

CITY OF ADAIR VILLAGE, OREGON

FINANCIAL REPORT

for the year ended June 30, 2018



CITY OF ADAIR VILLAGE, OREGON

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CITY OF ADAIR VILLAGE, OREGON

CITY COUNCIL

TERM EXPIRES

Bill Currier, Mayor

December 31, 2018

Susan Canfield

December 31, 2020

Nicole Real

December 31, 2020

Dusty Andrews

December 31, 2018

Charline King

December 31, 2018

All council members receive mail at the address listed below.

ADMINISTRATIVE

Pat Hare, City Administrator

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

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Adair Village, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Adair Village, Oregon, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Adair Village, Oregon's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Adair Village, Oregon, as of June 30, 2018, 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.

Change in Accounting Principle

As discussed in Note 4 and Note 9 to the financial statements, the City of Adair Village adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 required supplementary information, such as management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis, schedule of the proportionate share of the net pension liability, schedule of contributions, the schedule of changes in total OPEB liability and related ratios – CIS Plan, schedule of proportionate share for RHIA and the schedules of contributions for RHIA, as listed in the table of contents under required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplemental and Other Information

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

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

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

Reports on Other Legal and Regulatory Requirements

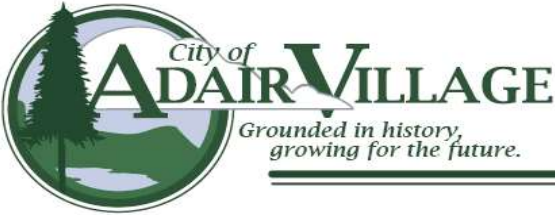
Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated January 3, 2019, on our consideration of City of Adair Village, Oregon's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance.



For Merina & Company, LLP
Tualatin, Oregon
January 3, 2019

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**CITY OF ADAIR VILLAGE
MANAGEMENT DISCUSSION AND ANALYSIS**
For the year ended June 30, 2018

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, 2018.

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

FINANCIAL HIGHLIGHTS

The City's net position increased \$727,614, or 18.36 percent, as a result of this year's:

- Net position of our governmental activities decreased by \$28,701 or (1.92) percent.
- Net position of our business-type activities increased by \$756,315 or 30.67 percent.
- The total cost of all the City's programs in 2018 was \$931,128; in 2017 this cost was \$1,202,018.

CITY'S ACTIVITIES HIGHLIGHTS

General Fund

In the General Fund, contract services were lower than previous years due to projects that the City completed in the prior fiscal year. The City needed additional financial consulting in 2017 to catch up on past audits that were not completed. Now that those projects are completed expenditures are back at historically comparable levels. The City also had slightly lower personnel costs due to a finance position being vacant for part of the year.

Street Fund

The Street Fund also had lower expenditures than the prior year because the City completed some additional maintenance projects in the prior year.

Water and Wastewater Utilities

The Water Fund was much lower this year due to the Voss Hill water storage project being substantially completed this year. In addition, the Water Fund saw a \$515,000 contribution from the State of Oregon in the form of loan forgiveness related to this project.

In the Wastewater Fund, the City had been running a negative budgetary fund balance over the last few years due to additional maintenance cost and engineering. The City enacted a rate increase of \$3.50 at the beginning of fiscal year 2018 to bring this fund into a positive position.

Governmental Fund Balances

Fund balance in the General Fund increased about 64 percent and the Street Fund increased approximately 13 percent in the fiscal year ending June 30, 2018.

The General Fund increase was largely due to receiving \$100,000 in loan proceeds near the end of the fiscal year. The money is carrying over to fiscal year 2019 when a project to renovate a

former Camp Adair barracks building is expected to be complete.

In the Street Fund, increases to the State of Oregon gas tax program led to higher revenue in that fund.

Expenditures decreased in both funds as projects were completed in fiscal year 2017 that did require the same level of expenditure in 2018.

CITY COUNCIL GOALS

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

Administration

Develop policies that will increase efficiencies and protect the City

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

Public Works

Upgrade City's Utilities and Prepare for Growth

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

Industrial Site

Redevelop Industrial Site to Expand Local Employment Opportunities

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

Downtown Development

Develop a Downtown with Commercial/Retail Opportunities

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

Public Safety

Provide Stable and Consistent Services

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

Community Development

Improve City's Amenities and Appearance and Outside Perception

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

USING THIS ANNUAL REPORT

This annual report consists of a set of financial statements. The Statement of Net Position and the Statement of Activities provide information concerning the activities of the City as a whole and present a view of the monetary standing of the City for the fiscal year end date of June 30, 2018. Fund financial statements provide information on both governmental and proprietary, or business-type funds (Storm Drain, Wastewater, Water, System Development Charges and Reserve). A review of these statements will provide information on the City's revenues, expenditures, capital assets and liabilities and ultimately compare where we were financially when the year started and where we are at the end of the fiscal year.

Reporting the City as a Whole

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

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

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

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

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

Table 1 below shows the City's net position by Governmental and Business-type Activities and provides a comparison to last year's net position. Overall, the City's net position increased from \$3,963,750 to \$4,690,445 this year. This increase was primarily due to the State of Oregon forgiving \$515,000 in Water Fund loan principal. Revenues from rents and leases and the statewide gas taxes also increased this year.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 389,205	\$ 271,512	\$ 971,109	\$ 894,357	\$ 1,360,314	\$ 1,165,869
Capital assets	1,281,257	1,323,122	4,704,592	4,664,612	5,985,849	5,987,734
	<u>1,670,462</u>	<u>1,594,634</u>	<u>5,675,701</u>	<u>5,558,969</u>	<u>7,346,163</u>	<u>7,153,603</u>
Deferred outflows						
related to pensions	34,333	79,288	83,949	194,132	118,282	273,420
related to OPEB	266	-	650	-	916	-
	<u>34,599</u>	<u>79,288</u>	<u>84,599</u>	<u>194,132</u>	<u>119,198</u>	<u>273,420</u>
Current liabilities	34,375	21,423	88,566	325,760	122,941	347,183
Non-current liabilities	167,570	146,493	2,366,472	2,941,486	2,534,042	3,087,979
	<u>201,945</u>	<u>167,916</u>	<u>2,455,038</u>	<u>3,267,246</u>	<u>2,656,983</u>	<u>3,435,162</u>
Deferred inflows						
related to pensions	33,804	8,152	82,658	19,959	116,462	28,111
related to OPEB	159	-	393	-	552	-
	<u>33,963</u>	<u>8,152</u>	<u>83,051</u>	<u>19,959</u>	<u>117,014</u>	<u>28,111</u>
Net position:						
Net investment in capital assets	1,281,257	1,323,122	2,491,552	1,999,035	3,772,809	3,322,157
Restricted for:						
Streets	95,378	69,280	-	-	95,378	69,280
System development	-	-	343,572	251,775	343,572	251,775
Unrestricted	92,518	105,452	387,087	215,086	479,605	320,538
Total net position	<u>\$ 1,469,153</u>	<u>\$ 1,497,854</u>	<u>\$ 3,222,211</u>	<u>\$ 2,465,896</u>	<u>\$ 4,691,364</u>	<u>\$ 3,963,750</u>

Net position increased 18.36 percent. Unrestricted net position – the portion of that area used to finance day-to-day operation without outside restraints, such as debt covenants, legislation, or other legal requirements – increased 49.62 percent overall, but was a decrease of \$12,937 (12.27 percent) in governmental activities and an increase of \$172,001 (79.97 percent) in business-type activities. The decrease in unrestricted net position for governmental activities is primarily due to the City investing resources for software replacement.

The increase in business-type activities was due to debt forgiveness in the Water Fund and an increase in user fees in the Wastewater Fund.

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

Table 2
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 31,916	\$ 80,072	\$ 749,161	\$ 755,873	\$ 781,077	\$ 835,945
Grants and contributions	-	-	526,300	-	526,300	-
General revenues:						
Property taxes	120,613	113,595	-	-	120,613	113,595
Highway fund allocation	54,029	50,453	-	-	54,029	50,453
Intergovernmental	27,136	21,757	-	30,376	27,136	52,133
Franchise fees	46,337	43,565	-	-	46,337	43,565
Earnings on investments	16,140	9,973	-	-	16,140	9,973
Rents and leases	83,897	- *	-	-	83,897	-
Miscellaneous	5,290	10,929	-	-	5,290	10,929
TOTAL REVENUES	385,358	330,344	1,275,461	786,249	1,660,819	1,116,593
Program expenses:						
Governmental activities:						
General government	234,610	236,527	-	-	234,610	236,527
Public safety	36,041	35,184	-	-	36,041	35,184
Street maintenance	61,445	75,184	-	-	61,445	75,184
Culture & recreation	26,689	40,190	-	-	26,689	40,190
Interest on long-term debt	1,260	-	-	-	1,260	-
Proprietary activities:						
Water	-	-	355,140	511,762	355,140	511,762
Wastewater	-	-	195,545	269,003	195,545	269,003
Other business-type activities	-	-	20,398	34,168	20,398	34,168
TOTAL EXPENSES	360,045	387,085	571,083	814,933	931,128	1,202,018
Transfers	(53,412)	-	53,412	-	-	-
Increase (decrease) in net position	(28,099)	(56,741)	757,790	(28,684)	729,691	(85,425)
Net position - beginning, as originally stated	1,497,854	1,554,595	2,465,896	2,494,580	3,963,750	4,049,175
Cumulative effect of GASB 75	(602)	-	(1,475)	-	(2,077)	-
Net position - beginning, restated	1,497,252	1,554,595	2,464,421	2,494,580	3,961,673	4,049,175
Net position - ending	\$ 1,469,153	\$ 1,497,854	\$ 3,222,211	\$ 2,465,896	\$ 4,691,364	\$ 3,963,750

* In fiscal year 2017 rents and leases were included in General Government charges for services

The City's total revenues increased by \$544,266; total expenses decreased by \$270,887 and net position increased by \$727,611 (note that there was a restatement for the implementation of GASB 75 that reduced net position by \$2,077). Specifics on these changes can be found under "City's Activity Highlights" above.

GENERAL BUDGETARY HIGHLIGHTS

- The City Council adopted a conservative fiscal year 2017-2018 budget. Due to spending at a level that was even more conservative than budgeted, the Fund Balance of the General Fund ended the year \$103,307 higher than was budgeted. The primary reason for the increase was the loan proceeds received near year-end that were not spent as budgeted, but will be carried over to fiscal year 2019.
- Debt service was scheduled on the barracks loan, but no debt service was due or paid during the year.

Areas of legal appropriations are Administration, Parks, Public Safety, Non-departmental, transfers, debt service and contingencies.

CAPITAL ASSETS

At June 30, 2018, the City had \$5,985,849 invested in land, buildings and improvements, streets and equipment. This represents an decrease (net of depreciation) of \$1,885, as additions basically offset depreciation. Additional information on capital assets is available in Note 2.

Table 3
Capital Assets at Year-end
Net Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land & const. in progress	\$ 132,757	\$ 132,757	\$ 77,086	\$ 2,559,099	\$ 209,843	\$ 2,691,856
Building & improvements	773,657	773,657	838,054	745,029	1,611,711	1,518,686
Water and sewer system	-	-	6,277,768	3,730,084	6,277,768	3,730,084
Streets	1,074,979	1,074,979	-	-	1,074,979	1,074,979
Park improvements	93,505	93,505	-	-	93,505	93,505
Equipment	-	-	669,570	669,570	669,570	669,570
Less: accumulated depr.	(793,641)	(751,776)	(3,157,886)	(3,039,170)	(3,951,527)	(3,790,946)
	<u>\$ 1,281,257</u>	<u>\$ 1,323,122</u>	<u>\$ 4,704,592</u>	<u>\$ 4,664,612</u>	<u>\$ 5,985,849</u>	<u>\$ 5,987,734</u>

DEBT OUTSTANDING

As of year-end the City had total debt outstanding of \$2,270,885. Of the amount outstanding, \$10,026 is a liability calculated by OPERS when the City joined the State and Local Government Rate Pool in 2001. That liability is being amortized over 25 years. The current amount is allocated between governmental activities and business-type activities \$2,910 and \$7,116 respectively. The City also received \$100,000 in loan proceeds to renovate a barracks building, and the full amount of that loan was outstanding at year-end.

The rest of the long-term debt is for water and wastewater projects. Outstanding debt for water projects at June 30, 2018 was \$2,117,943 compared to the prior-year balance of \$2,522,235. The decrease of \$404,292 from the prior fiscal year was primarily due to the addition of the loan to pay for the new water tanks offset by loan forgiveness of \$515,000 from the State of Oregon. Outstanding debt for wastewater projects at June 30, 2018 was \$95,097, a decrease of \$48,245 from the prior fiscal year. Additional information on long-term debt is available in Note 3.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Budget Committee (five City Council members and five citizen members) considered a wide range of factors when establishing the budget for the fiscal year ending June 30, 2019. Estimates were made for a range of revenues, including property taxes, shared state revenues, grants, franchise fees, leases, and charges for utility service. Only minor staffing changes are projected for next year as the Assistant City Administrator position will remain unfilled. This will keep overall personnel costs affordable.

Water utility rates were updated in 2015 and are reviewed each year in preparation for the budget process, as will the City's Wage Schedule. The Wastewater rates saw a small increase for fiscal year 2018-19 to help begin funding future projects. Storm Drain rates will increase \$1 per month per customer beginning January 1, 2019 as projects are identified that will need to be completed to keep the City in compliance with State and Federal laws. No rate changes were budgeted in the Water Fund. Considerable funds were committed and will continue to be committed to a number of infrastructure planning projects, especially the Water and Wastewater facilities, in preparation for long-term improvements to all systems.

Pat Hare, City Administrator
Name & Title

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CITY OF ADAIR VILLAGE, OREGON

BASIC FINANCIAL STATEMENTS

CITY OF ADAIR VILLAGE, OREGON
STATEMENT OF NET POSITION
June 30, 2018

	Government al Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$354,690	\$866,056	\$1,220,746
Receivables:			
Accounts	22,831	95,905	118,736
Taxes	8,153	-	8,153
Prepaid expenses	3,531	9,148	12,679
Capital assets:			
Land and construction in process	132,757	77,086	209,843
Other capital assets (net of accumulated depreciation)	1,148,500	4,627,506	5,776,006
Total Assets	1,670,462	5,675,701	7,346,163
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	34,333	83,949	118,282
Deferred outflows related to OPEB	266	650	916
Total Deferred Inflows of Resources	34,599	84,599	119,198
LIABILITIES			
Current liabilities:			
Accounts payable	15,669	6,310	21,979
Payroll liabilities	6,746	18,400	25,146
Accrued compensated absences	1,563	5,367	6,930
Accrued interest	1,260	24,349	25,609
Long-term debt due within one year	9,137	34,140	43,277
Noncurrent liabilities			
Net pension liability	73,340	179,334	252,674
Transition liability	2,910	7,116	10,026
Net OPEB liability	457	1,122	1,579
Long-term debt due in more than one year	90,863	2,178,900	2,269,763
Total Liabilities	201,945	2,455,038	2,656,983
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	33,804	82,658	116,462
Deferred inflows related to OPEB	159	393	552
Total Deferred Inflows of Resources	33,963	83,051	117,014
NET POSITION			
Net investment in capital assets	1,281,257	2,491,552	3,772,809
Restricted for:			
Streets	95,378	-	95,378
Capital projects	-	343,572	343,572
Unrestricted	92,518	387,087	479,605
Total Net Position	\$1,469,153	\$3,222,211	\$4,691,364

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

CITY OF ADAIR VILLAGE, OREGON
STATEMENT OF ACTIVITIES
for the year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES			
General government	\$ 234,610	\$ 31,916	\$ -
Public safety	36,041	-	-
Street maintenance and construction	61,445	-	-
Culture and recreation	26,689	-	-
Interest on long-term debt	1,260	-	-
Total governmental activities	360,045	31,916	-
BUSINESS-TYPE ACTIVITIES			
Water	355,140	528,806	515,000
Wastewater	195,545	203,098	-
System development charges	-	-	11,300
Other business-type activities	20,398	17,257	-
Total business-type activities	571,083	749,161	526,300
Total Primary Government	\$ 931,128	\$ 781,077	\$ 526,300

General revenues:

Property taxes, levied for general purposes

Highway taxes

Intergovernmental revenues

Franchise fees

Interest earnings

Rents and leases

Miscellaneous

Total general revenues

Transfers between Governmental and Business-type Activities

Change in net position

Net position--beginning - as reported

Restatement

Net position--beginning - restated

Net position--ending

CITY OF ADAIR VILLAGE, OREGON
STATEMENT OF ACTIVITIES
for the year ended June 30, 2018

Net (Expense) Revenue and Changes in Net			
	Governmental Activities	Business-type Activities	Total
\$	(202,694)	\$ -	\$ (202,694)
	(36,041)	-	(36,041)
	(61,445)	-	(61,445)
	(26,689)	-	(26,689)
	(1,260)	-	(1,260)
	(328,129)	-	(328,129)
	-	688,666	688,666
	-	7,553	7,553
	-	11,300	11,300
	-	(3,141)	(3,141)
	-	704,378	704,378
	(328,129)	704,378	376,249
	120,613	-	120,613
	54,029	-	54,029
	27,136	-	27,136
	46,337	-	46,337
	16,140	-	16,140
	83,897	-	83,897
	5,290	-	5,290
	353,442	-	353,442
s	(53,412)	53,412	-
	(28,099)	757,790	729,691
	1,497,854	2,465,896	3,963,750
	(602)	(1,475)	(2,077)
	1,497,252	2,464,421	3,961,673
\$	1,469,153	\$ 3,222,211	\$ 4,691,364

CITY OF ADAIR VILLAGE, OREGON
GOVERNMENTAL FUNDS - BALANCE SHEET
June 30, 2018

	General Fund	Street Fund	Total Gov. Funds
ASSETS			
Cash and investments	\$ 263,031	\$ 91,659	\$ 354,690
Receivables			
Accounts	18,348	4,483	22,831
Taxes	8,153	-	8,153
Prepaid expenditures	2,794	737	3,531
Total Assets	\$ 292,326	\$ 96,879	\$ 389,205
LIABILITIES			
Accounts payable	\$ 15,669	\$ -	\$ 15,669
Payroll liabilities	5,245	1,501	6,746
Total Liabilities	20,914	1,501	22,415
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	6,930	-	6,930
Total Deferred Inflows of Resources	6,930	-	6,930
FUND BALANCES			
Nonspendable: Prepaid items	2,794	737	3,531
Restricted for:			
Street maintenance and improvements	-	94,641	94,641
Unassigned:	261,688	-	261,688
Total Fund Balances	264,482	95,378	359,860
Total Liabilities, Deferred Inflows and Fund Balances	\$ 292,326	\$ 96,879	\$ 389,205
Fund balance			\$ 359,860
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$793,641.			1,281,257
Other long-term assets are not available to pay for current-period expenditures and, therefore are unavailable in the funds:			
Property taxes earned but not available			6,930
Deferred outflows of resources			34,599
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.			(1,563)
Interest accrued on long-term debt			(1,260)
Long-term liabilities - not reported in the funds:			
Deferred inflows of resources			(33,963)
Long-term debt			(100,000)
OPEB liability			(457)
Transition liability			(2,910)
Net pension liability			(73,340)
Net Position of Governmental Activities			\$ 1,469,153

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

CITY OF ADAIR VILLAGE, OREGON
GOVERNMENTAL FUNDS -
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
for the year ended June 30, 2018

	General Fund	Street Fund	Total Gov. Funds
REVENUES			
Property taxes	\$ 120,651	\$ -	\$ 120,651
Highway taxes	-	54,029	54,029
Franchise fees	46,337	-	46,337
Intergovernmental revenues	27,136	-	27,136
Grants	-	-	-
Property leases/rents	83,897	-	83,897
Permits and fees	31,916	-	31,916
Interest earnings	16,140	-	16,140
Miscellaneous	5,290	-	5,290
Total Revenues	331,367	54,029	385,396
EXPENDITURES			
Current operating:			
Administration	77,302	-	77,302
Parks	26,800	-	26,800
Public safety	35,939	-	35,939
Non-departmental	137,809	-	137,809
Street maintenance & operations	-	39,693	39,693
Total Expenditures	277,850	39,693	317,543
Excess (deficiency) of revenues over (under) expenditures	53,517	14,336	67,853
OTHER FINANCING SOURCES (USES)			
Proceeds from debt	100,000	-	100,000
Transfers out	(50,210)	(3,202)	(53,412)
Total other financing sources (uses)	49,790	(3,202)	46,588
Net change in fund balances	103,307	11,134	114,441
Fund Balances - beginning of the year	161,175	84,244	245,419
Fund Balances - end of year	\$ 264,482	\$ 95,378	\$ 359,860

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

CITY OF ADAIR VILLAGE, OREGON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
for the year ended June 30, 2018

Net change in fund balances--total governmental funds	\$ 114,441
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds expense capital assets when purchased, governmental activities report depreciation expense:	
Current year depreciation	(41,865)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Property taxes	(38)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long- term liabilities in the Statement of Net Assets.	
Bank loan proceeds	(100,000)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated absences	735
Interest expense	(1,260)
Change in pension transition liability	104
Change in OPEB expense	252
Change in pension expense	(468)
Change in Net Position of Governmental Activities	\$ (28,099)

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

CITY OF ADAIR VILLAGE, OREGON
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2018

	Water	Wastewater	Systems Development	Nonmajor Proprietary Funds	Totals
ASSETS					
Current assets:					
Cash and investments	\$ 511,844	\$ -	\$ 246,657	\$ 107,555	\$ 866,056
Accounts receivable, net	69,306	24,559	-	2,040	95,905
Prepaid expense	7,032	1,524	-	592	9,148
Due from other funds	16,971	-	-	-	16,971
Total current assets	605,153	26,083	246,657	110,187	988,080
Noncurrent assets:					
Capital assets:					
Land and construction in process	77,086	-	-	-	77,086
Other capital assets (net of accumulated depreciation)	3,627,281	992,791	-	7,434	4,627,506
Total noncurrent assets	3,704,367	992,791	-	7,434	4,704,592
Total Assets	4,309,520	1,018,874	246,657	117,621	5,692,672
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - pensions	52,616	25,422	-	5,911	83,949
Deferred outflows of resources - OPEB	407	197	-	46	650
Total deferred outflows of resources	53,023	25,619	-	5,957	84,599
LIABILITIES					
Current liabilities:					
Accounts payable	5,623	687	-	-	6,310
Payroll liabilities	11,727	5,437	-	1,236	18,400
Accrued interest payable	24,274	75	-	-	24,349
Due to other funds	-	16,971	-	-	16,971
Accrued compensated absences	3,409	1,618	-	340	5,367
Current portion of long-term debt	5,702	28,438	-	-	34,140
Total current liabilities	50,735	53,226	-	1,576	105,537
Noncurrent liabilities:					
Note payable - long-term portion	2,112,241	66,659	-	-	2,178,900
Net OPEB liability	703	340	-	79	1,122
Net pension liability	112,400	54,307	-	12,627	179,334
Pension transition liability	4,460	2,155	-	501	7,116
Total noncurrent liabilities	2,229,804	123,461	-	13,207	2,366,472
Total Liabilities	2,280,539	176,687	-	14,783	2,472,009
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to:					
Pension	51,807	25,031	-	5,820	82,658
OPEB	246	119	-	28	393
Total Deferred Inflows of Resources	52,053	25,150	-	5,848	83,051
NET POSITION					
Net investment in capital assets	1,586,424	897,694	-	7,434	2,491,552
Restricted for capital projects	-	-	246,657	96,915	343,572
Unrestricted	443,527	(55,038)	-	(1,402)	387,087
Total Net Position	\$ 2,029,951	\$ 842,656	\$ 246,657	\$ 102,947	\$ 3,222,211

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

CITY OF ADAIR VILLAGE, OREGON
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
for the year ended June 30, 2018

	Water	Wastewater	Systems Development	Nonmajor Proprietary Funds	Totals
OPERATING REVENUES					
Charges for services	\$ 528,806	\$ 203,098	\$ -	\$ 17,257	\$ 749,161
OPERATING EXPENSES					
Personnel services	183,238	85,539	-	19,932	288,709
Materials and services	56,769	48,904	-	-	105,673
Depreciation	58,578	60,877	-	466	119,921
Total operating expenses	298,585	195,320	-	20,398	514,303
Operating income (loss)	230,221	7,778	-	(3,141)	234,858
NON-OPERATING REVENUES (EXPENSES)					
Interest expense	(56,555)	(225)	-	-	(56,780)
System development revenue	-	-	11,300	-	11,300
Total non-operating revenue	(56,555)	(225)	11,300	-	(45,480)
Net income (loss) before contributions	173,666	7,553	11,300	(3,141)	189,378
CONTRIBUTIONS					
Capital contributions	515,000	-	-	-	515,000
Transfers in	-	-	-	80,497	80,497
Transfers out	(17,356)	(8,059)	-	(1,670)	(27,085)
Total contributions	497,644	(8,059)	-	78,827	568,412
Change in net position	671,310	(506)	11,300	75,686	757,790
Net position--beginning, as reported	1,359,565	843,609	235,357	27,365	2,465,896
Restatement	(924)	(447)	-	(104)	(1,475)
Net position--beginning, restated	1,358,641	843,162	235,357	27,261	2,464,421
Net position--end of year	\$ 2,029,951	\$ 842,656	\$ 246,657	\$ 102,947	\$ 3,222,211

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

CITY OF ADAIR VILLAGE, OREGON
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 for the year ended June 30, 2018

	Water	Wastewater	Systems Development	Nonmajor Proprietary Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 521,358	\$ 201,283	\$ -	\$ 17,238	\$ 739,879
Payments to suppliers	(264,993)	(48,555)	-	(861)	(314,409)
Payments to employees	(192,233)	(87,745)	-	(19,800)	(299,778)
Other receipts	-	-	-	-	-
Net cash provided (used) by operating activities	64,132	64,983	-	(3,423)	125,692
CASH FLOWS FROM NONCAPITAL					
FINANCING ACTIVITIES					
Transfers to other funds	(10,274)	(15,141)	-	(1,670)	(27,085)
Proceeds from other funds	-	-	-	80,497	80,497
cash provided (used) by capital and related financing activities	(10,274)	(15,141)	-	78,827	53,412
CASH FLOWS FROM CAPITAL AND RELATED					
FINANCING ACTIVITIES					
System development revenue	-	-	11,300	-	11,300
Payment of principal on long-term debt	(34,520)	(48,245)	-	-	(82,765)
Payment of interest on long-term debt	(33,047)	(1,597)	-	-	(34,644)
Issuance of long-term debt	274,398	-	-	-	274,398
Acquisition of capital assets	(159,901)	-	-	-	(159,901)
cash provided (used) by capital and related financing activities	46,930	(49,842)	11,300	-	8,388
Net increase (decrease) in cash and cash equivalents	100,788	-	11,300	75,404	187,492
Cash and investments--beginning of the year	411,056	-	235,357	32,151	678,564
Cash and investments--end of the year	\$ 511,844	\$ -	\$ 246,657	\$ 107,555	\$ 866,056
RECONCILIATION OF OPERATING INCOME (LOSS) TO					
NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 230,221	\$ 7,778	\$ -	\$ (3,141)	\$ 234,858
Adjustments to reconcile operating income to net cash provided by operating activities:					
Cash flows reported in other categories:					
Depreciation expense	58,578	60,877	-	466	119,921
Change in assets and liabilities:					
Receivables	(7,448)	(1,815)	-	(19)	(9,282)
Prepaid expenses	(7,032)	(1,524)	-	(592)	(9,148)
Accounts payable and accrued liabilities	(208,067)	502	-	55	(207,510)
Accrued compensated absences	(2,151)	(847)	-	(197)	(3,195)
OPEB-related expenses	(382)	(185)	-	(43)	(610)
Pension-related expenses	413	197	-	48	658
Net cash provided (used) by operating activities	\$ 64,132	\$ 64,983	\$ -	\$ (3,423)	\$ 125,692

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

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Financial Reporting Entity

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

Accounting principles generally accepted in the United States of America require that these basic financial statements present the City (the primary government) and all component units, if any. Component units, as defined by the Governmental Accounting Standards Board (GASB) Statement No. 61, are separate organizations that are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. There are no component units.

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

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.

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.

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

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

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

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

Budgets

A budget is prepared for all funds in accordance with the modified accrual basis of accounting and legal requirements set forth in the Oregon Local Budget Law. Reconciliations for the differences between the budgetary basis of accounting and GAAP are presented on the enterprise fund budgetary schedules.

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

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

Appropriation Level

Department	Debt Service
Capital Outlay	Operating Contingency
Inter-fund Transactions	

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

Budget amounts shown in the basic financial statements reflect the original budget amount and final budget amount. Expenditures of the various funds were within authorized appropriations for the year ended June 30, 2018.

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

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

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

Receivables and Payables

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

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

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

Capital Assets

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

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

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

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

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

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

Supply Inventories

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

Compensated Absences

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

Unavailable Revenue

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

Deferred Outflows /Inflows of Resources

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

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.

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Pensions

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

Other Postemployment Benefits (OPEB)

OPERS: For the purposes of measuring the net OPEB liability/asset, deferred outflows of resources and deferred inflows of resources to OPEB, and OPEB expense, information about the fiduciary net position of the OPERS and additions to/deductions from OPERS' fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, POERS recognizes benefit payments when due and payable in accordance with benefit terms. Investments are reported at fair value.

The City's Health Insurance continuation plan (CIS): For the purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources to OPEB, and OPEB expense, the City has relied on actuarial reports. The City allows retired employees to purchase health insurance at the same rates as active employees. The related expense is recognized as the City pays health insurance premiums.

Long-term Obligations

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

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

Fund Balance/Net Position

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

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

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

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

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

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

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

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

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

Cash Flow Statements

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

Property Tax Calendar

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

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

1. CASH AND INVESTMENTS

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

Cash and Investments at June 30, 2018 (recorded at cost) consisted of:

Cash on hand	\$ 100
Deposits with financial institution	50,183
LGIP	<u>1,170,463</u>
	<u>\$ 1,220,746</u>

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

Governmental activities	\$ 354,690
Business-type activities	<u>866,056</u>
	<u>\$ 1,220,746</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, 2018, the bank balance was \$58,020. 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 (LGIP), various interest-bearing bonds of Oregon municipalities, certificates of deposit, and certain commercial paper among other investments.

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

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

97310-0840. Value of pool shares approximates fair value. At year end the City's only investment was in the LGIP.

Interest Rate Risk

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

Credit Risk

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

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

Concentration of Credit Risk

At June 30, 2018, 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

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

2. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2018 is as follows:

Governmental Activities	Beginning Balance	Additions	Ending Balance
Capital Assets, non-depreciable:			
Land	\$ 132,757	\$ -	\$ 132,757
Total capital assets, non-depreciable	<u>132,757</u>	<u>-</u>	<u>132,757</u>
Capital assets, depreciable:			
Buildings and improvements	773,657	-	773,657
Streets	1,074,979	-	1,074,979
Park improvements	93,505	-	93,505
Total capital assets, depreciable	<u>1,942,141</u>	<u>-</u>	<u>1,942,141</u>
Total	<u>2,074,898</u>	<u>-</u>	<u>2,074,898</u>
Less accumulated depreciation for:			
Buildings and improvements	(177,752)	(15,473)	(193,225)
Streets	(527,422)	(22,073)	(549,495)
Park improvements	(46,602)	(4,319)	(50,921)
Total accumulated depreciation	<u>(751,776)</u>	<u>(41,865)</u>	<u>(793,641)</u>
Net depreciable capital assets	<u>1,190,365</u>	<u>(41,865)</u>	<u>1,148,500</u>
Net capital assets	<u>\$ 1,323,122</u>	<u>\$ (41,865)</u>	<u>\$ 1,281,257</u>

Depreciation expense was allocated as follows:

Governmental activities:	Depreciation
General government	\$ 19,792
Streets	22,073
Total depreciation expense - governmental activities	<u>\$ 41,865</u>

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

Capital asset activity for business-type activities for the year ended June 30, 2018 is as follows:

Business-type activities	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital Assets, non-depreciable:					
Land	\$ 77,086	\$ -	\$ -	\$ -	\$ 77,086
Construction in Progress	2,482,013	65,671	-	(2,547,684)	-
Total capital assets, non-depreciable	<u>2,559,099</u>	<u>65,671</u>	<u>-</u>	<u>(2,547,684)</u>	<u>77,086</u>
Capital assets, depreciable:					
Buildings and improvements	745,029	99,050	(6,025)	-	838,054
Water, Wastewater, and Stormdrain syst	3,730,084	-	-	2,547,684	6,277,768
Machinery and equipment	669,570	-	-	-	669,570
Total capital assets, depreciable	<u>5,144,683</u>	<u>99,050</u>	<u>(6,025)</u>	<u>2,547,684</u>	<u>7,785,392</u>
Total	<u>7,703,782</u>	<u>164,721</u>	<u>(6,025)</u>	<u>-</u>	<u>7,862,478</u>
Less accumulated depreciation for:					
Buildings and improvements	(628,680)	(3,278)	1,205	-	(630,753)
Water, Wastewater, and Stormdrain syst	(1,932,935)	(93,586)	-	-	(2,026,521)
Machinery and equipment	(477,555)	(23,057)	-	-	(500,612)
Total accumulated depreciation	<u>(3,039,170)</u>	<u>(119,921)</u>	<u>1,205</u>	<u>-</u>	<u>(3,157,886)</u>
Net depreciable capital assets	<u>2,105,513</u>	<u>(20,871)</u>	<u>(4,820)</u>	<u>2,547,684</u>	<u>4,627,506</u>
Net capital assets	<u>\$ 4,664,612</u>	<u>\$ 44,800</u>	<u>\$ (4,820)</u>	<u>\$ -</u>	<u>\$ 4,704,592</u>

Depreciation expense was allocated as follows:

Business-type activities:	
Water	\$ 58,578
Sewer	60,877
Stormwater	466
Total depreciation expense - business-type activities	<u>\$ 119,921</u>

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

3. LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2018 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		\$ 2,298	\$ 3,786	\$ (4,521)	\$ 1,563	\$ 1,563
Note payable	3.98%	-	100,000	-	100,000	9,137
Pension-related debt		3,014	-	(104)	2,910	-
Total governmental activities		<u>\$ 5,312</u>	<u>\$ 103,786</u>	<u>\$ (4,625)</u>	<u>\$ 104,473</u>	<u>\$ 10,700</u>
<i>Business-type activities:</i>						
Compensated absences		\$ 8,562	\$ 9,984	\$ (13,179)	\$ 5,367	\$ 5,367
Notes payable:						
DEQ note	1.04%	56,683	-	(28,245)	28,438	28,438
DEQ note	0.88%	66,659	-	-	66,659	-
IFA loan	1.98%	2,482,013	145,228	(515,000)	2,112,241	-
Bonds payable:						
1980 Water bonds	5%	10,222	-	(4,520)	5,702	5,702
1997 Water bonds	4.5-5.75%	30,000	-	(30,000)	-	-
1997 Wastewater bonds	4.5-5.75%	20,000	-	(20,000)	-	-
Pension-related debt		7,375	-	(259)	7,116	-
Total business-type activities		<u>\$ 2,681,514</u>	<u>\$ 155,212</u>	<u>\$ (611,203)</u>	<u>\$ 2,225,523</u>	<u>\$ 39,507</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, 2018.

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

	<u>Principal</u>
2018-2019	<u>\$ 5,702</u>
Total	<u>\$ 5,702</u>

Notes Payable

On February 16, 2012, a loan agreement was entered into with the Oregon Department of Environmental Quality (DEQ), Clean Water State Revolving Fund for improvements to the wastewater treatment facility. The loan is in the amount of \$180,000, payable at an interest rate of 1.04%. Repayment of the loan began in August 2014 after all disbursements were made. The City grants DEQ a security interest in and irrevocably pledges its net operating revenues to secure repayment of the loan. On October 18, 2016, the DEQ forgave \$30,376 of the outstanding loan.

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

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

	Principal
2018-2019	\$ 28,438
Total	\$ 28,438

On June 29, 2015, the City entered into a second loan agreement with the DEQ to continue planning improvements to the wastewater treatment facility. The loan is in the amount of \$100,000, payable at an interest rate of 0.88%. The City grants DEQ a security interest in and irrevocably pledges its net operating revenues to secure repayment of the loan. As of June 30, 2018, the City had spent \$66,659 of the loan. Repayment must be made within five years of completing the project. The project is expected to be completed by June 30, 2019.

In March 2016, the State of Oregon Infrastructure Financing Authority (IFA) awarded the City a \$2.8 million loan to replace its existing water storage facility at Voss Hill Reservoir and perform some additional water system upgrades. The Voss Hill Reservoir project was completed by June 30, 2018. Approximately \$515,000 of loan was forgivable, and that portion was forgiven during fiscal year 2018. The interest rate on the remaining balance is 1.98% per annum. As of June 30, 2018 the outstanding amount was \$2,112,241. The State of Oregon has given the City permission to spend the remaining loan balance on related small water projects. The City is required to make interest-only payments until the final drawdown. Repayment is expected to begin in the 2018-2019 fiscal year.

In March 2018 the City entered into a loan agreement with US Bank for \$100,000 to be used to fund a remodel of a Camp Adair barracks. The loan will be repaid over five years from general revenues. The interest rate is 3.98 percent with the following debt service schedule:

	Principal
2018-2019	\$ 9,137
2019-2020	18,823
2020-2021	19,579
2021-2022	20,367
2022-2023	21,185
2023-2024	10,909
Total	\$ 100,000

Pension Related Debt

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

Upon joining the LGRP in 2001, a transition liability or surplus was calculated to ensure that each employer entered the pool on a comparable basis. The transition liability is maintained separately from the SLGRP

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

and is reduced by contributions and increased by interest charges at an assumed interest rate, originally 8%, which was reduced to 7.75% in 2013 and to 7.5% in 2015. The transition liability is amortized over twenty-five years, ending in December 2027.

For June 30, 2018, OPERS provided the balance of the transition liability and the amount the City paid in principal and interest for the fiscal year ending June 30, 2018. In prior years the balance was not considered material and was not included in the financial statements.

<u>Balance</u> <u>June 30, 2017</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2018</u>
\$ 10,389	\$ (363)	\$ 10,026

4. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The other postemployment benefits (OPEB) for the City combines two separate plans. The City provides an implicit rate subsidy for a retiree post-employment healthcare plan, which is administered by Citycounty Insurance Services (CIS) Trust, and a contribution to the State of Oregon's PERS cost-sharing multiple-employer defined benefit plan.

1. Post-Employment Healthcare Plan (CIS)

Plan Description & Benefits Provided:

The City has a Post-Employment Healthcare Plan option available for retirees. It is a substantive postemployment benefits plan offered under Oregon Revised Statutes (ORS) 243. ORS 243.303 requires the City provide retirees and their dependents with an opportunity to participate in group health and dental insurance from the date of retirement to age 65, and the rate would be calculated using claims experience from retirees and active employees for health plan rating purposes. Providing the same rate to retirees as provided to current employees constitutes an implicit rate subsidy for OPEB. This single-employer "plan" is not a stand-alone plan and therefore does not issue its own financial statements.

Employees covered by benefit terms:

At July 1, 2016, the City had four general service employees covered by the benefit terms.

OPEB Liability:

The City's total Post-Employment Healthcare Plan OPEB liability as of June 30, 2018 is \$2,313.

Actuarial assumptions and other inputs: The total OPEB liability was determined by an actuarial valuation, as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date.

The discount rate was based on a 20-year general obligation bond yield published by The Bond Buyer.

Healthy Mortality rates used were based on the tables as detailed below:

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

Employee Class	Mortality Tables
All eligible employees	RP-2000 healthy white collar male and female mortality tables, set back one year for males. Mortality is projected on a generational basis using Scale BB for males and females.

Changes in Total OPEB Liability:

	Total OPEB Liability
BALANCE, June 30, 2017	\$ 1,594
Changes for the year:	
Service cost	882
Interest on total OPEB liability	71
Changes in assumptions or other inputs	(234)
Net changes	719
BALANCE, June 30, 2018	\$ 2,313

Sensitivity of the total OPEB liability to changes in the discount rate:

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	\$ 2,666	\$ 2,313	\$ 2,001

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates:

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current health care trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB Liability	\$ 1,854	\$ 2,313	\$ 2,888

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
- For the year ended June 30, 2018, the City recognized an OPEB expense of \$927. At June 30, 2018, the City reported deferred inflows of resources related to OPEB from the following source:

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

	Outflows of Resources	Inflows of Resources
Changes of assumptions or inputs	\$ -	\$ (208)

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	Annual Recognition:
2019	\$ (26)
2020	(26)
2021	(26)
2022	(26)
2023	(26)
Thereafter	(78)
	\$ (208)

2. Oregon Public Employees’ Retirement Systems (OPERS) Retirement Health Insurance Account (RHIA)

Plan Description - The City contributes to the PERS Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other postemployment benefit plan administered by PERS. ORS 238.420 established this trust fund and authorizes the Oregon Legislature to establish and amend the benefit provisions. PERS issues a publicly available financial report that includes financial statements and required supplementary information which can be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700, telephone (503) 598-7377, or by URL <http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>

Benefits Provided – RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible employees. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the RHIA established by the City, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. The plan has been closed to new entrants since January 1, 2004.

Contributions – Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. Participating cities are contractually required to contribute to RHIA at a rate assessed each year by PERS.

The City's contractually required contribution rate for fiscal year 2017-18, was 0.50 percent of covered payroll for Tier 1 and Tier 2 members and 0.43 percent for OPSRP members of covered payroll. The required contribution is actuarially determined as an amount that is expected to finance the costs of benefits earned by employees during the year. Contributions to the OPEB plan from the City were \$916 for fiscal year 2017-18. Employees are not required to contribute to the OPEB plan.

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

OPEB Assets, Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

At June 30, 2018, the City reported an asset of \$734 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation date as of December 31, 2015. The City's proportionate share of the RHIA net OPEB asset has been determined based on the City's contributions to the RHIA program (as reported by PERS) during the Measurement Period ending on the corresponding Measurement Date. The City's proportionate share at June 30, 2017 and June 30, 2016 was 0.00175901% and 0.00177983%, respectively.

For the year ended June 30, 2018, the City recognized an OPEB expense of \$2. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Outflows of Resources	Inflows of Resources
Differences between actual and expected experience	\$ -	\$ (340)
Change in proportionate share	-	(4)
Contributions made subsequent to the measurement date	916	-
Total	\$ 916	\$ (344)

\$916 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	Annual Recognition:
2019	\$ (85)
2020	(87)
2021	(87)
2022	(85)
	\$ (344)

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

Actuarial Methods & Assumptions – The total OPEB liability in the December 31, 2015 actuarial valuation was determined using the following actuarial methods and assumptions:

Valuation date	December 31, 2015
Measurement date	June 30, 2017
Actuarial cost method	Entry Age Normal
Experience study 2014, published September 23, 2015	
Actuarial assumptions:	
Inflation rate	2.50%
Long-term expected rate of return	7.50%
Discount rate	7.50%
Projected salary increases	3.50%
Retiree healthcare participation:	
Healthy retirees	38%
Disabled retirees	20%
Healthcare cost trend rate	Not applicable

Mortality Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as describe in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 sex-distinct generational per Scale BB, disabled mortality table.

Discount rate – The discount rate used to measure the total OPEB liability at June 30, 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the RHIA plan's fiduciary net position was projected to be available to make all projected future benefit payment of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments for the RHIA plan was applied to all periods of projected benefit payments to determine the total OPEB liability.

Depletion Date Projection – GASB 75 generally requires that a blended discount rate be used to measure the Total OPEB Liability. The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses.

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

Assumed Asset Allocation:

<u>Asset Class/Strategy</u>	<u>Range</u>	<u>Range</u>	<u>Target</u>
Cash	0.0%	3.0%	0.0%
Debt Securities	15.0%	25.0%	20.0%
Public Equity	32.5%	42.5%	37.5%
Private Equity	14.0%	21.0%	17.5%
Real Estate	9.5%	15.5%	12.5%
Alternative Equity	0.0%	12.5%	12.5%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			<u>100.0%</u>

Long-Term Expected Rate of Return – To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

<u>Asset Class</u>	<u>Target</u>	<u>Return (Geometric)</u>
Core Fixed Income	8.00 %	4.00 %
Short-Term Bonds	8.00	3.61
Intermediate-Term Bonds	3.00	5.42
High Yield Bonds	1.00	6.20
Large Cap US Equities	15.73	6.70
Small Cap US Equities	3.88	6.99
Micro Cap US Equities	1.31	7.01
Developed Foreign Equities	13.13	6.73
Emerging Foreign Equities	4.12	7.25
Non-US Small Cap Equities	1.88	7.22
Private Equity	17.50	7.97
Real Estate (Property)	10.00	5.84
Real Estate (REITS)	2.50	6.69
Hedge Fund of Funds - Diversified	2.50	4.64
Hedge Fund - Event-driven	0.63	6.72
Timber	1.88	5.85
Farmland	1.88	6.37
Infrastructure	3.75	7.13
Commodities	1.88	4.58
Assumed Inflation - Mean		2.50

Sensitivity of the City's proportionate share of the net OPEB asset to changes in the discount rate:

The following presents the City's proportionate share of the net OPEB liability/(asset), as well as what the City's proportionate share of the net OPEB liability/(asset) would be if it were calculated using a discount

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) 1% Decrease (6.50%) Discount Rate (7.50%) 1% Increase (8.50%)

	1% Decrease	Discount Rate	1% Increase
Total OPEB Liability	\$ 102	\$ (734)	\$ (1,446)

The RHIA plan is unaffected by health care cost trends since the benefit is limited to a \$60 monthly payment toward Medicare companion insurance premiums. Consequently, disclosure of a healthcare cost trend analysis is not applicable.

OPEB plan fiduciary net position:

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued OPERS financial report.

Aggregate Net OPEB Liability/Asset, Pension Expense, & Net Deferred Outflow/Inflow of Resourced Related to OPEB:

The tables below present the aggregate balance of the City's net OPEB liability/(asset), OPEB expense, and net deferred inflows and outflows as of June 30, 2018:

	Outflows of Resources	Inflows of Resources	Liability/ (Asset)	OPEB Expense
Postemployment Healthcare Plan (CIS)	\$ -	\$ (208)	\$ 2,313	\$ 719
RHIA	916	(344)	(734)	2
Total	\$ 916	\$ (552)	\$ 1,579	\$ 721

5. PENSION PLAN

Plan Description

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

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan ("OPSRP") is effective for all new employees hired on or after August 29, 2003. Employees hired prior to that date belong to the Tier One/Tier Two Retirement Benefit Program. The new plan consists of a defined benefit program (the "Pension Program") and a defined

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

Program. The new plan consists of a defined benefit program (the "Pension Program") and a defined contribution portion (the Individual Account Program or "IAP"). The Pension Program portion of OPSRP provides a life pension funded by employer contributions.

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

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

Members of PERS are required to contribute 6% of their salary covered under the plan. The City is required by ORS 238.225 to contribute at an actuarially determined rate. The rate effective July 1, 2017 is 22.52% of salary covered under the plan for Tier 1 and Tier 2 (PERS) employees and 14.69% 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. Employer contribution rates for the period were based on the December 31, 2015 actuarial valuation, as subsequently modified by 2013 legislated changes in benefit provisions.

Benefits Provided

Tier One/Tier Two Retirement Benefit

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

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

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

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

result of injury sustained while employed in a OPERS-covered job; or (4) member was on an official leave of absence from a OPERS-covered job at the time of death.

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

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

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

ORS 238A OPSRP Defined Benefit Plan Benefits

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

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

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

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

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

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

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

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

Contributions

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

Contributions to the plan for the years ending June 30, 2018 and 2017 were \$30,491 and \$21,225, respectively. A five-year Schedule of Contributions can be found in the Required Supplementary Information, which immediately follows these notes.

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

At June 30, 2018 the City reported liabilities of \$252,674 for its proportionate share of the plan pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The proportionate share was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members of the cost sharing pool, actuarially determined. At June 30, 2018 and 2017, the City's proportion was 0.00187443 and 0.00329581 percent respectively.

For the year ended June 30, 2018, the City recognized pension expense of \$32,264 for the defined benefit portion of the pension plan as a result of implementing GASB 68. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,219	\$ -
Changes of assumptions	46,058	-
Net difference between projected and actual earnings on investments	2,603	-
Changes in proportion	24,218	107,965
Differences between employer contributions and proportionate share of contributions	2,693	8,497
Contributions subsequent to the MD	30,491	-
Total	\$ 118,282	\$ 116,462

Deferred outflows of resources related to pensions of \$30,491 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension (asset)/liability

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

in the year ending June 30, 2019. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense/(income) as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2019	\$ (10,212)
2020	10,650
2021	3,422
2022	(26,323)
2023	(6,208)
	<u>\$ (28,671)</u>

The employer contribution rates effective July 1, 2016 through June 30, 2018 were set using the entry age normal actuarial cost method.

For the ORS 238 Tier One/Tier Two component of the OPERS defined benefit plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), and (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over twenty years.

For the ORS 238A OPSRP Pension Program component of the OPERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an actuarially determined amount for funding a disability benefit component, and (3) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over sixteen years.

Actuarial Methods and Assumptions

- Valuation Date December 31, 2015
- Measurement Date June 30, 2017
- Experience Study Report 2014, published September 2015
- Actuarial cost method Entry Age Normal
- Actuarial assumptions
 - Inflation rate 2.50 percent
 - Investment rate of return 7.50 percent
 - Discount rate 7.50 percent
 - Projected salary increases 3.50 percent
 - Cost of living adjustments (COLA) Blend of 2.00% COLA and graded COLA (1.25%/0/15%) in accordance with Moro decision; blended based on service

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

- Mortality

Healthy retirees and beneficiaries:

RP-2000 Sex-distinct, generational per Scale BB with collar adjustments and set-backs as described in the valuation.

Active members:

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

Disabled retirees:

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

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

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability (asset)	\$ 430,602	\$ 252,674	\$ 103,893

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

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

At June 30, 2018, the City's payable to OPERS for defined benefit contributions was approximately \$3,654. This amount represents legally required contributions to the plan for services incurred in the current fiscal year.

Changes in Plan Provisions Subsequent to the Measurement Period

On July 28, 2017, subsequent to the June 30, 2017 measurement date, the OPERS Board lowered the assumed earnings rate from 7.5 to 7.2 percent. The new assumed earnings rate went into effect on January 1, 2018 and will affect rates that go into effect on July 1, 2019. The effect on the City has not been determined.

CITY OF ADAIR VILLAGE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

6. DEFERRED COMPENSATION PLAN

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

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

7. PROPERTY TAX LIMITATIONS

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

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

8. RISK MANAGEMENT

There is exposure to various risks: loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The League of Oregon Cities joined together with the Association of Oregon Cities to form Citycounty Insurance Services (CIS), 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. CIS 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 CIS 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.

9. RESTATEMENT

During the fiscal year ended June 30, 2018, the City implemented GASB Statement No. 75, Accounting and Financial Report for Postemployment Benefits Other Than Pensions. Adoption of this statement requires the City to restate amounts of affected balances within the government-wide and enterprise fund financial statements as of June 30, 2017:

CITY OF ADAIR VILLAGE

**NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

Net Position:	<u>As Originally Stated</u>	<u>Restatement</u>	<u>Restated</u>
Statement of Activities, Governmental activities, Beginning net position	\$ 1,497,854	(602)	1,497,252
Statement of Activities, Business-type activities, Beginning net position	2,465,896	(1,475)	2,464,421
Statement of Revenues, Expenses, and Changes in Fund Net Position:			
Water Fund	1,359,565	(924)	1,358,641
Wastewater Fund	843,609	(447)	843,162
Nonmajor, Total	\$ 27,365	(104)	27,261

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CITY OF ADAIR VILLAGE, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

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

Year ended June 30,	Proportion of the net pension liability/(asset)**	Proportionate share of the net pension liability (asset)**	Covered payroll	Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	0.00187443%	252,674	210,725	119.91%	83.10%
2017	0.00329581%	494,778	190,519	259.70%	80.50%
2016	0.00270964%	155,573	240,959	64.56%	91.90%
2015	0.00395830%	(89,723)	241,844	-37.10%	103.60%
2014	0.00395830%	201,998	234,073	86.30%	91.97%

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

Year ended June 30,	Statutorily required contribution**	Contributions in relation to the statutorily required contribution**	Contribution deficiency (excess)	Covered payroll	Contributions as a percent of covered payroll
2018	21,612	21,612	-	231,747	9.33%
2017	21,225	21,225	-	210,725	10.07%
2016	20,646	20,646	-	190,519	10.84%
2015	30,740	30,740	-	240,959	12.76%
2014	31,402	31,402	-	241,844	12.98%

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

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

CITY OF ADAIR VILLAGE, OREGON
Schedule of the Changes in the Total OPEB Liability and Related Ratios - CIS Plan
for the last fiscal year*

Year ended June 30,	Beginning Total OPEB Liability	Service Cost	Interest on Total OPEB Liability	Effect of Assumptions Changes or Inputs	Ending Total OPEB Liability	Covered Payroll	Liability as a percent of covered payroll
2018	\$ 1,594	\$ 882	\$ 71	\$ (234)	\$ 2,313	\$ 231,747	0.9981%

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

The actuarial information for each fiscal year was provided by Milliman. The City does not currently have any retirees on its health plan.

CITY OF ADAIR VILLAGE, OREGON
Schedule of the Proportionate Share of the Net OPEB Liability - RHIA Plan
for the last two fiscal years*

Year ended June 30,	Proportion of the net OPEB liability/(asset)**	Proportionate share of the net OPEB liability (asset)**	Covered payroll	Proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2018	0.00177983%	(734)	210,725	-0.35%	108.90%
2017	0.00175901%	483	190,519	0.25%	94.20%

CITY OF ADAIR VILLAGE, OREGON
Schedule of Contributions - RHIA Plan
for the last two fiscal years*

Year ended June 30,	Statutorily required contribution**	Contributions in relation to the statutorily required contribution**	Contribution deficiency (excess)	Covered payroll	Contributions as a percent of covered payroll
2018	916	916	-	231,747	0.40%
2017	876	876	-	210,725	0.42%

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

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

CITY OF ADAIR VILLAGE, OREGON
GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
Property taxes:				
Current	\$ 115,000	\$ 115,000	\$ 119,428	\$ 4,428
Prior years	1,650	1,650	1,223	(427)
Franchise fees	46,000	46,000	46,337	337
Intergovernmental:				
State revenue sharing	7,800	7,800	10,670	2,870
Liquor tax	12,500	12,500	13,756	1,256
Cigarette tax	950	950	2,710	1,760
Park grant	3,200	3,200	-	(3,200)
Special transportation fund grant	-	-	-	-
Building/property lease	108,920	108,920	83,897	(25,023)
Planning fees	4,000	4,000	31,361	27,361
Ordinances and court fines	1,500	1,500	555	(945)
Refunds	500	500	1,467	967
Interest income	3,200	3,200	16,140	12,940
Miscellaneous	7,500	7,500	3,823	(3,677)
Total revenues	312,720	312,720	331,367	18,647
EXPENDITURES				
Administration	101,057	101,057	77,302	23,755
Parks	43,575	43,575	26,800	16,775
Public safety	35,944	35,944	35,939	5
Non-departmental	214,100	214,100	137,809	76,291
Debt service	11,279	11,279	-	11,279
Contingency	35,000	35,000	-	35,000
Total expenditures	440,955	440,955	277,850	163,105
Change in fund balance before other financing sources (uses)	(128,235)	(128,235)	53,517	181,752
Other financing sources (uses)				
Loan proceeds	100,000	100,000	100,000	-
Transfer out	(65,210)	(65,210)	(50,210)	15,000
Total other financing sources (uses)	34,790	34,790	49,790	15,000
Reserve for future expenditure	66,555	66,555	-	(66,555)
Change in fund balance	(160,000)	(160,000)	103,307	263,307
Fund balance - beginning of the year	160,000	160,000	161,175	1,175
Fund balance - end of the year	\$ -	\$ -	\$ 264,482	\$ 264,482

CITY OF ADAIR VILLAGE, OREGON
STREET FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
State gas tax	\$ 52,000	\$ 52,000	\$ 54,029	\$ 2,029
Miscellaneous	200	200	-	(200)
Total revenues	52,200	52,200	54,029	1,829
EXPENDITURES				
Street maintenance & operations	51,933	51,933	39,693	12,240
Capital outlay	24,000	24,000	-	24,000
Contingency	15,000	15,000	-	15,000
Total expenditures	90,933	90,933	39,693	51,240
Change in fund balance before other financing sources (uses)	(38,733)	(38,733)	14,336	53,069
Other financing (uses)				
Transfer out	(3,202)	(3,202)	(3,202)	-
Reserve for future expenditure	(33,065)	(33,065)	-	33,065
Change in fund balance	(75,000)	(75,000)	11,134	86,134
Fund balance - beginning of the year	75,000	75,000	84,244	9,244
Fund balance - end of the year	\$ -	\$ -	\$ 95,378	\$ 95,378

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CITY OF ADAIR VILLAGE, OREGON

SUPPLEMENTARY INFORMATION

CITY OF ADAIR VILLAGE, OREGON
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
Charges for services	\$ 535,800	\$ 535,800	\$ 528,806	\$ (6,994)
Miscellaneous	500	500	-	(500)
Total revenues	536,300	536,300	528,806	(7,494)
EXPENDITURES				
Water operations	432,310	432,310	402,028	30,282
Capital outlay	-	550,000	-	550,000
Debt service	162,000	162,000	67,567	94,433
Contingency	-	-	-	-
Total expenditures	594,310	1,144,310	469,595	674,715
Change in fund balance before other financing sources (uses)	(58,010)	(608,010)	59,211	667,221
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	550,000	156,581	(393,419)
Transfers out	(17,356)	(17,356)	(17,356)	-
Contingency	(75,000)	(75,000)	-	75,000
Reserve for future expenditure	(164,634)	(164,634)	-	164,634
Total other financing sources (uses)	(256,990)	293,010	139,225	(153,785)
Change in fund balance	(315,000)	(315,000)	198,436	513,436
Fund balance - beginning of the year	315,000	315,000	389,367	74,367
Fund balance - end of the year	\$ -	\$ -	587,803	\$ 587,803

Capital assets, net of depreciation	3,704,367
Accrued compensated absences	(3,409)
Net pension liability	(112,400)
Deferred outflows of resources - pension	52,616
Deferred outflows of resources - OPEB	407
Accrued interest	(24,274)
Net OPEB liability	(703)
Long-term debt	(2,117,943)
Transition liability	(4,460)
Deferred inflows of resources - pension	(51,807)
Deferred inflows of resources - OPEB	(246)
Total net position	<u>\$ 2,029,951</u>

CITY OF ADAIR VILLAGE, OREGON
WASTEWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
Charges for services	\$ 206,395	\$ 206,395	\$ 203,098	\$ (3,297)
Miscellaneous	1,000	1,000	-	(1,000)
Total revenues	207,395	207,395	203,098	(4,297)
EXPENDITURES				
Wastewater operations	141,440	174,440	135,278	39,162
Debt service	62,048	62,048	49,842	12,206
Contingency	4,000	4,000	-	4,000
Total expenditures	207,488	240,488	185,120	55,368
Change in fund balance				
before other financing sources (uses)	(93)	(33,093)	17,978	51,071
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	33,000	-	(33,000)
Transfers in	15,000	15,000	-	(15,000)
Transfer out	(8,059)	(8,059)	(8,059)	-
Reserve for future expenditure	(6,848)	(6,848)	-	6,848
Total other financing sources (uses)	93	33,093	(8,059)	(41,152)
Change in fund balance				
Fund balance - beginning of the year	-	-	9,919	9,919
Fund balance - end of the year	\$ -	\$ -	2,988	\$ 2,988

Capital assets, net of depreciation	992,791
Accrued compensated absences	(1,618)
Net pension liability	(54,307)
Deferred outflows of resources - pension	25,422
Deferred outflows of resources - OPEB	197
Accrued interest	(75)
Long-term debt	(95,097)
Net OPEB liability	(340)
Transition liability	(2,155)
Deferred inflows of resources - pension	(25,031)
Deferred inflows of resources - OPEB	(119)
Total net position	\$ 842,656

CITY OF ADAIR VILLAGE, OREGON
 SYSTEMS DEVELOPMENT FUND
 SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
Charges for services	\$ 59,876	\$ 59,876	\$ 11,300	\$ (48,576)
Total revenues	59,876	59,876	11,300	(48,576)
Change in fund balance	59,876	59,876	11,300	(48,576)
Fund balance - beginning of the year	225,788	225,788	235,357	9,569
Fund balance - end of the year	\$ 285,664	\$ 285,664	\$ 246,657	\$ (39,007)

CITY OF ADAIR VILLAGE, OREGON
COMBINING STATEMENT OF NET POSITION
NONMAJOR PRIORIETARY FUNDS
June 30, 2018

	Storm Drain Fund	Reserve Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 10,640	\$ 96,915	\$ 107,555
Accounts receivable, net	2,040	-	2,040
Prepaid expense	592	-	592
Total current assets	13,272	96,915	110,187
Noncurrent assets:			
Capital assets, net of accumulated depreciation	7,434	-	7,434
Total noncurrent assets	7,434	-	7,434
Total Assets	20,706	96,915	117,621
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pensions	5,911	-	5,911
Deferred outflows of resources - OPEB	46	-	46
Total Deferred Outflows of Resources	5,957	-	5,957
LIABILITIES			
Current liabilities:			
Payroll liabilities	1,236	-	1,236
Accrued vacation	340	-	340
Total current liabilities	1,576	-	1,576
Noncurrent liabilities:			
Net OPEB liability	79	-	79
Net pension liability	12,627	-	12,627
Transition liability	501	-	501
Total noncurrent liabilities	13,207	-	13,207
Total Liabilities	14,783	-	14,783
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to:			
Pension	5,820	-	5,820
OPEB	28	-	28
Total Deferred Inflows of Resources	5,848	-	5,848
NET POSITION			
Investment in capital assets	7,434	-	7,434
Restricted for capital assets	-	96,915	96,915
Unrestricted	(1,402)	-	(1,402)
Total Net Position	\$ 6,032	\$ 96,915	\$ 102,947

CITY OF ADAIR VILLAGE, OREGON
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PRIORITARY FUNDS
for the year ended June 30, 2018

	Storm Drain Fund	Reserve Fund	Total
REVENUES			
Charges for services	\$ 17,257	\$ -	\$ 17,257
EXPENSES			
Storm drain operations	19,932	-	19,932
Depreciation	466	-	466
Total expenses	20,398	-	20,398
Operating income	(3,141)	-	(3,141)
NON-OPERATING REVENUES (EXPENSES)			
Transfers in	-	80,497	80,497
Transfers out	(1,670)	-	(1,670)
Total non-operating revenues (expenses)	(1,670)	80,497	78,827
Change in net position	(4,811)	80,497	75,686
Net position--beginning, as reported	10,947	16,418	27,365
Restatement	(104)	-	(104)
Net position--beginning, restated	10,843	16,418	27,261
Net position--end of year	\$ 6,032	\$ 96,915	\$ 102,947

CITY OF ADAIR VILLAGE, OREGON
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR PROPRIETARY FUNDS
for the year ended June 30, 2018

	Storm Drain	Reserve Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 17,238	\$ -	\$ 17,238
Payments to suppliers	(861)	-	(861)
Payments to employees	(19,800)	-	(19,800)
Net cash provided (used) by operating activities	(3,423)	-	(3,423)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	-	80,497	80,497
Transfers to other funds	(1,670)	-	(1,670)
Net cash provided (used) by noncapital financing activities	(1,670)	80,497	78,827
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	-	-	-
Net cash provided (used) by capital and related financing activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	-	-	-
Net cash provided by investing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	(5,093)	80,497	75,404
Cash and investments--beginning of the year	15,733	16,418	32,151
Cash and investments--end of the year	\$ 10,640	\$ 96,915	\$ 107,555
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (3,141)	\$ -	\$ (3,141)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	466	-	466
Change in assets and liabilities:			
Receivables	(19)	-	(19)
Prepaid expenses	(592)	-	(592)
Accounts payable and accrued liabilities	55	-	55
Accrued compensated absences	(197)	-	(197)
OPEB-related expenses	(43)	-	(43)
Pension-related expenses	48	-	48
Net cash provided (used) by operating activities	\$ (3,423)	\$ -	\$ (3,423)

CITY OF ADAIR VILLAGE, OREGON
STORM DRAIN FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
REVENUES				
Charges for services	\$ 18,000	\$ 18,000	\$ 17,257	\$ (743)
Miscellaneous	200	200	-	(200)
Total revenues	18,200	18,200	17,257	(943)
EXPENDITURES				
Storm drain operations	24,557	24,557	20,124	4,433
Contingency	4,500	4,500	-	4,500
Total expenditures	29,057	29,057	20,124	8,933
Change in fund balance before other financing sources (uses)	(10,857)	(10,857)	(2,867)	7,990
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,670)	(1,670)	(1,670)	-
Reserve for future expenditure	(2,473)	(2,473)	-	2,473
Total other financing sources (uses)	(4,143)	(4,143)	(1,670)	2,473
Change in fund balance	(15,000)	(15,000)	(4,537)	10,463
Fund balance - beginning of the year	15,000	15,000	16,573	1,573
Fund balance - end of the year	\$ -	\$ -	12,036	\$ 12,036

Capital assets, net of depreciation	7,434
Accrued compensated absences	(340)
Net OPEB liability	(79)
Transition liability	(501)
Net pension liability	(12,627)
Deferred outflows of resources - pension	5,911
Deferred outflows of resources - OPEB	46
Deferred inflows of resources - pension	(5,820)
Deferred inflows of resources - OPEB	(28)
Total net position	<u>\$ 6,032</u>

CITY OF ADAIR VILLAGE, OREGON
RESERVE FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with final budget
OTHER FINANCING SOURCES (USES)				
Transfer in	\$ 80,497	\$ 80,497	\$ 80,497	\$ -
Reserve for future expenditure	(96,915)	(96,915)	-	96,915
Total other financing sources (uses)	(16,418)	(16,418)	80,497	96,915
Change in fund balance	(16,418)	(16,418)	80,497	96,915
Fund balance - beginning of the year	16,418	16,418	16,418	-
Fund balance - end of the year	\$ -	\$ -	\$ 96,915	\$ 96,915

CITY OF ADAIR VILLAGE, OREGON

INDEPENDENT AUDITORS' REPORT REQUIRED BY OREGON STATE
REGULATIONS

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

Honorable Mayor and City Council
City of Adair Village, Oregon

We have audited the basic financial statements of the City of Adair Village, Oregon, as of and for the year ended June 30, 2018 and have issued our report thereon dated January 3, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State.

Compliance

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

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

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. In connection with our testing, nothing came to our attention that caused us to believe the City of Adair Village, Oregon was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

OAR 162-10-0230 Internal Control

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

effectiveness of City of Adair Village, Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Adair Village, Oregon's internal control.

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

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

Purpose of this Report

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



For Merina & Company, LLP
Tualatin, Oregon
January 3, 2019