

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014



12700 SW 72nd Ave.
Tigard, OR 97223

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

CITY COUNCIL

TERM EXPIRES

Bill Currier, Mayor

December 31, 2016

Susan Canfield

December 31, 2016

Charline King

December 31, 2018

Dusty Andrews

December 31, 2018

Nicole Real

December 31, 2016

All council members receive mail at the address listed below.

ADMINISTRATIVE

Pat Hare, City Administrator – Current

Drew Foster, City Administrator – Retired

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

This Page Intentionally Left Blank

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

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
Independent Auditors' Report	i
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Management's Discussion and Analysis	iv
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Combined Balance Sheet – Governmental Funds	3
Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Assets	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - To Statement of Activities	6
Proprietary Financial Statements:	
Combined Statement of Net Assets	7
Combined Statement of Revenues, Expenses and Changes in Net Assets	8
Combined Statement of Cash Flows	9
Notes to Basic Financial Statements	10
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	
General Fund	27
Street Fund	28
<u>SUPPLEMENTARY INFORMATION</u>	
Proprietary Funds:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:	
Water Fund	29
Wastewater Fund	30
SDC Fund	31

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

PAGE
NUMBER

Nonmajor Proprietary Funds:	
Combining Statement of Net Assets	32
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	33
Combining Statement of Cash Flows	34
Schedule of Revenues, Expenditures and Changes in Fund Balance –	
Budget and Actual	
Storm Drain Fund	35
Reserve Fund	36

OTHER INFORMATION

Schedule of Property Tax Transactions and Balances of Taxes Uncollected	37
---	----

REPORTS ON LEGAL AND OTHER REGULATORY REQUIREMENTS

Independent Auditors' Report Required by Oregon State Regulations	38
---	----



PAULY, ROGERS, AND CO., P.C.
12700 SW 72nd Ave. Tigard, OR 97223
(503) 620-2632 (503) 684-7523 FAX
www.paulyrogersandcocpas.com

September 26, 2016

INDEPENDENT AUDITORS' REPORT

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

Report on the Basic Financial Statements

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

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic 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 basic 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 the City of Adair Village, as of June 30, 2014, 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.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the Management's Discussion and Analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison schedules presented as Required Supplementary Information, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the 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, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Information

The listing of council members containing their term expiration dates, located before the table of contents, 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

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated September 26, 2016, on our consideration of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



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

This Page Intentionally Left Blank

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

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, 2014.

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

FINANCIAL HIGHLIGHTS

The City's net assets increased \$116,489, or 2.81 percent, as a result of this year's:

- Net assets of our governmental activities increased by \$63,220 or 3.88 percent.
- Net assets of our business-type activities increased by \$53,269 or 2.12 percent. Note that this increase was due to a prior period adjustment (capital assets) in the amount of \$234,041. Without the prior period adjustment net assets would have actually decreased by \$180,772, or -7.18 percent.
- The total cost of all the City's programs in 2014 was \$1,194,508; in 2013, this cost was \$1,115,156.

CITY'S ACTIVITIES HIGHLIGHTS

Police Department Downsized

The budget for staffing the Adair Village Police Department was to be limited to a part-time chief (0.5 FTE [full time equivalent]), and a shared Records Clerk (0.3 FTE). However after creating the budget and prior to the start of the fiscal year ending June 30, 2014, the City decided to have Benton County provide public safety services. The two positions were not filled for the fiscal year. All police equipment, including two police cars, was sold during the year. The City does continue to provide Code Enforcement within city limits.

Water and Wastewater Utilities

The Water and Wastewater Utilities continue to operate at a slight deficit. The City Council is looking at improvements to both of these facilities to improve efficiencies, and has budgeted step increases to the Wastewater fees for next fiscal year. The Water Utility experiences significant water leakage. A \$2.3 million water improvement project is in the planning stages, with construction expected to begin in the next fiscal year.

Governmental Fund Balances

Fund balances in both the General Fund and the Street Fund increased in the fiscal year ending June 30, 2014. Revenues were up in both funds, including a one-time increase in the General Fund for the sale of police assets. Expenditures were down in the General Fund due to the elimination of Police Services (except for Code Enforcement). Expenditures were up slightly in the Street Fund as Public Works services were brought in-house.

CITY COUNCIL GOALS

The City Council undertook an extensive goal-setting process in February 2013. The goals that were adopted at that time continued to be the goals for the fiscal year ending June 30, 2014:

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

Public Works

Upgrade City's Utilities and Prepare for Growth

- Objective: Full staffing of public works
- Objective: Public works maintenance
- Objective: Identify and reduce water loss
- Objective: Continue role in local and regional wetland issues
- Objective: Upgrade streets and sidewalks
- Objective: Protection of water rights
- 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: Industrial site cleanup

Downtown Development

Develop a Downtown with Commercial/Retail Opportunities

- Objective: City "Welcome" signs
- Objective: Restoration of barracks interior
- Objective: Public use of barracks
- Objective: Downtown district planning
- Objective: Ownership of County property
- Objective: Ownership of apartments
- Objective: Reuse of block building

Public Safety

Provide Stable and Consistent Police Services

- Objective: Develop emergency plan
- Objective: Consistent ordinance enforcement
- Objective: Recruit new police chief

Community Development

Improve City's Amenities and Appearance and Outside Perception

- Objective: Facilitate residential growth
- Objective: Trails and connectivity
- Objective: Current and complete website
- Objective: Finish audit and closeouts
- Objective: Correct economic demographics
- Objective: Better event coordination
- Objective: Zip code specific to Adair Village
- Objective: Frontage road closure
- Objective: Improve city appearance

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT

This annual report consists of a set of financial statements. The Statement of Net Assets 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, 2014. Fund financial statements provide information on both governmental and proprietary, or business-type funds (Storm Drain, Wastewater, and Water). A review of these statements will provide information on the City's revenues, expenditures, capital assets and liabilities and ultimately compare where we were financially when the year started and where we are at the end of the fiscal year.

Reporting the City as a Whole

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

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

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

- **Governmental Activities** - The General Fund and the Street Fund are the primary areas here. 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.

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

THE CITY'S SITUATION AT THE END OF THE FISCAL YEAR

Table 1 below shows the City's Net Assets by Governmental and Business-type Activities and provides a comparison to last year's assets. Overall, the City's Net Assets increased from \$4,148,720 to \$4,265,210.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current Assets	\$ 269,057	\$ 162,897	\$ 456,074	\$ 587,190	\$ 725,131	\$ 750,087
Capital Assets	1,436,513	1,494,386	2,547,641	2,445,047	3,984,154	3,939,433
	<u>1,705,570</u>	<u>1,657,283</u>	<u>3,003,715</u>	<u>3,032,237</u>	<u>4,709,285</u>	<u>4,689,520</u>
Current Liabilities	11,922	26,855	113,085	205,989	125,007	232,844
Non-current Liabilities	-	-	319,068	207,341	319,068	207,341
	<u>11,922</u>	<u>26,855</u>	<u>432,153</u>	<u>413,330</u>	<u>444,075</u>	<u>440,185</u>
Net Assets:						
Invested in Capital Assets	1,436,513	1,494,386	2,159,585	2,097,681	3,596,098	3,592,067
Restricted for:						
Streets	73,098	61,977	-	-	73,098	61,977
System Dev.	-	-	208,557	198,229	208,557	198,229
Unrestricted	<u>184,037</u>	<u>74,064</u>	<u>203,420</u>	<u>222,383</u>	<u>387,457</u>	<u>296,447</u>
Total Net Assets	<u>\$ 1,693,648</u>	<u>\$ 1,630,427</u>	<u>\$ 2,571,562</u>	<u>\$ 2,518,293</u>	<u>\$ 4,265,210</u>	<u>\$ 4,148,720</u>

Net assets increased 2.81 percent. Unrestricted net assets – the portion of that area used to finance day-to-day operation without outside restraints, such as debt covenants, legislation, or other legal requirements – actually increased from \$296,447 to \$387,457 or 30.70 percent. The increase in Net Assets reflects a prior period adjustment to the Business-Type Activities' capital assets and conservative spending in the Governmental Activities expenses.

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

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

Table 2
Change in Revenues and Expense

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for services	\$ 139,385	\$ 107,274	\$ 677,999	\$ 659,969	817,384	767,243
Grants	2,410	2,000	-	-	2,410	2,000
General Revenues:						
Property Taxes	95,906	94,339	-	-	95,906	94,339
Highway Fund Allocation	48,283	46,095	-	-	48,283	46,095
Intergovernmental	20,091	19,171	-	-	20,091	19,171
Earnings on Investments	3,102	2,804	-	-	3,102	2,804
Miscellaneous	58,252	9,151	60,909	57,860	119,161	67,011
TOTAL REVENUES	367,429	280,834	738,908	717,829	1,106,337	998,663
Program Expenses:						
Governmental Activities:						
General Government	143,200	180,803	-	-	143,200	180,803
Public Safety	71,989	75,842	-	-	71,989	75,842
Street Maintenance	42,536	31,139	-	-	42,536	31,139
Culture & Recreation	17,103	18,095	-	-	17,103	18,095
Unallocated Interest	-	936	-	-	-	936
Proprietary Activities:						
Water	-	-	535,342	533,669	535,342	533,669
Wastewater	-	-	370,807	262,896	370,807	262,896
Other Business-Type Funds	-	-	13,531	11,776	13,531	11,776
TOTAL EXPENSES	274,828	306,815	919,680	808,341	1,194,508	1,115,156
Loss on Disposals	(29,381)	-	-	-	(29,381)	-
Increase (decrease) in net asset	63,220	(25,981)	(180,772)	(90,512)	(117,552)	(116,493)
Net assets - Beginning of year	1,630,428	1,656,409	2,518,293	2,608,805	4,148,721	4,265,214
Prior Period Adjustment	-	-	234,041	-	234,041	-
Net assets - End of year	<u>\$ 1,693,648</u>	<u>\$ 1,630,428</u>	<u>\$ 2,571,562</u>	<u>\$ 2,518,293</u>	<u>\$ 4,265,210</u>	<u>\$ 4,148,721</u>

The City's Total Revenues increased by \$107,674, Total Expenses increased by \$79,352 and Net Assets increased by \$116,489. Specifics on these changes can be found under "City's Activity Highlights" above.

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL BUDGETARY HIGHLIGHTS

- The City Council adopted a conservative fiscal year 2013-2014 budget. Due to spending at level that was even more conservative than budgeted, plus the sale of assets, including the sale of two police cars to Malheur County, resulted in the Fund Balance of the General Fund increasing more than was budgeted.
- The budget included a 0.5 FTE Police Chief and a 0.3 FTE Records Clerk, however these positions were unfilled in fiscal year 2013-2014 as all public safety services were provided by Benton County.

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

CAPITAL ASSETS

At the end of June 30, 2014, the City had \$3,984,154 invested in land, buildings and improvements, streets and equipment. This represents an increase (net of depreciation) of \$44,721 or 1.14 percent. Note that due to a prior period adjustment, Business-Type Capital Assets increased by \$234,041. Without the prior period adjustment, Capital Assets would have decreased (net of depreciation) by \$189,320 or -4.81 percent. The prior period adjustment was necessary after an error was discovered in the manual fixed asset recordkeeping spreadsheet. That error has been corrected.

**Table 3
Capital Assets at Year-end
Net Depreciation**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land & Improvements	\$ 132,757	132,757	\$ 79,557	\$ 79,557	\$ 212,314	\$ 212,314
Building & Improvements	778,587	765,459	745,029	745,029	1,523,616	1,510,488
Water and Sewer System	-	-	3,744,934	3,744,953	3,744,934	3,744,953
Streets	1,075,533	1,075,533	-	-	1,075,533	1,075,533
Park Improvements	88,194	86,717	-	-	88,194	86,717
Equipment	14,563	92,911	720,775	464,091	735,338	557,002
Less: Accumulated Depreciation	(653,121)	(658,991)	(2,742,654)	(2,588,583)	(3,395,775)	(3,247,574)
	\$ 1,436,513	\$ 1,494,386	\$ 2,547,641	\$ 2,445,047	\$ 3,984,154	\$ 3,939,433

CITY OF ADAIR VILLAGE
Benton County, Oregon

MANAGEMENT DISCUSSION AND ANALYSIS

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, 2015. Estimates were made for a range of revenues, including property taxes, shared state revenues, grants, franchise fees, licenses, and charges for utility service. No significant changes are anticipated for next year's budget in either revenues or expenditures. Water and Wastewater utility rates were updated in 2012-13 and are reviewed each year in preparation for the budget process, as will the City's Wage Schedule. A two-step increase in the Wastewater fees (5 percent each). 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.

Please refer to the notes to the financial statements for a discussion of other issues related to the 2013-14 year. Within that section are explanations of the City of Adair Village's organization and operations, a summary of significant accounting policies, and other important information.

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, Pat Hare, City of Adair Village, at 6030 William R. Carr Road, Adair Village, OR 97330.

This Page Intentionally Left Blank

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

BASIC FINANCIAL STATEMENTS

This Page Intentionally Left Blank

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

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 206,194	\$ 394,028	\$ 600,222
Receivables:			
Accounts	55,839	62,046	117,885
Taxes	7,024	-	7,024
Capital Assets:			
Land	132,757	79,557	212,314
Other Capital Assets, Net of Accumulated Depreciation	<u>1,303,756</u>	<u>2,468,084</u>	<u>3,771,840</u>
Total Assets	<u>\$ 1,705,570</u>	<u>\$ 3,003,715</u>	<u>\$ 4,709,285</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 4,400	\$ 14,981	\$ 19,381
Payroll Liabilities	6,689	18,995	25,684
Accrued Compensated Absences	833	5,823	6,656
Accrued Interest	-	4,298	4,298
Long Term Debt Due Within One Year	-	68,988	68,988
Noncurrent Liabilities:			
Long Term Debt Due in More than One Year	<u>-</u>	<u>319,068</u>	<u>319,068</u>
Total Liabilities	<u>11,922</u>	<u>432,153</u>	<u>444,075</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,436,513	2,159,585	3,596,098
Restricted for:			
Streets	73,098	-	73,098
Systems Development	-	208,557	208,557
Unrestricted	<u>184,037</u>	<u>203,420</u>	<u>387,457</u>
Total Net Assets	<u>\$ 1,693,648</u>	<u>\$ 2,571,562</u>	<u>\$ 4,265,210</u>

See accompanying notes to the basic financial statements.

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

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

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General Government	\$ 143,200	\$ 139,385	\$ -
Public Safety	71,989	-	-
Street Maintenance and Construction	42,536	-	-
Culture and Recreation	17,103	-	2,410
Facilities Acquisition Expense	-	-	-
Unallocated Interest Expense	-	-	-
Total Governmental Activities	274,828	139,385	2,410
Business -Type Activities			
Water	535,342	474,134	-
Wastewater	370,807	175,937	-
System Development Charges	-	-	-
Other Business-Type Funds	13,531	27,928	-
Total Business - Type Activities	919,680	677,999	-
Total Primary Government	\$ 1,194,508	\$ 817,384	\$ 2,410

Continued on 2B

See accompanying notes to the basic financial statements.

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

**Net Revenue (Expenses) and
Changes in Net Assets
For the Year Ended June 30, 2014**

Net Revenue (Expenses)	Governmental Activities	Business-Type Activities	Total
\$ (3,815)	\$ (3,815)	\$ -	\$ (3,815)
(71,989)	(71,989)	-	(71,989)
(42,536)	(42,536)	-	(42,536)
(14,693)	(14,693)	-	(14,693)
-	-	-	-
-	-	-	-
<u>(133,033)</u>	<u>(133,033)</u>	<u>-</u>	<u>(133,033)</u>
(61,208)	-	(61,208)	(61,208)
(194,870)	-	(194,870)	(194,870)
-	-	-	-
14,397	-	14,397	14,397
<u>(241,681)</u>	<u>-</u>	<u>(241,681)</u>	<u>(241,681)</u>
<u>\$ (374,714)</u>	<u>(133,033)</u>	<u>(241,681)</u>	<u>(374,714)</u>
General Revenues:			
Property Taxes	95,906	-	95,906
Highway Taxes	48,283	-	48,283
Intergovernmental	20,091	-	20,091
Earnings on Investments	3,102	-	3,102
Miscellaneous	58,252	60,909	119,161
Total General Revenues	<u>225,634</u>	<u>60,909</u>	<u>286,543</u>
Loss on Disposal	<u>(29,381)</u>	<u>-</u>	<u>(29,381)</u>
Change in Net Assets	63,220	(180,772)	(117,552)
Beginning Net Assets	1,630,428	2,518,293	4,148,721
Prior Period Adjustment	<u>-</u>	<u>234,041</u>	<u>234,041</u>
Ending Net Assets	<u>\$ 1,693,648</u>	<u>\$ 2,571,562</u>	<u>\$ 4,265,210</u>

Continued From 2A

See accompanying notes to the basic financial statements.

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

**COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2014

	<u>GENERAL</u>	<u>STREET FUND</u>	<u>TOTAL</u>
ASSETS:			
Cash and Investments	\$ 134,956	\$ 71,238	\$ 206,194
Receivables:			
Accounts	52,043	3,796	55,839
Taxes	<u>7,024</u>	<u>-</u>	<u>7,024</u>
Total Assets	<u>\$ 194,023</u>	<u>\$ 75,034</u>	<u>\$ 269,057</u>
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE:			
Liabilities:			
Accounts Payable	\$ 3,545	\$ 855	\$ 4,400
Payroll Liabilities	<u>5,608</u>	<u>1,081</u>	<u>6,689</u>
Total Liabilities	<u>9,153</u>	<u>1,936</u>	<u>11,089</u>
Deferred Inflows of Resources:			
Unavailable Property Tax Revenue	<u>6,761</u>	<u>-</u>	<u>6,761</u>
Total Deferred Inflows of Resources	<u>6,761</u>	<u>-</u>	<u>6,761</u>
Fund Balance:			
Restricted for:			
Streets	-	73,098	73,098
Unassigned	<u>178,109</u>	<u>-</u>	<u>178,109</u>
Total Fund Balance	<u>178,109</u>	<u>73,098</u>	<u>251,207</u>
Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 194,023</u>	<u>\$ 75,034</u>	<u>\$ 269,057</u>

See accompanying notes to the basic financial statements.

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO STATEMENT OF NET ASSETS

June 30, 2014

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

Fund Balances	\$ 251,207
---------------	------------

The cost of capital assets (land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress) is reported as an expenditure in governmental funds. The statement of net assets includes those capital assets among the assets of the City as a whole.

Net Capital Assets	1,436,513
--------------------	-----------

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued Compensated Absenses	(833)
------------------------------	-------

Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds

Unavailable Property Tax Revenues	<u>6,761</u>
-----------------------------------	--------------

Total Net Assets	<u><u>\$ 1,693,648</u></u>
------------------	----------------------------

-
-

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

	GENERAL FUND	STREET FUND	TOTAL
REVENUES:			
Property Taxes	\$ 94,682	\$ -	\$ 94,682
Highway Taxes	-	48,283	48,283
Franchise Fees	46,252	-	46,252
Intergovernmental	20,091	-	20,091
Grants	2,410	-	2,410
Property Leases/Rents	75,379	-	75,379
Permits and Fees	17,754	-	17,754
Interest Income	3,102	-	3,102
Miscellaneous	58,252	-	58,252
	317,922	48,283	366,205
EXPENDITURES:			
Current:			
Personal Services	61,751	17,150	78,901
Materials and Services	141,244	20,012	161,256
Capital Outlay	6,432	-	6,432
Debt Service	-	-	-
	209,427	37,162	246,589
Net Change in Fund Balance	108,495	11,121	119,616
Fund Balance - Beginning of Year	69,614	61,977	131,591
Fund Balance - End of Year	\$ 178,109	\$ 73,098	\$ 251,207

See accompanying notes to the basic financial statements.

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

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

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

Net Change in Fund Balance \$ 119,616

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

Capitalized Additions	14,605
Depreciation Expense	(43,097)
Loss on Disposal of Capital Assets	(29,381)

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

Change in Accrued Compensated Absences	253
--	-----

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

Unavailable Property Tax Revenues	<u>\$ 1,224</u>
-----------------------------------	-----------------

Change in Net Assets	<u><u>\$ 63,220</u></u>
----------------------	-------------------------

See accompanying notes to the basic financial statements.

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

**COMBINED STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2014**

	WATER FUND	WASTEWATER FUND	SYSTEMS DEVELOPMENT FUND	NONMAJOR PROPRIETARY FUNDS	TOTAL
ASSETS:					
Current Assets:					
Cash and Investments	\$ 164,597	\$ -	\$ 192,139	\$ 37,292	\$ 394,028
Accounts Receivable, Net	45,077	15,463	-	1,506	62,046
Due From Other Funds	94,029	-	-	-	94,029
Total Current Assets	<u>303,703</u>	<u>15,463</u>	<u>192,139</u>	<u>38,798</u>	<u>550,103</u>
Noncurrent Assets:					
Land	77,086	2,471	-	-	79,557
Other Capital Assets, Net	1,226,644	1,233,632	-	7,808	2,468,084
Total Noncurrent Assets	<u>1,303,730</u>	<u>1,236,103</u>	<u>-</u>	<u>7,808</u>	<u>2,547,641</u>
Total Assets	<u>\$ 1,607,433</u>	<u>\$ 1,251,566</u>	<u>\$ 192,139</u>	<u>\$ 46,606</u>	<u>\$ 3,097,744</u>
LIABILITIES AND NET ASSETS:					
Current Liabilities:					
Accounts Payable	\$ 13,936	\$ 1,045	\$ -	\$ -	\$ 14,981
Payroll Liabilities	11,411	6,847	-	737	18,995
Accrued Interest Payable	1,844	2,454	-	-	4,298
Due To Other Funds	-	94,029	-	-	94,029
Compensated Absences	3,492	2,000	-	331	5,823
Note Payable, Due Within One Year	-	19,588	-	-	19,588
Bonds Payable, Due Within One Year	29,400	20,000	-	-	49,400
Total Current Liabilities	<u>60,083</u>	<u>145,963</u>	<u>-</u>	<u>1,068</u>	<u>207,114</u>
Long Term Liabilities:					
Note Payable, Due in More Than One Year	-	160,412	-	-	160,412
Bonds Payable, Due in More Than One Year	99,569	59,087	-	-	158,656
Total Long Term Liabilities	<u>99,569</u>	<u>219,499</u>	<u>-</u>	<u>-</u>	<u>319,068</u>
Total Liabilities	<u>159,652</u>	<u>365,462</u>	<u>-</u>	<u>1,068</u>	<u>526,182</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	1,174,761	977,016	-	7,808	2,159,585
Restricted For Capital Projects	-	-	192,139	16,418	208,557
Unrestricted	273,020	(90,912)	-	21,312	203,420
Total Net Assets	<u>1,447,781</u>	<u>886,104</u>	<u>192,139</u>	<u>45,538</u>	<u>2,571,562</u>
Total Liabilities and Net Assets	<u>\$ 1,607,433</u>	<u>\$ 1,251,566</u>	<u>\$ 192,139</u>	<u>\$ 46,606</u>	<u>\$ 3,097,744</u>

See accompanying notes to the basic financial statements.

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

**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014**

	WATER FUND	WASTEWATER FUND	SYSTEMS DEVELOPMENT FUND	NONMAJOR PROPRIETARY FUNDS	TOTAL
OPERATING REVENUES					
Charges for Services	\$ 474,134	\$ 175,937	\$ 10,328	\$ 17,600	\$ 677,999
Miscellaneous Revenues	4,513	56,396	-	-	60,909
Total Revenues	<u>478,647</u>	<u>232,333</u>	<u>10,328</u>	<u>17,600</u>	<u>738,908</u>
OPERATING EXPENSES					
Personal Services	171,947	102,928	-	11,928	286,803
Materials and Services	189,917	181,546	-	1,283	372,746
Capital Outlay	5,371	15,947	-	-	21,318
Depreciation	66,205	64,923	-	320	131,448
Total Expenses	<u>433,440</u>	<u>365,344</u>	<u>-</u>	<u>13,531</u>	<u>812,315</u>
Operating Income	45,207	(133,011)	10,328	4,069	(73,407)
NON OPERATING REVENUES (EXPENSES)					
Purchases of Capital Assets	(89,601)	-	-	-	(89,601)
Interest Expense	(12,301)	(5,463)	-	-	(17,764)
Total Non-Operating Revenues (Expenses)	<u>(101,902)</u>	<u>(5,463)</u>	<u>-</u>	<u>-</u>	<u>(107,365)</u>
Change in Net Assets	(56,695)	(138,474)	10,328	4,069	(180,772)
Beginning Net Assets	1,274,645	1,020,368	181,811	41,469	2,518,293
Prior Period Adjustment	229,831	4,210	-	-	234,041
Ending Net Assets	<u>\$ 1,447,781</u>	<u>\$ 886,104</u>	<u>\$ 192,139</u>	<u>\$ 45,538</u>	<u>\$ 2,571,562</u>

See accompanying notes to the basic financial statements.

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

**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2014**

	WATER FUND	WASTEWATER FUND	SYSTEMS DEVELOPMENT FUND	NONMAJOR PROPRIETARY FUNDS	TOTAL
Cash Flows From Operating Activities:					
Cash Received From Customers	\$ 475,952	\$ 209,933	\$ 10,328	\$ 17,822	\$ 714,035
Cash Payments To Suppliers	(197,489)	(205,816)	-	(1,283)	(404,588)
Cash Payments To Employees	(172,662)	(104,235)	-	(11,901)	(288,798)
Other Receipts	4,513	56,395	-	-	60,908
Net Cash From Operations	<u>110,314</u>	<u>(43,723)</u>	<u>10,328</u>	<u>4,638</u>	<u>81,557</u>
Cash Flows From Non-Capital Financing Activities:					
Transfers to (from) Other Funds	<u>15,171</u>	<u>(15,171)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash (Used) By Non-Capital Financing Activities	<u>15,171</u>	<u>(15,171)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities:					
Proceeds from Long-Term Debt	-	79,386	-	-	79,386
Purchases of Capital Assets	(89,601)	-	-	-	(89,601)
Payment of Principal of Bonds, Contracts Payable	(24,000)	(14,696)	-	-	(38,696)
Payment of Interest on Long-Term Debt	(12,730)	(5,796)	-	-	(18,526)
Net Cash (Used) By Capital and Related Financing Activities	<u>(126,331)</u>	<u>58,894</u>	<u>-</u>	<u>-</u>	<u>(67,437)</u>
Net Increase In Cash and Investments	(846)	-	10,328	4,638	14,120
Balances - Beginning of Year	<u>165,443</u>	<u>-</u>	<u>181,811</u>	<u>32,654</u>	<u>379,908</u>
Balances - End of Year	<u>\$ 164,597</u>	<u>\$ -</u>	<u>\$ 192,139</u>	<u>\$ 37,292</u>	<u>\$ 394,028</u>
Reconciliation of Cash Flows From Operating Activities to Operating Income					
Operating Income	\$ 45,207	\$ (133,011)	\$ 10,328	\$ 4,069	\$ (73,407)
Adjustments					
Depreciation/Amortization	66,205	64,922	-	320	131,447
(Increase), Decrease in Accounts Receivable	1,818	33,996	-	222	36,036
(Increase), Decrease in Prepaid Expenses	-	-	-	-	-
Increase, (Decrease) in Accounts Payable	(2,201)	(8,323)	-	-	(10,524)
Increase, (Decrease) in Compensated Absences	(466)	(475)	-	(17)	(958)
Increase, (Decrease) in Payroll Liabilities	(249)	(832)	-	44	(1,037)
Net Cash From Operations	<u>\$ 110,314</u>	<u>\$ (43,723)</u>	<u>\$ 10,328</u>	<u>\$ 4,638</u>	<u>\$ 81,557</u>

See accompanying notes to the basic financial statements.

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

THE FINANCIAL REPORTING ENTITY

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

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

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

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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.

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.

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. The budgets for all funds are adopted on a basis consistent with generally accepted accounting principles except that property taxes received more than 60 days after year-end are not considered budgetary resources in the funds, inventory is expensed when purchased, debt and pension costs are recorded as expenditures when paid, capital outlay is recorded as an expenditure rather than capitalized, and depreciation is not recorded on capital assets.

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

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS (CONTINUED)

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

LEVEL OF CONTROL

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

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

Budget amounts shown in the basic financial statements reflect the original budget amount and final budget amounts, which include several appropriation transfers. Expenses of the various funds were within authorized appropriations for the year ended June 30, 2014, except for Water Fund: Capital Outlay over expended by \$28,772 and Debt Services over expended by \$730; Wastewater Fund: Materials and Services over expended by \$64,546.

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. Investments, including equity in pooled cash and investments, are stated at fair value.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/ from other funds" (i.e., the current portion of 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."

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 and Payables (Continued)

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

Capital Assets

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

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

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

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

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

Supply Inventories

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

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Compensated Absences

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

Deferred Revenue

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

Deferred Outflows/Inflows of Resources

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

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

Long-term Obligations

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

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

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Balance/Net assets

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

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

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

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

Fund Balance

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

- Non-spendable fund balance represents amounts that are not in a spendable form. The non-spendable fund balance represents inventories and prepaid items.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body. The authority to classify portions of ending fund balances as assigned is granted to the City Administrator.
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

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

There were no non-spendable, committed, or assigned fund balances at June 30, 2014.

Cash Flow Statements

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

Property Tax Calendar

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

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS

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

Cash and Investments at June 30, 2014 (recorded at cost) consisted of:

Cash on hand	\$ 649
Deposits with financial institutions	(2,988)
Oregon State Treasurer's Local Government Investment Pool	<u>602,561</u>
Total	<u>\$ 600,222</u>

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

Governmental activities	\$ 206,194
Business-type activities	<u>394,028</u>
Total cash and investments	<u>\$ 600,222</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, 2014, the bank balance was \$44,128. All of the bank balance was covered by Federal Depository Insurance.

Investments

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

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

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

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

As of June 30, 2014 there were the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 3</u>	<u>3-17</u>	<u>18-59</u>
State Treasurer's Investment Pool	\$ 602,561	\$ 602,561	\$ -	\$ -
Total	<u>\$ 602,561</u>	<u>\$ 602,561</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

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

Credit Risk

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

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

Concentration of Credit Risk

At June 30, 2014, 100% of total investments were in the Oregon State Treasury's Local Government Investment Pool. State statutes do not limit the percentage of investment in the Pool.

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

3. CAPITAL ASSETS

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

Description	GOVERNMENTAL ACTIVITIES CAPITAL ASSETS			
	June 30, 2013	Additions	(Deletions)	June 30, 2014
Land	\$ 132,757	\$ -	\$ -	\$ 132,757
Total Non-Depreciable Capital Assets	132,757	-	-	132,757
Buildings and Improvements	765,459	13,128	-	778,587
Equipment	92,911	-	(78,348)	14,563
Streets	1,075,533	-	-	1,075,533
Park Improvements	86,717	1,477	-	88,194
Total Depreciable Capital Assets	2,020,620	14,605	(78,348)	1,956,877
Less Accumulated Depreciation				
Buildings and Improvements	116,632	15,638	-	132,270
Equipment	62,601	929	(48,967)	14,563
Streets	440,720	21,919	-	462,639
Park Improvements	39,038	4,611	-	43,649
Less Accumulated Depreciation	658,991	43,097	(48,967)	653,121
Net Depreciable Capital Assets	1,361,629			1,303,756
Net Capital Assets	\$ 1,494,386			\$ 1,436,513

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

General Government	\$ 21,178
Streets	21,919
Total	\$ 43,097

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

3. CAPITAL ASSETS (CONTINUED)

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

Description	BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS			
	June 30, 2013	Adjustments	Additions	June 30, 2014
Land	\$ 79,557	\$ -	\$ -	\$ 79,557
Total Non-Depreciable Capital Assets	79,557	-	-	79,557
Buildings	745,029	-	-	745,029
Water and Sewer System	3,744,953	(19)	-	3,744,934
Machinery and Equipment	464,091	167,083	89,601	720,775
Total Depreciable Capital Assets	4,954,073	167,064	89,601	5,210,738
Less Accumulated Depreciation				
Buildings	615,567	-	3,278	618,845
Water and Sewer System	1,564,024	640	93,764	1,658,428
Machinery and Equipment	408,992	21,984	34,405	465,381
Less Accumulated Depreciation	2,588,583	22,624	131,447	2,742,654
Net Depreciable Capital Assets	2,365,490			2,468,084
Net Capital Assets	\$ 2,445,047			\$ 2,547,641

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

Water	\$ 66,205
Wastewater	64,922
Storm Drainage	320
Total	\$ 131,447

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2014 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		1,086	833	(1,086)	833	833
Total governmental activities		<u>\$ 1,086</u>	<u>\$ 833</u>	<u>\$ (1,086)</u>	<u>\$ 833</u>	<u>\$ 833</u>
<i>Business-type Activities:</i>						
Compensated absences		6,781	5,823	(6,781)	5,823	5,823
Notes payable:						
DEQ Note		100,614	79,386	-	180,000	19,588
Bonds payable:						
1980 Water Bonds	5%	29,609	-	(4,410)	25,199	4,400
1997 Water Bonds	4.5-5.75%	125,000	-	(20,000)	105,000	25,000
Bond Discount		(1,640)	-	410	(1,230)	-
1997 Wastewater Bonds	4.5-5.75%	95,000	-	(15,000)	80,000	20,000
Bond Discount		(1,217)	-	304	(913)	-
Total business-type activities		<u>\$ 354,147</u>	<u>\$ 85,209</u>	<u>\$ (45,477)</u>	<u>\$ 393,879</u>	<u>\$ 74,811</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, 2014.

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2014-2015	\$ 5,877	\$ 4,400	\$ 1,477
2015-2016	5,877	4,440	1,437
2016-2017	5,877	4,480	1,397
2017-2018	5,877	4,520	1,357
2015-2016	9,876	7,359	2,517
Totals	<u>\$ 33,384</u>	<u>\$ 25,199</u>	<u>\$ 8,185</u>

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. LONG-TERM OBLIGATIONS (CONTINUED)

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

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

	Total	Principal	Interest
2014-2015	\$ 30,319	\$ 25,000	\$ 5,319
2015-2016	28,881	25,000	3,881
2016-2017	27,443	25,000	2,443
2017-2018	30,863	30,000	863
Totals	\$ 117,506	\$ 105,000	\$ 12,506

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:

	Total	Principal	Interest
2014-2015	\$ 24,025	\$ 20,000	\$ 4,025
2015-2016	22,875	20,000	2,875
2016-2017	21,725	20,000	1,725
2017-2018	20,575	20,000	575
Totals	\$ 89,200	\$ 80,000	\$ 9,200

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. LONG-TERM OBLIGATIONS (CONTINUED)

On February 16, 2012, a loan agreement was entered into with the Oregon Department of Environmental Quality, Clean Water State Revolving Fund for improvements to the wastewater treatment facility. The loan is in the amount of \$180,000, payable at an interest rate of 1.04%. Repayment of the loan is scheduled to begin September 1, 2014 after all disbursements have been made. The City grants DEQ a security interest in and irrevocably pledges its net operating revenues to secure repayment of the loan.

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2014-2015	\$ 22,934	\$ 19,588	\$ 3,346
2015-2016	41,048	39,482	1,566
2016-2017	41,048	39,894	1,154
2017-2018	41,048	40,310	738
2018-2019	41,044	40,726	318
Totals	<u>\$ 187,122</u>	<u>\$ 180,000</u>	<u>\$ 7,122</u>

5. 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, 2014, the reserve requirements of the 1997 Water and Wastewater Revenue Bonds were not met by cash in the Reserve Fund.

6. PENSION PLAN

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

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

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

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. PENSION PLAN (CONTINUED)

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, 2011 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. Contributions to the plan for the years ending June 30, 2014 and 2013 were \$47,558 and \$28,849, respectively.

7. 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.

8. PROPERTY TAX LIMITATIONS

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

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

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

9. RISK MANAGEMENT

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

10. DEFICIT FUND BALANCE

At June 30, 2014, the Wastewater Fund had a negative budgetary ending fund balance of \$86,458. The deficit fund balance will be remedied in the next fiscal year through transfers from the General Fund.

11. PRIOR PERIOD ADJUSTMENT

A prior period adjustment to the Business-Type Activities of \$234,041 was made to correct the reported values of capital assets. The adjustment is a necessary correction of an error discovered in the manual capital asset recordkeeping spreadsheet. The error has been corrected for future periods.

12. INTERFUND BALANCES AND TRANSFERS

Details of the inter-fund receivables and payables are as follows:

Due from other funds:	
Water Fund	<u>\$ 94,029</u>
Due to other funds:	
Wastewater Fund	<u>\$ 94,029</u>

Inter-fund transfers are made to finance operations between funds.

This Page Intentionally Left Blank

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

REQUIRED SUPPLEMENTARY INFORMATION

This Page Intentionally Left Blank

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

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

	<u>GENERAL FUND</u>			
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES:				
Property Taxes:				
Current year	\$ 82,000	\$ 82,000	\$ 93,179	\$ 11,179
Prior years	1,500	1,500	1,503	3
Franchise Fees	42,000	42,000	46,252	4,252
Intergovernmental:				
State revenue sharing	7,000	7,000	7,119	119
Liquor tax	12,000	12,000	11,835	(165)
Cigarette tax	1,000	1,000	1,137	137
Park Grant	2,500	2,500	2,410	(90)
Business Oregon Grant-IBR	-	-	-	-
Business Oregon Grant-Soil Sampling	-	-	-	-
Traffic Safety Funds	-	-	-	-
Room Rental	300	300	-	(300)
Building/Property Lease	57,000	57,000	75,379	18,379
Building and Electrical Permits	9,000	9,000	10,583	1,583
Planning Fees	2,000	2,000	2,536	536
Ordinances and Court Fines	1,200	1,200	4,635	3,435
Other Fees and Fines	1,080	1,080	-	(1,080)
Refunds	2,500	2,500	900	(1,600)
Interest Income	2,800	2,800	3,102	302
Miscellaneous	2,000	2,000	57,352	55,352
	<u>225,880</u>	<u>225,880</u>	<u>317,922</u>	<u>92,042</u>
EXPENDITURES:				
Personal Services	81,104	81,104 (1)	61,751	19,353
Materials and Services	146,560	146,560 (1)	141,244	5,316
Capital Outlay	32,500	32,500 (1)	6,432	26,068
Contingency	33,000	33,000 (1)	-	33,000
	<u>293,164</u>	<u>293,164</u>	<u>209,427</u>	<u>83,737</u>
Excess of Revenues Over, (Under) Expenditures	(67,284)	(67,284)	108,495	175,779
Net Change in Fund Balance	(67,284)	(67,284)	108,495	175,779
Beginning Fund Balance	<u>95,000</u>	<u>95,000</u>	<u>69,614</u>	<u>(25,386)</u>
Ending Fund Balance	<u>\$ 27,716</u>	<u>\$ 27,716</u>	<u>\$ 178,109</u>	<u>\$ 150,393</u>

(1) Appropriation Level

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

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

STREET FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES:				
State Highway Tax	\$ 48,000	\$ 48,000	\$ 48,283	\$ 283
Miscellaneous	100	100	-	(100)
Total Revenues	48,100	48,100	48,283	183
EXPENDITURES:				
Personal Services	18,693	18,693 (1)	17,150	1,543
Materials and Services	21,600	21,600 (1)	20,012	1,588
Capital Outlay	25,250	25,250 (1)	-	25,250
Contingency	15,000	15,000 (1)	-	15,000
Total Expenditures	80,543	80,543	37,162	43,381
Excess of Revenues Over, (Under) Expenditures	(32,443)	(32,443)	11,121	43,564
Beginning Fund Balance	55,000	55,000	61,977	6,977
Ending Fund Balance	\$ 22,557	\$ 22,557	\$ 73,098	\$ 50,541

(1) Appropriation Level

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

SUPPLEMENTARY INFORMATION

This Page Intentionally Left Blank

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

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

<u>WATER FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES:				
Charges for Services				
Water service fees	\$ 440,000	\$ 440,000	\$ 474,134	\$ 34,134
Connection fees	5,000	5,000	-	(5,000)
Refunds	100	100	-	(100)
Deposits for new service	4,000	4,000	-	(4,000)
Miscellaneous	500	500	4,513	4,013
	<u>449,600</u>	<u>449,600</u>	<u>478,647</u>	<u>29,047</u>
EXPENDITURES:				
Personal Services	190,343	190,343 (1)	172,413	17,930
Materials and Services	313,930	313,930 (1)	189,917	124,013
Capital Outlay	66,200	66,200 (1)	94,972	(28,772)
Debt Service	36,000	36,000 (1)	36,730	(730)
Contingency	75,000	75,000	-	75,000
	<u>681,473</u>	<u>681,473</u>	<u>494,032</u>	<u>187,441</u>
Excess of Revenues Over, (Under)				
Expenditures	(231,873)	(231,873)	(15,385)	216,488
Beginning Fund Balance	<u>300,000</u>	<u>300,000</u>	<u>293,741</u>	<u>(6,259)</u>
Ending Fund Balance	<u>\$ 68,127</u>	<u>\$ 68,127</u>	<u>\$ 278,356</u>	<u>\$ 210,229</u>
Reconciliation to Net Assets:				
Capital Assets, Net of depreciation			\$ 1,303,730	
Bonds Payable, Net of discounts			(128,969)	
Accrued Interest on Long-Term Debt			(1,844)	
Accrued Vacation			<u>(3,492)</u>	
Total Net Assets			<u>\$ 1,447,781</u>	

(1) Appropriation Level

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

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

<u>WASTEWATER FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES:				
Charges for Services				
Sewer User Fees	\$ 180,000	\$ 180,000	\$ 175,937	\$ (4,063)
Refunds	-	-	-	-
Property lease	550	550	565	15
Project Partnerships	50,000	50,000	50,000	-
Miscellaneous	-	-	5,831	5,831
	<u>230,550</u>	<u>230,550</u>	<u>232,333</u>	<u>1,783</u>
EXPENDITURES:				
Personal Services	113,297	113,297	(1) 103,403	9,894
Materials and Services	117,000	117,000	(1) 181,546	(64,546)
Capital Outlay	17,450	17,450	(1) 15,947	1,503
Debt Service	22,000	22,000	(1) 20,492	1,508
Contingency	32,000	32,000	-	32,000
	<u>301,747</u>	<u>301,747</u>	<u>321,388</u>	<u>(19,641)</u>
Excess of Revenues Over, (Under) Expenditures	(71,197)	(71,197)	(89,055)	(17,858)
OTHER FINANCING SOURCES (USES):				
Oregon DEQ Loan	-	-	79,386	79,386
	<u>50,000</u>	<u>50,000</u>	<u>79,386</u>	<u>29,386</u>
Net Change in Fund Balance	(21,197)	(21,197)	(9,669)	11,528
Beginning Fund Balance	40,000	40,000	(76,789)	(116,789)
Ending Fund Balance	<u>\$ 18,803</u>	<u>\$ 18,803</u>	<u>\$ (86,458)</u>	<u>\$ (105,261)</u>
Reconciliation to Net Assets:				
Capital Assets, Net of Depreciation			\$ 1,236,103	
Bonds Payable, Net of Discount			(79,087)	
Note Payable			(180,000)	
Accrued Interest on Long-Term Debt			(2,454)	
Accrued Vacation			(2,000)	
Total Net Assets			<u>\$ 886,104</u>	

(1) Appropriation Level

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

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

<u>SYSTEMS DEVELOPMENT FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES:				
Charges for Services	\$ 534	\$ 534	\$ 10,328	\$ 9,794
Interest	-	-	-	-
Total Revenues	<u>534</u>	<u>534</u>	<u>10,328</u>	<u>9,794</u>
Net Change in Fund Balance	534	534	10,328	9,794
Beginning Fund Balance	<u>180,131</u>	<u>180,131</u>	<u>181,811</u>	<u>1,680</u>
Ending Fund Balance	<u>\$ 180,665</u>	<u>\$ 180,665</u>	<u>\$ 192,139</u>	<u>\$ 11,474</u>

(1) Appropriation Level

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

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

June 30, 2014

	<u>STORM DRAIN</u>	<u>RESERVE</u>	<u>TOTAL</u>
ASSETS:			
Current Assets:			
Cash and Investments	\$ 20,874	\$ 16,418	\$ 37,292
Accounts Receivable, Net	1,506	-	1,506
Total Current Assets	<u>22,380</u>	<u>16,418</u>	<u>38,798</u>
Noncurrent Assets:			
Capital Assets, Net of Accumulated			
Depreciation	7,808	-	7,808
Total Noncurrent Assets	<u>7,808</u>	<u>-</u>	<u>7,808</u>
Total Assets	<u>\$ 30,188</u>	<u>\$ 16,418</u>	<u>\$ 46,606</u>
LIABILITIES AND NET ASSETS:			
Current Liabilities:			
Payroll Liabilities	\$ 737	\$ -	\$ 737
Accrued Vacation	331	-	331
Total Liabilities	<u>1,068</u>	<u>-</u>	<u>1,068</u>
Net Assets			
Invested in capital assets, net of related debt	7,808	-	7,808
Restricted for Capital Projects	-	16,418	16,418
Unrestricted	<u>21,312</u>	<u>-</u>	<u>21,312</u>
Total Net Assets	<u>29,120</u>	<u>16,418</u>	<u>45,538</u>
Total Liabilities and Net Assets	<u>\$ 30,188</u>	<u>\$ 16,418</u>	<u>\$ 46,606</u>

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

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended June 30, 2014**

	STORM DRAIN	RESERVE	TOTAL
OPERATING REVENUES			
Charges for Services	\$ 17,600	\$ -	\$ 17,600
Miscellaneous	-	-	-
	17,600	-	17,600
Total Operating Revenues			
OPERATING EXPENSES			
Personal Services	11,928	-	11,928
Materials and Services	1,283	-	1,283
Depreciation	320	-	320
	13,531	-	13,531
Total Operating Expenses			
Operating Income	4,069	-	4,069
Beginning Net Assets	25,051	16,418	41,469
Ending Net Assets	\$ 29,120	\$ 16,418	\$ 45,538

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

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

	<u>STORM DRAIN</u>	<u>RESERVE</u>	<u>TOTAL</u>
Cash Flows From Operating Activities:			
Cash Received From Customers	\$ 17,822	\$ -	\$ 17,822
Cash Payments To Suppliers	(1,283)	-	(1,283)
Cash Payment to Employees	(11,901)	-	(11,901)
	<u>4,638</u>	<u>-</u>	<u>4,638</u>
Net Cash From Operations	4,638	-	4,638
Net Increase In Cash and Investments	16,236	16,418	32,654
Balances - Beginning of Year	<u>\$ 20,874</u>	<u>\$ 16,418</u>	<u>\$ 37,292</u>
Balances - End of Year	4,069	-	4,069
Operating Income	320	-	320
Adjustments	222	-	222
Depreciation/Amortization	-	-	-
(Increase), Decrease in Accounts Receivable	(17)	-	(17)
Increase, (Decrease) in Accounts Payable	44	-	44
Increase, (Decrease) in Accrued Vacation	<u>4,638</u>	<u>-</u>	<u>4,638</u>
Increase, (Decrease) in Payroll Liabilities	\$ 4,638	\$ -	\$ 4,638
Net Cash From Operations	<u>\$ 4,638</u>	<u>\$ -</u>	<u>\$ 4,638</u>

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

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

<u>STORM DRAIN FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES:				
Charges for Service	\$ 17,000	\$ 17,000	\$ 17,600	\$ 600
Miscellaneous	-	-	-	-
Total Revenues	<u>17,000</u>	<u>17,000</u>	<u>17,600</u>	<u>600</u>
EXPENDITURES:				
Personal Services	13,217	13,217 (1)	11,945	1,272
Materials and Services	11,600	11,600 (1)	1,283	10,317
Contingency	4,500	4,500 (1)	-	4,500
Total Expenditures	<u>29,317</u>	<u>29,317</u>	<u>13,228</u>	<u>16,089</u>
Net Change in Fund Balance	(12,317)	(12,317)	4,372	16,689
Beginning Fund Balance	<u>16,600</u>	<u>16,600</u>	<u>17,271</u>	<u>671</u>
Ending Fund Balance	<u>\$ 4,283</u>	<u>\$ 4,283</u>	<u>\$ 21,643</u>	<u>\$ 17,360</u>
Reconciliation to Net Assets:				
Capital Assets, Net of Depreciation			7,808	
Accrued Vacation			<u>(331)</u>	
Total Net Assets			<u>\$ 29,120</u>	

(1) Appropriation Level

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

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

RESERVE FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES:				
Interest Income	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
Net Change in Fund Balance	-	-	-	-
Beginning Fund Balance	15,418	15,418	16,418	1,000
Ending Fund Balance	\$ 15,418	\$ 15,418	\$ 16,418	\$ 1,000

(1) Appropriation Level

CITY OF ADAIR VILLAGE
BENTON COUNTY, OREGON

OTHER INFORMATION

This Page Intentionally Left Blank

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

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

TAX YEAR	IMPOSED LEVY OR BALANCE UNCOLLECTED AT 7/1/13	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED AT 6/30/14
Current: 2013-14	\$ 97,336	\$ 2,607	\$ 1,014	\$ 61	\$ 93,969	\$ 1,835
Prior Years:						
2012-13	3,290	-	382	125	1,041	2,756
2011-12	1,275	-	344	111	371	1,359
2010-11	446	-	(193)	124	268	109
2009-10	1,061	-	(136)	79	136	868
Prior	161	-	(60)	27	31	97
Total Prior	<u>6,233</u>	<u>-</u>	<u>337</u>	<u>466</u>	<u>1,847</u>	<u>5,189</u>
Total All Funds	<u>\$ 103,569</u>	<u>\$ 2,607</u>	<u>\$ 1,351</u>	<u>\$ 527</u>	<u>\$ 95,816</u>	<u>\$ 7,024</u>

RECONCILIATION TO REVENUE:

	ALL FUNDS
Cash Collections by County Treasurer Above	\$ 95,816
Accrual of Receivables:	
June 30, 2014	812
June 30, 2013	(924)
Taxes in Lieu	<u>(1,022)</u>
Total Revenue	<u>\$ 94,682</u>

This Page Intentionally Left Blank

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

INDEPENDENT AUDITORS' REPORT REQUIRED BY OREGON STATE REGULATIONS

This Page Intentionally Left Blank



PAULY, ROGERS, AND CO., P.C.
12700 SW 72nd Ave. Tigard, OR 97223
(503) 620-2632 (503) 684-7523 FAX
www.paulyrogersandcocpas.com

September 26, 2016

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the City of Adair Village as of and for the year ended June 30, 2014, and have issued our report thereon dated September 26, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

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

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

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

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

1. Expenditures exceeded appropriations as indicated on page 13 of the financial report.
2. A non-qualifying payment for insurance coverage was incorrectly posted to the State Highway funds. ORS 373 restricts the use of State Highway funds to construction and maintenance related items.

OAR 162-10-0230 Internal Control

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

We noted matters involving the internal control structure and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, which are noted in our management letter dated September 26, 2016.

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

A handwritten signature in cursive script that reads "Roy R. Rogers".

Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.