

CITY OF MILLERSBURG
Linn County, Oregon

ANNUAL FINANCIAL REPORT

June 30, 2011

CITY OF MILLERSBURG
Linn County, Oregon

CITY OFFICIALS

June 30, 2011

MAYOR

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

CITY COUNCIL

Linda Boyce
4441 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

Jason Yutzie
3086 Yellowstone Place
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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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, 2011, 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 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.

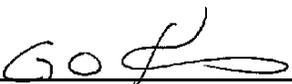
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Millersburg, Linn County, Oregon as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows 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 issued our report dated January 4, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Millersburg's basic financial statements as a whole. The combining and individual fund statements and schedules, and other financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual fund statements and schedules, schedule of expenditure of federal awards, and other financial schedules are the responsibility of management, and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Koontz & Perdue, P.C.

By: 
Glen O. Kearns, CPA

Albany, Oregon
January 4, 2012

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, 2011. It should be read in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- At June 30, 2011, total net assets of the City of Millersburg amounted to \$29,039,229. Of this amount, \$23,075,704 was invested in capital assets, net of related debt. The remaining balance included \$769,793 restricted for system development, \$25,042 restricted for debt service, and \$5,168,690 of unrestricted net assets.
- The City's total net assets increased by \$181,530 during the current fiscal year.
- Overall revenues were \$3,028,596, which exceeded total expenditures of \$2,847,066 by \$181,530.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Millersburg's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic 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 City'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 expenses 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 taxes 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 and 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 the balances of available resources at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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 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 City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds 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 four individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major governmental fund. Data from the nonmajor governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Millersburg adopts an annual appropriated budget for all of its governmental 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 provide the same type of information as the government-wide financial statements, only in more detail. The City maintains two individual enterprise funds.

CITY OF MILLERSBURG
Linn County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise funds to account for its sewer and water utility services. Information is presented separately in the proprietary funds statement of net assets, statement of revenues, expenses, and changes in fund net assets, and statement of cash flows for the Sewer Utility and Water Utility Funds, both of which are considered to be major proprietary funds.

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

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

□ **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. 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 proprietary funds.

The basic fiduciary fund financial statements can be found on page 20 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the financial data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 21 through 41 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 Fund. This required supplementary information can be found on pages 42 through 44 of this report.

The combining statements referred to earlier, in connection with the nonmajor governmental funds, are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be on pages 45 through 51 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, 2011, the City's assets exceeded liabilities by \$29,039,229.

CITY OF MILLERSBURG
Linn County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

A large portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, 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 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.

City's Net Assets

At the end of the current fiscal year, the City was able to report positive balances in all categories of net assets. The City's net assets increased by \$181,530 during the current fiscal year.

Condensed statement of net assets information is shown below.

Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Assets						
Current assets	\$ 3,468,821	\$ 3,247,711	\$ 2,082,938	\$ 1,440,350	\$ 5,551,759	\$ 4,688,061
Restricted assets	120,428	63,756	674,407	580,058	794,835	643,814
Net capital assets	13,294,680	13,682,287	23,396,346	20,490,220	36,691,026	34,172,507
Total assets	16,883,929	16,993,754	26,153,691	22,510,628	43,037,620	39,504,382
Liabilities						
Current liabilities	77,847	55,125	745,098	691,600	822,945	746,725
Noncurrent liabilities	-	-	13,175,446	9,899,958	13,175,446	9,899,958
Total liabilities	77,847	55,125	13,920,544	10,591,558	13,998,391	10,646,683
Net assets						
Invested in capital assets, net of related debt	13,294,680	13,682,287	9,781,024	10,163,723	23,075,704	23,846,010
Restricted for various purposes	120,428	63,756	674,407	580,058	794,835	643,814
Unrestricted	3,390,974	3,192,586	1,777,716	1,175,289	5,168,690	4,367,875
Total net assets	\$ 16,806,082	\$ 16,938,629	\$ 12,233,147	\$ 11,919,070	\$ 29,039,229	\$ 28,857,699

City's Changes in Net Assets

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	
	2011	2010	2011	2010	2011	2010
Program revenues						
General government	\$ 19,200	\$ 22,600	\$ -	\$ -	\$ 19,200	\$ 22,600
Highways and streets	56,672	63,756	-	-	56,672	63,756
Sewer utility	-	-	698,629	682,219	698,629	682,219
Water utility	-	-	590,202	722,998	590,202	722,998
Total program revenues	<u>75,872</u>	<u>86,356</u>	<u>1,288,831</u>	<u>1,405,217</u>	<u>1,364,703</u>	<u>1,491,573</u>
General revenues						
Property taxes	-	-	687,160	829,176	687,160	829,176
School excise tax	528	558	-	-	528	558
Franchise fees	720,789	937,243	-	-	720,789	937,243
Cigarette taxes	1,719	1,678	-	-	1,719	1,678
Alcohol taxes	14,060	11,946	-	-	14,060	11,946
Highway use tax	58,015	47,744	-	-	58,015	47,744
Unrestricted grants and contributions	26,435	20,209	-	-	26,435	20,209
Licenses and permits	98,134	121,968	-	-	98,134	121,968
Investment earnings	26,963	33,949	10	5,400	26,973	39,349
Miscellaneous	30,080	33,919	-	-	30,080	33,919
Total general revenues	<u>976,723</u>	<u>1,209,214</u>	<u>687,170</u>	<u>834,576</u>	<u>1,663,893</u>	<u>2,043,790</u>
Total revenues	<u>1,052,595</u>	<u>1,295,570</u>	<u>1,976,001</u>	<u>2,239,793</u>	<u>3,028,596</u>	<u>3,535,363</u>
Program expenses						
General government	1,145,925	1,198,067	-	-	1,145,925	1,198,067
Highways and streets	38,117	54,697	-	-	38,117	54,697
Sewer utility	-	-	882,374	643,911	882,374	643,911
Water utility	-	-	780,650	839,371	780,650	839,371
Total program expenses	<u>1,184,042</u>	<u>1,252,764</u>	<u>1,663,024</u>	<u>1,483,282</u>	<u>2,847,066</u>	<u>2,736,046</u>
Transfers	<u>(1,100)</u>	<u>(200,000)</u>	<u>1,100</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(132,547)</u>	<u>(157,194)</u>	<u>314,077</u>	<u>956,511</u>	<u>181,530</u>	<u>799,317</u>
Net assets - beginning of year	<u>16,938,629</u>	<u>17,095,823</u>	<u>11,919,070</u>	<u>10,962,559</u>	<u>28,857,699</u>	<u>28,058,382</u>
Net assets - ending	<u>\$ 16,806,082</u>	<u>\$ 16,938,629</u>	<u>\$ 12,233,147</u>	<u>\$ 11,919,070</u>	<u>\$ 29,039,229</u>	<u>\$ 28,857,699</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, unassigned fund balance may serve as a useful measurement of the City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$3,515,488, an increase of \$255,060 in comparison with the prior year. Of this amount, \$2,819,662 constitutes unassigned 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, the General Fund reported a fund balance of \$2,819,662, an increase of \$177,390 in comparison with the prior 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 \$12,233,147 at year-end. Of this amount, \$9,781,024 was invested in capital assets, net of related debt. The remaining balance included \$649,365 restricted for system development, \$25,042 restricted for debt service and \$1,802,758 of unrestricted net assets.

BUDGETARY HIGHLIGHTS

Budget amounts shown in the financial statements reflect the original budget amounts and one approved appropriation transfer.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental activities and business-type activities as of June 30, 2011 amounted to \$13,294,680 and \$23,396,346 net of accumulated depreciation, respectively. This investment in capital assets includes land, buildings and improvements, furniture and office equipment, equipment, infrastructure, utilities, sewer equipment, and the joint water and wastewater projects.

Additional information on the City's capital assets can be found in Note III-B on pages 31 through 34 of this report.

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$13,615,322. This amount represents a loan for the funding of public works payable to the Oregon Economic and Community Development Department, a loan for wastewater treatment facilities payable to the City of Albany, and a loan for the Wastewater Wetlands Project payable to the Department of Environmental Quality. The City's total debt increased by \$3,342,888 during the current fiscal year.

CITY OF MILLERSBURG
Linn County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Additional information on the City's long-term debt can be found in Note III-E on pages 35 through 36 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 the following circumstance that could affect its future financial health:

- The 2010-2011 premium for healthcare insurance increased by 17.08% in comparison with the 2009-2010 premium, and is expected to continue to increase in the coming years.

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 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, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,395,884	\$ 1,791,266	\$ 5,187,150
Accounts receivable	69,683	229,344	299,027
Property taxes receivable	-	62,328	62,328
Due from other government agencies	3,254	-	3,254
Total current assets	3,468,821	2,082,938	5,551,759
Restricted assets			
Cash and cash equivalents	120,428	674,407	794,835
Capital assets, net of accumulated depreciation	13,294,680	23,396,346	36,691,026
Total assets	16,883,929	26,153,691	43,037,620
LIABILITIES			
Current liabilities			
Accounts payable	30,614	103,678	134,292
Payroll payable	11,915	240	12,155
Accrued interest payable	-	180,413	180,413
Accrued loan fees payable	-	20,891	20,891
School excise tax payable	31,232	-	31,232
Compensated absences	4,086	-	4,086
Long-term liabilities, current portion	-	439,876	439,876
Total current liabilities	77,847	745,098	822,945
Noncurrent liabilities			
Long-term liabilities, less current portion	-	13,175,446	13,175,446
Total liabilities	77,847	13,920,544	13,998,391
NET ASSETS			
Invested in capital assets, net of related debt	13,294,680	9,781,024	23,075,704
Restricted for:			
System development	120,428	649,365	769,793
Debt service	-	25,042	25,042
Unrestricted	3,390,974	1,777,716	5,168,690
Total net assets	\$ 16,806,082	\$ 12,233,147	\$ 29,039,229

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, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 1,145,925	\$ -	\$ -	\$ 19,200
Highways and streets	38,117	-	-	56,672
Total governmental activities	\$ 1,184,042	\$ -	\$ -	\$ 75,872
Business-type activities				
Sewer utility	\$ 882,374	\$ 662,408	\$ -	\$ 36,221
Water utility	780,650	557,116	-	33,086
Total business-type activities	\$ 1,663,024	\$ 1,219,524	\$ -	\$ 69,307

General revenues
Property taxes
School excise tax
Franchise fees
Cigarette taxes
Alcohol taxes
Highway use tax
Unrestricted grants and contributions
Licenses and permits
Investment earnings
Miscellaneous

Total general revenues

Transfers

Change in net assets

Net assets - beginning

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
\$ (1,126,725)	\$ -	\$ (1,126,725)
<u>18,555</u>	<u>-</u>	<u>18,555</u>
<u>(1,108,170)</u>	<u>-</u>	<u>(1,108,170)</u>
-	(183,745)	(183,745)
<u>-</u>	<u>(190,448)</u>	<u>(190,448)</u>
<u>-</u>	<u>(374,193)</u>	<u>(374,193)</u>
-	687,160	687,160
528	-	528
720,789	-	720,789
1,719	-	1,719
14,060	-	14,060
58,015	-	58,015
26,435	-	26,435
98,134	-	98,134
26,963	10	26,973
<u>30,080</u>	<u>-</u>	<u>30,080</u>
<u>976,723</u>	<u>687,170</u>	<u>1,663,893</u>
<u>(1,100)</u>	<u>1,100</u>	<u>-</u>
(132,547)	314,077	181,530
<u>16,938,629</u>	<u>11,919,070</u>	<u>28,857,699</u>
<u>\$ 16,806,082</u>	<u>\$ 12,233,147</u>	<u>\$ 29,039,229</u>

CITY OF MILLERSBURG
Linn County, Oregon

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,820,413	\$ 695,899	\$ 3,516,312
Receivables	69,683	-	69,683
Due from other government agencies	<u>-</u>	<u>3,254</u>	<u>3,254</u>
 Total assets	 <u>\$ 2,890,096</u>	 <u>\$ 699,153</u>	 <u>\$ 3,589,249</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 27,287	\$ 3,327	\$ 30,614
Accrued payroll and taxes	11,915	-	11,915
School excise tax payable	<u>31,232</u>	<u>-</u>	<u>31,232</u>
 Total liabilities	 <u>70,434</u>	 <u>3,327</u>	 <u>73,761</u>
Fund balances			
Restricted	-	120,428	120,428
Assigned	-	575,398	575,398
Unassigned	<u>2,819,662</u>	<u>-</u>	<u>2,819,662</u>
 Total fund balances	 <u>2,819,662</u>	 <u>695,826</u>	 <u>3,515,488</u>
 Total liabilities and fund balances	 <u>\$ 2,890,096</u>	 <u>\$ 699,153</u>	 <u>\$ 3,589,249</u>

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

CITY OF MILLERSBURG
Linn County, Oregon

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

June 30, 2011

Total fund balances		\$ 3,515,488
Capital assets are not financial resources and are therefore not reported in the governmental funds:		
Cost	15,341,606	
Accumulated depreciation	<u>(2,046,926)</u>	13,294,680
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 funds, but rather, is recognized as an expenditure when due. These liabilities consist of:		
Compensated absences		<u>(4,086)</u>
Total net assets		<u>\$ 16,806,082</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, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Franchise fees	\$ 720,789	\$ -	\$ 720,789
School excise tax	528	-	528
Cigarette taxes	1,719	-	1,719
Alcohol taxes	14,060	-	14,060
Highway use tax	-	58,015	58,015
System development charges	19,200	56,672	75,872
Licenses and permits	98,134	-	98,134
Intergovernmental	5,900	-	5,900
State revenue sharing	26,435	-	26,435
Investment earnings	26,963	-	26,963
Rental income	16,356	-	16,356
Miscellaneous	<u>7,824</u>	<u>-</u>	<u>7,824</u>
Total revenues	<u>937,908</u>	<u>114,687</u>	<u>1,052,595</u>
EXPENDITURES			
Current			
Personal services	266,865	-	266,865
Materials and services	491,263	38,117	529,380
Capital outlay	<u>190</u>	<u>-</u>	<u>190</u>
Total expenditures	<u>758,318</u>	<u>38,117</u>	<u>796,435</u>
Excess (deficiency) of revenues over (under) expenditures	<u>179,590</u>	<u>76,570</u>	<u>256,160</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	51,100	51,100
Transfers out	<u>(2,200)</u>	<u>(50,000)</u>	<u>(52,200)</u>
Total other financing sources (uses)	<u>(2,200)</u>	<u>1,100</u>	<u>(1,100)</u>
Net change in fund balances	177,390	77,670	255,060
Fund balances - beginning	<u>2,642,272</u>	<u>618,156</u>	<u>3,260,428</u>
Fund balances - ending	<u>\$ 2,819,662</u>	<u>\$ 695,826</u>	<u>\$ 3,515,488</u>

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

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, 2011

Net change in fund balances \$ 255,060

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 costs of these assets are allocated over their estimated useful lives and are reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditures for capital assets	25,976	
Less current year depreciation	<u>(413,583)</u>	<u>(387,607)</u>

Change in net assets \$ (132,547)

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

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2011

	Enterprise Funds		
	Sewer Utility	Water Utility	Totals
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,508,078	\$ 283,188	\$ 1,791,266
Accounts receivable	181,577	47,767	229,344
Property taxes receivable	62,328	-	62,328
Due from other funds	2,231	-	2,231
Total current assets	1,754,214	330,955	2,085,169
Restricted assets			
Cash and cash equivalents	375,111	299,296	674,407
Capital assets, net of accumulated depreciation	15,403,436	7,992,910	23,396,346
Total assets	17,532,761	8,623,161	26,155,922
LIABILITIES			
Current liabilities			
Due to other funds	-	2,231	2,231
Accounts payable	59,628	44,050	103,678
Accrued interest payable	42,889	137,524	180,413
Accrued administrative loan fees payable	20,891	-	20,891
Accrued liabilities	-	240	240
Long-term liabilities, current portion	227,642	212,234	439,876
Total current liabilities	351,050	396,279	747,329
Noncurrent liabilities			
Long-term liabilities, less current portion	9,085,209	4,090,237	13,175,446
Total liabilities	9,436,259	4,486,516	13,922,775
NET ASSETS			
Invested in capital assets, net of related debt	6,090,585	3,690,439	9,781,024
Restricted for:			
System development	350,069	299,296	649,365
Debt service	25,042	-	25,042
Unrestricted	1,655,848	146,910	1,802,758
Total net assets	\$ 8,096,502	\$ 4,136,645	\$ 12,233,147

The accompanying notes are an integral part of these 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, 2011

	Enterprise Funds		
	Sewer Utility	Water Utility	Totals
Operating revenues			
Charges for services	\$ 662,408	\$ 557,116	\$ 1,219,524
Operating expenses			
Materials and services	228,443	172,302	400,745
Depreciation	450,639	364,673	815,312
Total operating expenses	679,082	536,975	1,216,057
Operating income (loss)	(16,674)	20,141	3,467
Nonoperating revenues (expenses)			
Property taxes	687,160	-	687,160
System development charges	36,221	33,086	69,307
Investment earnings	10	-	10
Interest expense	(203,292)	(243,675)	(446,967)
Total nonoperating revenues (expenses)	520,099	(210,589)	309,510
Income (loss) before proceeds and transfers	503,425	(190,448)	312,977
Transfers in	1,000	100	1,100
Change in net assets	504,425	(190,348)	314,077
Net assets - beginning	7,592,077	4,326,993	11,919,070
Net assets - ending	\$ 8,096,502	\$ 4,136,645	\$ 12,233,147

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

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2011

	Enterprise Funds		
	Sewer Utility	Water Utility	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 652,348	\$ 561,238	\$ 1,213,586
Payments to suppliers	<u>(169,930)</u>	<u>(182,233)</u>	<u>(352,163)</u>
Net cash provided (used) by operating activities	<u>482,418</u>	<u>379,005</u>	<u>861,423</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from property taxes	<u>680,520</u>	<u>-</u>	<u>680,520</u>
Net cash provided (used) by noncapital financing activities	<u>680,520</u>	<u>-</u>	<u>680,520</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
System development charges	36,221	33,086	69,307
Proceeds from long-term obligations	3,767,357	-	3,767,357
Principal paid on capital debt	(220,918)	(203,551)	(424,469)
Interest paid on capital debt	(205,418)	(249,970)	(455,388)
Purchase of capital assets	(3,799,994)	-	(3,799,994)
Accumulated depreciation adjustment	(1,442)	-	(1,442)
Proceeds from sale of capital assets	3,000	-	3,000
Loss on sale of capital assets	22,935	-	22,935
Transfer from other funds for capital purchases	<u>1,000</u>	<u>100</u>	<u>1,100</u>
Net cash provided (used) by capital and related financing activities	<u>(397,259)</u>	<u>(420,335)</u>	<u>(817,594)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	<u>10</u>	<u>-</u>	<u>10</u>
Net cash provided (used) by investing activities	<u>10</u>	<u>-</u>	<u>10</u>

(Continued)

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

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2011

(Continued)

	Enterprise Funds		Totals
	Sewer Utility	Water Utility	
Net increase (decrease) in cash and cash equivalents	\$ 765,689	\$ (41,330)	\$ 724,349
Cash and cash equivalents - beginning (including \$313,848 and \$266,210 in the Sewer Utility and Water Utility Funds, respectively, reported in restricted accounts)	<u>1,117,500</u>	<u>623,814</u>	<u>1,741,314</u>
Cash and cash equivalents - ending (including \$375,111 and \$299,296 in the Sewer Utility and Water Utility Funds, respectively, reported in restricted accounts)	<u>\$ 1,883,189</u>	<u>\$ 582,484</u>	<u>\$ 2,465,663</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (16,674)	\$ 20,141	\$ 3,467
Adjustments to reconcile operating loss to net cash cash provided (used) by operating activities:			
Depreciation expense	450,639	364,673	815,312
(Increase) decrease in accounts receivable	(10,060)	4,122	(5,938)
Increase (decrease) in accounts payable	<u>58,513</u>	<u>(9,931)</u>	<u>48,582</u>
Net cash provided (used) by operating activities	<u>\$ 482,418</u>	<u>\$ 379,005</u>	<u>\$ 861,423</u>

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

CITY OF MILLERSBURG
Linn County, Oregon

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2011

	<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 these financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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 governmental 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

Incorporated in June of 1974, Millersburg sits in the heart of the fertile Willamette Valley. The tiny city offers a beautiful eleven-acre park with a large shelter for year-round use. It boasts of a volleyball court, a jogging path, a tennis court, and an outdoor basketball court. Two baseball fields, playground equipment, and horseshoe pits round out the park amenities. With a population of 1,375 and growing, Millersburg gives you that country feeling with big city facilities nearby. The City of Millersburg is governed by a mayor and four city council members.

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. Taxes and other 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 fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary 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 the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Under the modified accrual basis, property taxes, franchise fees, licenses, interest, and special assessments have been recognized as revenues of the current fiscal period if received within 60 days of year-end. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

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

Additionally, the City reports the following nonmajor governmental funds:

Special Revenue Funds

Street Fund – The Street Fund accounts for state highway use tax revenues. Expenditures are for street lighting and repairs, as allowed by Oregon statutes.

Street Reserve Fund – The Street Reserve Fund is used to accumulate resources for future construction of streets. The primary source of revenue is street frontage fees. Expenditures are primarily for street construction.

Capital Projects Fund

Sewer Construction Fund – The Sewer Construction Fund accounts for financial resources to be used for the acquisition and construction of sewer facilities. The primary source of revenue is investment earnings. Expenditures are primarily for sewer expansion.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major proprietary funds:

Enterprise Funds

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

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

The City reports the following fiduciary fund:

Agency Fund

Bravo Fund – The Bravo Fund accounts 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.

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.

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 proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary 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.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

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 that 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, as the City believes the sewer and water utility bills to be highly collectible.

3. Property Taxes

Under state law, county governments are responsible for extending authorized property tax levies, computing tax rates, billing and collecting all property taxes, and making periodic remittances of collection to entities levying taxes. Property taxes are levied and become a lien as of July 1 on property values assessed as of June 30. Property taxes are payable in three installments, which are due on November 15, February 15, and May 15.

4. 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.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Equity (Continued)

4. Capital Assets (Continued)

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.

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	10-20
Infrastructure	25-40
Utilities	25-80
Building improvements	20-50

5. Compensated Absences

Amounts of vested or accumulated vacation leave that are expected to be liquidated with expendable available financial resources are reported as expenditures when paid. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as short-term liabilities on the statement of net assets. In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

6. 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.

7. Retirement Plan

Most of the City's employees participate in Oregon's Public Employees Retirement System (PERS). Contributions are made on a current basis as required by the plan and are recorded as expenses or expenditures.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Equity (Continued)

8. Fund Equity

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., city council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the city council or by an official or body to which the city council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City has not formally adopted a policy for commitment or assignment of unrestricted fund balance.

The City has not formally adopted a minimum fund balance policy.

E. Reclassifications

Certain accounts, as reported in comparative statements in the management's discussion and analysis, have been reclassified for comparative purposes in order to conform to the presentation in the current year financial statements.

F. Use of Estimates

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

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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, debt service, and capital outlay 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 may adopt a supplemental budget less than 10% of a fund's original budget at a regular city council meeting. 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 was one supplemental budget. The City does not use encumbrances and appropriations lapse at year-end.

Budget amounts shown in the financial statements reflect the original budget amounts and one approved supplemental budget.

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.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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

A. Deposits and Investments (Continued)

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.

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, 2011, the City had the following investments:

	Credit Quality Rating	Maturities	Fair Value
Oregon Local Government Investment Pool	Unrated	-	\$ 5,686,005

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. 100 percent of the City's investments are in the Oregon Local Government Investment Pool.

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.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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

A. Deposits and Investments (Continued)

Custodial Credit Risk – Deposits

This is the risk that, in the event of a bank failure, the City's deposits may not be returned. All City deposits not covered by Federal Depository Insurance Corporation (FDIC) insurance are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon, organized in accordance with ORS 295. The PFCP is a shared liability structure for participating bank depositories. Barring any exceptions, a bank depository is required to pledge collateral valued at a minimum of 10% of their quarter-end public fund deposits if they are considered well capitalized, 25% of their quarter-end public fund deposits if they are considered adequately capitalized, or 110% of their quarter-end public fund deposits if they are considered undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities.

The City holds a noninterest-bearing account at US Bank, for which deposits are fully insured by the FDIC temporary liquidity guarantee program. In addition, the City holds an interest-bearing account at US Bank, for which deposits are insured by the FDIC up to \$250,000. At June 30, 2011, the City's total deposits of \$309,731 were fully insured by the FDIC.

Deposits

The City's deposits and investments at June 30, 2011 are as follows:

Cash on hand	\$ 70
Demand deposits	295,910
Total investments	<u>5,686,005</u>
Total deposits and investments	<u>\$ 5,981,985</u>

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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

A. Deposits and Investments (Continued)

Cash and investments by fund:

Governmental activities - unrestricted	
General Fund	\$ 2,820,413
Nonmajor governmental funds	<u>575,471</u>
Total governmental activities - unrestricted	<u>3,395,884</u>
Business-type activities - unrestricted	
Sewer Utility Fund	1,508,078
Water Utility Fund	<u>283,188</u>
Total business-type activities - unrestricted	<u>1,791,266</u>
Total unrestricted cash and investments	<u>5,187,150</u>
Governmental activities - restricted	
Street Fund	63,756
Street Reserve Fund	<u>56,672</u>
Total governmental activities - restricted	<u>120,428</u>
Business-type activities - restricted	
Sewer Utility Fund	375,111
Water Utility Fund	<u>299,296</u>
Total business-type activities - restricted	<u>674,407</u>
Total restricted cash and investments	<u>794,835</u>
Total cash and investments	<u><u>\$ 5,981,985</u></u>

Restricted cash is for system development and DEQ loan obligations.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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

B. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,622,557	\$ -	\$ -	\$ 2,622,557
Capital assets being depreciated				
Buildings and improvements	2,890,109	25,976	-	2,916,085
Furniture and office equipment	20,337	-	-	20,337
Equipment	147,147	-	-	147,147
Infrastructure	<u>9,635,480</u>	<u>-</u>	<u>-</u>	<u>9,635,480</u>
Total capital assets being depreciated	<u>12,693,073</u>	<u>25,976</u>	<u>-</u>	<u>12,719,049</u>
Less accumulated depreciation for				
Buildings and improvements	(420,622)	(61,572)	-	(482,194)
Furniture and office equipment	(15,164)	(609)	-	(15,773)
Equipment	(95,644)	(8,409)	-	(104,053)
Infrastructure	<u>(1,101,913)</u>	<u>(342,993)</u>	<u>-</u>	<u>(1,444,906)</u>
Total accumulated depreciation	<u>(1,633,343)</u>	<u>(413,583)</u>	<u>-</u>	<u>(2,046,926)</u>
Total capital assets being depreciated, net	<u>11,059,730</u>	<u>(387,607)</u>	<u>-</u>	<u>10,672,123</u>
Governmental capital assets, net	<u>\$ 13,682,287</u>	<u>\$ (387,607)</u>	<u>\$ -</u>	<u>\$ 13,294,680</u>

(Continued)

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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

B. Capital Assets (Continued)

	Beginning Balance, As Restated	Increases	Decreases	Ending Balance
(Continued)				
Business-type activities				
Capital assets not being depreciated				
Land	\$ 188,953	\$ -	\$ -	\$ 188,953
Construction in progress	-	3,767,357	-	3,767,357
Total capital assets not being depreciated	188,953	3,767,357	-	3,956,310
Capital assets being depreciated				
Utilities	8,526,747	32,637	39,774	8,519,610
Sewer equipment	5,022	-	-	5,022
Joint water project	7,089,879	-	-	7,089,879
Joint wastewater project	8,656,846	-	-	8,656,846
Total capital assets being depreciated	24,278,494	32,637	39,774	24,271,357
Less accumulated depreciation for				
Utilities	(2,470,533)	(185,443)	(13,839)	(2,642,137)
Sewer equipment	(5,022)	-	-	(5,022)
Joint water project	(1,323,444)	(283,595)	-	(1,607,039)
Joint wastewater project	(230,849)	(346,274)	-	(577,123)
Total accumulated depreciation	(4,029,848)	(815,312)	(13,839)	(4,831,321)
Total capital assets being depreciated, net	20,248,646	(782,675)	25,935	19,440,036
Business-type activities capital assets, net	\$ 20,437,599	\$ 2,984,682	\$ 25,935	\$ 23,396,346

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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:

	<u>Capital Assets</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Governmental activities			
Land	\$ 2,622,557	\$ -	\$ 2,622,557
Buildings and improvements	2,916,085	(482,194)	2,433,891
Furniture and office equipment	20,337	(15,773)	4,564
Equipment	147,147	(104,053)	43,094
Infrastructure	<u>9,635,480</u>	<u>(1,444,906)</u>	<u>8,190,574</u>
Total governmental capital assets	<u>15,341,606</u>	<u>(2,046,926)</u>	<u>13,294,680</u>
Business-type activities			
Land	188,953	-	188,953
Construction in progress	3,767,357	-	3,767,357
Utilities	8,519,610	(2,642,137)	5,877,473
Sewer equipment	5,022	(3,580)	1,442
Joint water project	7,089,879	(1,607,039)	5,482,840
Joint wastewater project	<u>8,656,846</u>	<u>(578,565)</u>	<u>8,078,281</u>
Total business-type capital assets	<u>28,227,667</u>	<u>(4,831,321)</u>	<u>23,396,346</u>
Total capital assets	<u>\$ 43,569,273</u>	<u>\$ (6,878,247)</u>	<u>\$ 36,691,026</u>

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

Governmental activities	
General government	<u>\$ 413,583</u>
Business-type activities	
Sewer utility	\$ 450,639
Water utility	<u>364,673</u>
Total business-type activities	<u>\$ 815,312</u>

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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

B. Capital Assets (Continued)

It has been determined that one of the parcels of the land owned by the City of Millersburg contains elevated levels of radium. The following restrictions have been placed on the parcel as part of Environmental Protection Easement:

- No portion of the property shall be used for residential purposes;
- Buildings and other enclosed structures shall be designed and constructed consistent with Environmental Protection Agency (EPA) guidance;
- Following completion of construction, new buildings shall be tested for radon;
- The property owner shall maintain the radon control system in proper working order; and
- The property owner shall monitor indoor air in buildings on property.

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:			
	Nonmajor Governmental Funds	Sewer Utility Fund	Water Utility Fund	Total
Transfers out:				
General Fund	\$ 1,100	\$ 1,000	\$ 100	\$ 2,200
Street Fund	50,000	-	-	50,000
Total	\$ 51,100	\$ 1,000	\$ 100	\$ 52,200

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

Street Fund: To fund street and road repair expenditures.

Street Reserve Fund: To fund future street and road repair expenditures.

Sewer Utility Fund: To fund the cost of constructing the joint wastewater project.

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

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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

D. Compensated Absences

The following is a summary of compensated absences transactions for the year:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities				
Compensated absences	\$ 4,086	\$ -	\$ -	\$ 4,086

The General Fund has traditionally been used to liquidate compensated absences liabilities.

E. Long-Term Liabilities

1. Changes in Long-Term Liabilities

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

	Interest Rate	Original Amount	Beginning Balance, As Restated	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities							
Loans payable							
OECD	5.25%	\$ 6,044,000	\$ 4,506,022	\$ -	\$ 203,551	\$ 4,302,471	\$ 212,234
City of Albany #1	3.14%	3,125,007	2,940,870	-	111,338	2,829,532	114,861
City of Albany #2	2.90%	3,041,674	2,825,542	-	109,580	2,715,962	112,781
DEQ loan		4,000,000	-	3,767,357	-	3,767,357	-
Total business-type activities		\$ 16,210,681	\$ 10,272,434	\$ 3,767,357	\$ 424,469	\$ 13,615,322	\$ 439,876

2. Loan Payable – OECD

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. Loan Payable – City of Albany

The City of Millersburg signed two loan agreements with the City of Albany as part of an intergovernmental agreement to finance the construction costs for wastewater treatment facilities. Both loans were signed on August 17, 2007, with payments and interest due semiannually on April 1 and October 1 through 2029. In addition to interest, the City must pay an administrative loan fee equal to 0.50% of the outstanding balance. Payments on the loan are generally made from the Sewer Utility Fund.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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

E. Long-Term Debt (Continued)

4. Loan Payable – DEQ CWSRF

On September 24, 2009, the City of Millersburg signed a loan agreement with the Oregon Department of Environmental Quality (DEQ) Clean Water State Revolving Fund (CWSRF) to finance Phase I of the Wastewater Wetlands Project, which is a joint project between the City of Millersburg and the City of Albany. The \$4,000,000 loan calls for a 20-year repayment period commencing after the completion date. The loan requires the City of Millersburg to comply with certain loan covenants. If the City meets these requirements, 75% of the loan will be forgiven. The funds are disbursed on a reimbursement basis, and are subject to OMB Circular A-133, including ARRA provisions. As required by the debt agreement, the project was started in March 2010. The City of Albany provided the financing for project costs incurred prior to July 2010, and the City of Millersburg's commitment for project costs began on July 1, 2010. Payments on the note do not begin until the project is completed, however the City is liable for the debt as funds are drawn down. Once the project is completed, the City of Millersburg's ownership percentage will constitute 10% of the total project cost. See Note IV-G.1 for additional information.

5. Future Maturities of Long-Term Liabilities

Fiscal Year Ending June 30	Loans		
	Principal	Interest	Total
2012	\$ 439,876	\$ 404,933	\$ 844,809
2013	455,780	386,330	842,110
2014	477,111	367,024	844,135
2015	498,892	346,719	845,611
2016	521,140	325,395	846,535
2017-2021	2,952,254	1,271,150	4,223,404
2022-2026	3,205,183	561,946	3,767,129
2027-2030	1,297,729	79,647	1,377,376
Total	<u>\$ 9,847,965</u>	<u>\$ 3,743,144</u>	<u>\$ 13,591,109</u>

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

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

F. Constraints on Fund Balances

Constraints on fund balances reported on the balance sheet are as follows:

	General Fund	Other Governmental Funds	Total Governmental Funds
Fund balances:			
Restricted for:			
System development	\$ -	\$ 120,428	\$ 120,428
Assigned for:			
Street maintenance and upgrades	-	561,615	561,615
Sewer construction	-	13,783	13,783
Unassigned	<u>2,819,662</u>	<u>-</u>	<u>2,819,662</u>
 Total fund balances	<u>\$ 2,819,662</u>	<u>\$ 695,826</u>	<u>\$ 3,515,488</u>

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 in any of the past three years.

B. Related Party

A member of the city council, Linda Boyce, is also employed by the City as Assistant City Recorder.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

IV. OTHER INFORMATION (Continued)

C. Retirement Plan

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. 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 (ORS) 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) 598-7377, 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 and OPSRP rates in effect for the year ended June 30, 2011 were 0.74% and 0.84%, 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, 2011

IV. OTHER INFORMATION (Continued)

C. Retirement Plan (Continued)

1. Oregon Public Employees Retirement System (Continued)

Annual Pension Cost

The City's contributions to PERS for the three years ended June 30, 2009, 2010, and 2011 were equal to the required contribution for each year.

Annual pension expenses/expenditures are summarized as follows:

<u>Fiscal Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
2009	\$ 25,434	100%
2010	\$ 12,198	100%
2011	\$ 12,597	100%

D. Other Post-Employment Benefits

1. Retirement Health Insurance Account (RHIA)

Plan Description

As a member of Oregon Public Employees Retirement System (OPERS), the City contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing, multiple-employer, defined benefit other post-employment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that includes financial statements and requires supplementary information. That report may be obtained by writing to PERS, P.O. Box 23700, Tigard, Oregon 97281-3700, by calling (503) 598-7377, or by accessing the PERS website at <http://oregon.gov/PERS/>.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

IV. OTHER INFORMATION (Continued)

D. Other Post-Employment Benefits (Continued)

1. Retirement Health Insurance Account (RHIA) (Continued)

Plan Description (Continued)

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Funding Policy

Participating entities are contractually required to contribute to RHIA at a rate assessed each year by OPERS; currently 0.29% of covered payroll. The OPERS board of trustees sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years. The City's contributions to RHIA for the years ended June 30, 2009, 2010, and 2011 were \$508, \$549, and \$549, respectively, which equaled the required contributions each year.

E. Contingent Liability

The City of Millersburg owns a parcel of land that has been determined to contain elevated levels of radium. The restrictions placed on the City related to the parcel are disclosed in Note III-B of this report.

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

IV. OTHER INFORMATION (Continued)

F. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following pronouncements that have future effective dates that will impact future financial presentations. Management has not currently determined what impact implementation of the following statements will have on future financial statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the City beginning with its fiscal year ending June 30, 2013, though earlier application is encouraged. This statement incorporates into the GASB's authoritative literature, certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, issued on or before November 30, 1989 that does not conflict with or contradict GASB pronouncements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, will be effective for the City beginning with its fiscal year ending June 30, 2013. This statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances.

G. Subsequent Events

Management has evaluated subsequent events through January 4, 2012, which was the date that the financial statements were available to be issued.

1. Long-Term Obligations

As discussed in Note III-E, the City of Millersburg signed a loan agreement with the Oregon Department of Environmental Quality (DEQ) Clean Water State Revolving Loan (CWSRF) to finance Phase I of the Wastewater Wetlands Project. The project was completed in July 2011 and the final loan amount was determined to be \$4,000,000. Due to the City's compliance with the requirements of the CWSRF loan agreement, \$3,000,000 principal forgiveness outlined in Article I of the loan agreement took place, leaving the City with \$1,000,000 to be repaid to DEQ.

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, 2011

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
REVENUES					
Licenses and permits	\$ 2,000	\$ 96,134	\$ 98,134	\$ -	\$ 98,134
Special assessments					
Park system development charges	3,600	15,600	19,200	-	19,200
Intergovernmental					
School excise tax	30,000	22,821	52,821	(52,293)	528
State liquor tax	16,030	(1,970)	14,060	-	14,060
State cigarette tax	1,500	219	1,719	-	1,719
Planning commission	3,000	2,900	5,900	-	5,900
Total intergovernmental	50,530	23,970	74,500	(52,293)	22,207
Franchise fees	570,000	143,418	713,418	7,371	720,789
State revenue sharing	25,000	1,435	26,435	-	26,435
Investment earnings	35,000	(8,037)	26,963	-	26,963
Miscellaneous					
Miscellaneous	6,000	1,824	7,824	-	7,824
Rental property income	16,000	356	16,356	-	16,356
Total miscellaneous	22,000	2,180	24,180	-	24,180
Total revenues	708,130	274,700	982,830	(44,922)	937,908
EXPENDITURES					
Current					
Personal services					
Administrator	60,000	(2,240)	57,760	-	57,760
Assistant city recorder	37,000	(13,647)	23,353	-	23,353
Maintenance personnel	95,000	(1,823)	93,177	(1,101)	92,076
Utility clerk	20,000	6,738	26,738	-	26,738
Payroll taxes	32,000	(13,874)	18,126	-	18,126
PERS retirement	40,000	(27,403)	12,597	-	12,597
Supplemental medical benefit	10,000	(870)	9,130	-	9,130
Disability insurance	3,000	(1,188)	1,812	-	1,812
Dental and vision insurance	6,000	86	6,086	-	6,086
Medical insurance	30,000	(10,813)	19,187	-	19,187
Total personal services ⁽¹⁾	333,000	(65,034)	267,966	(1,101)	266,865

(Continued)

⁽¹⁾ Appropriation level

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, 2011

(Continued)

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
EXPENDITURES (Continued)					
Current (continued)					
Materials and services					
Planning consultants - general	\$ 65,000	\$ (29,155)	\$ 35,845	\$ 858	\$ 36,703
Planning consultants - engineering	70,000	20,819	90,819	(1,378)	89,441
Conventions and training	6,000	(4,400)	1,600	-	1,600
Dues and subscriptions	7,000	1,623	8,623	-	8,623
Telephone	8,000	(4,281)	3,719	(67)	3,652
Office supplies	15,000	(3,305)	11,695	515	12,210
City rental expense	7,000	(5,250)	1,750	-	1,750
City attorney	60,000	(38,729)	21,271	(802)	20,469
Legal services	5,000	(5,000)	-	-	-
Bonding and insurance	16,000	(1,808)	14,192	-	14,192
Economic Development Commission	25,000	-	25,000	(5)	24,995
Parks and recreation	10,000	(3,625)	6,375	-	6,375
Park supplies and maintenance	30,000	(13,112)	16,888	257	17,145
Park development	50,000	(24,024)	25,976	-	25,976
Accounting and audit	15,000	(2,142)	12,858	2,720	15,578
Printing and advertising	4,000	(1,707)	2,293	1,846	4,139
Travel and meals	6,000	(3,001)	2,999	(79)	2,920
Library services	3,000	(545)	2,455	-	2,455
Bids publication	500	702	1,202	-	1,202
Property taxes	2,000	3,741	5,741	-	5,741
Community support	50,000	(30,717)	19,283	(58)	19,225
Linn County contracted	65,000	537	65,537	-	65,537
Contracted services	27,000	45,599	72,599	(6,819)	65,780
Call-A-Ride	11,000	(8,885)	2,115	19	2,134
City hall maintenance and supplies	30,000	(17,440)	12,560	107	12,667
City hall utilities	15,000	(3,417)	11,583	5,927	17,510
Cemetery maintenance	500	(500)	-	-	-
Economic development	3,000	(3,000)	-	-	-
Elections	100	(100)	-	-	-
School excise tax	28,800	16,188	44,988	(31,744)	13,244
Total materials and services ⁽¹⁾	<u>634,900</u>	<u>(114,934)</u>	<u>519,966</u>	<u>(28,703)</u>	<u>491,263</u>

(Continued)

⁽¹⁾ Appropriation level

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, 2011

(Continued)

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
EXPENDITURES (Continued)					
Capital outlay					
Equipment	\$ 10,000	\$ (10,000)	\$ -	\$ -	\$ -
Improvements	20,000	(20,000)	-	-	-
Buildings	100	(100)	-	-	-
Land	5,000	(5,000)	-	-	-
Airport improvement	100	(100)	-	-	-
Office equipment and furnishings	<u>10,000</u>	<u>(9,810)</u>	<u>190</u>	<u>-</u>	<u>190</u>
Total capital outlay ⁽¹⁾	<u>45,200</u>	<u>(45,010)</u>	<u>190</u>	<u>-</u>	<u>190</u>
Contingency	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,113,100</u>	<u>(324,978)</u>	<u>788,122</u>	<u>(29,804)</u>	<u>758,318</u>
Excess (deficiency) of revenues over (under) expenditures	(404,970)	599,678	194,708	(15,118)	179,590
OTHER FINANCING SOURCES (USES)					
Transfers out	<u>(2,200)</u>	<u>-</u>	<u>(2,200)</u>	<u>-</u>	<u>(2,200)</u>
Net change in fund balance	(407,170)	599,678	192,508	(15,118)	177,390
Fund balance - beginning	<u>2,621,345</u>	<u>6,559</u>	<u>2,627,904</u>	<u>14,368</u>	<u>2,642,272</u>
Fund balance - ending	<u>\$ 2,214,175</u>	<u>\$ 606,237</u>	<u>\$ 2,820,412</u>	<u>\$ (750)</u>	<u>\$ 2,819,662</u>

⁽¹⁾ Appropriation level

OTHER SUPPLEMENTARY INFORMATION

COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

CITY OF MILLERSBURG
Linn County, Oregon

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2011

	Street Fund	Street Reserve Fund	Sewer Construction Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 320,434	\$ 361,682	\$ 13,783	\$ 695,899
Due from other government agencies	3,254	-	-	3,254
 Total assets	 \$ 323,688	 \$ 361,682	 \$ 13,783	 \$ 699,153
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 3,327	\$ -	\$ -	\$ 3,327
Fund balances				
Restricted for system development	63,756	56,672	-	120,428
Assigned	256,605	305,010	13,783	575,398
 Total fund balances	 320,361	 361,682	 13,783	 695,826
 Total liabilities and fund balances	 \$ 323,688	 \$ 361,682	 \$ 13,783	 \$ 699,153

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, 2011

	Street Fund	Street Reserve Fund	Sewer Construction Fund	Total Nonmajor Governmental Funds
REVENUES				
Highway use tax	\$ 58,015	\$ -	\$ -	\$ 58,015
System development charges	<u>-</u>	<u>56,672</u>	<u>-</u>	<u>56,672</u>
Total revenues	58,015	56,672	-	114,687
EXPENDITURES				
Materials and services	<u>38,117</u>	<u>-</u>	<u>-</u>	<u>38,117</u>
Excess (deficiency) of revenues over (under) expenditures	<u>19,898</u>	<u>56,672</u>	<u>-</u>	<u>76,570</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,000	50,100	-	51,100
Transfers out	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>
Total other financing sources (uses)	<u>(49,000)</u>	<u>50,100</u>	<u>-</u>	<u>1,100</u>
Net change in fund balances	(29,102)	106,772	-	77,670
Fund balances - beginning	<u>349,463</u>	<u>254,910</u>	<u>13,783</u>	<u>618,156</u>
Fund balances - ending	<u>\$ 320,361</u>	<u>\$ 361,682</u>	<u>\$ 13,783</u>	<u>\$ 695,826</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, 2011

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
REVENUES					
Intergovernmental Highway use tax	\$ 58,546	\$ (531)	\$ 58,015	\$ -	\$ 58,015
EXPENDITURES					
Current					
Materials and services	74,585	(36,700)	37,885	232	38,117
Contingency	376,979	(376,979)	-	-	-
Total expenditures	451,564	(413,679)	37,885	232	38,117
Excess (deficiency) of revenues over (under) expenditures	(393,018)	413,148	20,130	(232)	19,898
OTHER FINANCING SOURCES (USES)					
Transfers in	1,000	-	1,000	-	1,000
Transfers out	(50,000)	-	(50,000)	-	(50,000)
Total other financing sources (uses)	(49,000)	-	(49,000)	-	(49,000)
Net change in fund balance	(442,018)	413,148	(28,870)	(232)	(29,102)
Fund balance - beginning	442,018	(92,714)	349,304	159	349,463
Fund balance - ending	\$ -	\$ 320,434	\$ 320,434	\$ (73)	\$ 320,361

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, 2011

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		
			Budget Basis	GAAP Basis	
REVENUES					
System development charges	\$ 7,000	\$ 49,672	\$ 56,672	\$ -	\$ 56,672
EXPENDITURES					
Capital outlay	<u>312,010</u>	<u>(312,010)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	(305,010)	361,682	56,672	-	56,672
OTHER FINANCING SOURCES (USES)					
Transfers in	<u>50,100</u>	<u>-</u>	<u>50,100</u>	<u>-</u>	<u>50,100</u>
Net change in fund balance	(254,910)	361,682	106,772	-	106,772
Fund balance - beginning	<u>254,910</u>	<u>-</u>	<u>254,910</u>	<u>-</u>	<u>254,910</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 361,682</u>	<u>\$ 361,682</u>	<u>\$ -</u>	<u>\$ 361,682</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, 2011

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES					
Capital outlay	<u>13,783</u>	<u>(13,783)</u>	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(13,783)	13,783	-	-	-
Fund balance - beginning	<u>13,783</u>	-	<u>13,783</u>	-	<u>13,783</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 13,783</u>	<u>\$ 13,783</u>	<u>\$ -</u>	<u>\$ 13,783</u>

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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Variance with Final Budget Over (Under)</u>
REVENUES			
Charges for services			
User fees	\$ 494,000	\$ 494,000	\$ 158,346
Hookup fees	<u>6,693</u>	<u>6,693</u>	<u>29,528</u>
Total charges for services	500,693	500,693	187,874
Property taxes	656,621	656,621	23,899
Investment earnings	<u>100</u>	<u>100</u>	<u>(100)</u>
Total revenues	<u>1,157,414</u>	<u>1,157,414</u>	<u>211,673</u>
EXPENSES			
Current			
Materials and services			
Contracted services	-	-	329
Repairs and maintenance	70,000	70,000	11,164
Sewer treatment plant	110,000	110,000	(43,057)
Miscellaneous	<u>50,000</u>	<u>50,000</u>	<u>(20,363)</u>
Total materials and services ⁽¹⁾	230,000	230,000	(51,927)
Debt service	433,500	433,500	(7,164)
Depreciation expense	-	-	-
Capital outlay	-	4,000,000	(232,643)
Contingency	<u>200,000</u>	<u>200,000</u>	<u>(200,000)</u>
Total expenses	<u>863,500</u>	<u>4,863,500</u>	<u>(491,734)</u>
Excess (deficiency) of revenues over (under) expenses	<u>293,914</u>	<u>(3,706,086)</u>	<u>703,407</u>
OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	4,000,000	(232,633)
Transfers in	<u>1,000</u>	<u>1,000</u>	<u>-</u>
Total other financing sources (uses)	<u>1,000</u>	<u>4,001,000</u>	<u>(232,633)</u>
Change in net assets	294,914	294,914	470,774
Net assets - beginning	<u>951,049</u>	<u>951,049</u>	<u>166,451</u>
Net assets - ending	<u>\$ 1,245,963</u>	<u>\$ 1,245,963</u>	<u>\$ 637,225</u>

(1) Appropriation level

Budget Basis	Actual Adjustments	GAAP Basis
\$ 652,346	\$ 10,062	\$ 662,408
36,221	-	36,221
688,567	10,062	698,629
680,520	6,640	687,160
-	10	10
1,369,087	16,712	1,385,799
329	-	329
81,164	(1,070)	80,094
66,943	81,075	148,018
29,637	(29,635)	2
178,073	50,370	228,443
426,336	(223,044)	203,292
-	450,639	450,639
3,767,357	(3,767,357)	-
-	-	-
4,371,766	(3,489,392)	882,374
(3,002,679)	3,506,104	503,425
3,767,367	(3,767,367)	-
1,000	-	1,000
3,768,367	(3,767,367)	1,000
765,688	(261,263)	504,425
1,117,500	6,474,577	7,592,077
\$ 1,883,188	\$ 6,213,314	\$ 8,096,502

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, 2011

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual		GAAP Basis
			Budget Basis	Adjustments	
REVENUES					
Charges for services					
User fees	\$ 625,000	\$ (63,762)	\$ 561,238	\$ (4,122)	\$ 557,116
Connection fees	<u>8,300</u>	<u>24,786</u>	<u>33,086</u>	<u>-</u>	<u>33,086</u>
Total revenues	<u>633,300</u>	<u>(38,976)</u>	<u>594,324</u>	<u>(4,122)</u>	<u>590,202</u>
EXPENSES					
Current					
Materials and services					
Repairs and maintenance	280,000	(97,765)	182,235	(9,933)	172,302
Depreciation expense	-	-	-	364,673	364,673
Debt service	453,520	-	453,520	(209,845)	243,675
Capital outlay	184,350	(184,350)	-	-	-
Contingency	<u>200,000</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>1,117,870</u>	<u>(482,115)</u>	<u>635,755</u>	<u>144,895</u>	<u>780,650</u>
Excess (deficiency) of revenues over (under) expenses	(484,570)	443,139	(41,431)	(149,017)	(190,448)
OTHER FINANCING SOURCES (USES)					
Transfers in	<u>100</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>100</u>
Change in net assets	(484,470)	443,139	(41,331)	(149,017)	(190,348)
Net assets - beginning	<u>675,525</u>	<u>(51,711)</u>	<u>623,814</u>	<u>3,703,179</u>	<u>4,326,993</u>
Net assets - ending	<u>\$ 191,055</u>	<u>\$ 391,428</u>	<u>\$ 582,483</u>	<u>\$ 3,554,162</u>	<u>\$ 4,136,645</u>

OTHER FINANCIAL SCHEDULES

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF PROPERTY TAX TRANSACTIONS

For the Year Ended June 30, 2011

Tax Year	Taxes Receivable July 1, 2010	2010-2011 Levy	Adjustments	Collections	Taxes Receivable June 30, 2011
2010-2011	\$ -	\$ 707,191	\$ (18,972)	\$ 655,370	\$ 32,849
2009-2010	36,896	-	(516)	17,458	18,922
2008-2009	18,792	-	(559)	7,676	10,557
Subtotal - Prior	55,688	-	(1,075)	25,134	29,479
Total	<u>\$ 55,688</u>	<u>\$ 707,191</u>	<u>\$ (20,047)</u>	680,504	<u>\$ 62,328</u>
Add:					
Other taxes and interest				16	
Undistributed taxes with county, July 1, 2010				<u>-</u>	
Total available				680,520	
Less: Turnovers to City				<u>(680,520)</u>	
Undistributed taxes with county, June 30, 2011				<u><u>\$ -</u></u>	

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF FUTURE REQUIREMENTS FOR RETIREMENT OF
LONG-TERM DEBT

For the Year Ended June 30, 2011

Fiscal Year	Total Requirement All Issues			OECD Special Works Fund Loan		
	Principal	Interest	Total	Principal	Interest	Total
2011-2012	\$ 439,876	\$ 404,933	\$ 844,809	\$ 212,234	\$ 239,029	\$ 451,263
2012-2013	455,780	386,330	842,110	221,208	227,356	448,564
2013-2014	477,111	367,024	844,135	235,399	215,190	450,589
2014-2015	498,892	346,719	845,611	249,822	202,243	452,065
2015-2016	521,140	325,395	846,535	264,487	188,502	452,989
2016-2017	538,875	303,036	841,911	274,409	173,956	448,365
2017-2018	567,120	279,890	847,010	294,601	158,863	453,464
2018-2019	590,896	255,390	846,286	310,080	142,660	452,740
2019-2020	615,228	229,784	845,012	325,860	125,606	451,466
2020-2021	640,135	203,050	843,185	341,956	107,683	449,639
Thereafter	4,502,912	641,593	5,144,505	1,572,415	226,984	1,799,399
Total	\$ 9,847,965	\$ 3,743,144	\$ 13,591,109	\$ 4,302,471	\$ 2,008,072	\$ 6,310,543

Fiscal Year	City of Albany Loan #1			City of Albany Loan #2		
	Principal	Interest	Total	Principal	Interest	Total
2011-2012	\$ 114,861	\$ 87,953	\$ 202,814	\$ 112,781	\$ 77,951	\$ 190,732
2012-2013	118,497	84,317	202,814	116,075	74,657	190,732
2013-2014	122,246	80,568	202,814	119,466	71,266	190,732
2014-2015	126,115	76,699	202,814	122,955	67,777	190,732
2015-2016	130,106	72,708	202,814	126,547	64,185	190,732
2016-2017	134,223	68,591	202,814	130,243	60,489	190,732
2017-2018	138,471	64,343	202,814	134,048	56,684	190,732
2018-2019	142,853	59,961	202,814	137,963	52,769	190,732
2019-2020	147,374	55,440	202,814	141,994	48,738	190,732
2020-2021	152,038	50,776	202,814	146,141	44,591	190,732
Thereafter	1,502,748	221,144	1,723,892	1,427,749	193,465	1,621,214
Total	\$ 2,829,532	\$ 922,500	\$ 3,752,032	\$ 2,715,962	\$ 812,572	\$ 3,528,534

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



Koontz & Perdue, P.C.
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS**

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

We have audited the basic financial statements of the City of Millersburg as of and for the year ended June 30, 2011, and have issued our report thereon dated January 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Compliance

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 grants, including the provisions of Oregon Revised Statutes, as specified in Oregon Administrative Rules 162-010-0000 through 162-010-0320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

Accounting records

Deposit of public funds with financial institutions (ORS Chapter 295)

Indebtedness limitations, restrictions, and repayment

Budgets legally required (ORS Chapter 294)

Insurance and fidelity bonds in force or required by law

Programs funded from outside sources

Highway revenues used for public highways, roads, and streets

Authorized investment of surplus funds (ORS Chapter 294)

Public contracts and purchasing (ORS Chapters 279A, 279B, 279C)

In connection with our testing, nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, contracts, and grants, including the provisions of Oregon Revised Statutes, as specified in Oregon Administrative Rules 162-010-0000 through 162-010-0320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

OAR 162-010-0230 Internal Control

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting. However, we noted certain matters that we have reported to management of the City in a separate letter dated January 4, 2012.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, as defined above. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Koontz & Perdue, P.C.

January 4, 2012

SINGLE AUDIT SECTION

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2011

Federal Grantor, Pass through Grantor, Program Title	CFDA	Expenditures
<u>Environmental Protection Agency</u>		
Passed through Oregon Department of Environmental Quality Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>\$ 3,767,357</u>

CITY OF MILLERSBURG
Linn County, Oregon

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2011

I. PURPOSE OF SCHEDULE

The schedule of expenditures of federal awards is a supplementary schedule to the City of Millersburg's basic financial statements and is presented for additional analysis. Because the schedule presents only a selected portion of the activities of the City, it is not intended to and does not present the financial position, changes in net assets, nor the operating funds' revenues and expenses.

II. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The information in the schedule of expenditures of federal awards is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

B. Federal Financial Assistance

Pursuant to the Single Audit Act of 1984 and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, non-monetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the schedule of expenditures of federal awards, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

C. Major Programs

The Single Audit Act of 1984 and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs of the City are those programs selected for testing by the auditor using a risk assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

D. Reporting Entity

The reporting entity is fully described in the notes to the City's basic financial statements. Additionally, the schedule of expenditures of federal awards includes all federal programs administered by the City for the year ended June 30, 2011.

E. Revenue and Expenditure Recognition

The receipt and expenditure of federal awards are accounted for under the modified accrual basis of accounting. Revenues are recorded as received in cash or on the accrual basis where measurable and available. Expenditures are recorded when the liability is incurred.



Koontz & Perdue, P.C.
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS 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 financial statements of 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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 4, 2012. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Millersburg'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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies in internal control over financial reporting (items 11-03 through 11-05). A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 11-01 and 11-02.

We noted certain matters that we reported to the management of the City of Millersburg in a separate letter dated January 4, 2012.

The City of Millersburg's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of management, the city council, the Oregon Division of Audits, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be used by anyone other than these specified parties.



Koontz & Perdue, P.C.

Albany, Oregon
January 4, 2012



Koontz & Perdue, P.C.
Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Millersburg's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Millersburg's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in items 11-03 through 11-05 in the accompanying schedule of findings and questioned costs, the City of Millersburg did not comply with requirements regarding reporting and internal control over federal programs that are applicable to its major program, Capitalization Grants for Clean Water State Revolving Funds. Compliance with such requirements is necessary, in our opinion, for the City of Millersburg to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Millersburg complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Millersburg is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Millersburg's internal control over compliance.

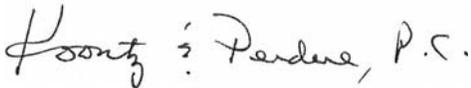
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-01 and 11-02 to be material weaknesses.

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Millersburg's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of management, the city council, the Oregon Division of Audits, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be used by anyone other than these specified parties.



Koontz & Perdue, P.C.

Albany, Oregon
January 4, 2012

CITY OF MILLERSBURG
Linn County, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2011

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's opinion issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance Circular A-133, section 510(a)?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
City qualified as low-risk auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding Number	Finding
11-03	Lack of adequate segregation of duties.
Condition:	During testing, it was noted that the City has a lack of adequate segregation of duties relating to accounting, payroll, utility billing and financial reporting functions.
Prevalence:	Entity-wide
Criteria:	In an ideal situation, no one employee has access to both physical assets and the related accounting records or to all phases of a transaction.
Questioned costs:	None
Effect:	The possibility exists that unintentional errors or irregularities could exist and not be promptly detected.
Recommendations:	We recommend that the city council and all members of management remain diligent in monitoring the financial activities of the City.
Management's response:	Management concurs with the finding.

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding Number	Finding
11-04	Supporting documentation lacking for substantiating credit card charges.
Condition:	While performing audit procedures, it was noted that there were instances of charges made with the City's credit card for which there was no supporting documentation.
Prevalence:	Several instances
Criteria:	All charges made to credit cards should be documented by receipts and reconciled to statements on a regular basis.
Questioned costs:	None
Effect:	This practice could result in the payment of unsubstantiated or unauthorized expenses.
Recommendations:	We recommend that the City begin reconciling statements to receipts and requiring all staff to turn in backup documentation for charges.
Management's response:	Management concurs with the finding.

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

<u>Finding Number</u>	<u>Finding</u>
11-05	<p>The current accounting department for the City performs adequately in the basic accounting recordkeeping function. However the City Recorder/Administrator has additional duties relating to administrative functions and involvement in the City's operations, which take time away from performing necessary accounting procedures. Additionally, the process is lacking a higher-level review function typically performed by a city controller or equivalent.</p>
Condition:	<p>In the recent past, the City has grown substantially with increased federal funding and projects. The type of growth has made some accounting duties increasingly complex and requires extensive expertise to ensure that accounting, reporting and compliance are accurate and in accordance with applicable standards.</p>
Prevalence:	<p>Accounting and related functions</p>
Criteria:	<p>A higher level of review function should be a part of controls for the City</p>
Questioned costs:	<p>None</p>
Effect:	<p>Increased possibility for material noncompliance, errors, or fraud to occur without detection or correction by the City.</p>
Recommendations:	<p>We recommend that the City either hire or contract a controller on a part-time basis to provide the needed higher level accounting role consistently throughout the year.</p>
Management's response:	<p>Management concurs with the finding.</p>

SECTION III – FEDERAL AWARD FINDINGS

<u>Finding Number</u>	<u>Finding</u>
11-01	The City has neither designed nor implemented adequate controls over compliance with federal programs.
Condition:	During testing of federal programs, it was noted that there was a lack of controls over compliance relating to federal programs. This caused one instance of noncompliance as discussed in finding 11-02, and creates the potential for widespread noncompliance. Although the City has contracted with an outside party to assist in managing the federal grant project, responsibility for compliance and monitoring of requirements still falls on the City.
Prevalence:	Entity-wide
Criteria:	Controls over compliance should be designed so that material noncompliance pertaining to the City's federal programs would be prevented, or detected and corrected on a timely basis.
Questioned costs:	None
Effect:	Noncompliance relating to federal grants and projects.
Recommendations:	Ensure that key employees are adequately trained in grant compliance, and take steps to design and implement adequate controls over compliance to prevent future material noncompliance.
Management's response:	Management concurs with the finding.

SECTION III – FEDERAL AWARD FINDINGS (Continued)

Finding Number	Finding
11-02	The City did not file required ARRA report in a timely manner and did not properly review submitted reports for accuracy.
Condition:	The City is required by the grant agreement to file quarterly reports with the monitoring agency no later than three business days following each quarter. We noted that the first required report was filed late. Subsequent reports were filed in a timely manner; however, City staff was not adequately monitoring the amounts and information provided by the outside grant manager to ensure accuracy.
Prevalence:	Entity-wide
Criteria:	Controls should be present to ensure all compliance requirements are documented and tracked at grant inception. Although the City has contracted with an outside party to assist in managing the federal grant project, responsibility for compliance and monitoring of requirements still falls on the City.
Questioned costs:	None
Effect:	ARRA reporting is considered a high priority by the Federal government. Lack of accurate reporting and untimely filings increase the risk of loss of grant funding, demand for repayment of federal funding, and potential criminal charges.
Recommendations:	Ensure that key employees are adequately trained in grant compliance, and take steps to design and implement adequate controls over compliance to prevent future material noncompliance.
Management's response:	Management concurs with the finding.

SECTION IV – CORRECTIVE ACTION PLAN

<u>Finding Number</u>	<u>Corrective Action</u>
11-01	The situation arose because the City was unaware that the funds received were Federal financial assistance funds. Once management became aware of their responsibilities, appropriate steps were taken to design and implement the necessary controls.
11-02	The ARRA report in question was the first report filed by the City. It was three days late. Subsequent reports have been filed timely. Management believes current procedures are adequate to prevent untimely filing from reoccurring.
11-03	Adequate segregation of duties is difficult with a small staff. It is impractical to hire additional staff. Management will evaluate how to increase the involvement of the mayor and council in the monitoring and review of city transactions.
11-04	The missing documentation mainly relates to fuel charges. The service station in town had a practice of not issuing receipts for fuel charges. The City has spoken with the service station personnel and City personnel, and receipts will be issued for future fuel purchases.
11-05	The increased complexity experienced by the City relates to Federal and State funding sources. The City has made arrangements with the City of Albany for assistance with Federal compliance for joint projects. The City has also contacted an independent CPA firm for assistance on an as-needed basis. Management believes these arrangements will adequately address the finding.