

CITY OF MILLERSBURG
Linn County, Oregon

ANNUAL FINANCIAL REPORT

June 30, 2007

**CITY OF MILLERSBURG
Linn County, Oregon**

CITY OFFICIALS

June 30, 2007

Mayor

C. Clayton Wood
5353 Woods Road NE
Albany, Oregon 97321

Council Members

Linda Boyce
4441 Woods Road NE
Albany, Oregon 97321

Barry Holsworth
4231 Woods Road NE
Albany, Oregon 97321

Scott Cowan
2491 Millersburg Drive NE
Albany, Oregon 97321

Lisa Metz-Dittmer
P.O. Box 3390
Albany, Oregon 97321

City Administrator/Recorder

Barbara Castillo
4222 Old Salem Road NE
Albany, Oregon 97321

CITY OF MILLERSBURG
Linn County, Oregon

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Koontz & Perdue, P.C.
Certified Public Accountants

FINANCIAL SECTION



Koontz & Perdue, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable C. Clayton Wood, Mayor
and Members of the City Council
City of Millersburg
Albany, Oregon 97321

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 Millersburg, Linn County, Oregon as of and for the year ended June 30, 2007 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 of Millersburg's management. Our responsibility is to express an opinion 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 opinion.

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 Millersburg as of June 30, 2007 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 December 7, 2007 on our consideration of the City of Millersburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

The management's discussion and analysis on pages 3 through 9 and budgetary comparison information on pages 37 through 40 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of 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 an opinion on the financial statements that collectively comprise the City of Millersburg's basic financial statements. The combining and individual nonmajor fund financial statements 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Koontz & Perdue, P.C.

By:

A handwritten signature in black ink, appearing to be a stylized name, possibly "K. Perdue", written over a horizontal line.

Albany, Oregon
December 7, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MILLERSBURG
Linn County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

INTRODUCTION

As management of the City of Millersburg, Linn County, Oregon, we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. It should be read in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- At June 30, 2007, the net assets of the City of Millersburg in the government-wide financial statements amounted to \$21,190,628, an increase of \$4,523,645 over the prior year. Of this amount, \$15,780,436 was invested in capital assets, net of related debt. The remaining balance included \$4,934,379 of unrestricted net assets and \$475,813 restricted for system development charges.
- Overall revenues were \$6,933,957, which exceeded expenses of \$2,410,312 by \$4,523,645.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

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. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by franchise fees and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, highways, and streets. The business-type activities of the City include sewer and water utility services.

The government-wide financial statements can be found on pages 10 through 11 of this report.

CITY OF MILLERSBURG
Linn County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Fund Financial Statements

The fund financial statements are designed to demonstrate compliance with finance-related legal requirements overseeing the use of fund accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. All of the funds of the City of Millersburg can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

□ **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Street, and Sewer Construction Funds, all of which are considered to be major governmental funds.

The City adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for each fund individually to demonstrate compliance with their respective budgets.

The basic governmental fund financial statements can be found on pages 12 through 15 of this report.

□ **Proprietary Funds**

Proprietary funds are used to account for a government's business-type activities. The City maintains two enterprise funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements. The City uses enterprise funds to account for its sewer and water utility services.

The basic proprietary fund financial statements can be found on pages 16 through 19 of this report.

CITY OF MILLERSBURG
Linn County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

□ **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is the same as that used for governmental funds.

The basic fiduciary fund statements can be found on pages 20 through 21 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding to the financial data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 through 36 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which includes budgetary comparison information for the General and Street Funds. This required supplementary information can be found on pages 37 through 40 of this report.

The combining and individual fund statements and schedules are presented immediately following the required supplementary information on pages 41 through 47 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. At June 30, 2007, the City's assets exceeded liabilities by \$21,190,628.

A large portion of the City's net assets reflects its investment in capital assets (i.e., property, plant, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its 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 cannot be used to liquidate these liabilities. At June 30, 2007, the City had \$15,780,436 invested in capital assets, net of related debt.

City's Net Assets

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$4,523,645 during the current fiscal year. This increase is primarily due to the subdivision infrastructure donated by contractors.

Condensed statement of net assets information is shown on the following page.

CITY OF MILLERSBURG
Linn County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 4,751,789	\$ 3,232,102	\$ 1,528,453	\$ 2,084,400	\$ 6,280,242	\$ 5,316,502
Net capital assets	<u>7,572,201</u>	<u>5,755,715</u>	<u>13,260,067</u>	<u>12,155,063</u>	<u>20,832,268</u>	<u>17,910,778</u>
Total assets	<u>12,323,990</u>	<u>8,987,817</u>	<u>14,788,520</u>	<u>14,239,463</u>	<u>27,112,510</u>	<u>23,227,280</u>
Liabilities						
Current liabilities	44,627	678,323	999,219	775,285	1,043,846	1,453,608
Noncurrent liabilities	<u>-</u>	<u>-</u>	<u>4,878,036</u>	<u>5,051,832</u>	<u>4,878,036</u>	<u>5,051,832</u>
Total liabilities	<u>44,627</u>	<u>678,323</u>	<u>5,877,255</u>	<u>5,827,117</u>	<u>5,921,882</u>	<u>6,505,440</u>
Net assets						
Invested in capital assets, net of related debt	7,572,201	5,755,715	8,208,235	6,937,367	15,780,436	12,693,082
Restricted for system development charges	207,371	16,358	268,442	110,572	475,813	126,930
Unrestricted	<u>4,499,791</u>	<u>2,537,421</u>	<u>434,588</u>	<u>1,364,407</u>	<u>4,934,379</u>	<u>3,901,828</u>
Total net assets	<u>\$ 12,279,363</u>	<u>\$ 8,309,494</u>	<u>\$ 8,911,265</u>	<u>\$ 8,412,346</u>	<u>\$ 21,190,628</u>	<u>\$ 16,721,840</u>

City's Changes in Net Assets

For the most part, increases in expenses closely parallel inflation and growth in the demand for services. Additionally, decreases in expenses from prior years can be directly attributed to a decrease in revenues in the governmental activities.

The condensed statement of activities information shown on the following page explains changes in net assets.

CITY OF MILLERSBURG
Linn County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Program revenues						
General government	\$ 191,013	\$ 12,764	\$ -	\$ -	\$ 191,013	\$ 12,764
Highways and streets	43,583	39,498	-	-	43,583	39,498
Sewer utility	-	-	581,597	538,798	581,597	538,798
Water utility	-	-	753,746	504,858	753,746	504,858
Total program revenues	<u>234,596</u>	<u>52,262</u>	<u>1,335,343</u>	<u>1,043,656</u>	<u>1,569,939</u>	<u>1,095,918</u>
General revenues						
Franchise fees	1,356,790	1,018,832	-	-	1,356,790	1,018,832
Alcohol and cigarette taxes	10,841	9,453	-	-	10,841	9,453
Licenses and permits	11,559	21,258	-	-	11,559	21,258
Investment earnings	217,816	123,787	54	25,729	217,870	149,516
Miscellaneous	150,479	58,907	418	-	150,897	58,907
Total general revenues	<u>1,747,485</u>	<u>1,232,237</u>	<u>472</u>	<u>25,729</u>	<u>1,747,957</u>	<u>1,257,966</u>
Total revenues	<u>1,982,081</u>	<u>1,284,499</u>	<u>1,335,815</u>	<u>1,069,385</u>	<u>3,317,896</u>	<u>2,353,884</u>
Program expenses						
General government	909,174	704,781	-	-	909,174	704,781
Highways and streets	20,339	30,886	-	-	20,339	30,886
Sewer utility	-	-	666,748	478,237	666,748	478,237
Water utility	-	-	814,051	628,874	814,051	628,874
Total program expenses	<u>929,513</u>	<u>735,667</u>	<u>1,480,799</u>	<u>1,107,111</u>	<u>2,410,312</u>	<u>1,842,778</u>
Capital contributions	1,914,989	1,573,607	1,701,072	-	3,616,061	1,573,607
Transfers	1,002,312	(500,000)	(1,002,312)	500,000	-	-
Change in net assets	3,969,869	1,622,439	553,776	462,274	4,523,645	2,084,713
Net assets - beginning of year, as restated	<u>8,309,494</u>	<u>6,687,055</u>	<u>8,357,489</u>	<u>7,950,072</u>	<u>16,666,983</u>	<u>14,637,127</u>
Net assets - ending	<u>\$ 12,279,363</u>	<u>\$ 8,309,494</u>	<u>\$ 8,911,265</u>	<u>\$ 8,412,346</u>	<u>\$ 21,190,628</u>	<u>\$ 16,721,840</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

CITY OF MILLERSBURG
Linn County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,712,220, an increase of \$2,153,841 in comparison with the prior year. Of this amount, \$207,371 is reserved for system development charges and the remaining \$4,504,849 constitutes unreserved fund balance, which is available for spending at the City's discretion.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance of the General Fund amounted to \$3,355,221. Of this amount, \$7,519 is reserved for system development charges and the remaining \$3,347,702 constitutes unreserved fund balance.

The fund balance of the General Fund increased by \$711,508 during the current fiscal year.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net assets of the proprietary funds amounted to \$8,911,265. Of this amount, \$8,208,235 was invested in capital assets, net of related debt. The remaining balance included \$268,442 restricted for system development charges and \$434,588 of unrestricted net assets.

BUDGETARY HIGHLIGHTS

There were no changes to the original budget document.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007 amounted to \$20,832,278 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, furniture and office equipment, equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- City Hall expansion project
- Infrastructure donated by subdivision contractors
- Park development

CITY OF MILLERSBURG
Linn County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Additional information on the City's capital assets can be found in Note III-B on pages 30 through 31 of this report.

Long-Term Debt

At the end of the current fiscal year, the City's total debt outstanding was \$5,051,832. This amount represents a loan payable to the Oregon Economic and Community Development Department and is specifically for the funding of public works.

The City's total debt decreased by \$165,864 during the current fiscal year. This change was due to debt payments made during the year. The City issued no new debt during the year.

Additional information on the City's long-term debt can be found in Note III-E on page 33 of this report.

KEY ECONOMIC FACTORS AND BUDGET INFORMATION FOR THE FUTURE

At the time these financial statements were prepared and audited, the City was aware of several circumstances that could affect its future financial health:

- In 2003, the Oregon Legislature made sweeping changes to the PERS system. That legislation has been appealed to the Oregon Supreme Court. If the courts rule in favor of the employees, the obligation to local government agencies could have a major impact in the budgetary process.
- The 2006-2007 premium for healthcare insurance decreased by 15% in comparison to the 2005-2006 premium. The worker's compensation rate for 2007 increased by 36% over the prior year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the following address: City of Millersburg, 4222 Old Salem Road NE, Albany, Oregon 97321.

BASIC FINANCIAL STATEMENTS

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,685,654	\$ 816,901	\$ 3,502,555
Investments	1,445,961	539,704	1,985,665
Accounts receivable	131,216	171,848	303,064
Due from other government agencies	3,254	-	3,254
Due from other funds	485,704	-	485,704
Total current assets	4,751,789	1,528,453	6,280,242
Capital assets (net of accumulated depreciation)	7,572,201	13,260,067	20,832,268
Total assets	12,323,990	14,788,520	27,112,510
LIABILITIES			
Current liabilities			
Due to other funds	-	485,704	485,704
Accounts payable	29,647	106,742	136,389
Payroll payable	9,922	240	10,162
Accrued interest payable	-	162,531	162,531
Due to other governmental agencies	-	70,206	70,206
Loan payable	-	173,796	173,796
Compensated absences	5,058	-	5,058
Total current liabilities	44,627	999,219	1,043,846
Noncurrent liabilities			
Loan payable	-	4,878,036	4,878,036
Total liabilities	44,627	5,877,255	5,921,882
NET ASSETS			
Invested in capital assets, net of related debt	7,572,201	8,208,235	15,780,436
Restricted for system development charges	207,371	268,442	475,813
Unrestricted	4,499,791	434,588	4,934,379
Total net assets	\$ 12,279,363	\$ 8,911,265	\$ 21,190,628

The accompanying notes are an integral part of these financial statements.

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

<u>Functions/Programs</u>	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities				
General government	\$ 909,174	\$ 191,013	\$ -	\$ -
Highways and streets	20,339	-	43,583	1,914,989
Total governmental activities	\$ 929,513	\$ 191,013	\$ 43,583	\$ 1,914,989
Business-type activities				
Sewer utility	\$ 666,748	\$ 581,597	\$ -	\$ 844,731
Water utility	814,051	753,746	-	856,341
Total business-type activities	\$ 1,480,799	\$ 1,335,343	\$ -	\$ 1,701,072
General revenues				
Franchise fees				
Alcohol and cigarette taxes				
Licenses and permits				
Investment earnings				
Miscellaneous				
Total general revenues				
Transfers				
Change in net assets				
Net assets - beginning, as restated				
Net assets - ending				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (718,161)	\$ -	\$ (718,161)
<u>1,938,233</u>	<u>-</u>	<u>1,938,233</u>
<u>1,220,072</u>	<u>-</u>	<u>1,220,072</u>
-	759,580	759,580
<u>-</u>	<u>796,036</u>	<u>796,036</u>
<u>-</u>	<u>1,555,616</u>	<u>1,555,616</u>
1,356,790	-	1,356,790
10,841	-	10,841
11,559	-	11,559
217,816	54	217,870
<u>150,479</u>	<u>418</u>	<u>150,897</u>
<u>1,747,485</u>	<u>472</u>	<u>1,747,957</u>
<u>1,002,312</u>	<u>(1,002,312)</u>	<u>-</u>
3,969,869	553,776	4,523,645
<u>8,309,494</u>	<u>8,357,489</u>	<u>16,666,983</u>
<u>\$ 12,279,363</u>	<u>\$ 8,911,265</u>	<u>\$ 21,190,628</u>

CITY OF MILLERSBURG
Linn County, Oregon

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2007

	<u>General Fund</u>	<u>Street Fund</u>	<u>Sewer Construction Fund</u>
ASSETS			
Cash and cash equivalents	\$ 1,391,135	\$ 273,615	\$ 1,004,904
Investments	1,385,200	52,025	8,736
Receivables	131,216	-	-
Due from other funds	485,704	-	-
Due from other governmental agencies	<u>-</u>	<u>3,254</u>	<u>-</u>
Total assets	<u>\$ 3,393,255</u>	<u>\$ 328,894</u>	<u>\$ 1,013,640</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 28,112	\$ 1,535	\$ -
Accrued payroll and taxes	<u>9,922</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>38,034</u>	<u>1,535</u>	<u>-</u>
Fund balances			
Reserved for system development charges	7,519	199,852	-
Unreserved	<u>3,347,702</u>	<u>127,507</u>	<u>1,013,640</u>
Total fund balances	<u>3,355,221</u>	<u>327,359</u>	<u>1,013,640</u>
Total liabilities and fund balances	<u>\$ 3,393,255</u>	<u>\$ 328,894</u>	<u>\$ 1,013,640</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 16,000	\$ 2,685,654
-	1,445,961
-	131,216
-	485,704
-	<u>3,254</u>
<u>\$ 16,000</u>	<u>\$ 4,751,789</u>
\$ -	\$ 29,647
-	<u>9,922</u>
-	<u>39,569</u>
-	207,371
<u>16,000</u>	<u>4,504,849</u>
<u>16,000</u>	<u>4,712,220</u>
<u>\$ 16,000</u>	<u>\$ 4,751,789</u>

CITY OF MILLERSBURG
Linn County, Oregon

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2007

Total fund balances		\$ 4,712,220
Capital assets are not financial resources and are therefore not reported in the governmental funds:		
Cost	8,151,553	
Accumulated depreciation	<u>(579,352)</u>	7,572,201
Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. Interest on long-term debt is not accrued in the governmental fund but rather is recognized as an expenditure when due.		
These liabilities consist of:		
Compensated absences		<u>(5,058)</u>
Total net assets		<u>\$ 12,279,363</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2007

	<u>General Fund</u>	<u>Street Fund</u>	<u>Sewer Construction Fund</u>
REVENUES			
Licenses and permits	\$ 15,184	\$ -	\$ -
Intergovernmental	37,741	43,583	-
Franchise fees	1,356,790	-	-
Charges for services	-	187,388	-
Earnings from investments	217,762	46	8
Miscellaneous	<u>123,579</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,751,056</u>	<u>231,017</u>	<u>8</u>
EXPENDITURES			
Current			
Personal services	226,722	-	-
Materials and services	523,512	20,339	-
Capital outlay	<u>59,979</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>810,213</u>	<u>20,339</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>940,843</u>	<u>210,678</u>	<u>8</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	213,135	1,000,100
Transfers out	<u>(229,335)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(229,335)</u>	<u>213,135</u>	<u>1,000,100</u>
Net change in fund balances	711,508	423,813	1,000,108
Fund balances - beginning	<u>2,643,713</u>	<u>(96,454)</u>	<u>13,532</u>
Fund balances - ending	<u>\$ 3,355,221</u>	<u>\$ 327,359</u>	<u>\$ 1,013,640</u>

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

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 15,184
-	81,324
-	1,356,790
-	187,388
-	217,816
-	<u>123,579</u>
-	<u>1,982,081</u>
-	226,722
-	543,851
-	<u>59,979</u>
-	<u>830,552</u>
-	<u>1,151,529</u>
18,412	1,231,647
<u>-</u>	<u>(229,335)</u>
<u>18,412</u>	<u>1,002,312</u>
18,412	2,153,841
<u>(2,412)</u>	<u>2,558,379</u>
<u>\$ 16,000</u>	<u>\$ 4,712,220</u>

CITY OF MILLERSBURG
Linn County, 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, 2007

Net change in fund balances \$ 2,153,841

Amounts reported for governmental activities in the statement of activities are different because:

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

Contributions of capital assets	1,914,989	
Expenditures for capital assets	54,910	
Less current year depreciation	<u>(153,413)</u>	1,816,486

Some expenses reported in the statement of activities do not require the use of current financial resources and are therefore not reported as expenditures in governmental funds.

Compensated absences	<u>(458)</u>
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Change in net assets \$ 3,969,869

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

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2007

	Enterprise Funds		Totals
	Sewer Utility	Water Utility	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 816,901	\$ -	\$ 1,633,802
Investments	61,754	477,950	539,704
Receivables	135,883	35,965	171,848
Total current assets	1,014,538	513,915	1,528,453
Capital assets (net of accumulated depreciation)	3,836,560	9,423,507	13,260,067
Total assets	4,851,098	9,937,422	14,788,520
LIABILITIES			
Current liabilities			
Due to other funds	-	485,704	485,704
Accounts payable	105,903	839	106,742
Accrued interest payable	-	162,531	162,531
Accrued liabilities	-	240	240
Due to other governmental agencies	-	70,206	70,206
Loan payable	-	173,796	173,796
Total current liabilities	105,903	893,316	999,219
Noncurrent liabilities			
Loans payable	-	4,878,036	4,878,036
Total liabilities	105,903	5,771,352	5,877,255
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	3,836,560	4,371,675	8,208,235
Restricted for system development charges	118,083	150,359	268,442
Unrestricted	790,552	(355,964)	434,588
Total net assets	\$ 4,745,195	\$ 4,166,070	\$ 8,911,265

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

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

For the Year Ended June 30, 2007

	Enterprise Funds		Totals
	Sewer Utility	Water Utility	
Operating revenues			
Charges for services	\$ 581,597	\$ 753,746	\$ 1,335,343
Operating expenses			
Materials and services	595,820	-	595,820
Capital outlay	44	172,388	172,432
Depreciation	70,884	335,466	406,350
Total operating expenses	666,748	507,854	1,174,602
Operating income (loss)	(85,151)	245,892	160,741
Nonoperating revenues (expenses)			
Debt service	-	(306,197)	(306,197)
Miscellaneous revenue	-	418	418
Earnings from investments	54	-	54
Total nonoperating revenue (expense)	54	(305,779)	(305,725)
Income (loss) before transfers	(85,097)	(59,887)	(144,984)
Capital contributions	844,731	856,341	1,701,072
Transfers in	-	100	100
Transfers out	(1,000,000)	(2,412)	(1,002,412)
Change in net assets	(240,366)	794,142	553,776
Net assets - beginning, as restated	4,985,561	3,371,928	8,357,489
Net assets - ending	\$ 4,745,195	\$ 4,166,070	\$ 8,911,265

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

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2007

	Enterprise Funds		Totals
	Sewer Utility	Water Utility	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 568,521	\$ 778,689	\$ 1,347,210
Payments to suppliers	<u>(590,604)</u>	<u>(169,356)</u>	<u>(759,960)</u>
Net cash provided (used) by operating activities	<u>(22,083)</u>	<u>609,333</u>	<u>587,250</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Advances from other funds	-	485,705	485,705
Transfer to other funds	<u>(1,000,000)</u>	<u>(2,312)</u>	<u>(1,002,312)</u>
Net cash provided (used) by noncapital financing activities	<u>(1,000,000)</u>	<u>483,393</u>	<u>(516,607)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments	-	(165,864)	(165,864)
Interest paid	<u>-</u>	<u>(287,332)</u>	<u>(287,332)</u>
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(453,196)</u>	<u>(453,196)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	<u>(216)</u>	<u>(477,532)</u>	<u>(477,748)</u>
Net cash provided (used) by investing activities	<u>(216)</u>	<u>(477,532)</u>	<u>(477,748)</u>
Net increase (decrease) in cash and cash equivalents	(1,022,299)	161,998	(860,301)
Cash and cash equivalents - beginning	<u>1,839,200</u>	<u>(161,998)</u>	<u>1,677,202</u>
Cash and cash equivalents - ending	<u>\$ 816,901</u>	<u>\$ -</u>	<u>\$ 816,901</u>

(Continued)

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

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

For the Year Ended June 30, 2007

(Continued)

	Enterprise Funds		Totals
	Sewer Utility	Water Utility	
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income (loss)	\$ (85,151)	\$ 245,892	\$ 160,741
Adjustments to reconcile operating loss to net cash cash provided (used) by operating activities			
Depreciation expense	70,884	335,466	406,350
(Increase) decrease in			
Accounts receivable	(13,076)	24,943	11,867
Intergovernmental receivable	(2,231)	2,231	-
Increase (decrease) in			
Accounts payable	7,491	561	8,052
Payroll liabilities	-	240	240
	-	240	240
Net cash provided (used) by operating activities	<u>\$ (22,083)</u>	<u>\$ 609,333</u>	<u>\$ 587,250</u>
Noncash investing, capital, and financing activities			
Changes in fair value of investments	\$ 54	\$ 418	\$ 472
Capital contributions	844,731	856,341	1,701,072

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

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Agency Fund</u> <u>Bravo</u>
ASSETS	
Cash and cash equivalents	\$ <u>579</u>
LIABILITIES	
Held in trust for other agencies	\$ <u>579</u>

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

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

BRAVO FUND

June 30, 2007

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
ASSETS				
Cash and cash equivalents	\$ 579	\$ -	\$ -	\$ 579
LIABILITIES				
Held in trust for other agencies	\$ 579	\$ -	\$ -	\$ 579

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

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Millersburg have been prepared in conformity with generally accepted accounting principles (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 of the City's accounting policies are described below.

A. Reporting Entity

The City of Millersburg is governed by a mayor and four council members. The City is independent and is not included as part of any other financial reporting entity. The City does not have any component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges for goods and services provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. 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 and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. 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, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt are recorded only when payment is due.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Interest revenue and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and have therefore 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 by the government.

The City reports the following major governmental funds:

General Fund – The General Fund is the City’s primary operating fund. It accounts for all financial resources of the City except for those required to be accounted for in other funds. The primary sources of revenue are licenses and permits, franchise fees, and state revenues. Expenditures are primarily for administration.

Special Revenue Fund

Street Fund – The Street Fund is used to account for the State Highway Use Tax revenues. Expenditures are for street lighting and repairs, as allowed by Oregon statutes.

The City reports the following major proprietary funds:

Enterprise Funds

Sewer Utility Fund – The Sewer Utility Fund is used to account for the activities of the City’s sewer utilities. The primary source of revenue is user charges. Expenditures are primarily for operation of the utility and for acquisition of capital assets.

Water Utility Fund – The Water Utility Fund is used to account for the activities of the City’s water utilities. The primary source of revenue is transfers from other funds. Expenditures are primarily for construction of the waterline and acquisition of capital assets.

Additionally, the City reports the following funds:

Special Revenue Fund

Street Reserve Fund – The Street Reserve Fund is used to accumulate resources for future construction of streets.

Capital Projects Funds

Sewer Construction Fund – The Sewer Construction Fund accounts for financial resources to be used for the acquisition or construction of sewer facilities.

Water Reserve Fund – The Water Reserve Fund is used to accumulate resources for future construction of a water system.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following fiduciary fund:

Agency Fund

Bravo Fund – The Bravo Fund is used to account for the activities to curtail vandalism within the City of Millersburg. This fund has no equity, has assets equal to liabilities, and does not include revenues and expenditures for general operations of the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transfers between the governmental funds and the proprietary funds. Elimination of these transactions would distort their respective financial statements.

The City reports deferred revenue on the balance sheet of the governmental funds. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 City's enterprise funds are charges to customers for sales and services. Operating expenses for the 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, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Equity

1. Deposits and Investments

The City's cash and cash equivalents 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.

State statutes authorize the City to invest in legally issued general obligations of the United States, the agencies and instrumentalities of the United States and the states of Oregon, Washington, Idaho, or California, certain interest bearing bonds, time deposit open accounts, certificates of deposit and savings accounts in banks, mutual savings banks, and savings and loan associations which maintain a head office or a branch in this state in the capacity of a bank, mutual savings bank, or savings and loan association, and share accounts and savings accounts in credit unions in the name of, or for the benefit of, a member of the credit union pursuant to a plan of deferred compensation.

2. Accounts Receivable

Receivables of the enterprise funds are recorded as revenue as earned. An allowance for doubtful accounts is not recorded by the City. The City believes the sewer and water utility bills to be highly collectible.

3. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance or repairs that do not add to the value of an asset or materially extend its life are charged to expenditures as incurred and are not capitalized.

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

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

<u>Assets</u>	<u>Years</u>
Furniture and office equipment	5
Equipment	10
Buildings improvements	50
Utilities	40-80

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Equity (Continued)

4. Long-Term Obligations

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

In the fund financial statements, 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 issuance are reported as other financing uses. Issuance costs whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

5. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City budgets all funds in accordance with the requirements of state law. Annual appropriated budgets are adopted for the general, special revenue, capital projects, and enterprise funds. All funds are budgeted on the cash basis of accounting.

The City begins its budgeting process by appointing budget committee members. The budget officer prepares a budget, which is reviewed by the budget committee. The budget is then published in proposed form and is presented at public hearings to obtain taxpayer comments and approval from the budget committee. The city council legally adopts the budget by resolution prior to the beginning of the City's fiscal year. The council resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Total personal services, materials and services, capital outlay, and debt service for each fund are the levels of control established by the resolution. The detailed budget document, however, is required to contain more specific detailed information for the aforementioned expenditure categories and management may revise the detailed line item budgets within appropriation categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriation resolution. The city council at a regular city council meeting may adopt supplemental budgets less than 10% of a fund's original budget. A supplemental budget greater than 10% of a fund's original budget requires hearings before the public, publication 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 year, there were no supplemental budgets. The City does not use encumbrances and appropriations lapse at year-end.

Budget amounts shown in the financial statements reflect the original budget.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

B. Excess of Expenditures Over Appropriations

During the year ended June 30, 2007, the City had expenditures in excess of appropriations in the categories listed below.

Fund	Function	Appropriations	Expenditures	Excess
Sewer Utility	Capital outlay	\$ -	\$ 44	\$ 44

C. Residual Equity Transfer

The Water Reserve Fund was closed on October 10, 2006. The deficit fund equity remaining in the fund was covered by a transfer from the Water Utility Fund and was reported as such on its respective financial schedule. Although over-expenditures appear on the budgetary comparison schedule, the City was in compliance with Oregon law relating to equity transfers.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The City of Millersburg maintains a cash and cash equivalents pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the fund financial statements as cash and cash equivalents. Additionally, several funds held separate cash accounts. Interest earned on pooled cash and investments is allocated to participating funds based upon their combined cash and investment balances.

Investments, including amounts held in pooled cash and investments, are stated at fair value. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments with a remaining maturity of more than one year at the time of purchase are stated at fair value. Fair value is determined at the quoted market price, if available; otherwise, the fair value is estimated based on the amount at which the investment could be exchanged in a current transaction between willing parties, other than a forced liquidation sale. Investments in the State of Oregon Local Government Investment Pool (LGIP) are stated at fair value.

The Oregon State Treasury administers the LGIP. The LGIP is an open-ended, no-load, diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. To provide regulatory oversight, the Oregon Legislature established the Oregon Short-Term Fund Board and LGIP investments are approved by the Oregon Investment Council. The fair value of the City's position in the LGIP is the same as the value of the pool shares.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

A. Deposits and Investments (Continued)

Credit Risk

Oregon statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and the Local Government Investment Pool. The City has not adopted an investment policy regarding credit risk; however, investments comply with the state statutes.

Investments

As of June 30, 2007, the City had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
Federal Home Loan Bank	-	\$ 1,985,665
Oregon Local Government Investment Pool	-	<u>3,246,705</u>
Total investments		<u>\$ 5,232,370</u>

Interest Rate Risk

The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increases in interest rates.

Concentration of Credit Risk

The City does not have a formal policy that places a limit on the amount that may be invested in any one insurer. 38% of the City's investments are in the Local Government Investment Pool and the remaining 62% are in a Piper Jaffray investment portfolio.

Custodial Credit Risk – Investments

This is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City does not have a policy that limits the amount of investments that can be held by counterparties. As of June 30, 2007, \$1,485,665 of the City's investments was exposed to custodial credit risk.

Custodial Credit Risk – Deposits

This is the risk that, in the event of a bank failure, the City's deposits may not be returned. Oregon statute requires collateralization of deposits in excess of amounts insured by the Federal Depository Insurance Corporation. As of June 30, 2007, none of the City's bank balance of \$276,505 was exposed to custodial credit risk.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

A. Deposits and Investments (Continued)

Deposits

The City's cash, cash equivalents, and investments at June 30, 2007 consisted of the following:

Checking accounts	\$	255,850
Oregon Local Government Investment Pool		<u>3,246,705</u>
Total cash and cash equivalents		3,502,555
Investments		<u>1,985,665</u>
Total cash, cash equivalents, and investments	\$	<u><u>5,488,220</u></u>

Cash and investments by fund:

	<u>Cash</u>	<u>Investments</u>	<u>Totals</u>
Governmental activities			
General Fund	\$ 1,391,135	\$ 1,385,200	\$ 2,776,335
Street Fund	273,615	52,025	325,640
Street Reserve Fund	16,000	-	16,000
Sewer Construction Fund	<u>1,004,904</u>	<u>8,736</u>	<u>1,013,640</u>
Total governmental activities	<u>2,685,654</u>	<u>1,445,961</u>	<u>4,131,615</u>
Business-type activities			
Sewer Utility Fund	816,901	61,754	878,655
Water Utility Fund	<u>-</u>	<u>477,950</u>	<u>477,950</u>
Total business-type activities	<u>816,901</u>	<u>539,704</u>	<u>1,356,605</u>
Total cash and investments	<u><u>\$ 3,502,555</u></u>	<u><u>\$ 1,985,665</u></u>	<u><u>\$ 5,488,220</u></u>

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

B. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,833,786	\$ -	\$ -	\$ 1,833,786
Construction in progress	-	39,275	-	39,275
Total capital assets not being depreciated	1,833,786	39,275	-	1,873,061
Capital assets, being depreciated				
Buildings and improvements	1,274,684	-	-	1,274,684
Furniture and office equipment	37,867	-	7,816	30,051
Equipment	111,131	15,635	-	126,766
Infrastructure	2,932,002	1,914,989	-	4,846,991
Total capital assets being depreciated	4,355,684	1,930,624	7,816	6,278,492
Less accumulated depreciation for				
Buildings and improvements	(267,694)	(27,926)	-	(295,620)
Furniture and office equipment	(36,485)	(1,382)	(7,816)	(30,051)
Equipment	(65,011)	(6,961)	-	(71,972)
Infrastructure	(64,565)	(117,144)	-	(181,709)
Total accumulated depreciation	(433,755)	(153,413)	(7,816)	(579,352)
Total depreciated capital assets, net	3,921,929	1,777,211	-	5,699,140
Governmental capital assets, net	\$ 5,755,715	\$ 1,816,486	\$ -	\$ 7,572,201
Business-type activities				
Capital assets being depreciated				
Utilities	\$ 4,307,297	\$ 844,731	\$ -	\$ 5,152,028
Sewer equipment	5,022	-	-	5,022
Joint water project	7,169,266	-	-	7,169,266
Water line	2,480,498	856,341	-	3,336,839
Total capital assets being depreciated	13,962,083	1,701,072	-	15,663,155
Less accumulated depreciation for				
Sewer utilities	(1,244,584)	(70,884)	-	(1,315,468)
Sewer equipment	(5,022)	-	-	(5,022)
Joint water project	(191,180)	(286,771)	-	(477,951)
Water line	(555,952)	(48,695)	-	(604,647)
Total accumulated depreciation	(1,996,738)	(406,350)	-	(2,403,088)
Business-type activities capital assets, net	\$ 11,965,345	\$ 1,294,722	\$ -	\$ 13,260,067

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

B. Capital Assets (Continued)

Capital assets are reported on the statement of net assets as follows:

	Capital Assets	Accumulated Depreciation	Net Capital Assets
Governmental activities			
Land	\$ 1,833,786	\$ -	\$ 1,833,786
Construction in progress	39,275	-	39,275
Buildings and improvements	1,274,684	(295,620)	979,064
Furniture and office equipment	30,051	(30,051)	-
Equipment	126,766	(71,972)	54,794
Infrastructure	4,846,991	(181,709)	4,665,282
Total governmental capital assets	8,151,553	(579,352)	7,572,201
Business-type activities			
Sewer equipment	5,022	(5,022)	-
Utilities	8,488,867	(1,920,115)	6,568,752
Joint water project	7,169,266	(477,951)	6,691,315
Total business-type capital assets	15,663,155	(2,403,088)	13,260,067
Total capital assets	\$ 23,814,708	\$ (2,982,440)	\$ 20,832,268

Depreciation expense was charged to the functions/programs of the City as follows:

Governmental activities	
General government	\$ 153,413
Business-type activities	
Sewer utility	\$ 70,884
Water utility	335,466
Total business-type activities	\$ 406,350

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

C. Interfund Transfers

Operating transfers are reflected as other financing sources (uses) in the governmental and proprietary funds.

Interfund transfers during the year consisted of:

	Transfers in:				Total
	Street Fund	Sewer Construction Fund	Nonmajor Governmental Funds	Water Utility Fund	
Transfers out:					
General Fund	\$ 213,135	\$ 100	\$ 16,000	\$ 100	\$ 229,335
Sewer Utility Fund	-	1,000,000	-	-	1,000,000
Water Utility Fund	-	-	2,412	-	2,412
Total	<u>\$ 213,135</u>	<u>\$ 1,000,100</u>	<u>\$ 18,412</u>	<u>\$ 100</u>	<u>\$ 1,231,747</u>

The principal purposes of the interfund transfers in were as follows:

Street Fund: To fund street and road repair expenditures.

Sewer Construction Fund: To fund sewer construction expenditures.

Street Reserve Fund: To fund the cost of future street construction.

Water Reserve Fund: To fund the cost of future water utility expansions.

Water Utility Fund: To fund the cost of constructing the joint water project.

D. Construction Commitments

The City completed the Albany/Millersburg Joint Water Project on November 6, 2006. As of June 30, 2007, the City had a remaining commitment to the City of Albany.

Project	Spent to Date	Remaining Commitment
Albany/Millersburg Joint Water Project	<u>\$ 7,159,115</u>	<u>\$ 70,206</u>

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

E. Long-Term Debt

1. Changes in Long-Term Debt

The following is a summary of long-term debt transactions for the year:

	Interest Rate	Original Amount	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities							
Loan payable	5.25%	\$ 6,044,000	\$ 5,217,696	\$ -	\$ 165,864	\$ 5,051,832	\$ 173,796

2. Loan Payable

The 2001 Special Public Works Fund loan through the Oregon Economic and Community Development Department was signed on August 27, 1999, with interest at 5.25% due annually on December 1 through the year 2024. The proceeds were used for water system improvements. Payments on the loan are generally made from the Water Utility Fund.

3. Future Maturities of Long-Term Debt

Fiscal Year Ending June 30	Loan		
	Principal	Interest	Total
2008	\$ 173,796	\$ 278,625	\$ 452,421
2009	181,882	269,500	451,382
2010	190,132	259,952	450,084
2011	203,551	249,970	453,521
2012	212,234	239,029	451,263
2013-2017	1,245,325	1,007,246	2,252,571
2018-2022	1,636,031	623,259	2,259,290
2023-2027	1,208,881	138,534	1,347,415
Total	\$ 5,051,832	\$ 3,066,115	\$ 8,117,947

IV. OTHER INFORMATION

A. 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; and natural disasters for which the City carries commercial insurance. There was no significant reduction in insurance coverage from the previous year. There were no insurance settlements exceeding insurance coverage for each of the past three years.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

IV. OTHER INFORMATION (Continued)

B. Retirement Plans

1. Oregon Public Employees Retirement System

Plan Description

The City contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the City's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: the pension program and the defined benefit portion of the plan. OPSRP applies to qualifying City employees hired after August 29, 2003 and to inactive employees who return to employment following a six-month or greater break in service. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. 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.

Both PERS plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS, P.O. Box 23700, Tigard, Oregon 97281-3700, by calling (503) 598-7277, or by accessing the PERS website at <http://oregon.gov/PERS/>.

Funding Policy

The City is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan and a general service rate for the qualifying employees under the OPSRP plan. The OPERF, OPSRP, and OPSRP Fire and Police rates in effect for the year ended June 30, 2007 were 13.56%, 11.82%, and 15.43%, respectively. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature. Covered employees are required by state statute to contribute 6% of their annual salary to the system, but the employer is allowed to pay any or all of the employees' contributions in addition to the required employer's contribution. The City has elected to pay the required employee contribution of 6% of covered payroll.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

IV. OTHER INFORMATION (Continued)

B. Retirement Plans (Continued)

1. Oregon Public Employees Retirement System (Continued)

Annual Pension Cost

The City's contributions to PERS for the three years ended June 30, 2005, 2006, and 2007 were equal to the required contribution for each year.

Annual pension expenses/expenditures are summarized as follows:

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed
2005	\$ 21,469	100%
2006	\$ 20,807	100%
2007	\$ 28,740	100%

C. Restatements

Individual Fund Restatement

Beginning individual net assets in the Water Utility Fund were restated as follows:

	Water Utility Fund
Beginning net assets, July 1, 2006, as previously reported	\$ 3,426,785
Adjustment to restate cost of project	(189,718)
Adjustment to restate payable	134,861
Beginning net assets, July 1, 2006, as restated	\$ 3,371,928

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

IV. OTHER INFORMATION (Continued)

C. Restatements (Continued)

Government-Wide Net Assets Restatement

Beginning net assets in the business-type activities were restated as follows:

	<u>Business-Type Activities</u>
Beginning net assets, July 1, 2006, as previously reported	\$ 8,412,346
Adjustment to restate cost of project	(189,718)
Adjustment to restate payable	<u>134,861</u>
Beginning net assets, July 1, 2006, as restated	<u>\$ 8,357,489</u>

V. SUBSEQUENT EVENT

On August 14, 2007, the City signed an intergovernmental agreement with the City of Albany, whereby the City of Millersburg is responsible for a 10 percent share of the cost of a wastewater treatment facility. The estimated total capital cost of the project is \$70,000,000, \$7,000,000 of which is the responsibility of the City of Millersburg.

The following outlines the funding plan for the City of Millersburg's 10 percent share:

- (1) The City of Millersburg agrees to make a down payment to the City of Albany of \$1,000,000 on or before December 1, 2007. The City of Millersburg also agrees to pay \$1,000,000 on October 15, 2009 and \$1,000,000 on April 15, 2010.
- (2) Thereafter, the City of Millersburg agrees to make semiannual debt service payments to the City of Albany due January 15 and July 15 of each subsequent year over a 19-year period for the remaining balance of their proportionate share of the cost of the wastewater treatment facility.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended June 30, 2007

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
REVENUES					
Licenses and permits	\$ 5,045	\$ 18,944	\$ 23,989	\$ (8,805)	\$ 15,184
Intergovernmental					
State liquor tax	7,000	2,133	9,133	-	9,133
State cigarette tax	1,300	408	1,708	-	1,708
Planning commission	2,400	24,500	26,900	-	26,900
Total intergovernmental	10,700	27,041	37,741	-	37,741
Franchise fees	717,300	623,624	1,340,924	15,866	1,356,790
Earnings from investments	86,000	130,545	216,545	1,217	217,762
Miscellaneous					
Miscellaneous	3,000	104,509	107,509	-	107,509
Industrial property rental income	16,000	70	16,070	-	16,070
Total miscellaneous	19,000	104,579	123,579	-	123,579
Total revenues	838,045	904,733	1,742,778	8,278	1,751,056
EXPENDITURES					
Current					
Personal services					
Recorder	57,600	(9,898)	47,702	-	47,702
Office assistant	28,800	(991)	27,809	-	27,809
Maintenance personnel	67,500	(3,026)	64,474	-	64,474
Part time help	60,000	(48,534)	11,466	-	11,466
Payroll taxes	20,000	(4,553)	15,447	-	15,447
PERS retirement	40,000	(11,260)	28,740	-	28,740
Supplemental medical benefit	5,600	(545)	5,055	(11)	5,044
Disability insurance	2,000	(536)	1,464	-	1,464
Dental and vision insurance	5,000	942	5,942	-	5,942
Medical insurance	30,000	(9,498)	20,502	(1,868)	18,634
Total personal services	316,500	(87,899)	228,601	(1,879)	226,722

(Continued)

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended June 30, 2007

(Continued)

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
Materials and services					
Planning consultants - general	\$ 65,000	\$ (16,736)	\$ 48,264	\$ (1,378)	\$ 46,886
Planning consultants - engineering	140,000	(25,528)	114,472	(8,372)	106,100
Conventions and training	6,000	(623)	5,377	-	5,377
Dues and subscriptions	5,000	62	5,062	597	5,659
Telephone	6,500	(1,788)	4,712	180	4,892
Office supplies	10,000	292	10,292	1,270	11,562
City rental expense	5,000	(1,155)	3,845	-	3,845
City attorney	48,000	-	48,000	-	48,000
Legal services	5,000	89,521	94,521	-	94,521
Bonding and insurance	14,000	3,381	17,381	-	17,381
Economic Development Commission	25,000	-	25,000	-	25,000
Parks and recreation	10,000	(7,466)	2,534	-	2,534
Park supplies and maintenance	35,000	10,527	45,527	(9,773)	35,754
Park development	40,000	(14,525)	25,475	-	25,475
Accounting and audit	8,000	206	8,206	-	8,206
Printing and advertising	3,000	(2,268)	732	(552)	180
Travel and meals	6,000	(1,181)	4,819	(368)	4,451
Library services	3,000	(1,925)	1,075	-	1,075
Bids publication	300	(300)	-	-	-
Community support	20,000	(4,927)	15,073	-	15,073
Linn County contracted	60,000	(5,553)	54,447	-	54,447
Contracted services	25,000	(14,739)	10,261	737	10,998
City Hall maintenance and supplies	30,000	(17,325)	12,675	(2,527)	10,148
City Hall utilities	15,000	(8,626)	6,374	(273)	6,101
Property taxes	1,500	(330)	1,170	-	1,170
Cemetery maintenance	500	(500)	-	-	-
Economic development	3,000	(3,000)	-	-	-
Elections	100	(100)	-	4,152	4,152
Total materials and services	<u>589,900</u>	<u>(24,606)</u>	<u>565,294</u>	<u>(16,307)</u>	<u>548,987</u>

(Continued)

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended June 30, 2007

(Continued)

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
Capital outlay					
Equipment	\$ 60,000	\$ (44,697)	\$ 15,303	\$ -	\$ 15,303
Waterline construction	100,000	(100,000)	-	-	-
Improvements	550,000	(531,032)	18,968	-	18,968
Buildings	100	(100)	-	-	-
Land	100	(100)	-	-	-
Airport improvement	100	(100)	-	-	-
Office equipment and furnishings	20,000	(19,767)	233	-	233
Total capital outlay	<u>730,300</u>	<u>(695,796)</u>	<u>34,504</u>	<u>-</u>	<u>34,504</u>
Contingency	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,736,700</u>	<u>(908,301)</u>	<u>828,399</u>	<u>(18,186)</u>	<u>810,213</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(898,655)</u>	<u>1,813,034</u>	<u>914,379</u>	<u>26,464</u>	<u>940,843</u>
OTHER FINANCING SOURCES (USES)					
Transfers out	<u>(232,335)</u>	<u>3,000</u>	<u>(229,335)</u>	<u>-</u>	<u>(229,335)</u>
Net change in fund balance	<u>(1,130,990)</u>	<u>1,816,034</u>	<u>685,044</u>	<u>26,464</u>	<u>711,508</u>
Fund balance - beginning	<u>1,130,990</u>	<u>1,427,966</u>	<u>2,558,956</u>	<u>84,757</u>	<u>2,643,713</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 3,244,000</u>	<u>\$ 3,244,000</u>	<u>\$ 111,221</u>	<u>\$ 3,355,221</u>

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

STREET FUND

For the Year Ended June 30, 2007

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual	
			Budget Basis	GAAP Basis
REVENUES				
Intergovernmental				
Highway use tax	\$ 35,000	\$ 8,583	\$ 43,583	\$ -
Special assessments				
Street SDC	-	187,388	187,388	-
Earnings from investments	-	-	-	46
Total revenues	<u>35,000</u>	<u>195,971</u>	<u>230,971</u>	<u>46</u>
EXPENDITURES				
Current				
Materials and services	83,950	(58,724)	25,226	(4,887)
Contingency	<u>62,527</u>	<u>(62,527)</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>146,477</u>	<u>(121,251)</u>	<u>25,226</u>	<u>(4,887)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(111,477)</u>	<u>317,222</u>	<u>205,745</u>	<u>4,933</u>
OTHER FINANCING SOURCES				
Transfers in	<u>213,135</u>	<u>-</u>	<u>213,135</u>	<u>-</u>
Net change in fund balance	101,658	317,222	418,880	4,933
Fund balance - beginning	<u>(101,658)</u>	<u>8,597</u>	<u>(93,061)</u>	<u>(3,393)</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 325,819</u>	<u>\$ 325,819</u>	<u>\$ 1,540</u>

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF MILLERSBURG
Linn County, Oregon

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2007

	Special Revenue Fund	Capital Project Fund	Total Nonmajor Governmental Funds
	Street Reserve	Water Reserve	
ASSETS	<u>\$ 16,000</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other funds	\$ -	\$ -	\$ -
Fund balances			
Unreserved	<u>16,000</u>	<u>-</u>	<u>16,000</u>
Total liabilities and fund balances	<u>\$ 16,000</u>	<u>\$ -</u>	<u>\$ 16,000</u>

CITY OF MILLERSBURG
Linn County, Oregon

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2007

	Special Revenue Street Reserve	Capital Projects Water Reserve	Total Nonmajor Governmental Funds
REVENUES	\$ -	\$ -	\$ -
EXPENDITURES	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	-
OTHER FINANCING SOURCES (USES)			
Transfers in	16,000	2,412	18,412
Net change in fund balances	16,000	2,412	18,412
Fund balances - beginning	-	(2,412)	(2,412)
Fund balances - ending	\$ 16,000	\$ -	\$ 16,000

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

STREET RESERVE FUND

For the Year Ended June 30, 2007

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
REVENUES					
Special assessments	\$ 2,032,500	\$(2,032,500)	\$ -	\$ -	\$ -
EXPENDITURES					
Capital outlay	<u>2,048,500</u>	<u>(2,048,500)</u>	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(16,000)	16,000	-	-	-
OTHER FINANCING SOURCES (USES)					
Transfers in	<u>16,000</u>	-	<u>16,000</u>	-	<u>16,000</u>
Net change in fund balance	-	16,000	16,000	-	16,000
Fund balance - beginning	-	-	-	-	-
Fund balance - ending	<u>\$ -</u>	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>\$ -</u>	<u>\$ 16,000</u>

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

SEWER CONSTRUCTION FUND

For the Year Ended June 30, 2007

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
REVENUES					
Earnings from investments	\$ -	\$ -	\$ -	\$ 8	\$ 8
EXPENDITURES					
Capital outlay	<u>16,338</u>	<u>(16,338)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	16,338	(16,338)	-	8	8
OTHER FINANCING SOURCES (USES)					
Transfers in	<u>1,000,100</u>	<u>-</u>	<u>1,000,100</u>	<u>-</u>	<u>1,000,100</u>
Net change in fund balance	1,016,438	(16,338)	1,000,100	8	1,000,108
Fund balance - beginning	<u>16,238</u>	<u>(3,251)</u>	<u>12,987</u>	<u>545</u>	<u>13,532</u>
Fund balance - ending	<u>\$ 1,032,676</u>	<u>\$ (19,589)</u>	<u>\$ 1,013,087</u>	<u>\$ 553</u>	<u>\$ 1,013,640</u>

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL

WATER RESERVE FUND

For the Year Ended June 30, 2007

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-
OTHER FINANCING SOURCES (USES)					
Transfers in	-	2,412	2,412	-	2,412
Transfers out	(4,186)	4,186	-	-	-
Total other financing sources (uses)	(4,186)	6,598	2,412	-	2,412
Net change in fund balance	(4,186)	6,598	2,412	-	2,412
Fund balance - beginning	4,186	(6,598)	(2,412)	-	(2,412)
Fund balance - ending	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
 BUDGET AND ACTUAL

SEWER UTILITY FUND

For the Year Ended June 30, 2007

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
REVENUES					
Charges for services					
User fees	\$ 440,000	\$ 45,509	\$ 485,509	\$ 13,202	\$ 498,711
Hookup fees	34,000	48,387	82,387	-	82,387
Liens	-	499	499	-	499
Total charges for services	474,000	94,395	568,395	13,202	581,597
Earnings from investments	2,000	(2,000)	-	-	-
Total revenues	476,000	92,395	568,395	13,202	581,597
EXPENSES					
Current					
Materials and services					
Contracted services	421,000	13,299	434,299	(97,730)	336,569
Repairs and maintenance	20,000	112,263	132,263	97	132,360
Sewer connection	700,000	(573,109)	126,891	-	126,891
Miscellaneous	5,000	(5,000)	-	-	-
Total materials and services	1,146,000	(452,547)	693,453	(97,633)	595,820
Capital outlay	-	44	44	-	44
Depreciation expense	-	-	-	70,884	70,884
Contingency	216,160	(216,160)	-	-	-
Total expenses	1,362,160	(668,663)	693,497	(26,749)	666,748
Excess (deficiency) of revenues over (under) expenses	(886,160)	761,058	(125,102)	39,951	(85,151)
OTHER FINANCING SOURCES (USES)					
Capital contributions	-	-	-	844,731	844,731
Transfers out	(1,000,000)	-	(1,000,000)	-	(1,000,000)
Unrealized gain on investments	-	-	-	54	54
Total other financing sources (uses)	(1,000,000)	-	(1,000,000)	844,785	(155,215)
Change in net assets	(1,886,160)	761,058	(1,125,102)	884,736	(240,366)
Net assets - beginning	1,886,160	3,460,619	5,346,779	(361,218)	4,985,561
Net assets - ending	\$ -	\$ 4,221,677	\$ 4,221,677	\$ 523,518	\$ 4,745,195

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
 BUDGET AND ACTUAL

WATER UTILITY FUND

For the Year Ended June 30, 2007

	Original and Final Budget	Variance with Final Budget Over (Under)	Budget Basis	Actual Adjustments	GAAP Basis
REVENUES					
Charges for services					
User fees	\$ 682,000	\$ 96,688	\$ 778,688	\$ (24,942)	\$ 753,746
Earnings from investments	-	-	-	418	418
Total revenues	<u>682,000</u>	<u>96,688</u>	<u>778,688</u>	<u>(24,524)</u>	<u>754,164</u>
EXPENSES					
Capital outlay	325,000	(153,172)	171,828	560	172,388
Debt service	453,197	-	453,197	(147,000)	306,197
Depreciation expense	-	-	-	335,466	335,466
Contingency	<u>670,814</u>	<u>(670,814)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>1,449,011</u>	<u>(823,986)</u>	<u>625,025</u>	<u>189,026</u>	<u>814,051</u>
Excess (deficiency) of revenues over (under) expenses	(767,011)	920,674	153,663	(213,550)	(59,887)
OTHER FINANCING SOURCES (USES)					
Capital contributions	-	-	-	856,341	856,341
Transfers in	100	-	100	-	100
Transfers out	<u>(4,186)</u>	<u>1,774</u>	<u>(2,412)</u>	<u>-</u>	<u>(2,412)</u>
Total other financing sources (uses)	<u>(4,086)</u>	<u>1,774</u>	<u>(2,312)</u>	<u>856,341</u>	<u>854,029</u>
Change in net assets	(771,097)	922,448	151,351	642,791	794,142
Net assets - beginning, as restated	<u>771,097</u>	<u>1,613,867</u>	<u>2,384,964</u>	<u>986,964</u>	<u>3,371,928</u>
Net assets - ending	<u>\$ -</u>	<u>\$ 2,536,315</u>	<u>\$ 2,536,315</u>	<u>\$ 1,629,755</u>	<u>\$ 4,166,070</u>

**AUDIT COMMENTS AND DISCLOSURES REQUIRED BY
FEDERAL AND STATE REGULATIONS**

CITY OF MILLERSBURG
Linn County, Oregon

DISCLOSURES AND INDEPENDENT AUDITOR'S COMMENTS
 REQUIRED BY THE MINIMUM STANDARDS FOR AUDITS
 OF OREGON MUNICIPAL CORPORATIONS

For the Year Ended June 30, 2007

Oregon Administrative Rules 162-10-050 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy enumerate the financial statements, schedules, comments, and disclosures required in audit reports. The required comments and disclosures not included in preceding sections of this report are set forth as follows.

Statement of Accountability for Independently Elected Officials (OAR 162-10-140)

The City has no independently elected officials who receive or disburse money.

Accounting and Internal Control Systems (OAR 162-10-230)

In general, the condition of the accounting records and the accounting and internal control systems were adequate for audit purposes. However, we noted certain matters that we have reported to the city council of the City of Millersburg in a separate letter dated December 7, 2007.

Collateral (OAR 162-10-240)

Our audit of the City disclosed an instance of noncompliance pertaining to the amount and adequacy of collateral pledged to secure the deposit of public funds.

Indebtedness (OAR 162-10-250)

The City has no outstanding bonded debt.

Budget (OAR 162-10-260)

The City's compliance with the provisions of the Oregon Revised Statutes as they apply to the preparation, adoption, and execution of the annual budget for the 2006-2007 fiscal year and the preparation and adoption of the annual budget for the 2007-2008 fiscal year was reviewed. Except as noted below, our review showed that there was substantial compliance with the statutes.

1. Execution

The City expended funds in excess of the amounts appropriated, which is in violation of ORS 294.100. The following appropriations were over expended for the fiscal year ended June 30, 2007.

Fund	Function	Appropriations	Expenditures	Excess
Sewer Utility	Capital outlay	\$ -	\$ 44	\$ 44

Insurance and Fidelity Bonds (OAR 162-10-270)

The City's insurance and fidelity bond coverage was reviewed and found to be in compliance with the Oregon Statutes relating thereto. We do not express an opinion as to the adequacy of insurance coverage, since we are not trained in this regard.

Programs Funded From Outside Sources (OAR 162-10-280 and OAR 162-10-290)

Our audit of the City disclosed compliance with the laws and regulations pertaining to programs funded partially or wholly by other governmental agencies.

Highway Funds (OAR 162-10-295)

The City has complied with requirements related to dedicated state highway funds exclusively for road, bike path, and footpath uses, as provided in the Oregon Revised Statutes.

Investments (OAR 162-10-300)

Our audit of the City disclosed compliance with the statutes applicable to the investment of public funds.

Public Contracts and Purchasing (OAR 162-10-310)

The City is in compliance with the provisions of ORS 279 pertaining to the awarding of public contracts and the construction of public improvements, except as noted below.

1. Intermediate Procurement

The City violated ORS 279B.070 by not seeking at least three informally solicited competitive price quotes or competitive proposals from prospective contractors.



Shareholders:

Fredrick M. Koontz, CPA
Richard D. Perdue, CPA
Debra L. Blasquez, CPA
Glen O. Kearns, CPA

Koontz & Perdue, P.C.
Certified Public Accountants

Staff:

Irina O. Stein, CPA
Kori L. Sarrett, CPA
Deborah L. Wilbur, CPA

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable C. Clayton Wood, Mayor
and Members of the City Council
City of Millersburg
Albany, Oregon 97321

We have audited the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Millersburg as of and for the year ended June 30, 2007 and have issued our report thereon dated December 7, 2007. 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.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weakness, as defined above.

We consider the deficiency described below to be a significant deficiency in internal control over financial reporting:


1. Adequate segregation of duties in most areas was impractical due to the limited number of employees. The City has, however, developed alternative procedures, which mitigate this condition to some extent.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Millersburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We noted certain matters that we reported to the management of the City of Millersburg in a separate letter dated December 7, 2007.

This report is intended solely for the information and use of management, the city council, and the Oregon Division of Audits and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Koontz & Perdue, P.C." with a stylized flourish at the end.

Koontz & Perdue, P.C.

Albany, Oregon
December 7, 2007