NOTES TO THE BASIC FINANCIAL STATEMENTS

City Of

McMinnville

I. Summary of Significant Accounting Policies

A. Reporting Entity

1. Primary Government

The City of McMinnville, Oregon (the 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 (the 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.

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. Elimination of these transactions 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.

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 component unit, 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.

Generally accepted accounting principles (GAAP) set 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.

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 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 levy allocated to parks and recreation activities and related charges for services.

- Capital Improvement Fund – is a special revenue fund which accounts for the portion of the City's property tax levy allocated to major 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.

- Park Development Fund – is a capital projects fund which accounts for park system development charges collected from property developers and park system improvement bond proceeds used for park system improvements.

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

- Special Revenue Funds – accounts 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 – accounts 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.

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:

- Sewer Fund – combines budgetary basis Sewer Operating Fund and Sewer Capital Fund for GAAP presentation.
  - Sewer Operating Fund – accounts for charges for services to support water reclamation facility operations and storm and sanitary system repairs and maintenance.
  - Sewer Capital Fund – accounts for sanitary sewer system development charges used for major sanitary sewer system construction projects and transfers from the Sewer Operating Fund supporting debt service and major capital projects.

- Ambulance Fund – accounts for emergency medical services revenues and related expenses.

The City also reports internal service funds within the proprietary fund type. The City's internal service funds include the Insurance Reserve Fund which accounts for the City's property, liability, workers' compensation, health, and state employment insurance premiums; 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.

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.

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, 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.

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 for unspent public safety certificate of participation 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. 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 purchased or constructed. 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.

All infrastructure assets, including those acquired before 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.

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:

Assets	Years
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 debt issue. Long-term debt payable is reported net of the applicable premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

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 budget document in May. Public notices of the approved budget and public hearing are generally published in May and June with the budget 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, Sewer, 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. One supplemental budget was approved by the City Council during the 2004-2005 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, 2005. 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.

III. Detailed Notes on Accounts

A. Deposits 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 establish diversification percentages and specify 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, 2005 was unqualified. The fair value of the City's position in the Pool at June 30, 2005 was 99.8% 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 $584,960, less overnight repurchase agreements of $1,105,310, which are classified as investments for note disclosure, resulting in a net book cash balance of $(520,350) for note disclosure. The bank balance was $25,157. At year end, the Department's book balance was $(514,854) and the bank balance was $970,048. 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.

III. Detailed Notes on Accounts (Continued)

A. Deposits and Investments (Continued)

At June 30, 2005, the City's cash and investment balances were as follows:

	Fair Value
Cash held in city offices	$ 1,865
Overnight repurchase agreements	1,105,310
Deposits with financial institutions, net of overnight repurchase agreements	(534,365)
Deposits with financial institutions, money market account	14,015
Oregon State Local Government Investment Pool – City's general account	20,263,377
Oregon State Local Government Investment Pool – Park system improvement bond proceeds	4,963,921
Oregon State Local Government Investment Pool – Public safety certificate of participation proceeds	151,434
Total City cash and investments	$ 25,965,557

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

Cash and investments:	
Unrestricted	$ 21,615,646
Restricted	5,138,585
Checks issued in excess of deposits	(788,674)
Total cash and investments	$ 25,965,557

At June 30, 2005, the Department's cash and investment balances were as follows:

	Fair Value
Cash on hand	$ 1,400
Deposits with financial institutions	665,779
Checks issued in excess of deposits	(1,180,633)
Oregon State Local Government Investment Pool	26,952,759
Total Department cash and investments	$ 26,439,305

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

Cash and investments	$ 27,619,938
Checks issued in excess of deposits	(1,180,633)
Total cash and investments	$ 26,439,305

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, 2005, the City does not have investments exposed to custodial credit risk.

III. Detailed Notes on Accounts (Continued)

A. Deposits and Investments (Continued)

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, 2005 was 62 days.

B. Restricted Assets

The City's restricted assets consist of the following at June 30, 2005:

Governmental activities:	
Park system improvement bond unspent proceeds	$ 4,963,921
Public safety certificate of participation unspent proceeds	151,434
Non-expendable library endowment	23,230
Total governmental activities and primary government	$ 5,138,585

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	Capital Improve-ment	Debt Service	Park Develop-ment	Total Non-Major	Total Govern-mental
Receivables:								
Accounts	$ 63,488	$ 91,086	$ 10,078	$ 1,766	$ -	$ 240,506	$ 188,251	$ 595,175
Property taxes	298,602	90,173	109,778	30,321	86,809	-	-	615,683
Cash with county treasurer	73,446	26,237	34,929	12,040	29,810	-	-	176,462
Assessments	7,157	-	-	-	-	-	30,198	37,355
Total	$ 442,693	$ 207,496	$ 154,785	$ 44,127	$ 116,619	$ 240,506	$ 218,449	$1,424,675

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

	General	Fire	Parks and Recreation	Capital Improvement	Debt Service	Total Governmental
Gross revenue	$ 3,699,348	$ 1,316,649	$ 1,748,322	$ 668,550	$ 1,413,044	$ 8,845,913
Less: discounts	(79,496)	(28,509)	(37,648)	(14,456)	(28,870)	(188,979)
Net revenue	$ 3,619,852	$ 1,288,140	$ 1,710,674	$ 654,094	$ 1,384,174	$ 8,656,934

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:

	Unavailable	Unearned
Delinquent property taxes receivable:		
General fund	$ 252,131	$ -
Fire fund	73,638	-
Parks and recreation fund	87,819	-
Capital improvement fund	23,210	-
Debt service fund	67,707	-
Delinquent special assessments receivable	32,027	-
Delinquent fire fees receivable	996	-
Pledged donation receivable	20,000	
Operating funds received but not earned	-	253,047
Total deferred revenue	$ 557,528	$ 253,047

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:

	Sewer	Ambulance	Total Enterprise
Receivables:			
Accounts	$ 498,917	$ 396,703	$ 895,620
Less: allowance for uncollectibles	-	(133,225)	(133,225)
Net receivables	$ 498,917	$ 263,478	$ 762,395

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

Gross revenue	$ 2,588,325
Add: change in allowance for uncollectibles	9,170
Less: medical write-off's	(889,017)
Net revenue	$ 1,708,478

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	$ 3,152,905
Less: allowance for uncollectibles	(20,582)
Net receivables	$ 3,132,323

D. Capital Assets

In the government-wide financial statements, the City's governmental activities' capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non-depreciable:				
Land	$ 22,502,767	$ 981,409	$ -	$ 23,484,176
Construction in progress	5,120,109	599,085	(4,765,727)	953,467
Total non-depreciable	27,622,876	1,580,494	(4,765,727)	24,437,643
Depreciable:				
Land improvements	5,356,598	5,481,655	-	10,838,253
Buildings	16,401,120	1,139,018	-	17,540,138
Machinery and equipment	1,785,239	1,790,356	(497,350)	3,078,245
Vehicles	2,952,674	294,242	(69,460)	3,177,456
Infrastructure	37,784,960	2,425,219	-	40,210,179
Total depreciable	64,280,591	11,130,490	(566,810)	74,844,271
Accumulated depreciation:				
Land improvements	(2,344,181)	(135,521)	-	(2,479,702)
Buildings	(8,712,955)	(573,628)	-	(9,286,583)
Machinery and equipment	(1,151,962)	(156,895)	465,013	(843,844)
Vehicles	(1,909,408)	(164,825)	65,699	(2,008,534)
Infrastructure	(19,693,466)	(1,680,726)	-	(21,374,192)
Total accumulated depreciation	(33,811,972)	(2,711,595)	530,712	(35,992,855)
Governmental activities capital assets, net	$ 58,091,495	$ 9,999,389	$(4,801,825)	$ 63,289,059

At June 30, 2005, the City's government-wide governmental activities construction in progress consisted primarily of costs related to the Park System Improvement Bond projects.

III. Detailed Notes on Accounts (Continued)

D. Capital Assets (Continued)

Depreciation expense was charged to governmental activities functions as follows:

General government	$ 83,621
Public safety:	
Police	83,996
Fire	168,070
Emergency communications	2,289
Highways and streets	1,716,789
Culture and recreation:	
Parks and recreation	350,535
Library	103,087
Airport	105,848
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.	97,360
Total governmental activities depreciation expense	$ 2,711,595

In the government-wide financial statements, the City's business-type activities' capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non-depreciable:				
Land	$ 871,887	$ -	$ -	$ 871,887
Construction in progress	97,663	16,987	(97,663)	16,987
Total non-depreciable	969,550	16,987	(97,663)	888,874
Depreciable:				
Land improvements	93,808	-	-	93,808
Buildings	40,395,783	358,192	(30,959)	40,723,016
Machinery and equipment	872,868	10,598	-	883,466
Vehicles	863,642	17,863	-	881,505
Infrastructure	28,162,273	2,697,260	(172,760)	30,686,773
Total depreciable	70,388,374	3,083,913	(203,719)	73,268,568
Accumulated depreciation:				
Land improvements	(22,238)	(4,690)	-	(26,928)
Buildings	(12,689,267)	(1,547,607)	19,817	(14,217,057)
Machinery and equipment	(428,025)	(73,857)	-	(501,882)
Vehicles	(529,117)	(62,987)	-	(592,104)
Infrastructure	(4,512,398)	(563,245)	172,760	(4,902,883)
Total accumulated depreciation	(18,181,045)	(2,252,386)	192,577	(20,240,854)
Business-type activities capital assets, net	$ 53,176,879	$ 848,514	$ (108,805)	$ 53,916,588

III. Detailed Notes on Accounts (Continued)

D. Capital Assets (Continued)

At June 30, 2005, the City's government-wide business-type activities construction in progress consisted of costs related to the Water Reclamation Facility Telemetry Upgrade and the Energy Conservation Project.

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

Sewer	$ 2,195,391
Ambulance	56,995
Total business-type activities depreciation expense	$ 2,252,386

The Department's capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Non-depreciable:				
Land	$ 2,321,254	$ -	$ -	$ 2,321,254
Construction in progress	3,958,992	2,711,466	(2,257,133)	4,413,325
Total non-depreciable	6,280,246	2,711,466	(2,257,133)	6,734,579
Depreciable:				
Buildings	11,434,677	28,166	-	11,462,843
Machinery and equipment	1,722,394	50,447	(5,000)	1,767,841
Vehicles	944,039	16,349	(34,903)	925,485
Infrastructure	75,838,525	2,744,086	(373,117)	78,209,494
Total depreciable	89,939,635	2,839,048	(413,020)	92,365,663
Accumulated depreciation:				
Electric plant	(11,088,707)	(1,185,236)	415,822	(11,858,121)
Water treatment plant	(10,116,209)	(951,666)	10,487	(11,057,388)
Vehicles	(877,611)	(18,070)	35,608	(860,073)
Total accumulated depreciation	(22,082,527)	(2,154,972)	461,917	(23,775,582)
Department capital assets, net	$ 74,137,354	$ 3,395,542	$(2,208,236)	$ 75,324,660

III. Detailed Notes on Accounts (Continued)

E. Interfund Balances and Transfers

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	$ 126,250
Major enterprise fund – sewer fund	Department	567,838
		$ 694,088
Department	Major governmental fund – general fund	$ 500
Department	Non-major governmental funds	791
Department	Major enterprise fund – sewer fund	600
		$ 1,891

Interfund transfers for the year ended June 30, 2005 consisted of the following:

Transfers to general fund from:	
Fire fund	$ 24,563
Parks and recreation fund	62,712
Park development fund	32,399
Non-major governmental funds	240,204
Sewer fund	232,479
Ambulance fund	140,484
Internal service funds	77,132
Total transfers to general fund	$ 809,973
Transfer to fire fund from:	
Ambulance fund	$ 140,431
Total transfers to fire fund	$ 140,431
Transfers to parks and recreation fund from:	
General fund	$ 13,809
Park development fund	17,298
Non-major governmental funds	7,482
Total transfers to parks and recreation fund	$ 38,589
Transfers to debt service fund from:	
Park development fund	$ 100,000
Non-major governmental funds	300,000
Total transfers to debt service fund	$ 400,000

III. Detailed Notes on Accounts (Continued)

E. Interfund Balances and Transfers (Continued)

Transfer to park development fund from:	
Capital improvement fund	$ 837,500
Total transfers to park development fund	$ 837,500
Transfers to non-major governmental funds from:	
General fund	$ 318,750
Fire fund	37,175
Parks and recreation fund	64,436
Park development fund	143,000
Non-major governmental funds	400,000
Sewer fund	41,202
Ambulance fund	69,075
Total transfers to non-major governmental funds	$ 1,073,638
Transfers to sewer fund from:	
Non-major governmental funds	$ 59,951
Total transfers to sewer fund	$ 59,951
Transfer to ambulance fund from:	
Fire fund	$ 470,002
Total transfers to ambulance fund	$ 470,002
Transfers to internal service funds from:	
General fund	$ 152,284
Fire fund	14,762
Parks and recreation fund	12,518
Non-major governmental funds	4,578
Sewer fund	23,448
Ambulance fund	21,301
Total transfers to internal service funds	$ 228,891

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, such as the E-911 function; 4) move insurance premium discounts for direct purchase of insurance coverage to the General Fund to offset employee costs for insurance administration.

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. Besides the transportation projects and park system improvement bonds, the refunding series 1997 originally financed a new fire station. These bonds are backed by the full faith and credit of the City.

The 1997 bond refunding was a current refunding, and as such has no outstanding defeased bonds.

The Park System Improvement Bonds are subject to federal arbitrage rebate calculations, although there is no contingent rebatable arbitrage liability as of June 30, 2005.

General obligation bonds payable as of June 30, 2005 consist of the following:

Transportation projects:	
Issued October 1, 1996	
Original issue $7,415,000	
Interest rates 3.90 – 5.00%	
Final maturity December 1, 2006	$ 1,770,000
Refunding series 1997:	
Issued March 1, 1997	
Original issue $1,780,000	
Interest rates 3.75 – 4.95%	
Final maturity March 1, 2007	335,000
Park system improvements:	
Issued August 1, 2001	
Original issue $9,500,000	
Interest rates 4.50 – 5.00%	
Final maturity August 1, 2021	8,585,000
Total general obligation bonds outstanding at June 30, 2005	$ 10,690,000

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

Year Ending June 30,	Principal	Interest
2006	$ 1,370,000	$ 482,445
2007	1,430,000	414,905
2008	375,000	367,440
2009	390,000	350,229
2010	410,000	332,228
2011 – 2015	2,350,000	1,358,395
2016 – 2020	2,960,000	732,218
2021 – 2022	1,405,000	71,125
Total	$ 10,690,000	$ 4,108,985

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 Sewer Fund, a business-type activity.

On February 13, 2004, the 1994 sewer revenue bonds and the 1993 OECDD SPWF 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 Sewer 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 OECDD W/WWF 2000 note payable. 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, 2005.

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, 2005 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	$ 21,895,000
Less: unamortized deferred amount on refunding	(744,553)
Add: unamortized premium	1,389,589
Total revenue bonds outstanding at June 30, 2005	$ 22,540,036

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
2006	$ 2,000,000	$ 936,062
2007	2,100,000	836,063
2008	2,205,000	731,062
2009	2,315,000	620,813
2010	2,430,000	505,062
2011 – 2014	10,845,000	907,250
Total	$ 21,895,000	$ 4,536,312

3. Certificates of Participation – Governmental Activities

The City has issued Certificates of Participation (COP's) for governmental activities to provide funds for the acquisition of capital equipment. These COP's are backed by the full faith and credit of the City.

In 2001, the City issued a COP for financing the acquisition of fire self-contained breathing apparatus (SCBA). The debt service is paid from revenues in the Fire Fund, a governmental activity.

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, 2005 consist of the following:

Fire self-contained breathing apparatus:	
Issued November 15, 2001	
Original issue $180,000	
Interest rates 2.75 – 3.80%	
Final maturity January 1, 2007	$ 80,000
Public safety equipment:	
Issued December 1, 2002	
Original issue $1,300,000	
Interest rates 2.00 – 3.75%	
Final maturity June 1, 2009	770,000
Add: unamortized premium	4,265
Total COP's outstanding at June 30, 2005	$ 854,265

III. Detailed Notes on Accounts (Continued)

F. Long-Term Liabilities (Continued)

3. Certificates of Participation – Governmental Activities (Continued)

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

Year Ending June 30,	Principal	Interest
2006	$ 225,000	$ 29,023
2007	230,000	22,032
2008	190,000	14,338
2009	205,000	7,687
Total	$ 850,000	$ 73,080

4. Notes Payable – Governmental Activities

In 1999, the City entered into a contract to purchase a 17-acre site to be developed into a new park. This note was a general obligation of the City and was secured by the Department's assets. Interest on this note was paid from Park Development Fund revenues and reserves were saved toward the note principal payment in the Capital Improvement Fund. Both of these funds are reported as governmental activities. Although the final maturity date was July, 2009, the City opted to pay this note in full in July, 2004.

In 2000, the City entered into a contract to purchase an approximate 9,000 square-foot future building or parking lot site. 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, 2005 consist of the following:

Elliott property:	
Issued April 19, 2000	
Original note $225,000	
Interest rate 5%	
Final maturity May 1, 2010	$ 126,461
Total general obligation notes outstanding at June 30, 2005	$ 126,461

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

Year Ending June 30,	Principal	Interest
2006	$ 22,833	$ 6,470
2007	24,002	5,302
2008	25,229	4,074
2009	26,520	2,783
2010	27,877	1,426
Total	$ 126,461	$ 20,055

III. Detailed Notes on Accounts (Continued)

F. Long-Term Liabilities (Continued)

5. Notes Payable – Business-Type Activities

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

The 2000 OECDD 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 OECDD W/WWF note debt service. The City met and exceeded this loan coverage test for the year ended June 30, 2005.

Sewer revenue note payable as of June 30, 2005 consists of the following:

OECDD W/WWF:	
Issued April 12, 2000	
Original note $3,590,000	
Interest rate 5.25%	
Final maturity December 1, 2009	$ 2,023,167
Total sewer revenue note outstanding at June 30, 2005	$ 2,023,167

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

Year Ending June 30,	Principal	Interest
2006	$ 365,895	$ 106,216
2007	384,091	87,007
2008	402,456	66,842
2009	425,998	45,713
2010	444,727	23,348
Total	$ 2,023,167	$ 329,126

III. Detailed Notes on Accounts (Continued)

F. Long-Term Liabilities (Continued)

6. Capital Leases Payable – Governmental Activities

In 1999, the City entered into a lease agreement as lessee for financing the acquisition of above-ground airport fuel storage tanks. 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 Airport Maintenance Fund, which is reported within governmental activities and in the fund financial statements as a non-major fund. As of June 30, 2005, the amount capitalized as building improvements is $245,000 and the related accumulated depreciation is $52,743. The final payment on this lease was made June 1, 2005.

In 2002, the City entered into a lease agreement as lessee for financing the acquisition of a police administration car. 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, which is reported within governmental activities. As of June 30, 2005, the amount capitalized as a vehicle, including a trade-in value of $1,350, is $12,900, and the related accumulated depreciation is $4,031.

In 2002, the City entered into a lease agreement as lessee for financing the acquisition of a peer court van. 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, 2005, the amount capitalized as a vehicle is $17,962 and the related accumulated depreciation is $5,463.

Capital leases payable as of June 30, 2005 consisted of the following:

Police administration car:	
Issued April 16, 2002	
Original lease $11,550	
Interest rate 6.61%	
Final maturity March 16, 2006	$ 2,390
Peer court van:	
Issued May 8, 2002	
Original lease $17,962	
Interest rate 7.00%	
Final maturity April 8, 2007	7,281
Total capital leases outstanding at June 30, 2005	$ 9,671

III. Detailed Notes on Accounts (Continued)

F. Long-Term Liabilities (Continued)

6. Capital Leases Payable – Governmental Activities (Continued)

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

Year Ending June 30,	Minimum Lease Payments
2006	$ 6,700
2007	3,536
Total minimum lease payments	10,236
Less: amount representing interest	(565)
Net present value of minimum lease payments	$ 9,671

7. Contract Payable – Department

The Department entered into a contract with the Bonneville Power Administration (BPA) to defer payment of the cost of power purchased from December 2000 through September 2001. The payments began October 2001 and continue through September 2006. Interest has been imputed at 6.62% on the interest-free contract. The balance of this long-term contract payable, net of imputed interest, was $1,504,349 at June 30, 2005. Future payments for power purchased through September 2001 are as follows:

Year Ending June 30,	
2006	$ 1,315,847
2007	254,323
Total payments	1,570,170
Less: imputed interest	(65,821)
Contract payable	$ 1,504,349

III. Detailed Notes on Accounts (Continued)

F. Long-Term Liabilities (Continued)

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
Transportation projects	$ 2,590,000	$ -	$ (820,000)	$ 1,770,000	$ 865,000
1996 refunding	190,000	-	(190,000)	-	-
1997 refunding	485,000	-	(150,000)	335,000	165,000
Park system improvements	8,905,000	-	(320,000)	8,585,000	340,000
Certificates of participation:					
Fire SCBA	115,000	-	(35,000)	80,000	40,000
Public safety equipment	955,000	-	(185,000)	770,000	185,000
Add: premium	5,354	-	(1,089)	4,265	-
Notes payable:					
Kraemer property	1,250,000	-	(1,250,000)	-	-
Elliott property	148,183	-	(21,722)	126,461	22,833
Capital leases payable:					
Airport fuel storage tanks	44,702	-	(44,702)	-	-
Police administration car	5,399	-	(3,009)	2,390	2,390
Peer court van	10,877	-	(3,596)	7,281	3,856
Compensated absences	572,516	864,845	(850,140)	587,221	587,221
Total governmental activities	$15,277,031	$ 864,845	$(3,874,258)	$12,267,618	$2,211,300
Business-Type Activities					
Revenue bonds:					
Sewer refunding	$23,690,000	$ -	$ (1,795,000)	$21,895,000	$2,000,000
Add: premium	1,550,700	-	(161,111)	1,389,589	-
Less: deferred amount	(830,878)	-	86,325	(744,553)	-
Note payable:					
OECDD W/WWF	2,371,025	-	(347,858)	2,023,167	365,895
Compensated absences	139,219	153,365	(133,639)	158,945	158,945
Total business-type activities	$26,920,066	$ 153,365	$(2,351,283)	$24,722,148	$2,524,840
Component Unit					
Contract payable	$ 2,677,105	$ -	$(1,172,756)	$ 1,504,349	$ 1,252,791
Compensated absences	209,907	190,116	(156,663)	243,360	243,360
Total component unit	$ 2,887,012	$ 190,116	$(1,329,419)	$ 1,747,709	$ 1,496,151

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities of $18,261 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.

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; error 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 Reserve 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 Reserve 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 maximum of $5,000,000. 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 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, 2005, 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.

Liability claims outstanding were as follows:

	2005	2004	2003
Unpaid IBNR claims, July 1	$ 124,301	$ 3,500	$ 16,138
Unpaid IBNR claims – paid	(30,901)	(16,262)	(2,245)
Unpaid IBNR claims – un-incurred	(70,000)	(12,537)	(13,893)
Accrued IBNR claims, June 30	40,840	149,600	3,500
Unpaid IBNR claims, June 30	$ 64,240	$ 124,301	$ 3,500

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

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 year ended June 30, 2004, the City purchased a guaranteed premium plan for workers' compensation coverage. For years ended June 30, 2005 and 2003, 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:

	2005 (R)	2004 (G)	2003 (R)
Unpaid IBNR claims, July 1	$ 19,935	$ 94,632	$ 38,147
Unpaid IBNR claims – paid	(9,887)	(9,513)	(29,252)
Unpaid IBNR claims – un-incurred	-	(69,379)	(8,895)
Accrued IBNR claims, June 30	79,995	4,195	94,632
Unpaid IBNR claims, June 30	$ 90,043	$ 19,935	$ 94,632

(G) Guaranteed premium plan
(R) Retrospective premium plan

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 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.

IV. Other Information (Continued)

C. Other Post-Employment Benefits – Department

The Department provides post-employment health benefits for certain retirees who are at least sixty years old and the retiree's dependents, per the Department's employee handbook as adopted by the Water and Light Commission. 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 until the retiree reaches Medicare age. For those employees with over 25 years of service the Department pays for all health insurance costs of the retiree and the retiree's spouse until they reach Medicare age and the retiree's children 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, 2005, there were 9 retired employees and spouses receiving health insurance coverage provided by the Department. For the year ended June 30, 2005, the Department incurred $57,030 for these health 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 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.

IV. Other Information (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

1. Oregon Public Employees Retirement System (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, 2005 are as follows:

OPERF Tier one and two	12.93%
OPSRP general service	8.04
OPSRP police and fire	11.65

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.

Annual Pension Cost
The City's contributions to PERS for the years ending June 30, 2003, 2004, and 2005 were \$1,600,000; \$1,390,000; and \$1,422,000; respectively. The Department's contributions to PERS for the years ending June 30, 2003, 2004, and 2005 were \$573,000; \$485,000; and \$498,000; respectively. The annual pension costs were equal to the required contributions for fiscal years ended June 30, 2003, 2004, and 2005.

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

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, 2005, the MFDDBPP membership was comprised of the following:

	Volunteers
Retirees and beneficiaries who receive benefits from the plan	1
Vested terminated participants remaining in the plan	3
Active participants:	
Fully vested	25
Non-vested	19
Total active participants	44
Total MFDDBPP participants	48

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, 2005, 17 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.

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 2004-05, the City's annual pension contribution of $50,000 for MFDDBPP exceeded the annual recommended contribution of $42,377. 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, 2004 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 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 MFDDBPP 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
2003	$ 41,203	$ 50,000	121%	$ 168,601
2004	44,756	50,000	112	155,132
2005	42,377	50,000	118	138,407

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
2003	$ 187,589	$ 525,787	$ 338,198	35.7%
2004	129,813	436,475	306,662	29.7
2005	127,178	410,640	283,462	31.0

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)

	Actuarial Valuation Ended June 30,		
	2005	2004	2003
Beginning asset value	$ 129,813	$ 187,589	$ 250,234
Plan receipts:			
City contribution	50,000	50,000	50,000
Interest earned	7,624	9,266	12,452
Life insurance cash values	6,154	8,786	6,022
Plan disbursements:			
Life insurance premium	(12,941)	(14,109)	(14,378)
Immediate and deferred annuities	(49,650)	(107,876)	(109,796)
Unannuitized retirement benefits	(2,772)	(2,772)	(5,874)
Administrative fee	(1,050)	(1,071)	(1,071)
Ending asset value	$ 127,178	$ 129,813	$ 187,589

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
Total	17	$ 311,937

E. Commitments and Contingencies

1. City

At June 30, 2005, the City is committed to several construction contracts. In the Park Development Fund, a governmental activity, approximately $10,000 remains on the City Park and Wortman Park renovation contract, and approximately $181,000 remains on the BPA Pathway construction contract. In the Transportation Fund and the Park Development Fund, governmental activities, approximately $41,000 remains on a combined transportation and park construction project contract for the southwest community park.

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 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, 2005, approximates $86,397,000 for Projects 1, 2, and 3 and approximates $888,000 for Trojan. This 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 aggregate amount net billed through BPA for the year ended June 30, 2005 applicable to WPPSS Projects 1, 2, and 3, and Trojan was approximately $1,327,000.

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 2005 and 2009, respectively. Costs associated with these contracts for the year ended June 30, 2005 was approximately $400,000.

During the year ended June 30, 1998, the Department entered into a firm power purchase contract with BPA. The contract requires fixed payments through September 30, 2006 of approximately $2,100,000 and $400,000 for the fiscal years ending June 30, 2006 and June 30, 2007, respectively.

IV. Other Information (Continued)

F. Major Customer and Supplier – Department

Department sales of electricity were made to a major commercial customer during the year ended June 30, 2005 in an amount exceeding 10% of total sales. The customer accounted for approximately $13,979,000 of sales during the year ended June 30, 2005. At June 30, 2005 accounts receivable from the customer amounted to approximately $1,051,000.

Department purchases were made from a major supplier of electricity and transmission during the year ended June 30, 2005 in an amount exceeding 10% of the total of such purchases. The supplier accounted for approximately $24,958,000 of purchases during the year ended June 30, 2005. At June 30, 2005 the amount due to this supplier was approximately $1,810,000.

G. Joint Venture

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, 2005, YCOM members included Yamhill County, the cities of Amity, Carlton, Lafayette, McMinnville, Sheridan, Willamina, and Yamhill, and the rural fire protection districts of Amity, Carlton, Dayton, McMinnville, Sheridan, Willamina, and Yamhill. At June 30, 2005, YCOM had one associate member, the City of Dayton.

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 $617,584 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. The City's fire chief serves as half-time YCOM director for which the City receives reimbursement. Also, YCOM contracts for accounting, legal, and information services with the City. Yamhill County provided, at no cost, a maintenance shop facility, including routine maintenance and utilities.

The Policy Board consists of one representative from each member entity of YCOM. 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 Policy Board. The Policy Board members have full voting powers over all areas affecting YCOM including budget, public policy, and administration. Associate members are non-voting members and are permitted to participate in discussion of any non-financial item of business.

IV. Other Information (Continued)

G. Joint Venture (Continued)

Summary government-wide YCOM financial information as of and for the fiscal year ended June 30, 2005 is presented below:

Cash and investments	$ 330,190
Other assets	206,101
Capital assets, net	345,704
Total assets	881,995
Other liabilities	72,251
Long-term liabilities	225,599
Total liabilities	297,850
Invested in capital assets, net of related debt	195,704
Unrestricted	388,441
Total net assets	$ 584,145
Program revenues	$ 1,562,334
General revenues	8,041
Total revenues	1,570,375
Governmental activities expenses	1,585,629
Decrease in net assets	(15,254)
Beginning net assets	599,399
Ending net assets	$ 584,145

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

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, 2005, there was $488 of investment income.