

**CITY OF WEST LINN, OREGON
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

SECTION II

FINANCIAL SECTION

This page intentionally left blank



4800 S.W. Macadam, Suite 400 • Portland, Oregon 97239-3973
503.274.2849 • Fax 503.274.2853
www.tkw.com

INDEPENDENT AUDITOR'S REPORT

February 27, 2009

Honorable Mayor and City Councilors
City of West Linn
West Linn, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Linn, Oregon, (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 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 as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 11 through 19 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of

INDEPENDENT AUDITOR'S REPORT (Continued)

Honorable Mayor and City Councilors
City of West Linn
February 27, 2009
Page 2

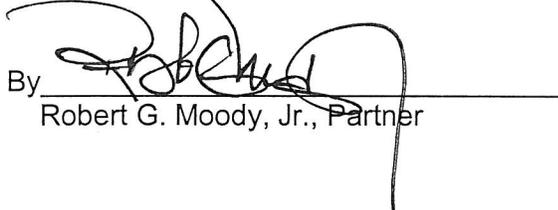
measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The required supplementary information on pages 55-60 and the combining and individual nonmajor fund financial statements and other schedules, listed in the Table of Contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By _____


Robert G. Moody, Jr., Partner

CITY OF WEST LINN, OREGON

Management's Discussion and Analysis

For the fiscal year ended June 30, 2008

Management's Discussion and Analysis (MD&A) is presented to facilitate financial analysis and provide an overview of the financial activities of the City of West Linn (the City) for the fiscal year ended June 30, 2008. Information in the MD&A is based on currently known facts, decisions and conditions. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

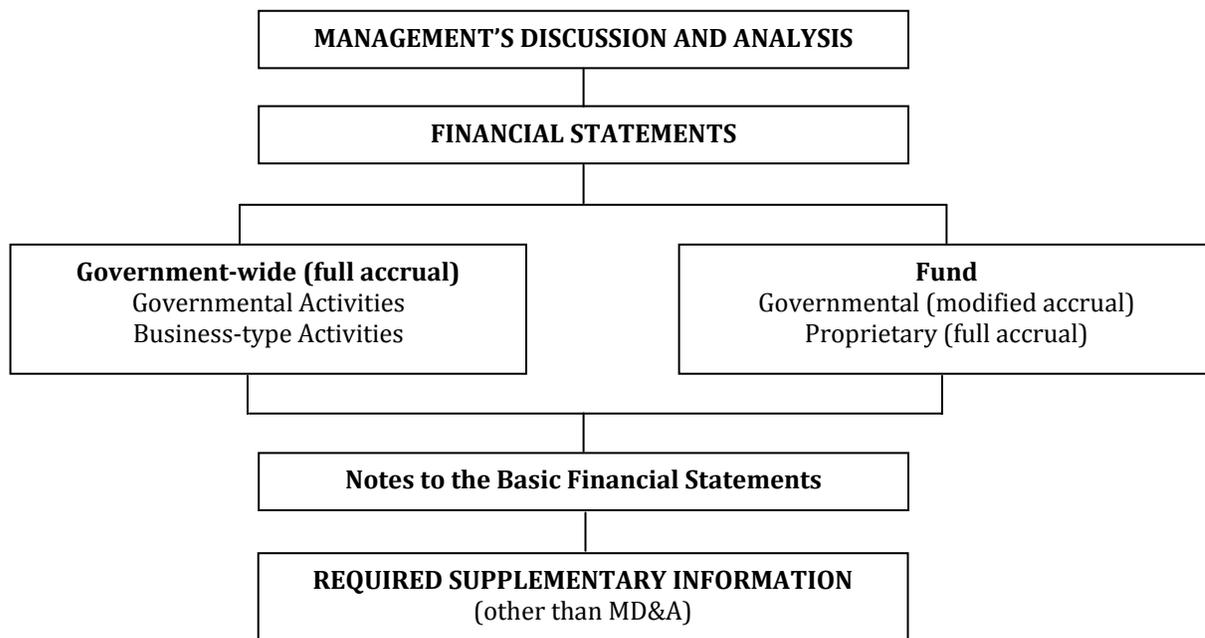
- The City's assets totaled \$279 million at June 30, 2008, consisting of \$258 million in capital assets, \$12 million in unrestricted cash and investments, and \$9 million in investment in joint venture and other assets. Total assets increased by \$1.3 million from the previous fiscal year.
- The City's liabilities totaled \$17 million at June 30, 2008 consisting of \$13 million in long-term liabilities and \$4 million in accounts payable and other liabilities.
- The assets of the City exceeded its liabilities by \$262 million at the close of fiscal year 2008. Unrestricted net assets totaled \$13 million with the remainder of the City's net assets invested in capital assets net of related debt (\$245 million) and restricted for endowment, capital projects, and debt service (\$4 million).
- For its governmental activities, the City generated \$9 million in charges for services and received \$4 million in grants and contributions. Direct expenses, including unallocated depreciation for governmental activities were \$20 million for the year, resulting in a net expense of \$7 million. \$8 million of general revenues were received resulting in a net change in net assets of \$1 million.
- Fund balance in the City's governmental funds was \$7 million at June 30, 2008, down by \$322,272 from June 30, 2007.
- For its business-type activities, the City generated \$5.5 million in charges for services and in grants and contributions to fund direct expenses of \$5.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to this discussion and analysis, the financial section of this annual report contains the *basic financial statements, other required supplementary information, and supplementary information*, including the *combining statements and schedules* of the nonmajor funds.

The basic financial statements also include *notes* that explain the information in the financial statements and provide more details. The following chart illustrates how the various sections of this annual report are arranged relative to one another.

Chart 1 - Required Elements of the Comprehensive Annual Financial Report



Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes *all* of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets—the difference between assets and liabilities—is one way to measure the City's *financial health* or *position*.

- Over time, increases or decreases in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into two categories:

- Governmental activities—Most of the City's basic services are included here, such as police, parks and recreation, library, public works, and general administration. Property taxes, charges for services, and state and federal grants fund most of these activities.
- Business-type activities—The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and environmental services including sanitary sewer and surface water management systems are included here.

Statement of Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$262.3 million at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (93 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves either cannot or are not expected to be used or liquidated to repay these liabilities.

Table 1
Net Assets as of June 30th
(in millions)

	Government activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 9.7	\$ 9.9	\$ 10.9	\$ 10.8	\$ 20.6	\$ 20.7
Capital assets	230.9	230.0	27.6	27.5	258.5	257.5
Total assets	240.6	239.9	38.5	38.3	279.1	278.2
Current liabilities	3.3	3.0	0.9	0.9	4.2	3.9
Long-term liabilities	11.3	11.9	1.3	1.4	12.6	13.3
Total liabilities	14.6	14.9	2.2	2.3	16.8	17.2
Net assets:						
Invested in capital assets, net of related debt	219.0	217.5	26.2	26.0	245.2	243.5
Restricted	4.5	3.5	-	-	4.5	3.5
Unrestricted	2.5	4.0	10.1	10.0	12.6	14.0
Total net assets	\$ 226.0	\$ 225.0	\$ 36.3	\$ 36.0	\$ 262.3	\$ 261.0

An additional portion of the City's net assets (\$4.5 million or less than 2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$12.6 million or about 5 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

As of June 30, 2008, the City had positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true as of the end of the prior fiscal year.

Total net assets increased by \$1.3 million during the current fiscal year. This increase represents the degree to which increases in ongoing revenues have exceeded similar increases in ongoing expenses.

Statement of Activities

As with the statement of net assets, the City reports governmental activities on a consolidated basis. A summary of the statement of activities is in Table 2 below.

Table 2
Changes in Net Assets
(in millions)

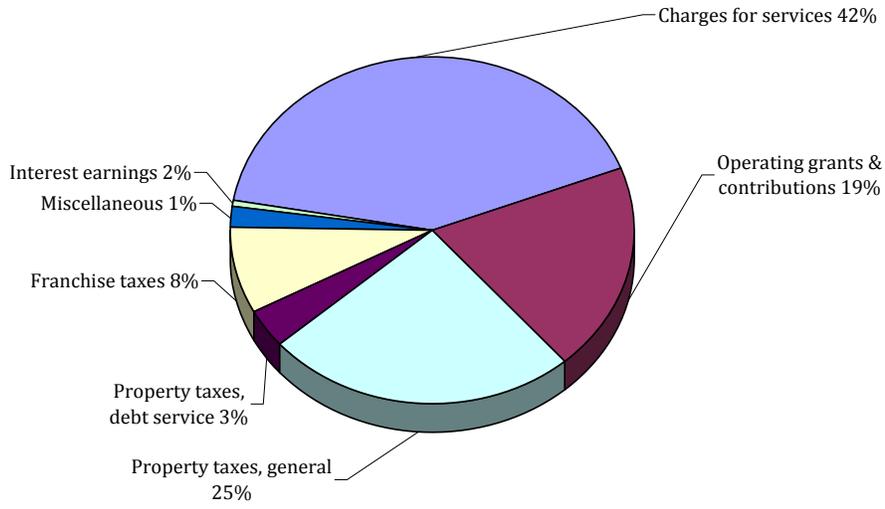
	Governmental Activities		Business-type Activities		Total	
	FY07-08	FY06-07	FY07-08	FY06-07	FY07-08	FY06-07
Revenues						
Program revenues						
Charges for services	\$ 8.8	\$ 3.4	\$ 4.6	\$ 5.2	\$ 13.4	\$ 8.6
Grants and contributions	4.1	2.4	0.9	-	5.0	2.4
General revenues						
Property taxes	6.0	7.6	-	-	6.0	7.6
Franchise taxes	1.7	2.1	-	-	1.7	2.1
Other	0.6	0.8	0.5	0.8	1.1	1.6
Transfers	-	1.1	-	-	-	1.1
Total revenues	<u>21.2</u>	<u>17.4</u>	<u>6.0</u>	<u>6.0</u>	<u>27.2</u>	<u>23.4</u>
Expenses						
Governmental activities						
General government	6.0	4.7	-	-	6.0	4.7
Culture and recreation	4.3	3.0	-	-	4.3	3.0
Public safety	5.7	4.5	-	-	5.7	4.5
Highways and streets	1.2	1.0	-	-	1.2	1.0
Interest on long-term debt	0.6	0.6	-	-	0.6	0.6
Depreciation	2.4	0.6	-	-	2.4	0.6
Business-type activities						
Water	-	-	2.9	2.3	2.9	2.3
Environmental Services	-	-	2.8	1.4	2.8	1.4
Transfers	-	-	-	1.1	-	1.1
Total expenses	<u>20.2</u>	<u>14.4</u>	<u>5.7</u>	<u>4.8</u>	<u>25.9</u>	<u>19.2</u>
Change in net assets	<u>\$ 1.0</u>	<u>\$ 3.0</u>	<u>\$ 0.3</u>	<u>\$ 1.2</u>	<u>\$ 1.3</u>	<u>\$ 4.2</u>

Governmental Activities

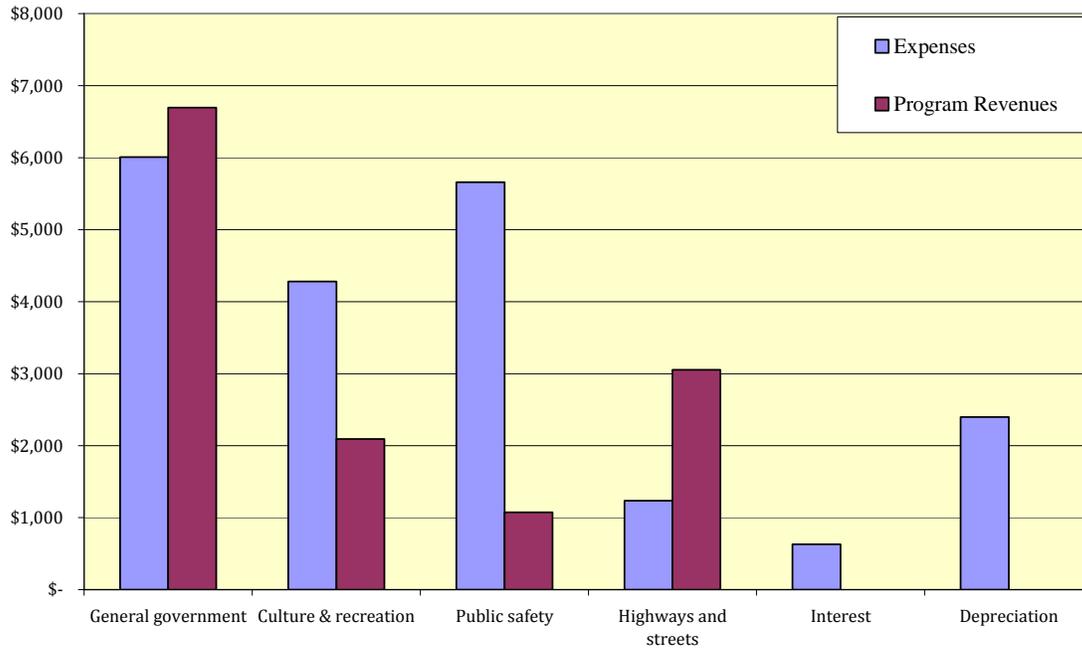
Governmental activities increased the City's net assets by \$1 million, amounting to 77 percent of the total growth in the net assets of the City. Key elements of this increase are illustrated in Table 2 above.

The revenues charted in the following pie chart include all program and general revenues for governmental activities such as property taxes, franchise fees, charges for services, operating grants, capital contributions, and interest earnings. Property taxes continue to be the major source of revenue for the City's governmental activities, once interfund service payments are factored out of charges for services.

Revenues by Source - Governmental Activities



Expenses and Program Revenues - Governmental Activities
(in thousands)

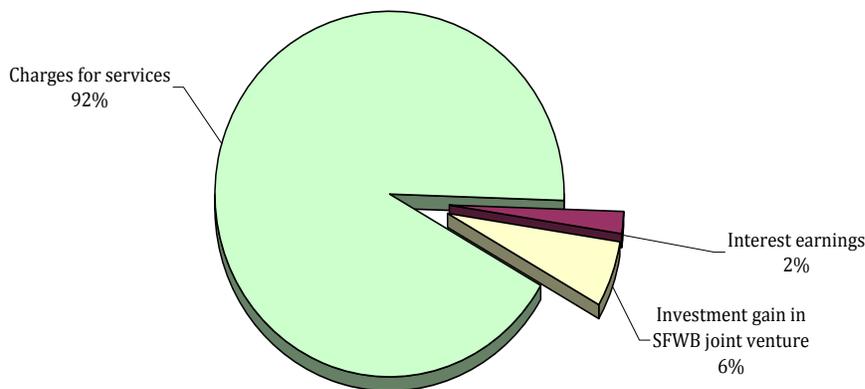


Business-type Activities

The Water Fund revenues represent approximately 57 percent of all utility revenues for the City. The City continued to realize improved operating results increasing funds available for planned significant capital investment. Additionally, the City's fifty percent equity investment in the South Fork Water Board provided a return of \$288,007 in fiscal year 2008.

The Environmental Services Fund revenues represent approximately 43 percent of all utility revenues for the City. The fund provides sewer collection services and surface water management services. Overall the Fund continues to realize improved operating results. The sewer operations realized a positive margin while the surface water management operation has a negative margin. Given the rate limitation included in the City Charter, the above results are expected to continue.

Revenues by Source - Business-type Activities



General Fund Budgetary Highlights

The total appropriated budget of the General Fund for the fiscal year 2007-08 amounted to \$5.3 million to include \$638,000 for contingencies. Differences between the original budget and the final budget of the General Fund netted to an increase in expenditure appropriations of \$85,000 from contingency. Contingency decreased by \$85,000 to support additional municipal court and city council department expenditures, and additional audit and consulting costs in the finance department.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2008, the City had invested \$258.5 million in governmental capital assets, net of depreciation as reflected in the following table. This represents a net increase (additions, deductions and depreciation) of \$1 million in fiscal year 2008. Governmental capital assets totaled \$230.9 million while business-type capital assets totaled \$27.6 million. During the previous fiscal year 2007, the City implemented reporting of infrastructure capital assets, which includes the reporting of land, street and sidewalk and park improvements.

Table 3
Capital Assets as of June 30th
(net of depreciation, in millions)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 187.4	\$ 187.0	\$ 0.3	\$ 0.3	\$ 187.7	\$ 187.3
Buildings and improvements	17.1	17.3	0.8	0.9	17.9	18.2
Vehicles and equipment	1.6	1.3	0.6	0.6	2.2	1.9
Infrastructure	24.8	24.4	25.7	25.7	50.5	50.1
Construction in progress	-	-	0.2	-	0.2	-
Capital assets, net	<u>\$ 230.9</u>	<u>\$ 230.0</u>	<u>\$ 27.6</u>	<u>\$ 27.5</u>	<u>\$ 258.5</u>	<u>\$ 257.5</u>

The following table reconciles the change in capital assets for the fiscal year. Expenditures for construction projects in progress at fiscal year-end are included in additions. Reductions are for capital assets dispositions and transfers of construction projects in progress that were completed during the fiscal year. Additions include capital contributions from outside developers with the revenue from these contributions reflected in general revenues on the Statement of Activities.

Table 4
Change in Capital Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	FY07-08	FY06-07	FY07-08	FY06-07	FY07-08	FY06-07
Beginning balance	\$ 230.0	\$ 31.1	\$ 27.5	\$ 22.6	\$ 257.5	\$ 53.7
Restatement	-	198.2	-	5.4	-	203.6
Additions	3.3	1.3	1.2	0.7	4.5	2.0
Reductions	-	-	-	(0.3)	-	(0.3)
Depreciation	(2.4)	(0.6)	(1.1)	(0.9)	(3.5)	(1.5)
Ending balance	<u>\$ 230.9</u>	<u>\$ 230.0</u>	<u>\$ 27.6</u>	<u>\$ 27.5</u>	<u>\$ 258.5</u>	<u>\$ 257.5</u>

Assets utilized in governmental activities increased a net \$0.9 million and include land, building, machinery and equipment, and sidewalk improvements. These additions include completion of various projects throughout the community. In the prior fiscal year 2006-07, additions included the infrastructure adjustment to street and sidewalk improvements, park improvements, and related land for parks and right-of-way. More detailed information about the City's capital assets is presented in the notes to the basic financial statements.

Debt Outstanding

As of the end of the fiscal year, the City had \$13.3 million in bonds outstanding – a decrease of five percent from last year – as shown in Table 5. More detailed information about the City’s long-term debt is presented in the notes to the basic financial statements.

Table 5
Outstanding Bonded Debt as of June 30th
(in millions)

	<u>2008</u>	<u>2007</u>
Governmental:		
General obligation bonds	\$ 8.7	\$ 9.1
Full faith and credit bonds	<u>3.2</u>	<u>3.4</u>
Subtotal	11.9	12.5
Business-type:		
Water revenue bonds	<u>1.4</u>	<u>1.5</u>
Total	<u><u>\$ 13.3</u></u>	<u><u>\$ 14.0</u></u>

During the fiscal year ended June 30, 2008, the City did not have any new bond financings and all scheduled debt payments were met. Bond ratings for general obligation debt by Standard & Poor’s Rating Agency was restored to AA- in July 2008 and again, reaffirmed in December 2008.

Under Oregon Revised Statutes, general obligation debt issues are limited to 3 percent of the real market value of all taxable property within the City’s boundaries. The \$11.8 million in general obligation debt applicable to this limit is well below the \$135 million maximum limitation.

Economic Factors

The City of West Linn is predominantly residential in nature, with commercial property representing less than five percent of the City’s taxable assessed value. Therefore the City receives a significant share of its revenue directly from local residents in the form of property taxes and charges for services.

The State of Oregon does not have a sales tax, making property taxes a primary funding source for general government, public safety, and culture and recreation services provided by the City. The underlying taxable assessed value is significantly below real market values (currently about 55 percent), therefore, real market values would have to decrease by over 45 percent before the City’s property tax revenue stream would be negatively impacted.

Property tax revenue provided 28 percent of the resources used for governmental activities. A special tax levy of approximately \$1.8 million (24 percent of total levy) that provided public safety funding expired as of June 30, 2007. To maintain service levels and reduce the reliance on property taxes requiring a vote no less than each five years, the City implemented fees for parks and street maintenance to offset the foregone property tax revenue.

The next largest resource, at 20 percent, comes from fees and charges for services, and includes such items as permits, licenses, recreation charges and system development charges. Property

taxes for general operations increased slightly over the last year and investment earnings were up due to an increase in interest rates and account balances.

The business-type activities are funded with utility fees and charges. After several years in which the City decided to defer utility rate increases, effective July 1, 2006 and subsequent on January 1, 2007, 2008 and 2009, the City increased utility rates by 5 percent each. The rate increases are limited by a Charter provision limiting annual utility rate increases to 5 percent. The rate increases are consistent with financial proformas prepared with the issuance of revenue bonds in 1999. Similar rate increases are anticipated over the next several years to generate sufficient revenue to fund operations and provide adequate funds for anticipated capital replacement projects.

Requests for Information

This City's financial statements are designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability of the resources it receives and expends. If you have questions about this report, or need additional financial information, contact the Finance Director at City of West Linn, 22500 Salamo Road, West Linn, Oregon 97068 or e-mail rseals@westlinnoregon.gov.

This page intentionally left blank