

NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2007

I. Summary of Significant Accounting Policies

A. Reporting Entity

1. Primary Government

The City of McMinnville, Oregon (City), an Oregon municipal corporation, is organized under the general laws of the State of Oregon and the provisions of the *McMinnville City Charter*. The City's council-manager form of government provides for a governing body, or legislative branch, consisting of the Mayor and a six-member City Council. The Mayor and City Council appoint a City Manager, who along with the City department heads, form a management team to lead and direct the administrative and service functions of the City carrying out City Council policy.

The accompanying basic financial statements present the City and its component unit, McMinnville Water and Light Department (Department). The Department is a discretely presented component unit and as such is reported in a separate column in the government-wide financial statements to emphasize the Department's separate enterprise operation from the City. Both the City and the Department have June 30th fiscal year ends.

Various other governmental agencies and special service districts provide services within the City's boundaries. However, the City is not financially accountable for any of these entities; and accordingly, their financial information is not included in these basic financial statements.

2. Discretely Presented Component Unit

The Department, which operates under the provisions of *Chapter X* of the *McMinnville City Charter*, is reported as a discretely presented component unit enterprise fund type. The Department provides electric and water service to residential and commercial customers in the city limits and adjacent areas of McMinnville, Oregon. The Department's governing board, the five-member Water and Light Commission, appoints a General Manager who is responsible for the day-to-day operations of the Department.

The Department is presented as a discretely presented component unit as the City's Mayor appoints all members of the Department's Water and Light Commission and the McMinnville City Council affirms all appointments. Also, although the Department operates as a separate financial entity, the City receives significant payment-in-lieu of tax payments using a percentage established by the City Council.

Financial statements for the Department may be obtained at the McMinnville Water and Light Department, Administrative Office, 855 Marsh Lane, McMinnville, Oregon 97128.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

I. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Financial Statements

Government-wide financial statements present information about the primary government and its component unit. The effect of interfund activity has been removed from these statements except for interfund services provided and used and reimbursements between funds which if eliminated would distort the direct costs and program revenues reported for the various functions. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component unit for which the primary government is financially accountable. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocations of overhead. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from a function or segment or are otherwise directly affected by it; 2) operating grants and contributions that are restricted to meeting requirements of a particular function or segment; and 3) capital grants and contributions that are restricted to meeting requirements of a particular function or segment. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

2. Fund Financial Statements

Fund financial statements present information at the individual fund level. Funds are classified and summarized as governmental, proprietary, or fiduciary type. Currently, the City has only governmental and proprietary type funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are combined into a single column in the fund financial statements and are detailed in the supplemental information. Internal service funds are also combined into a single column in the fund financial statements and are detailed in the supplemental information.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

Government-wide financial statements and proprietary fund financial statements are presented using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets are capitalized and depreciated and City debt is reported as a liability with premiums, discounts, and issuance costs amortized over the life of the debt.

Governmental fund financial statements are presented 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 year end. Property taxes, payment-in-lieu of tax due from the Department, assessment liens, and state shared revenues are susceptible to the year-end 60-day accrual. All other revenue items are considered to be measurable and available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under full accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

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

D. Financial Statement Presentation

The financial transactions of the City are recorded in individual funds. A fund is an independent accounting entity with a self-balancing set of accounts comprised of assets, liabilities, equity, revenues, and expenditures. Fund accounting segregates resources according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions.

Accounting principles generally accepted in the United States of America (GAAP) sets forth minimum criteria for the determination of major funds. The City elected to include all property tax supported funds as major funds due to community interest in these resources.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

I. Summary of Significant Accounting Policies (Continued)

D. Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

- 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. Principal sources of revenue are property taxes; licenses and permits, which includes payment-in-lieu of tax from the Department, franchise fees, and building fees; and intergovernmental revenues. Expenditures are primarily for police, library, engineering, building, planning, administration, and financial services.
- Fire Fund – is a special revenue fund which accounts for the portion of the City's property tax operating levy allocated to fire protection and the McMinnville Rural Fire District contract for fire service.
- Parks and Recreation Fund – is a special revenue fund which accounts for the portion of the City's property tax operating levy allocated to parks and recreation activities and related charges for services.
- Improvement Fund – is a special revenue fund which accounts for the portion of the City's property tax operating levy allocated to major operating and capital improvements and related long-term debt service.
- Debt Service Fund – accounts for the City's debt service property tax levy allocated to the payment of principal and interest for general obligation bonds.
- Public Safety Civic Buildings Construction Fund – is a capital projects fund which accounts for the 2006 public safety bond proceeds to be used for the design and construction of a police station and a city council/municipal courtroom building.
- Park Development Fund – is a capital projects fund which accounts for park system development charges collected from property developers and the 2001 park system improvement bond proceeds used for park system expansion and improvements.

Additionally, the City reports non-major funds within the governmental type which include the following:

- Special Revenue Funds – account for revenue sources that are legally restricted to expenditures for specific purposes including the City's Telecommunications Fund, Emergency Communications Fund, Street (State Gas Tax) Fund, Airport Maintenance Fund, and Special Assessment Fund.
- Capital Projects Funds – account for the acquisition and construction of major capital projects other than those being financed by proprietary funds. The City's non-major capital projects funds include the Transportation Fund and the Special Capital Projects Fund.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

I. Summary of Significant Accounting Policies (Continued)

D. Financial Statement Presentation (Continued)

The City reports both of its enterprise funds as major proprietary funds. The City's enterprise funds include the following funds:

- Wastewater Fund – combines budgetary basis Wastewater Services Fund and Wastewater Capital Fund for GAAP presentation.
 - Wastewater Services Fund – accounts for charges for services to support water reclamation facility operations, storm and sanitary system repairs and maintenance, and rate payer transfer to the Wastewater Capital Fund.
 - Wastewater Capital Fund – accounts for sanitary sewer system development charges used for major sanitary sewer system construction projects and transfers from the Wastewater Services Fund supporting debt service and major capital projects.
- Ambulance Fund – accounts for emergency medical services revenues, the Fire Fund operating subsidy, and related expenses.

The City also reports internal service funds within the proprietary fund type. The City's internal service funds include the Insurance Services Fund which accounts for the City's property, liability, workers' compensation, medical, and state employment insurance premiums and charges; and the Information Systems and Services Fund which accounts for the City's computer support including personal services, repairs and maintenance, and software and hardware purchases.

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

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

In preparing the City's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

I. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, and Equity

1. Cash and Investments

The City's cash and cash equivalents, including restricted cash and investments, are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and the State of Oregon Local Government Investment Pool deposits. Investments are stated at fair value.

2. Receivables and Payables

Transactions between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year, as well as all other outstanding balances between funds or between the primary government and its component unit are referred to as "due to" or "due from" other funds or component unit. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". As the City's internal service funds are categorized as governmental activities, a negative internal balance for business-type activities discloses an internal service liability to governmental activities.

Property taxes are assessed as of January 1 and become a lien as of July 1 on all taxable property. Property taxes are due on November 15. Collection dates are November 15, February 15, and May 15. Discounts are allowed if the amount due or two-thirds of the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

In the government-wide financial statements, property taxes are recognized as revenue in the year for which they are levied. In the fund financial statements, property taxes receivable which have been collected within 60 days subsequent to year-end are considered "measurable" and "available" and are recognized as revenues. All other property taxes receivable are offset by deferred revenue as they are deemed unavailable to finance operations of the current period.

In the government-wide financial statements and in the proprietary fund financial statements, an allowance for doubtful accounts is recorded in business-type activities for ambulance transport charges and in the Department. No allowance for doubtful accounts is recorded for sewer charges as uncollectible accounts are deemed immaterial. No allowance for doubtful accounts is considered necessary in governmental activities as receivables either become property liens when past due or are considered immaterial.

Receivables of the proprietary fund types and the Department are recorded as revenue as earned, including utility services which are earned, although not yet billed. The allowance for doubtful accounts in the Department is determined by considering a number of factors, including the length of time trade accounts receivable are past due, the customer's previous loss history, the customer's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. The allowance for doubtful accounts in the Ambulance Fund is established as a percentage of billings versus collections of the year-end accounts receivable based on the fiscal year's collection history.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

I. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, and Equity (Continued)

3. Inventories and Prepaid Items

Inventories of the Department are stated at the lower of average cost or market and charged against operations or construction in progress as used.

In both government-wide and fund financial statements, certain payments to vendors reflect costs applicable to future City accounting periods and are recorded as prepaid items.

4. Restricted Assets

Certain cash and investments are restricted, including unspent public safety civic buildings bond proceeds, unspent park system improvement bond proceeds, and a library endowment.

5. Capital Assets

In the government-wide financial statements, capital assets include property, plant, equipment, and infrastructure assets (streets, traffic lights, storm drain, and sanitary sewer) and are reported in the applicable governmental or business-type activities columns. In the governmental fund financial statements, capital assets are charged to expenditures as purchased; while in the proprietary fund financial statements, capital assets are capitalized when purchased.

Capital assets are defined by the City as assets with an initial cost of \$5,000 or more and an estimated useful life of more than one year. With respect to the Department, utility plant is stated at cost and includes plant and equipment with an initial cost of \$5,000 or more and an estimated useful life of more than one year. Cost generally includes materials, labor and an allocation of overhead costs. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Assets are recorded at historical cost or estimated historical cost if historical cost is not available. Interest incurred during the construction phase of proprietary fund type's and the Department's capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. During fiscal year ending June 30, 2007, the City capitalized \$2,315 of interest.

All infrastructure assets, including those acquired before the fiscal year ended June 30, 1980, have been capitalized. Estimated historical cost has been determined by estimating current cost and trending back to the acquisition date using an applicable cost index. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF MC MINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

I. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, and Equity (Continued)

5. Capital Assets (Continued)

Exhaustible assets of the City and the Department are depreciated using the straight-line method, except for certain street and sewer infrastructure which are depreciated using the composite method, over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
City:	
Land improvements	20
Buildings and building improvements	20 – 30
Computer equipment	4 – 5
Machinery and equipment	5 – 15
Vehicles	5 – 10
Computer infrastructure	10 – 50
Street and sewer infrastructure	20 – 50
Department:	
Office and other equipment	10 – 14
Transportation equipment	5 – 10
Electricity and water infrastructure	20 – 100

6. Compensated Absences

The City's and Department's policies permit employees to accumulate earned but unused vacation, compensatory time, and sick leave benefits. No liability is reported for unpaid accumulated sick leave benefits as sick leave benefits do not vest. In the government-wide, proprietary fund, and component unit financial statements, all vacation and compensatory time is accrued when incurred. In the governmental fund financial statements, a liability for compensated absences is reported only if they have matured and thus become due.

7. Long-Term Debt

In the government-wide and proprietary fund type financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the related debt issue. Long-term debt payable is reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

In the governmental fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums are also reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

8. Fund Equity

In the governmental fund financial statements, reservations of fund balances represent amounts that are legally restricted by outside parties for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

All City governmental funds adopt annual budgets on the modified accrual basis of accounting. All City proprietary funds adopt annual budgets on the modified accrual basis of accounting with certain full accrual basis adjustments that are acceptable under State of Oregon Budget Law. Budget to GAAP reconciling items are listed on the individual proprietary fund Statements of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual – Budgetary Basis. All annual appropriations lapse at June 30th.

The City begins its budgeting process by appointing Budget Committee members in January of each year. Budget recommendations are developed by management through early spring, with the Budget Committee meeting and approving the proposed budget document in May. Public notices of the approved budget and City Council public hearing are generally published in May and June with the budget public hearing held in June. The City Council adopts the budget, makes appropriations, and declares the operating and debt service property tax levies and tax rate no later than June 30th.

The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. For the General, Parks and Recreation, Wastewater Services, Ambulance, and Information Systems and Services Funds, levels of budgetary control are established at the department level. For all other funds, appropriations are established at the personal services, materials and services, capital outlay, debt service, operating contingencies, and other requirements level. All negative expenditure variances shown on the Statements of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual are at levels below the legally adopted appropriation level and thus are not expenditures in excess of appropriations.

All changes and amendments to the budget require the approval of the City Council. Supplemental budgets less than 10% of a fund's original budget may be adopted by the City Council at a regular City Council meeting. A supplemental budget greater than 10% of a fund's original budget requires publication, a hearing before the public, and approval by the City Council. No supplemental budgets were approved by the City Council during the 2006-2007 budget year. Original and supplemental budgets may be modified by the use of appropriation transfers between levels of control. Such transfers also require approval by the City Council. The City Council approved several appropriation transfers during the fiscal year ended June 30, 2007. The Statements of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual – Budgetary Basis present both the budget as originally adopted and the budget after adjustments for all legally authorized revisions.

The Department is exempt from Oregon Local Budget Law, pursuant to Oregon Revised Statutes (ORS) 294.316, due to being a municipal public utility operating under a separate commission and not receiving ad valorem tax support.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts

A. Cash and Investments

Oregon Revised Statutes authorize the City to invest in general obligations of the U.S. Government and its agencies; certain bonded obligations of Oregon municipalities; bank repurchase agreements; certificates of deposit; bankers' acceptances; the State of Oregon Local Government Investment Pool; and certain corporate indebtedness, which includes only the four highest ratings by the ratings agencies.

The State of Oregon Local Government Investment Pool (Pool) is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the Pool's investment policies. The State Treasurer is the investment officer for the Pool and is responsible for all funds in the Pool. These funds must be invested, and the investments managed as a prudent investor would, exercising reasonable care, skill, and caution. Investments in the Pool are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board which establishes diversification percentages and specifies the types and maturities of investments. The Oregon Audits Division audits the Pool annually. The Division's report on the Pool as of and for the year ended June 30, 2007 was unqualified. The fair value of the City's position in the Pool at June 30, 2007 was 99.97% of the value of the Pool shares. The Pool does not have a credit quality rating by a nationally recognized statistical rating organization and is therefore unrated.

At year end, the City's total book balance was \$706,989, less overnight repurchase agreements of \$1,186,504 which are classified as investments for note disclosure, resulting in a net book cash balance of \$(479,515) for note disclosure. The bank balance was \$62,626. At year end, the Department's book balance was \$417,114 and the bank balance was \$2,712,053. Both the City's and the Department's bank balances were covered by separate \$100,000 Federal Depository Insurance and each entity's remaining bank balance was covered by collateral held in the pledging bank's trust department in the name of the bank. For each entity, collateralization met Oregon Revised Statutes requirements. Oregon Revised Statutes require the depository institution to maintain on deposit, with a collateral pool manager, securities having a value not less than 25% of the outstanding certificates of participation issued by the pool manager. Although in compliance with Oregon Revised Statutes, the City had \$7,581,075 custodial credit risk exposure uncollateralized and uninsured according to *Governmental Accounting Standards Board Statement No. 40 Deposit and Investment Risk Disclosures*.

CITY OF MC MINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

A. Cash and Investments (Continued)

At June 30, 2007, the City's cash and investment balances were as follows:

	<u>Fair Value</u>
Cash held in city offices	\$ 2,685
Overnight repurchase agreements	1,186,504
Deposits with financial institutions, net of overnight repurchase agreements	(494,226)
Deposits with financial institutions, money market account	14,711
Deposits with financial institutions, high balance public money market savings account	10,281,946
Oregon State Local Government Investment Pool – City's general account	17,300,078
Oregon State Local Government Investment Pool – Park system improvement bond proceeds	4,755,794
Oregon State Local Government Investment Pool – Public safety civic buildings bond proceeds	13,033,613
Total City cash and investments	<u>\$ 46,081,105</u>

The City's cash and investments are reflected in the government-wide statement of net assets as follows:

Cash and investments:	
Unrestricted	\$ 28,268,468
Restricted	17,812,637
Total cash and investments	<u>\$ 46,081,105</u>

At June 30, 2007, the Department's cash and investment balances were as follows:

	<u>Fair Value</u>
Cash on hand	\$ 1,400
Deposits with financial institutions	417,114
Certificate of deposit	2,091,987
Oregon State Local Government Investment Pool	36,505,735
Total Department cash and investments	<u>\$ 39,016,236</u>

Custodial credit risk is the risk that, in the event of 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. At June 30, 2007, the City does not have investments exposed to custodial credit risk.

The City's investment policy allows 100% of the City's investments to be invested in the Pool. As a means to limit exposure to fair value losses arising from changes in interest rates, the City's investment policy requires that all investments other than the Pool mature in less than one year. The weighted average maturities of the Pool at June 30, 2007, were 84 days.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

B. Restricted Assets

The City's restricted assets consist of the following at June 30, 2007:

Governmental activities:

Park system improvement bond unspent proceeds	\$ 4,755,794
Public safety civic buildings bond unspent proceeds	13,033,613
Non-expendable library endowment	23,230
Total governmental activities and primary government	<u>\$ 17,812,637</u>

C. Receivables

1. Governmental Activities

In the fund financial statements, receivables as of year-end for the City's governmental individual major and non-major funds in the aggregate are as follows:

	General	Fire	Parks and Recreation	Improve- ment	Debt Service	Park Develop- ment	Total Non- Major	Total Govern- mental
Receivables:								
Accounts	\$ 50,686	\$ 2,137	\$ 55,909	\$ 9,067	\$ -	\$ 20,360	\$ 200,673	\$ 338,832
Property taxes	273,794	90,249	91,638	34,235	61,204	-	-	551,120
Cash with county treasurer	83,696	34,639	38,301	14,044	32,231	-	-	202,911
Assessments	7,158	-	-	-	-	-	23,438	30,596
Total	<u>\$ 415,334</u>	<u>\$ 127,025</u>	<u>\$ 185,848</u>	<u>\$ 57,346</u>	<u>\$ 93,435</u>	<u>\$ 20,360</u>	<u>\$ 224,111</u>	<u>\$1,123,459</u>

In the government-wide financial statements, property tax revenue is reported net of discounts, adjustments, and interest as follows:

	General	Fire	Parks and Recreation	Improvement	Debt Service	Total Governmental
Gross revenue	\$ 4,124,636	\$ 1,796,832	\$ 1,854,795	\$ 680,846	\$ 1,521,739	\$ 9,978,848
Less: discounts	(222,162)	(92,433)	(102,292)	(40,579)	(85,478)	(542,944)
Net revenue	<u>\$ 3,902,474</u>	<u>\$ 1,704,399</u>	<u>\$ 1,752,503</u>	<u>\$ 640,267</u>	<u>\$ 1,436,261</u>	<u>\$ 9,435,904</u>

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

C. Receivables (Continued)

1. Governmental Activities (Continued)

In the fund financial statements, governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent property taxes receivable:			
General Fund	\$ 237,894	\$ -	\$ 237,894
Fire Fund	76,388	-	76,388
Parks and Recreation Fund	75,087	-	75,087
Capital Improvement Fund	28,186	-	28,186
Debt Service Fund	46,946	-	46,946
Delinquent special assessments receivable	25,267	-	25,267
Delinquent fire fees receivable	2,107	-	2,107
Pledged donation receivable	10,000	-	10,000
Operating funds received but not earned	-	194,234	194,234
Total deferred revenue	<u>\$ 501,875</u>	<u>\$ 194,234</u>	<u>\$ 696,109</u>

2. Business-Type Activities

In the fund financial statements, receivables as of year-end for the City's individual major enterprise funds are as follows:

	<u>Wastewater</u>	<u>Ambulance</u>	<u>Total Enterprise</u>
Receivables:			
Accounts	\$ 538,292	\$ 526,875	\$ 1,065,167
Less: allowance for uncollectibles	-	(218,426)	(218,426)
Net receivables	<u>\$ 538,292</u>	<u>\$ 308,449</u>	<u>\$ 846,741</u>

Ambulance revenue is reported net of uncollectible amounts and direct medical insurance contractual write-off's as follows:

Gross revenue	\$ 2,878,257
Less: change in allowance for uncollectible	(66,219)
medical write-off's	(1,079,882)
Net revenue	<u>\$ 1,732,156</u>

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

C. Receivables (Continued)

3. Department

In the government-wide financial statements, receivables as of year-end for the Department are as follows:

Accounts receivable	\$ 3,475,315
Less: allowance for uncollectibles	(49,444)
Net receivables	<u>\$ 3,425,871</u>

D. Capital Assets

In the government-wide financial statements, the City's governmental activities' capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non-depreciable:				
Land	\$ 24,136,226	\$ 1,549,281	\$ -	\$ 25,685,507
Construction in progress	2,469,939	1,148,495	(1,859,831)	1,758,603
Total non-depreciable	<u>26,606,165</u>	<u>2,697,776</u>	<u>(1,859,831)</u>	<u>27,444,110</u>
Depreciable:				
Land improvements	10,984,567	44,083	-	11,028,650
Buildings	17,569,170	2,066,934	-	19,636,104
Machinery and equipment	3,526,648	188,660	(14,009)	3,701,299
Vehicles	3,238,453	240,726	(154,471)	3,324,708
Infrastructure	41,817,700	2,747,159	-	44,564,859
Total depreciable	<u>77,136,538</u>	<u>5,287,562</u>	<u>(168,480)</u>	<u>82,255,620</u>
Accumulated depreciation:				
Land improvements	(3,002,109)	(532,112)		(3,534,221)
Buildings	(9,893,407)	(610,463)	-	(10,503,870)
Machinery and equipment	(1,167,864)	(400,824)	8,966	(1,559,722)
Vehicles	(2,100,178)	(191,845)	125,791	(2,166,232)
Infrastructure	(23,149,601)	(1,840,903)	-	(24,990,504)
Total accumulated depreciation	<u>(39,313,159)</u>	<u>(3,576,147)</u>	<u>134,757</u>	<u>(42,754,549)</u>
Governmental activities capital assets, net	<u>\$ 64,429,544</u>	<u>\$ 4,409,191</u>	<u>\$(1,893,554)</u>	<u>\$ 66,945,181</u>

At June 30, 2007, the City's government-wide governmental activities construction in progress consisted primarily of costs related to construction costs for the public safety civic buildings bond projects and the park system improvement bond projects.

CITY OF MC MINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

D. Capital Assets (Continued)

Depreciation expense was charged to governmental activities functions as follows:

General government	\$ 80,343
Community development	3,757
Public safety:	
Police	103,961
Fire	184,041
Emergency communications	54,927
Highways and streets	1,887,615
Culture and recreation:	
Parks and recreation	735,397
Library	104,852
Airport	262,972
Internal service fund capital asset depreciation in the government-wide financial statements is charged to the various functions based on their usage of the assets.	158,282
Total governmental activities depreciation expense	<u>\$ 3,576,147</u>

In the government-wide financial statements, the City's business-type activities' capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non-depreciable:				
Land	\$ 871,887	\$ -	\$ -	\$ 871,887
Construction in progress	193,764	150,261	(151,133)	192,892
Total non-depreciable	<u>1,065,651</u>	<u>150,261</u>	<u>(151,133)</u>	<u>1,064,779</u>
Depreciable:				
Land improvements	93,808	-	-	93,808
Buildings	40,631,806	262,313	-	40,894,119
Machinery and equipment	951,232	21,571	-	972,803
Vehicles	899,448	229,401	(39,785)	1,089,064
Infrastructure	31,696,030	1,178,568	(9,345)	32,865,253
Total depreciable	<u>74,272,324</u>	<u>1,691,853</u>	<u>(49,130)</u>	<u>75,915,047</u>
Accumulated depreciation:				
Land improvements	(31,618)	(4,690)	-	(36,308)
Buildings	(15,719,628)	(1,556,994)	-	(17,276,622)
Machinery and equipment	(576,952)	(87,551)	-	(664,503)
Vehicles	(656,282)	(64,482)	26,852	(693,912)
Infrastructure	(5,516,618)	(633,921)	9,345	(6,141,194)
Total accumulated depreciation	<u>(22,501,098)</u>	<u>(2,347,638)</u>	<u>36,197</u>	<u>(24,812,539)</u>
Business-type activities capital assets, net	<u>\$ 52,836,877</u>	<u>\$ (505,524)</u>	<u>\$ (164,066)</u>	<u>\$ 52,167,287</u>

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

D. Capital Assets (Continued)

At June 30, 2007, the City's government-wide business-type activities construction in progress consisted of costs related to the water reclamation facility telemetry upgrade.

Depreciation expense was charged to business-type activities functions as follows:

Wastewater	\$ 2,290,914
Ambulance	56,724
Total business-type activities depreciation expense	<u>\$ 2,347,638</u>

The Department's capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non-depreciable:				
Land	\$ 2,321,254	\$ -	\$ -	\$ 2,321,254
Construction in progress	4,351,081	3,561,940	(3,424,469)	4,488,552
Total non-depreciable	<u>6,672,335</u>	<u>3,561,940</u>	<u>(3,424,469)</u>	<u>6,809,806</u>
Depreciable:				
Buildings	11,514,840	313,184	-	11,828,024
Machinery and equipment	1,782,739	42,805	-	1,825,544
Vehicles	1,018,961	57,519	-	1,076,480
Infrastructure	80,659,006	3,702,713	(495,727)	83,865,992
Total depreciable	<u>94,975,546</u>	<u>4,116,221</u>	<u>(495,727)</u>	<u>98,596,040</u>
Accumulated depreciation:				
Electric plant	(12,835,643)	(1,276,313)	552,428	(13,559,528)
Water treatment plant	(11,984,661)	(967,156)	23,059	(12,928,758)
Vehicles	(857,852)	(41,175)	-	(899,027)
Total accumulated depreciation	<u>(25,678,156)</u>	<u>(2,284,644)</u>	<u>575,487</u>	<u>(27,387,313)</u>
Department capital assets, net	<u>\$ 75,969,725</u>	<u>\$ 5,393,517</u>	<u>\$(3,344,709)</u>	<u>\$ 78,018,533</u>

E. Interfund Balances and Transfers

Due to/due from other funds for the year ended June 30, 2007, related to the pooled use of investment funds, consisted of the following:

Receivable Fund	Payable Fund	Amount
Major governmental fund – General Fund	Major governmental fund – Public Safety	
	Civic Buildings Construction Fund	\$ 105,295
		<u>\$ 105,295</u>

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

E. Interfund Balances and Transfers (Continued)

The City's General Fund receives a monthly payment-in-lieu of tax from the Department. The Department bills and collects the City's sewer user charges which are turned over to the City on a monthly basis. The City and Department also work together on common projects which result in miscellaneous reimbursements between the two entities.

The following due to/due from balances between the primary government and its component unit resulted from the routine monthly cycle timing between the dates that payments between entities were made and received:

Receivable Entity	Payable Entity	Amount
Major governmental fund – General Fund	Department	\$ 139,634
Major enterprise fund – Wastewater Fund	Department	562,088
		<u>\$ 701,722</u>
Department	Non-major governmental funds	\$ 2,377
Department	Major enterprise fund – Wastewater Fund	11,496
		<u>\$ 13,873</u>

Interfund transfers for the year ended June 30, 2007 consisted of the following:

Transfers to General Fund from:

Fire Fund	\$ 31,237
Parks and Recreation Fund	76,580
Improvement Fund	125,000
Park Development Fund	18,868
Non-major governmental funds	265,868
Wastewater Fund	270,850
Ambulance Fund	128,654
Internal service funds	85,105
Total transfers to General Fund	<u>\$ 1,002,162</u>

Transfer to Fire Fund from:

Improvements Fund	\$ 550,000
Ambulance Fund	139,881
Total transfers to Fire Fund	<u>\$ 689,881</u>

Transfers to Parks and Recreation Fund from:

General Fund	\$ 16,044
Park Development Fund	20,661
Non-major governmental funds	10,005
Internal service funds	10,880
Total transfers to Parks and Recreation Fund	<u>\$ 57,590</u>

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

E. Interfund Balances and Transfers (Continued)

Transfers to Improvement Fund from:	
General Fund	\$ 180,890
Parks and Recreation Fund	4,150
Non-major governmental funds	31,720
Wastewater Fund	33,240
Total transfers to Improvement Fund	<u>\$ 250,000</u>
Transfers to Debt Service Fund from:	
Park Development Fund	\$ 100,000
Non-major governmental funds	300,000
Total transfers to Debt Service Fund	<u>\$ 400,000</u>
Transfers to non-major governmental funds from:	
General Fund	\$ 400,220
Fire Fund	45,925
Parks and Recreation Fund	111,194
Park Development Fund	2,085
Non-major governmental funds	200,000
Wastewater Fund	4,445
Ambulance Fund	85,325
Total transfers to non-major governmental funds	<u>\$ 849,194</u>
Transfers to Wastewater Fund from:	
Non-major governmental funds	\$ 70,399
Total transfers to Wastewater Fund	<u>\$ 70,399</u>
Transfer to Ambulance Fund from:	
Fire Fund	\$ 781,536
Total transfers to Ambulance Fund	<u>\$ 781,536</u>
Transfers to internal service funds from:	
General Fund	\$ 180,929
Fire Fund	17,463
Parks and Recreation Fund	14,928
Non-major governmental funds	5,440
Wastewater Fund	27,958
Ambulance Fund	25,305
Total transfers to internal service funds	<u>\$ 272,023</u>

Transfers are used to: 1) allocate the cost of staff time spent on functions in other funds, which are reported as indirect expense allocations on the statement of activities; 2) move allocations of system development charges from the receipting funds to the debt service fund; 3) move allocations of revenues from the receipting funds to special revenue funds or capital projects funds to support specific capital projects or programs; 4) move insurance premium discounts for direct purchase of insurance coverage to the General Fund to offset employee costs for insurance administration.

CITY OF MC MINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

F. Long-Term Liabilities

1. General Obligation Bonds – Governmental Activities

General obligation bonds have been issued for a variety of governmental activities to provide funds for the acquisition and construction of major capital facilities. On May 16, 2006, voters passed a \$13,120,000 bond levy to construct a new police station and a city council/municipal courtroom building; the general obligation bonds were issued on November 14, 2006 and are backed by the full faith and credit of the City.

The Park System Improvement Bonds are subject to federal arbitrage rebate calculations, although there is no contingent rebatable arbitrage liability as of June 30, 2007.

The Public Safety Civic Buildings Construction Bonds are subject to federal arbitrage rebate calculations. The contingent rebatable arbitrage liability as of June 30, 2007 is \$102,754.

General obligation bonds payable as of June 30, 2007 consist of the following:

Park system improvements:		
Issued August 1, 2001		
Original issue \$9,500,000		
Interest rates 4.50 – 5.00%		
Final maturity August 1, 2021	\$	7,890,000
Public safety civic buildings construction:		
Issued November 14, 2006		
Original issue \$13,120,000		
Interest rates 3.75 – 5.50%		
Final maturity August 1, 2026		13,120,000
Add: unamortized premium		189,393
Total general obligation bonds outstanding at June 30, 2007	\$	<u>21,199,393</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 685,000	\$ 1,025,495
2009	835,000	876,140
2010	870,000	840,040
2011	910,000	802,340
2012	950,000	762,940
2013 – 2017	5,490,000	3,060,953
2018 – 2022	6,870,000	1,673,099
2023 – 2027	4,400,000	454,000
Total	<u>\$ 21,010,000</u>	<u>\$ 9,495,007</u>

CITY OF MC MINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

F. Long-Term Liabilities (Continued)

2. Revenue Bonds – Business-Type Activities

In 1994, sewer revenue bonds were issued to fund approximately two-thirds of the cost of a new water reclamation facility, a new raw sewage pump station, and significant sewer system infrastructure renovations. These bonds were payable from revenues in the Wastewater Fund, a business-type activity.

On February 13, 2004, the 1994 sewer revenue bonds and the 1993 Oregon Economic and Community Development Department (OECD) special public works fund note payable (see note III. F. 5.) were defeased and the 2004 sewer system revenue refunding bonds were issued. These bonds are payable from revenues in the Wastewater Fund, a business-type activity. The purpose of the refunding was to reduce total future debt service payments. The refunding resulted in an economic gain of \$2,192,450 and a reduction in future debt service payments of \$2,561,974. The reacquisition price exceeded the net carrying amount of the old debt by \$863,250. On the Statement of Net Assets, this deferred refunding amount is netted against the new revenue bonds payable and amortized over the life of the new refunding debt, which has the same life as the original debt issues.

The *2004 Master Sewer Revenue Bond Declaration* includes two rate covenants. The first bond covenant test provides that the City's net sewer revenue (operating net income, plus depreciation, and development charges and fees) must be at least equal to 100% of the fiscal year's annual debt service on the 2004 sewer system revenue refunding bonds plus 100% of the fiscal year's annual debt service on all outstanding subordinated debt which is the OECD water/wastewater fund 2000 note payable (see note III. F. 5.). The second bond covenant test provides that the City's net sewer revenue must be at least equal to 120% of the fiscal year's annual debt service on the 2004 sewer system revenue refunding bonds. The City met and exceeded each of these bond covenants for the year ended June 30, 2007.

The principal and interest on the 2004 sewer system revenue refunding bonds are insured by a policy of financial guaranty insurance issued by AMBAC Assurance Corporation.

The *2004 Master Sewer Revenue Bond Declaration* establishes a rate stabilization account, although the City has not yet chosen to deposit excess net revenues to this account.

Revenue bonds payable as of June 30, 2007 consist of the following:

Sewer system revenue refunding:

Issued February 13, 2004	
Original issue \$23,690,000	
Interest rates 3.00 – 5.00%	
Final maturity February 1, 2014	\$ 17,795,000
Less: unamortized deferred amount on refunding	(571,903)
Add: unamortized premium	1,067,365
Total revenue bonds outstanding at June 30, 2007	<u>\$ 18,290,462</u>

CITY OF MC MINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

F. Long-Term Liabilities (Continued)

2. Revenue Bonds – Business-Type Activities (Continued)

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 2,205,000	\$ 731,062
2009	2,315,000	620,813
2010	2,430,000	505,063
2011	2,555,000	383,563
2012	2,680,000	255,812
2013 – 2014	5,610,000	267,876
Total	<u>\$ 17,795,000</u>	<u>\$ 2,764,189</u>

3. Certificates of Participation – Governmental Activities

In 2002, the City issued a COP for financing the acquisition of public safety equipment including a fire engine, emergency voice and data system communication backbone, emergency radios, a police records management system, and a fire records management system. The debt service is paid from revenues in the Capital Improvement Fund, a governmental activity.

COP's payable as of June 30, 2007 consist of the following:

Public safety equipment:

Issued December 1, 2002	
Original issue \$1,300,000	
Interest rates 2.00 – 3.75%	
Final maturity June 1, 2009	\$ 395,000
Add: unamortized premium	2,087
Total COP's outstanding at June 30, 2007	<u>\$ 397,087</u>

Annual debt service requirements to maturity for COP's are as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 190,000	\$ 14,338
2009	205,000	7,687
Total	<u>\$ 395,000</u>	<u>\$ 22,025</u>

CITY OF MC MINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

F. Long-Term Liabilities (Continued)

4. Notes Payable – Governmental Activities

In 2000, the City entered into a contract to purchase an approximate 9,000 square-foot building for a future library parking lot expansion. This note is also a general obligation of the City and is secured by the Department's assets. This note is paid from Capital Improvement Fund revenues and is reported as a governmental activity.

General obligation notes payable as of June 30, 2007 consist of the following:

Elliott property:

Issued April 19, 2000

Original note \$225,000

Interest rate 5%

Final maturity May 1, 2010

\$ 79,627

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 25,229	\$ 4,074
2009	26,520	2,783
2010	27,878	1,426
Total	<u>\$ 79,627</u>	<u>\$ 8,283</u>

5. Notes Payable – Business-Type Activities

In 1993, the City entered into a State of Oregon Economic and Community Development Department (OECD) Special Public Works Fund (SPWF) contract to partially fund construction of the new water reclamation facility. The note was payable from Wastewater Fund revenue which is reported as a business-type activity. On February 13, 2004, the 1993 OECD SPWF note and the 1994 sewer revenue bonds were defeased and the 2004 sewer system revenue refunding bonds were issued.

In 2000, the City entered into an OECD Water/Wastewater Fund (W/WWF) contract to help the City continue sewer system infrastructure improvements identified in the City's *Wet Weather Overflow Management Plan*. This note is also payable from Wastewater Fund revenue, a business-type activity, and is subordinate to the sewer system revenue refunding bond.

The 2000 OECD W/WWF note payable provides that the City's sewer net revenue (operating net income, plus depreciation, and development charges and fees) must be at least equal to 120% of the sewer system revenue refunding bond debt service and 110% of the OECD W/WWF note debt service. The City met and exceeded this loan coverage test for the year ended June 30, 2007.

CITY OF MC MINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

F. Long-Term Liabilities (Continued)

5. Notes Payable – Business-Type Activities (Continued)

Sewer revenue note payable as of June 30, 2007 consists of the following:

OECD W/WWF:

Issued April 12, 2000

Original note \$3,590,000

Interest rate 5.25%

Final maturity December 1, 2009

\$ 1,273,181

Annual debt service requirements to maturity for sewer revenue note are as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 402,456	\$ 66,842
2009	425,998	45,713
2010	444,727	23,348
Total	<u>\$ 1,273,181</u>	<u>\$ 135,903</u>

6. Capital Leases Payable – Governmental Activities

In 2006, the City entered into a lease agreement as lessee for financing the acquisition of two police detective cars. The lease agreement qualifies as a capital lease for accounting purposes; therefore, it has been recorded at the net present value of the future minimum lease payments as of the inception date. The lease debt service is paid from revenues in the General Fund, a governmental activity. As of June 30, 2007, the amount capitalized as vehicles is \$31,353 and the related accumulated depreciation is \$131.

Capital leases payable as of June 30, 2007 consisted of the following:

Two detective cars:

Issued July 3, 2006

Original lease \$28,177

Interest rate 6.9%

Final maturity June 3, 2010

\$ 21,717

Annual debt service requirements to maturity for capital leases are as follows:

Year Ending June 30,	Minimum Lease Payments
2008	\$ 8,035
2009	8,035
2010	8,035
Total minimum lease payments	24,105
Less: amount representing interest	(2,388)
Net present value of minimum lease payments	<u>\$ 21,717</u>

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

III. Detailed Notes on Accounts (Continued)

F. Long-Term Liabilities (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007 follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
General obligation bonds:					
Transportation projects	\$ 905,000	\$ -	\$ (905,000)	\$ -	\$ -
1997 refunding	170,000	-	(170,000)	-	-
Park system improvements	8,245,000	-	(355,000)	7,890,000	375,000
Public sfty civic bldgs const	-	13,120,000	0	13,120,000	310,000
Add: premium	-	195,502	(6,109)	189,393	-
Certificates of participation:					
Fire SCBA	40,000	-	(40,000)	-	-
Public safety equipment	585,000	-	(190,000)	395,000	190,000
Add: premium	3,176	-	(1,089)	2,087	-
Notes payable:					
Elliott property	103,628	-	(24,001)	79,627	25,229
Capital leases payable:					
Peer court van	3,425	-	(3,425)	-	-
Two detective cars	-	28,177	(6,460)	21,717	6,747
Compensated absences	635,675	995,009	(968,633)	662,051	662,051
Total governmental activities	<u>\$10,690,904</u>	<u>\$ 14,338,688</u>	<u>\$(2,669,717)</u>	<u>\$22,359,875</u>	<u>\$1,569,027</u>
<u>Business-Type Activities</u>					
Revenue bonds:					
Sewer refunding	\$19,895,000	\$ -	\$(2,100,000)	\$17,795,000	\$2,205,000
Add: premium	1,228,477	-	(161,112)	1,067,365	-
Less: deferred amount	(658,228)	-	86,325	(571,903)	-
Note payable:					
OECDD W/WWF	1,657,272	-	(384,091)	1,273,181	402,456
Compensated absences	153,666	189,269	(180,957)	161,978	161,978
Total business-type activities	<u>\$22,276,187</u>	<u>\$ 189,269</u>	<u>\$(2,739,835)</u>	<u>\$19,725,621</u>	<u>\$2,769,434</u>
<u>Component Unit</u>					
Contract payable	\$ 251,558	\$ -	\$ (251,558)	\$ -	\$ -
Compensated absences	282,744	229,095	(235,352)	276,487	276,487
Total component unit	<u>\$ 534,302</u>	<u>\$ 229,095</u>	<u>\$ (486,910)</u>	<u>\$ 276,487</u>	<u>\$ 276,487</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities of \$11,392 for internal service funds' compensated absences are included as part of the totals for governmental activities.

For governmental activities, compensated absences are generally liquidated by the fund that incurred the liability. Funds reported as governmental activities incurring compensated absences liabilities include the General Fund; two major funds, Fire Fund and Parks and Recreation Fund; a non-major fund, Street (Gas Tax) Fund; and an internal service fund, Information Systems and Services Fund.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

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; natural disasters; and injuries to employees. The City is covered for comprehensive liability, property, auto liability and physical damage, employer's liability, and workers' compensation insurance through City County Insurance Services, a public entity risk pool. In 1989, the City established an internal service Insurance Services Fund to pay annual insurance premiums as well as to fund deferred insurance premiums, potential deductible losses, and uninsured losses for which the entire fund balance is designated. Charges for services are paid to the Insurance Services Fund by the operating funds.

1. Property and Liability Insurance

Liability insurance is carried for liability losses and employer's liability to cover individual losses with a per occurrence maximum of \$5,000,000 and annual aggregate of \$15,000,000. Property coverage is replacement value of the property less applicable deductibles. For vehicle losses, a \$500 collision deductible and a \$100 comprehensive deductible is carried; and for property and mobile equipment losses, a \$1,000 deductible per property incident is carried.

Property and liability claims are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an accrued amount for general and automobile liability claims that have been incurred but not reported (IBNR). Property and liability claims are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of claims paid, and other economic and social factors. Beginning with the fiscal year ended June 30, 2002, the City's general liability insurance premium was paid net of a large liability deductible credit. On this premium payment plan, the City is liable up to 134 percent of the liability deductible credit for actual liability claim costs that occur. During the period ended June 30, 2007, the City took a liability credit of \$37,500 and will be liable up to \$50,000 if actual liability claims exceed that amount. Generally, liability coverage years are open indefinitely until the deductible limit is met.

Liability claims outstanding were as follows:

	2007	2006	2005
Unpaid IBNR claims, July 1	\$ 10,667	\$ 64,240	\$ 124,301
Unpaid IBNR claims – paid	(65,964)	(39,463)	(30,901)
Unpaid IBNR claims – adjustment	65,571	(7,500)	(70,000)
Accrued IBNR claims, June 30	13,681	(6,610)	40,840
Unpaid IBNR claims, June 30	<u>\$ 23,955</u>	<u>\$ 10,667</u>	<u>\$ 64,240</u>

For property and liability insurance, settlements did not exceed insurance coverage in any of the past three fiscal years.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

IV. Other Information (Continued)

A. Risk Management (Continued)

2. Workers' Compensation Insurance

Workers' compensation liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an accrued amount for workers' compensation claims that have been incurred but not reported (IBNR). Workers' compensation claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of claims paid, and other economic and social factors. For years ended June 30, 2005, 2006 and 2007, the City purchased retrospective premium plans whereby the initial workers' compensation premium is paid at 35 percent of pure premium and then claims are paid on actual costs with a 15 percent administrative fee up to a maximum of 130 percent of pure premium. Workers' compensation retrospective plan coverage years are open a maximum of five years.

Workers' compensation claims outstanding were as follows:

	2007	2006	2005
Unpaid IBNR claims, July 1	\$ 64,107	\$ 90,043	\$ 19,935
Unpaid IBNR claims – paid	(35,619)	(31,818)	(9,887)
Unpaid IBNR claims – un-incurred	(17,481)	(33,482)	-
Accrued IBNR claims, June 30	68,368	39,364	79,995
Unpaid IBNR claims, June 30	<u>\$ 79,375</u>	<u>\$ 64,107</u>	<u>\$ 90,043</u>

For workers' compensation insurance, settlements did not exceed insurance coverage in any of the past three fiscal years.

B. Deferred Compensation Plans

The City offers employees three deferred compensation plans and the Department offers employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. All plan assets are maintained by separate deferred compensation companies and are valued at market. The plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or certain unforeseeable emergency. The assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries; and accordingly are not included in the City's or the Department's financial statements.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

IV. Other Information (Continued)

C. Other Post-Employment Benefits – Department

The Department provides post-employment health benefits, as per a contractual obligation, for certain retirees who were hired prior to August 1, 2005, and who are at least sixty years old and their dependents. The benefits vary depending on the years of service of the retiree. The Department pays 100 percent of all health insurance costs for those employees with over 20 years of service up until the retiree reaches Medicare age. For those employees with over 25 years of service the Department also pays for all health insurance costs of the retiree's spouse until they reach Medicare age, and the children of the retiree until they reach the age of majority. The plan is financed by the Department on a pay-as-you-go basis. Retired employees who do not have 20 years of service may continue to participate in the health insurance plan until they reach Medicare age provided the retired employees pay all insurance premiums.

At June 30, 2007, there were 11 retired employees and spouses receiving medical insurance coverage provided by the Department. For the year ended June 30, 2007, the Department incurred \$51,333 for these medical insurance premiums.

D. Employee Retirement Systems and Pension Plans

1. Oregon Public Employees Retirement System

Plan Description

The City and Department contribute to two pension plans administered by the Oregon Public Employees Retirement System (OPERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the City's and Department'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 Individual Account Program (IAP). The Pension Program, the defined benefit portion of the plan, applies to qualifying City and Department employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service.

Beginning January 1, 2004, all OPERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. OPERF members retain their existing OPERF accounts, but any future member contributions are deposited into the member's IAP account, not the member's OPERF account. All employees who serve a six-month waiting period in a qualifying position are eligible to participate; benefits generally vest after five years of continuous service.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

IV. Other Information (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

1. Oregon Public Employees Retirement System (Continued)

Plan Description (Continued)

Both OPERS plans provide retirement and disability benefits, post employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. 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. OPERF members are allowed to retire at age 58 with unreduced benefits, but retirement is generally available after age 55 with reduced benefits. Compulsory retirement age is 70. Retirement benefits are payable in lump sum or monthly amounts using several payment options. The 1995 Oregon Legislature established a second tier of OPERF benefits for employees who established membership on or after January 1, 1996 called Tier Two. The second tier does not have the Tier One assumed earnings rate guarantee and has a higher retirement age of 60 with unreduced benefits. OPSRP members are allowed to retire at age 65 with unreduced benefits.

OPERS is administered under *Oregon Revised Statutes (ORS) Chapter 238*, which establishes the Public Employees Retirement Board as the governing body of OPERS. OPERS issues a publicly available *Comprehensive Annual Financial Report* that includes financial statements and required supplemental information. The report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700 or by calling 503-598-7377.

Funding Policy

The City and the Department are required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan; and general service, and police and fire rates for the qualifying employees under the OPSRP plan. The City's and the Department's employer contributions are paid as a percentage of covered employees' salaries. The rates for the year ended June 30, 2007 are as follows:

	Effective <u>March 1, 2006</u>
OPERF Tier one and two	18.19%
OPSRP general service	12.84
OPSRP police and fire	16.45

The employee contribution of 6% of covered compensation, referred to as the employee pickup, is paid by the City and the Department. As of January 1, 2004, Tier One and Two employee contributions are also deposited into the IAP. Employer contribution requirements are established and may be amended by the OPERS Public Employees Retirement Board while the employee members' rate is set by state statute, ORS 238.200.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

IV. Other Information (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

1. Oregon Public Employees Retirement System (Continued)

Annual Pension Cost

The City's contributions to OPERS for the years ending June 30, 2005, 2006, and 2007 were \$1,422,000; \$1,958,000; and \$2,058,000, respectively. The Department's contributions to OPERS for the years ending June 30, 2005, 2006, and 2007 were \$498,000; \$654,000; and \$733,000, respectively. The annual pension costs were equal to the required contributions for fiscal years ended June 30, 2005, 2006, and 2007.

2. McMinnville Fire Department Defined Benefit Pension Plan – Length of Service Awards Program

Plan Description

Effective July 1, 1994, the City established the McMinnville Fire Department Length of Service Awards Program, officially named the McMinnville Fire Department Defined Benefit Pension Plan (MFDDBPP), a single-employer defined benefit pension plan for the City's volunteer fire fighters. In addition to retirement benefits, the defined benefit pension plan also provides a \$20,000 term life insurance policy and a disability benefit for each active volunteer fire fighter. All of the City's volunteer fire fighters who have reached 16 months of consecutive service are eligible to participate in the MFDDBPP. Participants become 100% vested upon five years of active service. Vested volunteer fire fighters attaining the age of 65 who have completed three or more years of continuous active service are entitled to maximum annual benefits of \$20 per month multiplied by total years of service, not to exceed \$400 per month. At the inception of the plan, past service was limited to ten years and service prior to July 1, 1984 was excluded. Vested volunteer fire fighters who become inactive retain vested pension benefits earned through date of resignation.

At June 30, 2007, the MFDDBPP membership was comprised of the following:

	Volunteers
Retirees and beneficiaries who receive benefits from the plan	<u>1</u>
Vested terminated participants remaining in the plan	<u>1</u>
Active participants:	
Fully vested	24
Non-vested	<u>17</u>
Total active participants	<u>41</u>
Total MFDDBPP participants	<u>43</u>

Beginning in year ended June 30, 2002, the MFDDBPP began to purchase annuities from plan assets to fund participation benefits for vested members that reached retirement age or vested members that resigned active volunteer service. Once vested member benefits are annuitized, the associated accrued benefit liabilities are no longer part of MFDDBPP. At June 30, 2007, 21 annuities have been purchased for vested retired or resigned fire fighters.

Financial statements for the MFDDBPP may be obtained at the City of McMinnville, Finance Department, 230 NE Second Street, McMinnville, Oregon 97128.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

IV. Other Information (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

2. McMinnville Fire Department Defined Benefit Pension Plan – Length of Service Awards Program (Continued)

Funding Policy and Annual Pension Cost

For fiscal year 2006-07, the City's annual pension contribution of \$50,000 for MFDDDBPP exceeded the annual recommended contribution of \$42,077. Because the contribution actually made is greater than the annual recommended contribution, there is a negative net pension obligation (NPO) which indicates positive funding. The value of the negative NPO is unavailable to the City. The recommended contribution was determined as part of the July 1, 2006 actuarial valuation conducted by Pencert, Ltd. on behalf of the City's third party plan administrator, Volunteer Fireman's Insurance Services, Inc. (VFIS). Significant actuarial assumptions used in the plan valuation include the following: a) an investment rate of return, net of administrative expenses, of 5.75%; b) actuarial value of assets based on fair market value; c) projected salary increases or cost-of-living adjustments are not used because benefits are service related, not pay related; d) a year of service is earned by meeting the minimum volunteer fire fighter participation requirements for the plan year; e) the maximum benefit earned for a plan year is \$20 per month earned through participation points for drills, fire fighting, accident response, and extra duty activity; f) the frozen initial liability is amortized as a level dollar amount over a 30-year period from the inception of the plan; g) the funding method is the entry age normal frozen initial liability method. The City has contributed \$50,000 per year since the Plan inception, which includes amortization payments of the frozen initial liability.

Trend Information

Trend information is designed to give an indication of the progress made in accumulating sufficient assets to pay benefits when due. The actuarial valuation conducted by Pencert, Ltd. is not fully in compliance with Governmental Accounting Standards Board *Statement No. 27, Accounting for Pensions by State and Local Government Employers*; consequently, the City makes trend disclosures from the available actuarial valuation. The MFDDDBPP trend information is presented in the following tables.

Fiscal Year Ended June 30,	Actuarial Recommended Contribution	City's Annual Pension Contribution	Percentage of Actuarial Recommended Contribution Paid	Remaining Unfunded Initial Frozen Liability of \$264,746
2005	\$ 42,377	\$ 50,000	118	\$ 138,407
2006	40,638	50,000	123	118,886
2007	42,077	50,000	119	99,631

Actuarial Valuation Ended June 30,	Actuarial Value of Assets	Actuarial Present Value of Benefits	Difference of Actuarial Value of Assets and Present Value of Benefits	Funded Percent
2005	127,178	410,640	283,462	31.0
2006	143,888	423,039	279,151	34.0
2007	174,001	656,402	482,401	26.5

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

IV. Other Information (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

2. McMinnville Fire Department Defined Benefit Pension Plan – Length of Service Awards Program (Continued)

Trend Information (Continued)

	Actuarial Valuation Ended June 30,		
	2007	2006	2005
Beginning asset value	\$ 143,888	\$ 127,178	\$ 129,813
Plan receipts:			
City contribution	50,000	50,000	50,000
Interest earned	8,415	7,325	7,624
Life insurance cash values	2,687	6,854	6,154
Plan disbursements:			
Life insurance premium	(11,614)	(11,468)	(12,941)
Immediate and deferred annuities	(15,826)	(32,221)	(49,650)
Unannuitized retirement benefits	(2,541)	(2,772)	(2,772)
Administrative fee	(1,008)	(1,008)	(1,050)
Ending asset value	<u>\$ 174,001</u>	<u>\$ 143,888</u>	<u>\$ 127,178</u>

Actuarial Valuation Ended June 30,	Annuities Purchased	Annuity Cost
2002	1	\$ 44,615
2003	4	109,796
2004	7	107,876
2005	5	49,650
2006	3	32,221
2007	1	15,826
Total	<u>21</u>	<u>\$ 359,984</u>

E. Commitments and Contingencies

1. City

At June 30, 2007, the City is committed to several contracts. In the Public Safety Civic Buildings Construction Fund, a governmental activity, approximately \$8,748,000 remains on the construction of the public safety building. In the Wastewater Capital Fund, a business-type activity, approximately \$27,000 remains on the Water Reclamation Facility SCADA Radio Communication project contract. In the Information Services Fund, a governmental activity, approximately \$189,000 remains on the contract to purchase a new economic resource planning financial system. In the Airport Fund, a governmental activity, approximately \$476,000 remains on site improvements for the taxiway/runway.

The City is a defendant in a lawsuit of which the outcome is not presently determinable, although the opinion of the City's counsel is that the resolution of these matters will not have a material adverse affect on the financial condition of the City.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

IV. Other Information (Continued)

E. Commitments and Contingencies (Continued)

2. Department

The Department has previously entered into agreements to purchase a portion of the power to be generated from Washington Public Power Supply System (WPPSS) Nuclear Projects 1, 2, and 3 and from the Trojan Nuclear Project (Trojan). Over the life of the projects, the agreements provide for the Department to make payments equal to its share of all operating and debt service costs of the WPPSS Projects and its share of 0.4% of operating and debt service costs of Trojan whether or not the plants are operable or operating. Trojan ceased operation in 1994. WPPSS Nuclear Projects 1 and 3 have never been completed. WPPSS Nuclear Project 2 continues in operation.

The Department has assigned its share of the WPPSS and Trojan projects' power generation to the Bonneville Power Administration (BPA). In return for this assignment, the Department's annual power purchase obligation to BPA is reduced by the amount of payments BPA instructs the Department to make directly to WPPSS and Trojan in connection with the projects' costs. If such costs exceed the Department's cost of purchased power on an annual basis, BPA will assign to other participants or pay WPPSS and Trojan any of the Department's portion of the projects' cost in excess of BPA billings to the Department of the purchased power.

The Department's present commitments, based on its present participant's share and representing its share of construction costs based on aggregate outstanding debt issued as of June 30, 2007, approximates \$87,800,000 for Projects 1, 2, and 3 and approximates \$561,000 for Trojan. The aggregate amount, including interest and annual operating costs, is payable over the life of the projects as part of the cost of power purchased.

The Department purchases power from Priest Rapids Development and Wanapum Development. The Department is also required to pay a portion of the development costs under these contracts through 2009. Costs associated with these contracts for the year ended June 30, 2007 was approximately \$483,000.

During the year ended June 30, 1998, the Department entered into a firm power purchase contract with the Bonneville Power Administration. This contract required fixed payments through September 30, 2006. Payments for the fiscal year ended June 30, 2007, were approximately \$254,000.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

IV. Other Information (Continued)

F. Major Customer and Supplier – Department

Department sales of electricity were made to one major commercial customer during the year ended June 30, 2007 in amounts exceeding 10% of total sales. The customer accounted for approximately \$14,987,000 of revenues during the year ended June 30, 2007. At June 30, 2007, accounts receivable from this same customer amounted to approximately \$897,000.

Department purchases were made from one major supplier of power, including supply, transmission and distribution during the year ended June 30, 2007 in amounts exceeding 10% of the total of such purchases. The supplier accounted for approximately \$28,142,000 of purchases during the year ended June 30, 2007. At June 30, 2007, amounts due to this same supplier, and included in accounts payable, amounted to approximately \$1,706,000.

G. Jointly Governed Organization

1. City

The City entered into a joint operational agreement effective January 1, 1988 with other local governments. Under the terms of this agreement, an intergovernmental agency known as Yamhill Communications Agency (YCOM) was established to provide public safety communication services to member jurisdictions. At June 30, 2007, YCOM members included Yamhill County, the cities of Amity, Carlton, Dayton, Lafayette, McMinnville, Sheridan, Willamina, and Yamhill, and the rural fire protection districts of Amity, Carlton, Dayton, McMinnville, Sheridan, Willamina, and Yamhill.

Funding for YCOM is based on member contributions using a cost-sharing formula and E-911 excise tax collected on telephone exchange access services distributed to cities and counties by the State of Oregon. By statute, local entities must pass through E-911 distributions to the local public safety answering point. The City paid \$649,796 in member contributions and E-911 pass through and provided to YCOM, at no cost, operational space within the Police Department, including routine maintenance and utilities. Yamhill County provided, at no cost, a maintenance shop facility, including routine maintenance and utilities.

Entity members receive E-911 public safety answering point dispatch services from YCOM and participate in a proportionate share of YCOM's operating costs, the respective amounts determined by the Executive Board.

The governing body of the Agency is a five-member Executive Board. The five members include the Sheriff of Yamhill County, a Yamhill County Commissioner, a representative of the City of McMinnville, a representative of the Agency's city members excluding the City of McMinnville, and a representative of the Agency's fire districts. The Sheriff serves as the Chair of the Executive Board. The Executive Board members have full voting powers over all areas affecting the Agency including budget, public policy, and administration.

CITY OF MCMINNVILLE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

IV. Other Information (Continued)

G. Jointly Governed Organization (Continued)

1. City (Continued)

Associate members do not receive direct public safety communication services but wish to remain affiliated with the Agency. Associate members may not serve on the Executive Board. Cost for associate members is determined by the Executive Board.

Financial statements for YCOM may be obtained at Yamhill County, Accounting Division, 535 NE 5th Street, McMinnville, Oregon 97128.

2. Department

The Department, in conjunction with six other Oregon municipal corporations that provide distribution of electric services, is a member of the Oregon Municipal Energy and Conservation Agency (OMECA). OMECA issued tax-exempt revenue bonds to fund conservation projects of the member organizations. The bonds are payable solely by the Bonneville Power Administration and do not represent obligations of OMECA or the Department. OMECA's Board of Directors is comprised of one member from each participating entity. No member has any obligation, entitlement or residual interest in OMECA.

H. Library Endowment

The City has a \$23,230 non-expendable endowment for which the income is restricted to supporting children's programs at the library. In the government-wide Statement of Net Assets, the endowment is reported within the governmental activities as a restricted net asset. The library director makes spending decisions and authorizations based on the available investment income. For the year ended June 30, 2007, there was \$1,284 of investment income.

I. Irrevocable Standby Letter of Credit - Department

In August 2006, the Department entered into a power sales agreement with Bonneville Power Administration (BPA), whereas BPA will reduce its prices for electric power to the Department if the Department will provide an emergency source of cash for BPA when necessary. To secure this funding, Key Bank has issued a \$2,000,000 irrevocable standby Letter of Credit to provide this emergency source of cash to BPA, whereas the Department agrees to reimburse Key Bank for any and all payments made by Key Bank pursuant to the Letter of Credit and all agreements with such parties.

This irrevocable standby Letter of Credit expires September 30, 2008, and is secured by a certificate of deposit funded and maintained by the Department and pledged net revenues generated by the Department's electrical utility system.