251,775	219,836
Unrestricted	105,452	129,370	215,086	19,331	320,538	148,701
Total net position	<u>\$ 1,497,854</u>	<u>\$ 1,554,595</u>	<u>\$ 2,465,896</u>	<u>\$ 2,494,580</u>	<u>\$ 3,963,750</u>	<u>\$ 4,049,175</u>

Net position decreased 2.12 percent. Unrestricted net position – the portion of that area used to finance day-to-day operation without outside restraints, such as debt covenants, legislation, or other legal requirements – increased 115.56 percent overall, but was a decrease of \$23,918 (18.49 percent) in governmental activities and an increase of \$195,755 (1,012.65 percent) in business-type activities. The decrease in unrestricted net position for governmental activities is due to the City incurring additional expenses to catch on three years of audits, and to provide additional recreational opportunities to citizens. Increases in OPERS also contributed to the decrease in unrestricted net position for governmental activities.

The increase in business-type activities was due to debt forgiveness in the Wastewater Fund and State contributions toward the large water project in the Water Fund.

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

Table 2
Change in Revenues and Expense

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 80,072	\$ 77,280	\$ 755,873	\$ 701,178	835,945	778,458
Grants	-	3,253	-	-	-	3,253
General revenues:						
Property taxes	113,595	107,523	-	-	113,595	107,523
Highway fund allocation	50,453	49,987	-	-	50,453	49,987
Intergovernmental	21,757	20,512	30,376	-	52,133	20,512
Franchise fees	43,565	43,797	-	-	43,565	43,797
Earnings on investments	9,973	3,389	-	-	9,973	3,389
Miscellaneous	10,929	10,166	-	119,841	10,929	130,007
TOTAL REVENUES	330,344	315,907	786,249	821,019	1,116,593	1,136,926
Program expenses:						
Governmental activities:						
General government	236,527	189,781	-	-	236,527	189,781
Public safety	35,184	49,757	-	-	35,184	49,757
Street maintenance	75,184	67,887	-	-	75,184	67,887
Culture & recreation	40,190	48,506	-	-	40,190	48,506
Proprietary activities:						
Water	-	-	511,762	508,650	511,762	508,650
Wastewater	-	-	269,003	281,289	269,003	281,289
Other business-type activities	-	-	34,168	22,966	34,168	22,966
TOTAL EXPENSES	387,085	355,931	814,933	812,905	1,202,018	1,168,836
Loss on disposals	-	-	-	-	-	-
Increase (decrease) in net asset	(56,741)	(40,024)	(28,684)	8,114	(85,425)	(31,910)
Net position - beginning	1,554,595	1,594,619	2,494,580	2,486,466	4,049,175	4,081,085
Cumulative effect of GASB 68	-	-	-	-	-	-
Net position - ending	\$ 1,497,854	\$ 1,554,595	\$ 2,465,896	\$ 2,494,580	\$ 3,963,750	\$ 4,049,175

The City's total revenues decreased by \$(20,333); total expenses increased by \$33,182 and net position decreased by \$(85,425). Specifics on these changes can be found under "City's Activity Highlights" above.

GENERAL BUDGETARY HIGHLIGHTS

- The City Council adopted a conservative fiscal year 2016-2017 budget. Due to spending at a level that was even more conservative than budgeted, the Fund Balance of the General Fund ended the year \$142,069 higher than was budgeted.
- The beginning fund balance was also higher than budgeted, and some of the budgeted capital outlay was not spent during the year.

Areas of legal appropriations are personal services, material and services, capital outlay, transfers, debt service and contingencies. The General Fund is broken out into personnel services, materials and services, and capital outlay.

CAPITAL ASSETS

At the end of June 30, 2017, the City had \$5,987,734 invested in land, buildings and improvements, streets and equipment. This represents an increase (net of depreciation) of more than \$2.1 million, or 36.87 percent. This is primarily due to the new water tanks that were built during the year, which added nearly \$2.3 million to the Water Fund capital assets. Depreciation expense was \$163,939 for the year. Additional information on capital assets is available in Note 2.

Table 3
Capital Assets at Year-end
Net Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land & const. in progress	132,757	132,757	2,559,099	275,562	2,691,856	408,319
Building & improvements	773,657	773,657	745,029	745,029	1,518,686	1,518,686
Water and sewer system	-	-	3,730,084	3,730,084	3,730,084	3,730,084
Streets	1,074,979	1,072,745	-	-	1,074,979	1,072,745
Park improvements	93,505	83,505	-	-	93,505	83,505
Equipment	-	-	669,570	653,186	669,570	653,186
Less: accumulated depr.	(751,776)	(710,133)	(3,039,170)	(2,916,874)	(3,790,946)	(3,627,007)
	<u>1,323,122</u>	<u>1,352,531</u>	<u>4,664,612</u>	<u>2,486,987</u>	<u>5,987,734</u>	<u>3,839,518</u>

DEBT OUTSTANDING

As of year-end the City had total debt outstanding of \$2,675,966. Of the amount outstanding, \$10,389 is a liability calculated by OPERS when the City joined the State and Local Government Rate Pool in 2001. That liability is being amortized over 25 years. The current amount is allocated between governmental activities and business-type activities \$3,014 and \$7,375 respectively.

The rest of the long-term debt is for water and wastewater projects. Outstanding debt for water projects at June 30, 2017 was \$2,522,235, an increase of \$2,253,630 from the prior fiscal year, primarily due to the addition of the loan to pay for the new water tanks. Outstanding debt for wastewater projects at June 30, 2017 was \$143,342, a decrease of \$17,283 from the prior fiscal year. Additional information on long-term debt is available in Note 3.

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, 2018. Estimates were made for a range of revenues, including property taxes, shared state revenues, grants, franchise fees, leases, and charges for utility service. No staffing changes are projected for next year as the Assistant City Administrator position will remain unfilled. This will keep overall personnel costs affordable.

Water utility rates were updated in 2015 and are reviewed each year in preparation for the budget process, as will the City's Wage Schedule. The Wastewater rates were increased 7.75 percent (\$3.50 per month) for fiscal year 2017-18 to eliminate the negative fund balance on the budgetary basis and the negative unrestricted net position in that fund. No rate changes were budgeted in the Water or Storm Drain Funds. Considerable funds were committed and will continue to be committed to a number of infrastructure planning projects, especially the Water and Wastewater facilities, in preparation for long-term improvements to all systems.

Pat Hare, City Administrator
Name & Title

CITY OF ADAIR VILLAGE, OREGON

BASIC FINANCIAL STATEMENTS

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CITY OF ADAIR VILLAGE, OREGON
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$236,616	\$678,564	\$915,180
Receivables:			
Accounts	21,467	215,793	237,260
Taxes	7,946	-	7,946
Prepaid expenses	5,483	-	5,483
Capital assets:			
Land and construction in process	132,757	2,559,099	2,691,856
Other capital assets (net of accumulated depreciation)	1,190,365	2,105,513	3,295,878
Total Assets	1,594,634	5,558,969	7,153,603
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	79,288	194,132	273,420
LIABILITIES			
Current liabilities:			
Accounts payable	12,548	214,185	226,733
Payroll liabilities	6,577	18,035	24,612
Accrued compensated absences	2,298	8,562	10,860
Accrued interest	-	2,213	2,213
Long-term debt due within one year	-	82,765	82,765
Noncurrent liabilities			
Net pension liability	143,479	351,299	494,778
Transition liability	3,014	7,375	10,389
Long-term debt due in more than one year	-	2,582,812	2,582,812
Total Liabilities	167,916	3,267,246	3,435,162
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	8,152	19,959	28,111
NET POSITION			
Net investment in capital assets	1,323,122	1,999,035	3,322,157
Restricted for:			
Streets	69,280	-	69,280
Capital projects	-	251,775	251,775
Unrestricted	105,452	215,086	320,538
Total Net Position	\$1,497,854	\$2,465,896	\$3,963,750

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

CITY OF ADAIR VILLAGE, OREGON
STATEMENT OF ACTIVITIES
for the year ended June 30, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
GOVERNMENTAL ACTIVITIES			
General government	\$ 236,527	\$ 80,072	\$ -
Public safety	35,184	-	-
Street maintenance and construction	75,184	-	-
Culture and recreation	40,190	-	-
Total governmental activities	387,085	80,072	-
BUSINESS-TYPE ACTIVITIES			
Water	511,762	513,719	-
Wastewater	269,003	192,419	-
System development charges	-	31,939	-
Other business-type activities	34,168	17,796	-
Total business-type activities	814,933	755,873	-
Total Primary Government	\$ 1,202,018	\$ 835,945	\$ -

General revenues:

Property taxes, levied for general purposes

Highway taxes

Intergovernmental revenues

Franchise fees

Interest earnings

Miscellaneous

Total general revenues

Change in net position

Net position--beginning

Net position--ending

CITY OF ADAIR VILLAGE, OREGON
STATEMENT OF ACTIVITIES
for the year ended June 30, 2017

Net (Expense) Revenue and Changes in Net Position			
Governmental	Business-type		Total
Activities	Activities		
\$ (156,455)	\$ -	\$	(156,455)
(35,184)	-		(35,184)
(75,184)	-		(75,184)
(40,190)	-		(40,190)
(307,013)	-		(307,013)
	1,957		1,957
	(76,584)		(76,584)
	31,939		31,939
	(16,372)		(16,372)
	(59,060)		(59,060)
(307,013)	(59,060)		(366,073)
113,595	-		113,595
50,453	-		50,453
21,757	30,376		52,133
43,565	-		43,565
9,973	-		9,973
10,929	-		10,929
250,272	30,376		280,648
(56,741)	(28,684)		(85,425)
1,554,595	2,494,580		4,049,175
\$ 1,497,854	\$ 2,465,896	\$	\$ 3,963,750

CITY OF ADAIR VILLAGE, OREGON
GOVERNMENTAL FUNDS - BALANCE SHEET
June 30, 2017

	General Fund	Street Fund	Total Gov. Funds
ASSETS			
Cash and investments	\$ 155,110	\$ 81,506	236,616
Receivables			
Accounts	17,217	4,250	21,467
Taxes	7,946	-	7,946
Prepaid expenditures	5,483	-	5,483
Total Assets	\$ 185,756	\$ 85,756	\$ 271,512
LIABILITIES			
Accounts payable	\$ 12,548	\$ -	\$ 12,548
Payroll liabilities	5,065	1,512	6,577
Total Liabilities	17,613	1,512	19,125
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	6,968	-	6,968
Total Deferred Inflows of Resources	6,968	-	6,968
FUND BALANCES			
Nonspendable: Prepaid items	5,483	-	5,483
Restricted for:			
Street maintenance and improvements	-	84,244	84,244
Unassigned:	155,692	-	155,692
Total Fund Balances	161,175	84,244	245,419
Total Liabilities, Deferred Inflows and Fund Balances	\$ 185,756	\$ 85,756	\$ 271,512
Fund balance			\$ 245,419
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$751,766.			1,323,122
Other long-term assets are not available to pay for current-period expenditures and, therefore are unavailable in the funds:			
Property taxes earned but not available			6,968
Deferred outflows of resources related to pension			79,288
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.			(2,298)
Long-term liabilities - not reported in the funds:			
Deferred inflows of resources related to pensions			(8,152)
Transition liability			(3,014)
Net pension liability			(143,479)
Net Position of Governmental Activities			\$ 1,497,854

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

CITY OF ADAIR VILLAGE, OREGON
GOVERNMENTAL FUNDS -
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
for the year ended June 30, 2017

	General Fund	Street Fund	Total Gov. Funds
REVENUES			
Property taxes	\$ 113,024	\$ -	\$ 113,024
Highway taxes	-	50,453	50,453
Franchise fees	43,565	-	43,565
Intergovernmental revenues	21,757	-	21,757
Grants	-	-	-
Property leases/rents	74,831	-	74,831
Permits and fees	5,241	-	5,241
Interest earnings	9,973	-	9,973
Miscellaneous	10,929	-	10,929
Total Revenues	279,320	50,453	329,773
EXPENDITURES			
Current operating:			
Personal services	67,267	19,995	87,262
Materials and services	205,292	27,950	233,242
Capital outlay	10,000	2,234	12,234
Total Expenditures	282,559	50,179	332,738
Excess (deficiency) of revenues over (under) expenditures	(3,239)	274	(2,965)
Net change in fund balances	(3,239)	274	(2,965)
Fund Balances - beginning of the year	164,414	83,970	248,384
Fund Balances - end of year	\$ 161,175	\$ 84,244	\$ 245,419

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

CITY OF ADAIR VILLAGE, OREGON
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
for the year ended June 30, 2017

Net change in fund balances--total governmental funds	\$ (2,965)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds expense capital assets when purchased, governmental activities report depreciation expense:	
Current year depreciation	(41,643)
Purchases reported as expenditures on the fund statements	12,234
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Property taxes	571
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated absences	(979)
Change in pension expense	(23,959)
Change in Net Position of Governmental Activities	\$ (56,741)

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

CITY OF ADAIR VILLAGE, OREGON
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 June 30, 2017

	Water	Wastewater	Systems Development	Nonmajor Proprietary Funds	Totals
ASSETS					
Current assets:					
Cash and investments	\$ 411,056	\$ -	\$ 235,357	\$ 32,151	\$ 678,564
Accounts receivable, net	191,028	22,744	-	2,021	215,793
Due from other funds	24,053	-	-	-	24,053
Total current assets	626,137	22,744	235,357	34,172	918,410
Noncurrent assets:					
Capital assets:					
Land and construction in process	2,559,099	-	-	-	2,559,099
Other capital assets (net of accumulated depreciation)	1,043,945	1,053,668	-	7,900	2,105,513
Total noncurrent assets	3,603,044	1,053,668	-	7,900	4,664,612
Total Assets	4,229,181	1,076,412	235,357	42,072	5,583,022
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - pensions	121,676	58,789	-	13,667	194,132
LIABILITIES					
Current liabilities:					
Accounts payable	213,847	338	-	-	214,185
Payroll liabilities	11,570	5,284	-	1,181	18,035
Accrued interest payable	766	1,447	-	-	2,213
Due to other funds	-	24,053	-	-	24,053
Accrued compensated absences	5,560	2,465	-	537	8,562
Current portion of long-term debt	34,520	48,245	-	-	82,765
Total current liabilities	266,263	81,832	-	1,718	349,813
Noncurrent liabilities:					
Note payable - long-term portion	2,482,013	95,097	-	-	2,577,110
Bonds payable - long-term portion	5,702	-	-	-	5,702
Net pension liability	220,182	106,385	-	24,732	351,299
Pension transition liability	4,622	2,234	-	519	7,375
Total noncurrent liabilities	2,712,519	203,716	-	25,251	2,941,486
Total Liabilities	2,978,782	285,548	-	26,969	3,291,299
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows of resources - pensions	12,510	6,044	-	1,405	19,959
NET POSITION					
Net investment in capital assets	1,080,809	910,326	-	7,900	1,999,035
Restricted for capital projects	-	-	235,357	16,418	251,775
Unrestricted	278,756	(66,717)	-	3,047	215,086
Total Net Position	\$ 1,359,565	\$ 843,609	\$ 235,357	\$ 27,365	\$ 2,465,896

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

CITY OF ADAIR VILLAGE, OREGON
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 for the year ended June 30, 2017

	Water	Wastewater	Systems Development	Nonmajor Proprietary Funds	Totals
OPERATING REVENUES					
Charges for services	\$ 513,719	\$ 192,419	\$ -	\$ 17,796	\$ 723,934
OPERATING EXPENSES					
Personnel services	194,269	91,903	-	19,961	306,133
Materials and services	254,194	111,670	-	13,910	379,774
Depreciation	61,721	60,278	-	297	122,296
Total operating expenses	510,184	263,851	-	34,168	808,203
Operating income (loss)	3,535	(71,432)	-	(16,372)	(84,269)
NON-OPERATING REVENUES (EXPENSES)					
Interest expense	(1,578)	(5,152)	-	-	(6,730)
Intergovernmental revenue-loan forgiveness	-	30,376	-	-	30,376
System development revenue	-	-	31,939	-	31,939
Total non-operating revenue	(1,578)	25,224	31,939	-	55,585
Change in net position	1,957	(46,208)	31,939	(16,372)	(28,684)
Net position--beginning	1,357,608	889,817	203,418	43,737	2,494,580
Net position--end of year	\$ 1,359,565	\$ 843,609	\$ 235,357	\$ 27,365	\$ 2,465,896

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

CITY OF ADAIR VILLAGE, OREGON
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 for the year ended June 30, 2017

	Water	Wastewater	Systems Development	Nonmajor Proprietary Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 518,598	\$ 191,408	\$ -	\$ 17,776	\$ 727,782
Payments to suppliers	(58,662)	(146,547)	-	(13,910)	(219,119)
Payments to employees	(154,926)	(72,724)	-	(15,757)	(243,407)
Other receipts	-	-	-	-	-
Net cash provided (used) by operating activities	305,010	(27,863)	-	(11,891)	265,256
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	(24,053)	-	-	-	(24,053)
Proceeds from other funds	-	24,053	-	-	24,053
Net cash provided (used) by capital and related financing activities	(24,053)	24,053	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
System development revenue	-	-	31,939	-	31,939
Payment of principal on long-term debt	(29,907)	(53,871)	-	-	(83,778)
Payment of interest on long-term debt	(2,243)	(4,847)	-	-	(7,090)
Issuance of long-term debt	2,353,253	66,659	-	-	2,419,912
Acquisition of capital assets	(2,292,438)	(5,995)	-	(1,489)	(2,299,922)
Net cash provided (used) by capital and related financing activities	28,665	1,946	31,939	(1,489)	61,061
Net increase (decrease) in cash and cash equivalents	309,622	(1,864)	31,939	(13,380)	326,317
Cash and investments--beginning of the year	101,434	1,864	203,418	45,531	352,247
Cash and investments--end of the year	\$ 411,056	\$ -	\$ 235,357	\$ 32,151	\$ 678,564
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 3,535	\$ (71,432)	\$ -	\$ (16,372)	\$ (84,269)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Cash flows reported in other categories:					
Depreciation expense	61,721	60,278	-	297	122,296
Change in assets and liabilities:					
Receivables	4,879	(1,011)	-	(20)	3,848
Accounts payable and accrued liabilities	198,972	(33,331)	-	341	165,982
Accrued compensated absences	2,643	1,211	-	248	4,102
Pension-related expenses	33,260	16,422	-	3,615	53,297
Net cash provided (used) by operating activities	\$ 305,010	\$ (27,863)	\$ -	\$ (11,891)	\$ 265,256

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

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CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States 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 basic 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. 61, are separate organizations that are included in the City's 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 position and the statement of activities) report information on all the non-fiduciary 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 inter-fund activity has been removed from these statements.

The statement of activities reports the activities by function. The major functions are general government, public safety, street maintenance and construction, 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.

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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.

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, pension costs, 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.

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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.

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. Reconciliations for the differences between the budgetary basis of accounting and GAAP are presented on the enterprise fund budgetary schedules.

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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:

Appropriation Level

Personal Services	Inter-fund Transactions
Materials and Services	Debt Service
Capital Outlay	Operating Contingency

After budget approval, the City Council may approve supplemental budgets if an occurrence, condition, or need exists which had not been ascertained at the time the budget was adopted. Management may not amend budget appropriations without Council approval.

Budget amounts shown in the basic financial statements reflect the original budget amount and final budget amount. Expenditures of the various funds were within authorized appropriations for the year ended June 30, 2017.

Estimates

The preparation of basic 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 (LGIP). Investments, including equity in pooled cash and investments, are stated at fair value. Investments in the

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

LGIP are stated at share value, which approximates fair value, and is the value at which the shares can be withdrawn.

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 inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund 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 unavailable 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 uncollectible has been established.

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 one year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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 annual maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

Major outlays for capital assets and improvements are capitalized as construction in progress during construction. 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:

Building 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.

Unavailable Revenue

On the fund financial statements, unavailable 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 unavailable 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.

Deferred Outflows /Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then.

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

For purposes of measuring the net pension (asset) liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Oregon Public Employees Retirement System (OPERS) and additions to/deductions from OPERS's fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Long-term Obligations

In the government-wide financial statements and proprietary fund type 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 position.

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 Position

In the fund financial statements, the fund balance for governmental funds is reported in a hierarchy of classifications based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The City reports fund balances in the following categories:

Nonspendable for resources that cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. At year end the City's nonspendable fund balance consisted of prepaid insurance.

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

Committed for amounts that City Council passes an ordinance or council resolution, a formal action made by the entity's highest level of decision making authority. The City Council can modify or rescind the ordinance or resolution at any time through passage of an additional ordinance or resolution.

Assigned for resources that are constrained by the government's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. The City Council has given the City Administrator the power to assign fund balances.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that is not assigned, committed, restricted, or nonspendable. This classification is also used to report any deficit fund balance amounts in other governmental funds. At year end the City did not have any fund balance deficits in any governmental funds.

On the government-wide Statement of Net Position and the proprietary funds' Statement of Net Position, net position is segregated into restricted and unrestricted balances. Restrictions are limitations on how the net position may be used. Restrictions may be placed on net position by an external party that provided the resources, by enabling legislation, or by the nature of the asset.

The Net Investment in Capital Assets component of net position represents total capital assets less accumulated depreciation less debt directly related to capital assets. This amount is reported on the Statement of Net Position and in the financial statements for proprietary fund types.

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,

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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 uncollectible has been established.

1. 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, 2017 (recorded at cost) consisted of:

Cash on hand	\$	100
Deposits with financial institutions		(14,624) *
LGIP		929,704
	\$	<u>915,180</u>

*Note that this negative balance reversed on July 10, 2017 with a transfer from the LGIP.

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

Governmental activities	\$	236,616
Business-type activities		678,564
	\$	<u>915,180</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, 2017, the bank balance was \$4,909. 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

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

institution, repurchase agreements, State of Oregon Treasury Local Government Investment Pool (LGIP), various interest-bearing bonds of Oregon municipalities, certificates of deposit, and certain commercial paper among other investments.

There is participation in the LGIP, an open-ended, no-load diversified portfolio created under ORS 294.805 to 294.895. The LGIP 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. Value of pool shares approximates fair value. At year end the City's only investment was in the LGIP.

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.

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

Concentration of Credit Risk

At June 30, 2017, 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.

2. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2017 is as follows:

Governmental activities	Beginning Balance	Additions	Ending Balance
Capital Assets, non-depreciable:			
Land	\$ 132,757	\$ -	\$ 132,757
Total capital assets, non-depreciable	<u>132,757</u>	<u>-</u>	<u>132,757</u>
Capital assets, depreciable:			
Buildings and improvements	773,657	-	773,657
Streets	1,072,745	2,234	1,074,979
Park improvements	83,505	10,000	93,505
Total capital assets, depreciable	<u>1,929,907</u>	<u>12,234</u>	<u>1,942,141</u>
Total	<u>2,062,664</u>	<u>12,234</u>	<u>2,074,898</u>
Less accumulated depreciation for:			
Buildings and improvements	(162,278)	(15,474)	(177,752)
Streets	(505,572)	(21,850)	(527,422)
Park improvements	(42,283)	(4,319)	(46,602)
Total accumulated depreciation	<u>(710,133)</u>	<u>(41,643)</u>	<u>(751,776)</u>
Net depreciable capital assets	<u>1,219,774</u>	<u>(29,409)</u>	<u>1,190,365</u>
Net capital assets	<u>\$ 1,352,531</u>	<u>\$ (29,409)</u>	<u>\$ 1,323,122</u>

Depreciation expense was allocated as follows:

Governmental activities:	Depreciation
General government	19,793
Streets	21,850
Total depreciation expense - governmental activities	<u>41,643</u>

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

Capital asset activity for business-type activities for the year ended June 30, 2017 is as follows:

Business-type activities	Beginning Balance	Additions	Ending Balance
Capital Assets, non-depreciable:			
Land	77,086	-	\$ 77,086
Construction in Progress	198,476	2,283,537	2,482,013
Total capital assets, non-depreciable	<u>275,562</u>	<u>2,283,537</u>	<u>2,559,099</u>
Capital assets, depreciable:			
Buildings and improvements	745,029	-	745,029
Water, Wastewater, and Stormdrain systems	3,730,084	-	3,730,084
Machinery and equipment	653,186	16,384	669,570
Total capital assets, depreciable	<u>5,128,299</u>	<u>16,384</u>	<u>5,144,683</u>
 Total	 <u>5,403,861</u>	 <u>2,299,921</u>	 <u>7,703,782</u>
Less accumulated depreciation for:			
Buildings and improvements	(625,401)	(3,279)	(628,680)
Water, Wastewater, and Stormdrain systems	(1,839,349)	(93,586)	(1,932,935)
Machinery and equipment	(452,124)	(25,431)	(477,555)
Total accumulated depreciation	<u>(2,916,874)</u>	<u>(122,296)</u>	<u>(3,039,170)</u>
 Net depreciable capital assets	 <u>2,211,425</u>	 <u>(105,912)</u>	 <u>2,105,513</u>
 Net capital assets	 <u>\$ 2,486,987</u>	 <u>2,177,625</u>	 <u>\$ 4,664,612</u>

Depreciation expense was allocated as follows:

Business-type activities:	
Water	61,721
Sewer	60,278
Stormwater	297
Total depreciation expense - business-type activities	<u>122,296</u>

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

3. LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2017 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>						
Compensated absences		\$ 1,319	\$ 2,009	\$ (1,030)	\$ 2,298	\$ -
Pension-related debt		-	3,129	(115)	3,014	-
Total governmental activities		<u>\$ 1,319</u>	<u>\$ 5,138</u>	<u>\$ (1,145)</u>	<u>\$ 5,312</u>	<u>\$ -</u>
<i>Business-type activities:</i>						
Compensated absences		\$ 4,460	\$ 7,486	\$ (3,384)	\$ 8,562	\$ -
<i>Notes payable:</i>						
DEQ note	1.04%	120,930	-	(64,247)	56,683	28,245
DEQ note	0.88%	-	66,659	-	66,659	-
IFA loan	1.98%	198,476	2,283,537	-	2,482,013	-
<i>Bonds payable:</i>						
1980 Water bonds	5%	15,129	-	(4,907)	10,222	4,520
1997 Water bonds	4.5-5.75%	55,000	-	(25,000)	30,000	30,000
Bond discount		(410)	-	410	-	-
1997 Wastewater bonds	4.5-5.75%	40,000	-	(20,000)	20,000	20,000
Bond discount		(305)	-	305	-	-
Pension-related debt		-	7,663	(288)	7,375	-
Total business-type activities		<u>\$ 433,280</u>	<u>\$ 2,365,345</u>	<u>\$ (117,111)</u>	<u>\$ 2,681,514</u>	<u>\$ 82,765</u>

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, 2017.

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2017-2018	5,877	4,520	1,357
2018-2019	9,876	5,702	2,517
Total	<u>\$ 15,753</u>	<u>\$ 10,222</u>	<u>\$ 3,874</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

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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>
2017-2018	30,863	30,000	863
Total	<u>\$ 30,863</u>	<u>\$ 30,000</u>	<u>\$ 863</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.

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2017-2018	20,575	20,000	575
Total	<u>\$ 20,575</u>	<u>\$ 20,000</u>	<u>\$ 575</u>

On February 16, 2012, a loan agreement was entered into with the Oregon Department of Environmental Quality (DEQ), Clean Water State Revolving Fund for improvements to the wastewater treatment facility. The loan is in the amount of \$180,000, payable at an interest rate of 1 .04%. Repayment of the loan began in August 2014 after all disbursements were made. The City grants DEQ a security interest in and irrevocably pledges its net operating revenues to secure repayment of the loan. On October 18, 2016, the DEQ forgave \$30,376 of the outstanding loan.

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2017-2018	28,983	28,245	738
2018-2019	28,756	28,438	318
Total	<u>\$ 57,739</u>	<u>\$ 56,683</u>	<u>\$ 1,056</u>

On June 29, 2015, the City entered into a second loan agreement with the DEQ to continue planning improvements to the wastewater treatment facility. The loan is in the amount of \$100,000, payable at an interest rate of 0.88%. The City grants DEQ a security interest in and irrevocably pledges its net operating revenues to secure repayment of the loan. As of June 30,

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

2017, the City had spent \$66,659 of the loan. Repayment must be made within five years of completing the project.

In March 2016, the State of Oregon Infrastructure Financing Authority (IFA) awarded the City a \$2.8 million loan to replace its existing water storage facility at Voss Hill Reservoir and perform some additional water system upgrades. Approximately \$515,000 of loan is forgivable, and the interest rate on the remaining balance is 1.98% per annum. As of June 30, 2017 the City had spent \$2,482,013 of the loan. Repayment will begin in the 2018-2019 fiscal year.

Pension Related Debt

In 2001 the City became a member of OPERS Local Government Rate Pool (LGRP). Pooling allows separate employers to be part of one group for the purpose of determining employer pension costs and contribution rates. Subsequent to the City joining the LGRP, the Oregon legislature merged the LGRP with the State/Community College Pool, forming the State and Local Government Rate Pool (SLGRP). In 2001, the City elected to become a member of the SLGRP.

Upon joining the LGRP in 2001, a transition liability or surplus was calculated to ensure that each employer entered the pool on a comparable basis. The transition liability is maintained separately from the SLGRP, and is reduced by contributions and increased by interest charges at an assumed interest rate, originally 8%, which was reduced to 7.75% in 2013 and to 7.5% in 2015. The transition liability is amortized over twenty-five years, ending in December 2027.

For June 30, 2017, OPERS provided the balance of the transition liability and the amount the City paid in principal and interest for the fiscal year ending June 30, 2017. In prior years the balance was not considered material and was not included in the financial statements.

Balance			Balance
June 30, 2016	Interest	Principal	June 30, 2017
\$10,792	\$631	(\$403)	\$10,389

4. 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, 2017, the reserve requirements of the 1997 Water and Wastewater Revenue Bonds is sufficiently funded.

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

5. PENSION PLAN

Plan Description

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. Employees hired prior to that date belong to the Tier One/Tier Two Retirement Benefit Program. 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.

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.

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, 2015 is 14.79% of salary covered under the plan for Tier 1 and Tier 2 (PERS) employees and 11.99% 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.

CITY OF ADAIR VILLAGE
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Benefits Provided

Tier One/Tier Two Retirement Benefit

The PERS retirement allowance is payable monthly for life. The benefit may be selected from 13 retirement options, including survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 50. Tier one general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of eligible service. Tier two members are eligible for full benefits at age 60.

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions with interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met: (1) member was employed by a OPERS employer at the at the time of death; (2) member died within 120 days after termination of OPERS-covered employment; (3) member died as a result of injury sustained while employed in a OPERS-covered job; or (4) member was on an official leave of absence from a OPERS-covered job at the time of death.

A member with ten or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time if computed to age 58 (55 for police and fire members) when determining monthly benefit.

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

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

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

ORS 238A OPSRP Defined Benefit Plan Benefits

This portion of the defined benefit pension plan of OPERS provides benefits to members hired on or after August 29, 2003. Benefits under this portion of OPSRP provide a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age.

For police and fire members, 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 52 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

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

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

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

A member who has accrued ten or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. The cap on the cost-of-living changes in fiscal year 2015 and beyond will vary based on the amount of the annual benefit.

Contributions

OPERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the OPERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

Employer contributions rates during the period were based on the December 31, 2013 actuarial valuation, as subsequently modified by 2013 legislated changes in benefit provisions. The City's rates for the year ended June 30, 2017 were 13.09% for OPERS and 12.99% for OPSRP. The contribution requirements for plan members and the City are established by ORS Chapter 238 and may be amended by an act of the legislature.

Contributions to the plan for the years ending June 30, 2017 and 2016 were \$21,225 and \$20,646, respectively. A four-year Schedule of Contributions can be found in the Required Supplementary Information, which immediately follows these notes.

Pension Assets, Liabilities, Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2017 the City reported liabilities of \$494,778 for its proportionate share of the plan pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The proportionate share was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members of the cost sharing pool, actuarially determined. At June 30, 2017 and 2016, the City's proportion was 0.00329581 and 0.00270964 percent respectively.

For the year ended June 30, 2017, the City recognized pension expense of \$66,867 for the defined benefit portion of the pension plan as a result of implementing GASB 68. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,369	\$ -
Changes of assumptions	105,524	-
Net difference between projected and actual earnings on investments	97,747	-
Changes in proportion	31,557	16,567
Differences between employer contributions and proportionate share of contributions	998	11,544
Total (prior to post-MD contributions)	<u>252,195</u>	<u>28,111</u>
Contributions subsequent to the MD	<u>21,225</u>	<u>-</u>
Total	<u>\$ 273,420</u>	<u>\$ 28,111</u>

Deferred outflows of resources related to pensions of \$21,225 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension (asset)/liability in the year ending June 30, 2017. Other amounts reported as deferred inflows

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

- Asset valuation method Market value of assets
- Actuarial assumptions
 - Inflation rate 2.50 percent
 - Investment rate of return 7.50 percent
 - Discount rate 7.50 percent
 - Projected salary increases 3.50 percent
- Mortality Healthy retirees and beneficiaries:
RP-2000 Sex-distinct, generational per Scale BB
with collar adjustments and set-backs as described
in the valuation.

Active members:
Mortality rates are a percentage of healthy retiree
rates that vary by group, as described in the
valuation

Disabled retirees:
Mortality rates are a percentage (70% for males,
95% for females) of the RP-2000 Sex-distinct
generational per Scale BB, disabled mortality
table.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the defined benefit pension plan was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

The following represents the City's proportionate share of the pension asset calculated using the discount rate of 7.50 percent, as well as what the City's share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$ 798,901	\$ 494,778	\$ 240,584

The long term expected rate of return is based on a consistent set of underlying assumptions for each asset class and includes adjustment for the inflation assumption. These assumptions are not based on historical return, but instead are based on a forward-looking capital market economic model. To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compounded Annual Return (Geometric)</u>
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.31%	6.99%
Micro Cap US Equities	1.31%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Market Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equity	17.48%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	2.50%	4.64%
Hedge Fund - Event-driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
Total	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%

At June 30, 2017, the City's payable to OPERS for defined benefit contributions was approximately \$2,343. This amount represents legally required contributions to the plan for services incurred in the current fiscal year.

Changes in Plan Provisions During the Measurement Period

At its September 25, 2015 meeting, the OPERS Board reduced the assumed rate of return on investments from 7.75 percent to 7.50 percent.

On July 28, 2017, subsequent to the June 30, 2016 measurement date, the OPERS Board lowered the assumed earnings rate from 7.5 to 7.2 percent. The new assumed earnings rate

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

will affect rates that go into effect on July 1, 2019. The effect on the City has not been determined.

6. 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.

7. PROPERTY TAX LIMITATIONS

The voters of the State of Oregon set a constitutional limit on property taxes for schools and non-school government operations. The limitation provides that property taxes for non-school operations are limited to \$10.00 for each \$1,000 of property market value. 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.

8. 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

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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.

9. DEFICIT FUND BALANCE

At June 30, 2017, the Wastewater Fund had a negative budgetary ending fund balance of \$(6,931). Rates charged to customers have been adjusted and a one-time transfer from the General Fund has been budgeted for fiscal year 2017-2018. This fund will be monitored to bring it back to a positive balance.

10. SUBSEQUENT EVENTS

On July 21, 2017, the City received an application for 199 additional residential homes in a subdivision inside the City. This would increase the number of homes in the City by approximately 60%. The subdivision is expected to be phased in over multiple years.

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CITY OF ADAIR VILLAGE, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF ADAIR VILLAGE, OREGON
Schedule of the Proportionate Share of the Net Pension Liability
for the last four fiscal years*

Year ended June 30,	Proportion of the net pension liability/(asset)**	Proportionate share of the net pension liability (asset)**	Covered payroll	Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.00329581%	494,778	190,519	259.70%	80.50%
2016	0.00270964%	155,573	240,959	64.56%	91.90%
2015	0.00395830%	(89,723)	241,844	-37.10%	103.60%
2014	0.00395830%	201,998	234,073	86.30%	91.97%

CITY OF ADAIR VILLAGE, OREGON
Schedule of Contributions
for the last four fiscal years*

Year ended June 30,	Statutorily required contribution**	Contributions in relation to the statutorily required contribution**	Contribution deficiency (excess)	Covered payroll	Contributions as a percent of covered payroll
2017	21,225	21,225	-	210,725	10.07%
2016	20,646	20,646	-	190,519	10.84%
2015	30,740	30,740	-	240,959	12.76%
2014	31,402	31,402	-	241,844	12.98%

*This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

**The actuarial information for each fiscal year was provided by the actuary for Oregon Public Employees Retirement System

CITY OF ADAIR VILLAGE, OREGON
GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
Property taxes:				
Current	\$ 105,000	\$ 105,000	\$ 111,335	\$ 6,335
Prior years	1,600	1,600	1,689	89
Franchise fees	45,000	45,000	43,565	(1,435)
Intergovernmental:				
State revenue sharing	7,500	7,500	7,790	290
Liquor tax	12,000	12,000	12,806	806
Cigarette tax	1,200	1,200	1,161	(39)
Park grant	3,253	3,253	-	(3,253)
Special transportation fund grant	10,000	10,000	-	(10,000)
Building/property lease	77,050	77,050	74,831	(2,219)
Planning fees	5,000	5,000	1,105	(3,895)
Ordinances and court fines	2,400	2,400	4,136	1,736
Refunds	2,000	2,000	-	(2,000)
Interest income	3,200	3,200	9,973	6,773
Miscellaneous	7,500	7,500	10,929	3,429
Total revenues	282,703	282,703	279,320	(3,383)
EXPENDITURES				
Personnel services	85,540	89,789	67,267	22,522
Materials and services	208,453	208,453	205,292	3,161
Capital outlay	45,355	45,355	10,000	35,355
Contingency	20,000	20,000	-	20,000
Total expenditures	359,348	363,597	282,559	81,038
Change in fund balance				
before other financing sources (uses)	(76,645)	(80,894)	(3,239)	77,655
Other financing sources (uses)				
Transfer in	10,000	-	-	-
Change in fund balance	(66,645)	(80,894)	(3,239)	77,655
Fund balance - beginning of the year	100,000	100,000	164,414	64,414
Fund balance - end of the year	\$ 33,355	\$ 19,106	\$ 161,175	\$ 142,069

CITY OF ADAIR VILLAGE, OREGON
STREET FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
State gas tax	\$ 52,000	\$ 52,000	\$ 50,453	\$ (1,547)
Miscellaneous	200	200	-	(200)
Total revenues	52,200	52,200	50,453	(1,747)
EXPENDITURES				
Personnel services	23,326	23,326	19,995	3,331
Materials and services	27,950	27,950	27,950	-
Capital outlay	26,640	26,640	2,234	24,406
Contingency	15,000	15,000	-	15,000
Total expenditures	92,916	92,916	50,179	42,737
Change in fund balance	(40,716)	(40,716)	274	(44,484)
Fund balance - beginning of the year	80,000	80,000	83,970	3,970
Fund balance - end of the year	\$ 39,284	\$ 39,284	\$ 84,244	\$ (40,514)

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CITY OF ADAIR VILLAGE, OREGON

SUPPLEMENTARY INFORMATION

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CITY OF ADAIR VILLAGE, OREGON
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
Charges for services	\$ 525,000	\$ 525,000	\$ 512,026	\$ (12,974)
Miscellaneous	1,000	1,000	1,692	692
Total revenues	526,000	526,000	513,718	(12,282)
EXPENDITURES				
Personal services	186,773	186,773	158,366	28,407
Materials and services	2,975,300	2,975,300	2,537,730	437,570
Capital outlay	41,743	41,743	8,900	32,843
Debt service	33,500	33,500	31,740	1,760
Contingency	75,000	75,000	-	75,000
Total expenditures	3,312,316	3,312,316	2,736,736	575,580
Change in fund balance				
before other financing sources (uses)	(2,786,316)	(2,786,316)	(2,223,018)	563,298
OTHER FINANCING SOURCES (USES)				
Loan proceeds	2,840,000	2,840,000	2,470,660	(369,340)
Total other financing sources (uses)	2,840,000	2,840,000	2,470,660	(369,340)
Change in fund balance	53,684	53,684	247,642	193,958
Fund balance - beginning of the year	370,000	370,000	141,725	(228,275)
Fund balance - end of the year	\$ 423,684	\$ 423,684	389,367	\$ (34,317)

Capital assets, net of depreciation	3,603,044
Accrued compensated absences	(5,560)
Net pension liability	(220,182)
Deferred outflows of resources - pension	121,676
Accrued interest	(766)
Unavailable revenue on budgetary basis	11,353
Long-term debt	(2,522,235)
Transition liability	(4,622)
Deferred inflows of resources - pension	(12,510)
Total net position	\$ 1,359,565

CITY OF ADAIR VILLAGE, OREGON
WASTEWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
Charges for services	\$ 205,000	\$ 205,000	\$ 192,419	\$ (12,581)
Miscellaneous	1,000	1,000	-	(1,000)
Total revenues	206,000	206,000	192,419	(13,581)
EXPENDITURES				
Personal services	85,865	85,865	74,270	11,595
Materials and services	113,250	113,250	111,670	1,580
Capital outlay	27,605	27,605	5,995	21,610
Debt service	62,848	62,848	58,718	4,130
Contingency	10,000	10,000	-	10,000
Total expenditures	299,568	299,568	250,653	48,915
Change in fund balance				
before other financing sources (uses)	(93,568)	(93,568)	(58,234)	35,334
OTHER FINANCING SOURCES (USES)				
Loan proceeds	100,000	100,000	66,659	(33,341)
Total other financing sources (uses)	100,000	100,000	66,659	(33,341)
Change in fund balance	6,432	6,432	8,425	1,993
Fund balance - beginning of the year	-	-	(15,356)	(15,356)
Fund balance - end of the year	\$ 6,432	\$ 6,432	(6,931)	\$ (13,363)

Capital assets, net of depreciation	1,053,668
Accrued compensated absences	(2,465)
Net pension liability	(106,385)
Deferred outflows of resources - pension	58,789
Accrued interest	(1,447)
Long-term debt	(143,342)
Transition liability	(2,234)
Deferred inflows of resources - pension	(6,044)
Total net position	\$ 843,609

CITY OF ADAIR VILLAGE, OREGON
 SYSTEMS DEVELOPMENT FUND
 SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
Charges for services	\$ 59,876	\$ 59,876	\$ 31,939	\$ (27,937)
Total revenues	59,876	59,876	31,939	(27,937)
Change in fund balance	59,876	59,876	31,939	(27,937)
Fund balance - beginning of the year	214,508	214,508	203,418	(11,090)
Fund balance - end of the year	\$ 274,384	\$ 274,384	\$ 235,357	\$ (39,027)

CITY OF ADAIR VILLAGE, OREGON
 COMBINING STATEMENT OF NET POSITION
 NONMAJOR PRIORITARY FUNDS
 June 30, 2017

	Storm Drain Fund	Reserve Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 15,733	\$ 16,418	\$ 32,151
Accounts receivable, net	2,021	-	2,021
Total current assets	17,754	16,418	34,172
Noncurrent assets:			
Capital assets, net of accumulated depreciation	7,900	-	7,900
Total noncurrent assets	7,900	-	7,900
Total Assets	25,654	16,418	42,072
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pensions	13,667	-	13,667
LIABILITIES			
Current liabilities:			
Payroll liabilities	1,181	-	1,181
Accrued vacation	537	-	537
Total current liabilities	1,718	-	1,718
Noncurrent liabilities:			
Net pension liability	24,732	-	24,732
Transition liability	519	-	519
Total noncurrent liabilities	25,251	-	25,251
Total Liabilities	26,969	-	26,969
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pensions	1,405	-	1,405
NET POSITION			
Investment in capital assets	7,900	-	7,900
Restricted for capital assets	-	16,418	16,418
Unrestricted	3,047	-	3,047
Total Net Position	10,947	16,418	27,365

CITY OF ADAIR VILLAGE, OREGON
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 NONMAJOR PRIORITARY FUNDS
 for the year ended June 30, 2017

	Storm Drain Fund	Reserve Fund	Total
REVENUES			
Charges for services	\$ 17,796	\$ -	\$ 17,796
EXPENSES			
Personnel services	19,961	-	19,961
Materials and services	13,910	-	13,910
Depreciation	297	-	297
Total expenses	34,168	-	34,168
Change in net position	(16,372)	-	(16,372)
Net position--beginning	27,319	16,418	43,737
Net position--end of year	\$ 10,947	\$ 16,418	\$ 27,365

CITY OF ADAIR VILLAGE, OREGON
 COMBINING STATEMENT OF CASH FLOWS - NONMAJOR PROPRIETARY FUNDS
 for the year ended June 30, 2017

	Storm Drain	Reserve Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 17,776	\$ -	\$ 17,776
Payments to suppliers	(13,910)	-	(13,910)
Payments to employees	(15,757)	-	(15,757)
Net cash provided (used) by operating activities	(11,891)	-	(11,891)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(1,489)	-	(1,489)
Net cash provided (used) by capital and related financing activities	(1,489)	-	(1,489)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	-	-	-
Net cash provided by investing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	(13,380)	-	(13,380)
Cash and investments--beginning of the year	29,113	16,418	45,531
Cash and investments--end of the year	\$ 15,733	\$ 16,418	\$ 32,151
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (16,372)	\$ -	\$ (16,372)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	297	-	297
Change in assets and liabilities:			
Receivables	(20)	-	(20)
Accounts payable and accrued liabilities	341	-	341
Accrued compensated absences	248	-	248
Pension-related expenses	3,615	-	3,615
Net cash provided (used) by operating activities	\$ (11,891)	\$ -	\$ (11,891)

CITY OF ADAIR VILLAGE, OREGON
 STORM DRAIN FUND
 SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 for the year ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
Charges for services	\$ 18,000	\$ 18,000	\$ 17,796	\$ (204)
Miscellaneous	200	200	-	(200)
Total revenues	18,200	18,200	17,796	(404)
EXPENDITURES				
Personal services	19,292	19,292	16,098	3,194
Materials and services	9,000	15,400	13,910	1,490
Capital outlay	2,899	2,899	1,489	1,410
Contingency	4,320	2,920	-	2,920
Total expenditures	35,511	40,511	31,497	9,014
Change in fund balance	(17,311)	(22,311)	(13,701)	8,610
Fund balance - beginning of the year	25,000	30,000	30,274	274
Fund balance - end of the year	\$ 7,689	\$ 7,689	16,573	\$ 8,884

Capital assets, net of depreciation	7,900
Accrued compensated absences	(537)
Transition liability	(519)
Net pension liability	(24,732)
Deferred outflows of resources - pension	13,667
Deferred inflows of resources - pension	(1,405)
Total net position	\$ 10,947

CITY OF ADAIR VILLAGE, OREGON
RESERVE FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
Fund balance - beginning of the year	\$ -	\$ -	\$ 16,418	\$ 16,418
Fund balance - end of the year	\$ -	\$ -	\$ 16,418	\$ 16,418

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH OREGON STATE REGULATION

Honorable Mayor and City Council
City of Adair Village, Oregon

We have audited the basic financial statements of City of Adair Village, Oregon as of and for the year ended June 30, 2017 and have issued our report thereon dated October 23, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Adair Village, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds. (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).
- Accountability for collecting or receiving money by elected officials. The City does not have any elected officials collecting or receiving money.

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. In connection with our testing, nothing came to our attention that caused us to believe City of Adair Village, Oregon, was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-

000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations* except as follows:

The Wastewater Fund had a deficit fund balance of \$6,931.

OAR 162-10-0230 Internal Control

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

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



For Merina & Company, LLP
West Linn, Oregon
October 23, 2017

