1. Summary of Significant Accounting Policies

The financial statements of the City of West Linn, Oregon (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). GAAP statements require the application of all relevant Governmental Accounting Standards Board (GASB) pronouncements. The financial statements have incorporated all applicable GASB pronouncements as well as, for the proprietary funds, the Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. No FASB statements and interpretations issued after November 30, 1989 have been applied.

Reporting Entity

The City is a municipal corporation, incorporated in 1913. It operates under its own charter with a Council-City Manager form of government. The Councilors, composed of the Mayor and four council members, comprise the legislative branch of the government. Individual departments are under the direction of the City Manager who is appointed by the Council.

The City provides a full range of municipal services to the community, which include police protection and municipal court services, traffic control and improvement, street maintenance and improvement, water, sewer and storm drain services, planning and zoning regulation, building inspection and regulation, parks and recreation services, and community library services.

Government-wide and Fund Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally 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.

Government-wide financial statements display information about the reporting government as a whole. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct Expenses are those that are clearly identifiable with a specific function or segment. Expenses reported for functional activities include allocated indirect expenses, such as administrative overhead. 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 or segment, 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.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the City has only governmental and proprietary type funds. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements. Nonmajor funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the combining and individual fund statements and schedules.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. This interfund activity results from the City's allocation of charges as reimbursement for services provided by one fund, to another. These reimbursements are for the support of interfund activity and are based on levels of service provided. Not eliminating these charges would artificially inflate the direct costs and program revenues reported for the various functions concerned.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded. The government-wide financial statements are presented on a full accrual basis of accounting with an economic resource measurement focus, as are the proprietary funds financial statements. An economic resource focus concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurements focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Governmental fund financial statements are presented on a modified accrual basis of accounting with a current financial resource measurement focus. The measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus and full accrual basis of accounting, a current financial resource measurement focus is inseparable from a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). *Measurable* means the amount of the transaction can be determined and revenues are considered *available* when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues considered susceptible to accrual are property taxes, state, county and local shared revenues, franchise fees, intergovernmental grants, and investment income.

A deferred revenue liability arises on the balance sheets of the governmental funds when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable deferred revenue consists primarily of uncollected property taxes not deemed available to finance operation of the current period. In the government-wide statement of activities, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the balance sheets of the governmental funds for unavailable deferred revenue, is eliminated.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenses affecting the economic resource status of the government are recognized.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the basic financial statements.

GASB Statement No. 34 sets forth minimum criteria for the determination of major funds. Nonmajor funds are combined in a column in the fund financial statements and detailed in the combining section.

The City reports the following major governmental funds:

- *General Fund*
  The General Fund accounts for the City's legislative, administrative, finance, human resources, information technology, facilities and related debt service, and municipal court operations. The primary revenue sources are reimbursement charges for services to other funds, fines and forfeitures, charges for services, and miscellaneous income.

- *Parks and Recreation Fund*
  Accounts for the operation and maintenance of the City's parks and recreation programs. The primary sources of revenue include an allocation of the City's property tax levy, intergovernmental grants, and program fees.

- *Library Fund*
  Accounts for the operation of the City's library facility. The primary sources of revenue include an allocation of the City's property tax levy, intergovernmental funding, and fees.

- *Systems Development Charges Fund*
  Accounts for the receipt and expenditures of systems development charges (SDCs) dedicated to streets, surface water, water, sewer, and parks.

- *Public Safety Fund*
  Accounts for the activities of the City's police department. The primary revenues are an allocation of the City's property tax levy, intergovernmental revenue, franchise fees and other miscellaneous program revenues such as dog licensing fees.

Additionally, the City reports non-major funds within the governmental fund types:

- *Special Revenue Funds*
  These funds account for the receipt and expenditures of dedicated revenue sources.

- *Debt Service Fund*
  This fund accounts for the accumulation of resources for the payment of general obligation bond principal and interest.

- *Park Bond Construction Fund*
  Accounts for bond proceeds used for the acquisition of park land and improvements.

The City reports each of its three proprietary funds as major funds:

- *Water Fund*
  This fund accounts for the operation and maintenance of water service and distribution facilities.

- *Environmental Services Fund*
  This fund accounts for the operation and maintenance of the sewer and surface water collection systems.

- *Internal Service Fund*
  This fund accounts for fleet maintenance, motor vehicle use, and insurance activities.

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. Operating expenses for the proprietary funds include the cost of sales and services, administrative overhead, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Equity

Cash and Investments

Cash and investments are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments consist of investments in the Oregon State Treasurer's Local Government Investment Pool (LGIP). The individual funds' portion of the pool's fair value is presented as "Cash and Investments" in the basic financial statements.

The LGIP is administered by the Oregon State Treasury. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the State who by law is made the custodian of, or has control of, any public funds. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

The City's investment policy, adopted by the City Council, essentially mirrors the requirements of the Oregon Revised Statutes. Currently, the City's investment portfolio includes primarily investments in the State of Oregon Local Government Investment Pool.

Receivables and Payables

Property taxes are levied on and become a lien against the property on July 1 in the year in which they are due. Collection dates are November 15, February 15, and May 15 following the lien date. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

In the fund financial statements, property taxes receivables that are collected within 60 days after the end of fiscal year are considered measurable and available, and therefore, are recognized as revenue. The property taxes receivable portion beyond 60 days is recorded as deferred revenue. Assessments are recognized as receivables at the time property owners are assessed on property improvements. These receivables are entirely offset by deferred revenue, as assessment revenue is

recognized upon collection.

In the government-wide financial statements, property taxes and assessment receivables are recognized as revenue when earned and are shown net of an allowance for uncollectibles.

In the proprietary funds, receivables include services provided but not billed. The enterprise funds' receivables include billings for residential and commercial customers utilizing the City's water, sewer, and storm water services and are reported net of an allowance for uncollectibles, which is determined based upon an estimated percentage of the receivable balance.

Inventories and Prepaids

In the government-wide financial statements, advance payments made to vendors for services that will benefit periods beyond June 30 are recorded as other assets. Inventories are not significant at the end of the fiscal year.

Capital Assets

Purchased or constructed capital assets are recorded at estimated historical cost with subsequent additions at cost. Donated capital assets are recorded at their estimated fair value at the time of donation. Infrastructure (bridges, roads, and drainage systems) acquired during the year have been recorded at cost or fair value if donated by developers. The City defines capital assets as assets with an initial cost of more than $5,000 and an estimated life of more than five years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

	Useful Lives (in years)
Buildings and structures	25-50
Improvements other than buildings	10-20
Machinery and equipment	5-30
Vehicles	5-10
Infrastructure	20 to 50

Investment in Joint Venture

Investment in joint venture with other governments is reported at cost plus or minus the City's share of operating income or loss utilizing the equity method of accounting for investments.

Accrued Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability reported for unpaid accumulated sick leave since the City by policy does not pay out sick leave banks when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of termination or retirement.

Other Postemployment Benefits Obligations

The City early implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for the Postemployment Benefits Other Than Pensions* (OPEB) for fiscal year ended June 30, 2008. The City's net OPEB obligation is recognized as a long-term liability in the government-wide financial statements and in the proprietary fund statements, the amount of which is actuarially determined.

Long-term Obligations

In the government-wide financial statements, and in the proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. When significant, bond premiums, discounts, amounts deferred on refundings, and issuance costs are deferred and amortized over the applicable bond term.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs, as period costs in the year of issue. The face amount of debt issued and any related premium is 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 Equity

In the fund financial statements, governmental funds report reserved fund balances for amounts that are not available for appropriation because they are legally segregated for a specific purpose. These legal segregations include bond covenants reserving debt service payments and use limitations, as well as building and systems development charges fund balances legally restricted by applicable state statutes.

In the government-wide statement of net assets, fund equity is referred to as net assets and is segregated into the following three components: 1) amount invested in capital assets, net of related debt, 2) legally restricted by outside parties for a specific purpose, and 3) unrestricted.

Restricted Assets

Assets whose use is restricted by legal requirements external to the City, are segregated on the government-wide statement of net assets and the proprietary fund statement of net assets. These legal restrictions include bond covenants reserving debt service payments and use limitations, as well as systems development charges legally restricted by applicable state statutes. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources, as they are needed.

Use of Estimates

The preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 amounts could differ from those estimates.

2. Stewardship, Compliance, and Accountability

Budgetary Information

Municipal budgets are adopted on a basis consistent with Oregon Revised Statutes (ORS 294 – Local Budget Law). The process under which the budget is adopted is described in the following paragraphs.

The City Manager is responsible for submitting a proposed budget to the Citizens Budget Committee, which is comprised of the City Council and an equal number of citizens of the City. The City is required to prepare a balanced budget for all funds, subject to the budget requirements of state law, in accordance with Oregon Revised Statutes. Each fund is budgeted on the modified accrual basis of accounting.

The budget document is required to contain specific detailed information for various revenue and expenditure categories. Information on the past two years' actual receipts and expenditures as well as current-year estimates is also included in the budget document.

The Citizens Budget Committee conducts public hearings for the purpose of obtaining citizens' comments, and then approves a budget and submits it to the City Council for final adoption. The approved expenditures for each fund may not be increased by more than 10 percent by Council without returning to the Citizens Budget Committee for a second approval. After the Council adopts the budget and certifies the total of ad valorem taxes to be levied, no additional tax levy may be made for that budget period.

The City Council legally adopts the budget by resolution before July 1. The resolution establishes appropriations for each fund and sets the level by which expenditures cannot legally exceed appropriations. In the general fund, the levels of budgetary control established by resolution are set at the department level. For all other funds, the levels of budgetary control established by resolution are personal services, materials and services, debt service, capital outlay, transfers and operating contingency. Appropriations lapse as of the end of the fiscal year for goods or services not yet received.

The City Council may change the budget throughout the fiscal year by transferring appropriations between levels of control and by adopting supplemental budgets. Unexpected additional resources may be added to the budget through the use of a supplemental budget. Some supplemental budgets require hearings before the public, publications in newspapers and approval by the City Council. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the City Council. During the fiscal year 2007-08 budget, the City Council approved three supplemental budget resolutions, recognizing additional resources carried over from the prior fiscal year and appropriating additional unanticipated monies received after the budget was adopted

Fund Balance Deficit

The Building Inspection Fund has a GAAP basis deficit fund balance of $66,148. An interfund loan of $250,000 payable with interest of five percent (5%) from the Systems Development Charges Fund was repaid in fiscal year 2007-08, replaced with a bank note for $175,000 providing a positive budget basis fund balance of $108,852.

3. Detailed Notes on All Funds

Deposits and Investments

The City maintains a common cash and investment pool for all city funds. The types of investments in which the City may invest are restricted by State of Oregon statutes and a Council adopted investment policy. Authorized investments include U.S. Treasury obligations including treasury notes, bond and strips; Federal instrumentality securities from specific Federal Agencies; commercial paper rated at least A-1 or an equivalent rating; corporate bonds rated at least Aa or an equivalent rating; bankers acceptances rated at least Aa or an equivalent rating; the Oregon State Treasurer's Local Government Investment Pool limited by state statute; certificates of deposits; repurchase agreements and obligations of the states of Oregon, California, Idaho and Washington rated AA or better.

As of June 30, 2008, the City's cash and investments were comprised of the following:

Cash on hand	$ 2,875
Deposits with financial institutions	358,578
Investments:	
Oregon State Treasurer's Local Government Investment Pool	11,302,072
Certificate of deposit	20,010
Total pooled cash and investments	$ 11,683,535

	Government Activities	Business-Type Activities	Total
Cash and investments	$ 8,909,059	$ 2,774,476	$ 11,683,535

Deposits. The total balance as shown on the bank statements at June 30, 2008, was $438,234. Of these deposits, $100,000 was covered by Federal depository insurance, $338,234 was collateralized with securities held in the pledging bank's trust department in the City's name.

Oregon Revised Statutes require the depository institution to maintain on deposit, with a collateral pool manager, securities having a value not less than 25% of the outstanding certificates of participation issued by the pool manager. However, in accordance with state statutes, the State Treasurer allows certain depository banks to be the custodian with respect to their own pledged collateral securities. For these institutions, the State Treasurer is the collateral pool manager.

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the individual maturities in its investment portfolio to eighteen months or less.

Credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to limit its investments in these investment types to the top two rating issued by NRSROs. The State of Oregon Local Government Investment Pool (LGIP) is not rated by NRSROs.

Concentration of credit risk. The City's investment policy, as it relates to investing outside of the LGIP, does not allow for an investment in any one issuer that is in excess of five percent of the City's total investments (ORS 294.035).

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Oregon Revised Statutes require the depository institution to maintain on deposit with a collateral pool manager, securities having a value not less than 25 percent of the outstanding certificates of participation issued by the pool manager.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City participates in the State of Oregon Local Government Investment Pool (LGIP), an open-ended, no-load diversified portfolio created under ORS 294.805 to 294.895 that is not registered with the U.S. Securities and Exchange Commission as an investment company. The State Treasurer administers the LGIP with the oversight of the Oregon Investment Council and with the advice of the Oregon Short Term Fund Board. These funds must be invested and managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The Oregon Audits Division of the Secretary of State's Office audits the LGIP annually.

Receivables

As of June 30, 2008, accounts receivable consisted of the following:

Accounts, contracts and grants	$ 1,110,073
Allowance for uncollectible accounts	(9,900)
Total	$ 1,100,173

The allowance for uncollectible accounts pertains to utility billing collections and impacts only the business-type activities. Accounts receivable are reflected in the basic financial statements as follows:

Accounts receivable - governmental activities	$ 259,306
Accounts receivable - business-type activities	840,867
Total	$ 1,100,173

Investment in Joint Venture

The South Fork Water Board (SFWB) operates a water distribution system jointly with the City and the City of Oregon City, each party owning 50%. Revenues earned by SFWB are expended for the continued operation and maintenance of facilities within the municipal boundaries of these cities. Upon dissolution of the SFWB, the net assets will be shared 50 percent to each city. The SFWB is governed by a five-member board composed of three appointees from Oregon City and two from West Linn. The City's net investment and its share of the operating results of the SFWB are reported in the City's Water Fund. Net Assets of the City's Water Fund were increased $288,007 from net income of the joint venture in fiscal year 2007-08. Complete financial statements for the SFWB can be obtained from the City of Oregon City Finance Department, 320 Warne-Milne Road, Oregon City, Oregon 97045. The investment in South Fork Water Board is accounted for using the equity method.

Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Beginning balance as of June 30, 2007	Restatement	Additions	Ending balance as of June 30, 2008
Governmental activities:				
Capital assets not being depreciated:				
Land and easements	$ 207,548,612	$ (20,570,150)	$ 475,941	$ 187,454,403
Capital assets being depreciated:				
Buildings and improvements	29,300,482	(4,826,205)	518,199	24,992,476
Vehicles and equipment	4,522,330	(2,074,449)	388,335	2,836,216
Infrastructure	53,329,248	(1,100,785)	1,852,928	54,081,391
Total capital assets being depreciated	87,152,060	(8,001,439)	2,759,462	73,908,644
Less accumulated depreciation for:				
Buildings and improvements	(8,266,716)	1,050,989	(716,986)	(7,932,713)
Vehicles and equipment	(3,874,550)	2,792,013	(188,067)	(1,270,604)
Infrastructure	(28,032,709)	229,702	(1,490,253)	(29,293,260)
Total accumulated depreciation	(40,173,975)	4,072,704	(2,395,306)	(38,496,577)
Total capital assets being depreciated, net	46,978,085	(3,928,735)	364,156	43,413,506
Total capital assets, net	$ 254,526,697	$ (24,498,885)	$ 840,097	$ 230,867,909

Business-type activities:	Beginning balance as of June 30, 2007	Restatement	Additions	Ending balance as of June 30, 2008
Capital assets not being depreciated:				
Land	$ 315,313	$ -	$ -	$ 315,313
Construction in progress	62,427	(15,248)	192,504	239,683
Total capital assets not being depreciated	377,740	(15,248)	192,504	554,996
Capital assets being depreciated:				
Buildings and improvements	2,338,509	(759,005)	-	1,579,504
Vehicles and equipment	2,199,976	(1,178,383)	55,937	1,077,530
Infrastructure	29,289,467	22,185,619	978,308	52,453,394
Total capital assets being depreciated	33,827,952	20,248,231	1,034,245	55,110,428
Less accumulated depreciation for:				
Buildings and improvements	(987,568)	204,581	(31,590)	(814,577)
Vehicles and equipment	(1,698,507)	1,273,780	(76,398)	(501,125)
Infrastructure	(9,346,197)	(16,383,723)	(1,039,132)	(26,769,052)
Total accumulated depreciation	(12,032,272)	(14,905,362)	(1,147,120)	(28,084,754)
Total capital assets being depreciated, net	21,795,680	5,342,869	(112,875)	27,138,549
Total capital assets, net	$ 22,173,420	$ 5,327,621	$ 79,629	$ 27,580,670

Depreciation expense in the amount of $2,395,306 was charged as unallocated depreciation for governmental activities and for business-type activities the amount of $1,147,120 was charged to functions/programs as follows:

Water	$ 385,804
Enviornmental services	761,316
Depreciation expense	$ 1,147,120

Commitments and Contingencies

The City has agreements with the Tri-City Service District to treat sewage wastewater. Pertinent terms of this agreement are as follows:

- The City will process and review all permit applications for hookup and inspection thereof; operate and maintain local collections facilities; bill and collect user charges, and bill and collect connection charges.
- Should the District fail to perform services outlined in this agreement, the City can terminate the agreement upon 30 days written notice.

Interfund Transfers

Transfers between funds provide support for various City programs in accordance with budgetary authorizations. For fiscal year ended June 30, 2008, all of the itemized transfers below represent transfers to and from various funds for general government purposes.

Interfund transfers for the fiscal year ended June 30, 2008 are as follows:

	Transfers from other funds	Transfers to other funds	Net
Governmental funds:			
General fund	$ -	$ (414,700)	$ (414,700)
Parks and recreation fund	-	(12,100)	(12,100)
Systems development fund	-	(20,000)	(20,000)
Public safety fund	200,000	-	200,000
Nonmajor governmental	513,200	(266,400)	246,800
Total interfund transfers	$ 713,200	$ (713,200)	$ -

Leases

Leases which meet certain criteria established by the GASB are classified as capital leases. When these leases are incurred, the assets and related liabilities are recorded at the lesser of the present value of minimum lease payments or the fair value of the lease. Leases, which do not meet the criteria of a capital lease, are classified as operating leases and related rental payments are charged to operations in their respective funds. Currently, all of the City's leases are classified as operating leases.

The City leases various equipment for use in its operations under cancelable and noncancelable operating leases. Total costs for such leases were approximately $95,218 for the year ended June 30, 2008.

The future minimum lease payments for noncancelable operating leases are as follows:

Fiscal year ending June 30,	
2009	$ 85,020
2010	89,941
2011	89,941
2012	89,941
2013	89,941
	$ 444,784

Long-term Obligations

In the following paragraphs, long-term debt information is presented separately with respect to governmental and business-type activities. The following table presents current year changes in those obligations and the current portions due for each issue. For the governmental activities, claims and judgments, and compensated absences are generally liquidated by the General Fund.

	Original debt amount	Interest rates	Beginning balance as of June 30, 2007	Additions	Reductions	Ending balance as of June 30, 2008
Governmental activities:						
General Obligation bonds						
Series 1998 Parks & Recreation	$ 4,400,000	4.0-4.7%	$ 3,005,000	$ -	$ (220,000)	$ 2,785,000
Series 1999 Parks & Recreation	3,600,000	4.2-5.3%	2,700,000	-	(165,000)	2,535,000
Series 2000 Library Expansion	3,900,000	4.7-5.4%	3,425,000	-	(110,000)	3,315,000
Full Faith and Credit obligations						
Series 2000 City Hall	4,300,000	4.3-5.2%	3,410,000	-	(175,000)	3,235,000
Total debt obligations	$ 16,200,000		$ 12,540,000	$ -	$ (670,000)	11,870,000
					Less current amounts due within one year	(705,000)
					Long-term portion of debt obligations	$ 11,165,000
Compensated absences for governmental activities			$ 351,341	$ 458,633	$ (402,389)	$ 407,585

	Original debt amount	Interest rates	Beginning balance as of June 30, 2007	Additions	Reductions	Ending balance as of June 30, 2008
Businceess-type activities:						
Revenue bonds						
Series 2000 Water Rev and Refunding	$ 1,800,000	4.7-5.6%	$ 1,450,000	$ -	$ (70,000)	$ 1,380,000
					Less current amounts due within one year	(75,000)
					Long-term portion of debt obligations	$ 1,305,000
Compensated absences for business-type activities			$ 75,753	$ 21,666	$ (55,102)	$ 42,317

Future maturities of bond principal and interest at June 30, 2008, are as follows:

	Governmental Activities		Business-Type Activities		Total	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 705,000	$ 587,325	$ 75,000	$ 78,470	$ 780,000	$ 665,795
2010	750,000	554,428	80,000	74,188	830,000	628,616
2011	795,000	519,454	80,000	69,728	875,000	589,182
2012	850,000	468,165	85,000	65,044	935,000	533,209
2013	900,000	435,789	90,000	60,012	990,000	495,801
2014-2018	5,445,000	1,444,259	550,000	182,550	5,995,000	1,626,809
2019-2021	2,425,000	206,698	420,000	63,450	2,845,000	270,148
	$ 11,870,000	$ 4,216,118	$ 1,380,000	$ 593,442	$ 13,250,000	$ 4,809,560

The City did not meet its bond covenant related to timely completion of audits.

Short-term Bank Note

A short term bank note in the amount of $175,000 was received into the Building Inspection Fund providing a positive fund balance on the budget basis of $108,852. This bank note was received in June 2008, requires twelve monthly principal and interest payments, contains an initial interest rate of five percent, and matures with a final payment due in July 2009.

Employee Retirement Pension Plan

Plan Description

Substantially all City employees, after six months of employment, are participants in the State of Oregon Public Employees Retirement System (PERS). The City's policy is to fund pension costs as determined by actuarial valuations.

The City contributes to the PERS and to the Oregon Public Service Retirement Plan (OPSRP). PERS is an agent multi-employer defined benefit public employee retirement system. OPSRP is a hybrid retirement plan with two components: the Pension Program (defined benefit; established and maintained as a tax-qualified governmental defined benefit plan) and the Individual Account Program (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan). A defined benefit plan is benefit-based and uses predictable criteria such as a pension determined by salary multiplied by length of service multiplied by a factor. A defined contribution plan has no guarantee. OPSRP is administered by PERS. PERS acts as a common investment and administrative agent for political subdivisions in the State of Oregon.

The 2003 Oregon Legislature established OPSRP. Public employees hired on or after August 29, 2003, become part of OPSRP, unless membership was previously established in PERS.

Benefits generally vest after five years of continuous service. Retirement is allowed at age fifty-eight with unreduced benefits, but retirement is generally available after age fifty-five with reduced benefits. Retirement benefits based on salary and length of service are calculated using a formula and are payable in a lump sum or monthly using several payment options. PERS also provides death and disability benefits. These benefit provisions and other requirements are established by state statute.

The State of Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700 or by calling 1-888-320-7377.

Funding Policy

Members of PERS and OPSRP 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 City's rate is 14.05% for PERS, 14.30% for OPSRP – general employees, and 17.57% for OPSRP – police employees of salary covered under the plan. The contribution requirements for plan members and the City are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual Pension Cost

For the years ended June 30, 2008, 2007, and 2006 the City's annual pension costs were approximately $973,000, $1,108,000, and $1,116,000 respectively, and were equal to the City's required and actual contributions. Approximately $403,000 of the annual pension costs incurred in 2008 was funding of the Unfunded Actuarial Accrued Liability (UAL).

Annual Required Contribution/Contractually Required Contribution

The Annual Required Contribution (ARC) and the contractually required contribution are expressed as contribution rates that are applied to the appropriate payroll for the contribution rate period. The ARC is shown in the following table.

		OPSRP	
	Tier1/2	Gen	Police
July 1, 2007 to June 30, 2009			
- Tier 1/Tier 2 Annual Required Contribution	13.68%	8.22%	8.22%
- OPSRP Contractually Required Contribution	0.00%	5.82%	9.09%

Schedule of Funding Progress

The Schedule of Funding Progress is required for the Tier 1/Tier 2 pension liabilities. The following table shows the schedule for the last several valuations.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (Asset)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability (Asset) as a Percent of Covered Payroll
12/31/2005	$ 35,196,000	$ 36,127,000	$ (931,000)	97 %	$ 6,342,000	15 %
12/31/2003	26,970,000	32,807,000	(5,837,000)	82	5,626,000	104
12/31/2001	26,727,000	25,058,000	(1,669,000)	107	5,367,000	21

Postemployment Healthcare Plan (implicit subsidy)

Plan Description. The City does not have a formal post employment benefits plan for the employees; however the City is required by Oregon Revised Statutes 243.303 to provide retirees with group health and dental insurance from the date of retirement to age 65 at the same rate provided to current employees. GASB 45 is applicable to the City due only to the implicit rate subsidy. This "plan" is not a stand-alone plan and therefore does not issue its own financial statements.

Funding Policy. The City collects insurance premiums from all retirees each month and deposits them into a restricted insurance premium account. The City then pays health insurance premiums for all retirees at tiered rates to the insurance company. The required contributions to the plan include the employer's pay-as-you-go amount, an amount paid by retirees, and an additional amount calculated to prefund future benefits as determined by the actuary.

For fiscal year ended June 30, 2008, the City retirees paid 100 percent of their insurance premium costs. The City has elected to not prefund the actuarially determined future cost amount of $194,148.

The required monthly contributions of the plan members were as follows for the fiscal year ended June 30, 2008.

	Medical		Dental
	HealthNet	Kaiser	ODS
Employee	$ 426	$ 404	$ 45
Emp + child(s)	$ 767	$ 728	$ n/a
Employee + 1	$ 842	$ 809	$ 79
Full Family	$1,180	$1,213	$147

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post employment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's OPEB obligation to the plan.

Employer's normal cost at year end	$ 117,118
Amortization of UAAL with interest	110,553
Annual Required Contribution (ARC)	227,671
Less contribution (amounts paid during year for OPEB)	-
Implicit benefit payments	45,975
OPEB obligation at beginning of year of implementation	-
OPEB obligation at end of year (June 30, 2008)	$ 181,696

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2008 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percent of Annual OPEB Cost Contribution	Net OPEB Obligation
06/30/2008	$ 227,671	20.19%	$ 181,696

Funded Status and Funding Progress. The funded status of the plan as of August 1, 2006 (the date of the most recent actuarial valuation), was as follows:

Actuarial accrued liability (AAL)	$ 1,449,903
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 1,449,903

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the August 1, 2006 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. The UAAL is being amortized over an initial period of 30 years.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
08/01/2006	-	$1,449,903	$1,449,903	0%	$6,646,000	21.82%

Retirement Health Insurance Account (RHIA)

Plan Description. As a member of Oregon Public Employees Retirement System (OPERS) the City contributes to the 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 OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700.

Funding Policy. 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. 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 Retirement Health Insurance Account established by the employer, and any monthly cost in excess of $60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating cities are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently 0.37% of annual covered payroll. The OPERS Board of Trustees sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The City's contributions to RHIA for the year ended June 30, 2008 were $25,849 which equaled the required contributions for that year.

Deferred Compensation Plan

The City has a deferred compensation plan created in accordance with the Internal Revenue Code Section 457(g). The Plan is administered by independent plan administrators through administrative service agreements. The Plan is available to all employees of the City. Employees

may defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Plan's assets are held in a custodial account for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of the City's creditors, nor can they be used by the City for any purpose other than the payment of benefits to the Plan participants. Accordingly, these Plan assets and related liability are not recorded in the City's basic financial statements.

4. Other Information

Restatement

Effective with the City's reporting for fiscal year ended June 30, 2008, all capital asset balances were reviewed, inventoried, and audited. For governmental activities, the effect was a decrease in total assets of approximately $24.5 million to the June 30, 2007 balance. For business type activities, the effect was an increase in total assets of $20.2 million, offset by an increase in related accumulated depreciation of $14.9 million, resulting in an overall net increase of approximately $5.3 million.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Except for unemployment compensation, the City purchases commercial insurance to minimize its exposure to these risks. There has been no reduction in commercial insurance coverage from the previous fiscal year.

Workers compensation claims are insured through incurred loss retrospective policies. Settled claims have not exceeded this commercial coverage for any of the past three years. The City is self-insured for unemployment compensation claims.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Property tax limitation

The citizens of the State of Oregon approved the first property tax limitation in 1990 – Measure 5. This limitation divides property taxes into an education category and a non-education category. The tax rate in the education category was limited to $5 per thousand of real market value for fiscal year 1995-96 and thereafter. The non-education category was limited to $10 per thousand of real market value. Although all non-education taxes to the City currently do not exceed the $10 per $1,000 of property real market value limitation; this limitation may affect the availability of future tax revenues for the City.

A second property tax limitation was approved in November 1996 and later modified in May 1997 – Measures 47 and 50, respectively. This limitation set a maximum permanent tax rate for the City exclusive of bonded debt at $2.12 per $1,000 assessed value. Assessed values can only grow by a maximum of 3 percent, exclusive of new construction and annexations.

Subsequent Events

Embezzlement Settlement. In fiscal year 2006, the City discovered that its former Finance Director had embezzled approximately $1,420,000 over a five-year period. The City and its forensic auditors determined that the funds were embezzled from the General Fund although specific accounts could not be identified.

In fiscal year 2007, the former Finance Director admitted to the embezzlement in an agreement with legal authorities. The agreement entitles the City to restitution of the $1,420,000 plus statutory interest of 9% per annum. The former Finance Director agreed to transfer to the City, 75% of the equity in her personal residence (estimated to be $100,000) and her Public Employee Retirement System personal retirement account (estimated to be worth $175,000). Additionally, the City received $100,000 from its insurance carrier during fiscal year 2007.

In fiscal year 2008, the City received $100,692 from the proceeds from the sale of the personal residence related to the embezzlement. In fiscal year 2009, the mediation with the City's former auditors and insurance carrier was settled and the City recovered another portion amounting to $385,000. Still outstanding, is the PERS account balance mentioned previously which is expected to be resolved later in fiscal year 2009 or 2010.

Bond Sale and Refunding. On November 24, 2008, the City Council authorized the issuance of $4 million in Full Faith and Credit Obligations representing funding for street improvements, land acquisition site for a police station, and certain park improvements. This bond sale was a competitive sale and closed January 21, 2009.

On February 11, 2008, the City Council authorized the refunding of the $5 million of outstanding Series 1998 and Series 1999 general obligation bonds. This refunding closed on January 21, 2009 as well and resulted in an overall true interest cost rate of 3.58 percent, an economic gain of $436,632 and a reduction of $469,791 in future debt service payments.

On December 23, 2008, relating to the above mentioned bond sale and refunding, Standard and Poor's Rating Services reaffirmed the City's AA- long-term credit rating on its general obligation bonds and full faith and credit obligations. They cited a service area that shows strong economic characteristics and the implementation of strengthened financial policies and procedures.

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