



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2007

Prepared by:
The City of The Dalles
Finance Department

CITY OF THE DALLES, OREGON

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INTRODUCTORY SECTION



CITY of THE DALLES
313 COURT STREET
THE DALLES, OREGON 97058

(541) 296-5481

City Council
City of The Dalles
The Dalles, Oregon 97058

December 28, 2007

The Comprehensive Annual Financial Report (CAFR) of the City of The Dalles, Oregon, for the year ended June 30, 2007, is submitted herewith. This report presents a comprehensive and detailed picture of The Dalles' financial transactions during fiscal year 2006-2007 and the financial condition of the various funds and account groups at June 30, 2007. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including disclosures, rests with the City. To the best of our knowledge and belief, the report is accurate and complete in all material respects, including all activities, funds, and financial transactions, and is presented fairly to disclose the financial position and the results of operations of the City at June 30, 2007, and for the year then ended. Further, it is our belief that all disclosures necessary to enable the reader to gain an understanding of the City's financial operations have been included. The organization and content of this report, including the financial statements, supplementary information and statistical tables, follow the standards for annual financial reporting recommended by the Governmental Accounting Standards Board.

CITY HISTORY AND GEOGRAPHICAL AREA

The City of The Dalles, Oregon, is situated in the north-central part of the state on the Columbia River, the nation's second largest river. It is the county seat and the largest community in Wasco County. The Dalles is one of Oregon's most historic cities and was known earlier in its history as the town at the end of the Oregon Trail. Archaeological evidence suggests the area has been inhabited more or less continuously for more than 10,000 years. The City was first incorporated by the Oregon Territorial Government in 1857 as "Dalles City" and was made the county seat shortly thereafter. In June of 2007 we celebrated our Sesquicentennial. Strategically located on the Columbia River and bordered by the Cascade Mountains to the West, The Dalles provides an ideal distribution or manufacturing setting with available riverside locations, as well as bulk container and international shipping options. It has historically been an economic hub of the Pacific Northwest, linking major transportation routes between Eastern and Southern Oregon and Washington State. It offers residents the pleasures of rural living while providing the advantages of access to metropolitan amenities in Portland, only 80 miles to the west.

In accordance with the City Charter of 1899, revised in 1998, the City of The Dalles is governed by a City Council. This Council consists of an elected mayor and five council members. The City operates under a council-manager form of government.

ECONOMIC CONDITIONS

The City has a population currently estimated at 13,045, yet the City serves a trading area of about 90,000 persons in both Oregon and Washington. Principal economic activities are agriculture, fabrication of aluminum, high tech services, small industrial businesses, power generation/transmission and tourism, along with healthcare, government, and retail services. Mid Columbia Medical Center is the areas largest employer with approximately 700 employees in all their affiliated activities.

The major agricultural product of the City is sweet cherries. The Dalles is a primary producer for both domestic and overseas markets. There are in excess of 6,000 acres of sweet cherry trees around the City. Wheat is another important agricultural product with 50,000 acres currently in cultivation in The Dalles area. Additional agricultural products include cattle, hay and tree fruits.

The Port of The Dalles Industrial Center is the location of most local manufacturing, where there are 40 companies, employing over 550 people. Northwest Specialties, the last operating portion of the The Dalles Historic Aluminum smelter industry, employs about 100 employees. The old Aluminum Smelter is currently being torn down for salvage and, when that is completed by the end of 2008, it will free up over 200 acres of industrial land. Internet giant Google is located in the Port Industrial Park and employs over 175 employees including contract employees.

The City is a strategic home base for year-round recreation. Water sport enthusiasts will find boating, excellent fishing, and one of the finest windsurfing areas in the United States on the Columbia River. To the east are substantial opportunities to camp, fish, hike, and sightsee. To the west, ski enthusiasts have the opportunity to challenge the ski slopes of magnificent Mt. Hood and there are numerous resorts that lie on Mt. Hood and at its base. Construction of the Columbia Gorge Discovery Center and Wasco County Historical Museum was completed in May 1997. Over 50,000 people visit the Center annually, and it has become a center for many community festivities and events. The Center is located along the Columbia River bordering the City.

Mid-Columbia Medical Center is the major hospital in the Mid-Columbia Region of Oregon and Washington. It is also the major trauma center in the region. This first class medical facility has attracted numerous health care professionals to The Dalles area. They have added a new Oncology Center that will save the region's population from traveling to Portland to receive those services and has become a multi-state option in the Northwest.

The Wasco County Courthouse and offices are located in the City as are various State offices. The Dalles Dam at the eastern edge of the City is a major power generating facility. Also at the eastern edge of the City is the Celilo Converter Station, one of the world's largest electric power converter stations. Electricity is transported to and from Southern California through this station.

Through a competitive process, The Dalles was selected as the site for a 150 bed Veterans' long-term nursing and care home. The facility opened in November 1997, currently providing 151 jobs and has 100 residents.

The Dalles is the major shopping center in the Mid-Columbia area. The last few years, several retail developments have been completed in the community. Most recently a 138,000 square foot regional Home Depot store opened in October 2004. This was followed by Walgreen's in 2005. Both the local Safeway and Fred Meyer stores completed multi-million dollar renovations in

2006. Fred Meyer expanded its retail space by 15,000 square feet, which included enclosing the existing garden area.

The City has an Urban Renewal District that is working to renovate the older commercial areas of the community. In June 2000, the City issued a \$3.4 million full faith and credit financing agreement to help finance programs. A ten block Downtown Renovation Project was completed during the summer of 2001. A \$7 million dollar reconnection of the Downtown to the Columbia River was completed in FY 2003-2004 using Urban Renewal dollars and they were matched two to one with other grant funds. Urban Renewal also caused the renovation of two major downtown structures that have been vacant for years. Several of the Downtown Urban Renewal projects are currently in various stages of Development.

The City is working with a Columbia River Tour Boat firm to construct a dock and bring tour boats to the Downtown/Riverfront area.

State Tax limitation measures in 1990, 1996 and 1997 have limited property taxes. An upswing in the local economy has mitigated most of those impacts. The City, through prudent budgeting, is operating on a fiscally sound basis. The general fund balance remained relatively stable during the 2006-2007 fiscal year.

MAJOR INITIATIVES

Utilities Master Plan

The City purchased a site for a wastewater treatment expansion in 1997-98. The City completed updating its wastewater master plan for the plant site and collection system upgrade in 2002. A 5-year wastewater capital improvement plan is being utilized. A \$7.5 million dollar revenue bond was issued in fiscal year 2002-2003 to begin the upgrade. Phase I design and construction for the wastewater plant and collection system improvements was completed in 2006.

Water Master Plan

A water master plan update has been completed. \$8.5 million in system improvements is scheduled for fiscal year 2007-2008 with a similar amount in 5 years. A \$7.9 water revenue bond was issued in 2007. Several of the improvement projects are underway.

Street Master Plan

A transportation master plan drafted in 1999 was updated and implemented in 2006. A 5-year capital improvement plan has been implemented for street development and to provide preventative maintenance. A Transportation System Development Charge has been implemented.

Regional Airport Authority

Klickitat County and the City of The Dalles have formed a Regional Airport Authority. A Regional Board is now operating the Airport. A new set of aircraft hangars were constructed in 2004. Several other facility and operational plans are being developed at this time.

Columbia Gateway Urban Renewal Agency

The Columbia Gateway Urban Renewal Agency, a component unit of the City of the Dalles, operated throughout the 2006-2007 fiscal year. The Agency consists of an Urban Renewal District, formed by the citizens, to resolve issues of blight within the boundaries of the District. The Agency did levy and collect tax increment proceeds during fiscal year 2006-2007.

Storm Water Master Plan

Storm Water Master Plan was completed in 2007. A System Development Charge will be implemented in January of 2008.

FINANCIAL INFORMATION

Accounting System and Budgetary Controls

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenue being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's proprietary fund type are maintained using the accrual basis of accounting. The assets and liabilities of the agency funds are accounted for using the modified accrual basis of accounting.

The City's management is responsible for establishing and maintaining an internal control structure designed to protect the assets of the City from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Management recognizes the significance of internal controls, which are incorporated in the accounting system. We believe our internal accounting controls adequately safeguard the assets and provide reasonable assurance of proper recording of all financial transactions.

A budget is prepared and legally adopted by the City Council for each fund. All changes to the budget must be approved by the City Council. These budgets are all prepared on the modified accrual basis of accounting, complying with Oregon Local Budget Law. The ordinance authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. All funds except the General Fund establish the levels of budgetary control at the personal services, materials and services, capital outlay, operation contingencies, debt service and all other requirements levels. For the General Fund, appropriations are at the department level for personal services, materials and services, capital outlay and other uses.

Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriations ordinance. A supplemental budget requires hearings before the public, publications in newspapers and approval by the City Council, if the change is greater than, or equal to, 10% of the original budget. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the City Council. The City Council approved several appropriation transfer resolutions during the year ended June 30, 2007. Appropriations lapse at year-end.

The City has established a procurement policy for the purchases of goods and services. All items purchased by the City require a purchase order. Purchase orders are initiated at the department level and are reviewed at the Finance office. Purchase orders greater than \$15,000 require the approval of the City Manager and those greater than \$50,000 require approval from the City Council.

Cash Management

The City has a cash management policy, which allows investing of cash funds that are in excess of immediate need. This policy coincides with Oregon statutes restricting the types of investments that may be made by municipalities. Primary importance is placed on the safety of principal and then on the maximization of investment earnings. The City co-mingles cash and investments and allocates interest earnings based upon monthly cash balances in the various funds.

RISK MANAGEMENT

The City continued to review and evaluate its risk management program during 2005-2006. A citywide safety program with regular committee meetings and inspections is in force.

The City maintains property and liability insurance coverage. The City will continue to evaluate loss potential, risk retention, and insurance coverage to achieve optimum levels of risk management.

The City does not engage in risk financing activities where the risk is retained (self-insurance) by the City at this time.

OTHER INFORMATION

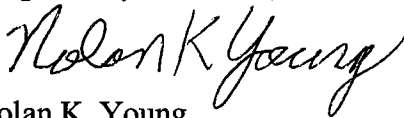
Independent Audit

Oregon Revised Statutes Chapter 297 requires that an independent audit be made of all City funds and account groups within six months following the close of a fiscal year. The independent auditors, who were selected by the City Council, have completed their audit of the City's funds and account groups; and their opinion and State of Oregon required audit comments and disclosures are included in this report.

Acknowledgments

The preparation of this report on a timely basis has been accomplished through the diligent efforts of the Finance Department's entire staff and staff from other departments. I should like to express my appreciation to all the members of this department for their assistance and contributions to its preparation. I also thank the Mayor and members of City Council for their interest and support in planning and conducting the financial operations of the City.

Respectfully submitted,



Nolan K. Young
City Manager



Kate Mast
Finance Director



**CITY OF THE DALLES
OFFICIALS OF THE CITY
AS OF JUNE 30, 2007**

MAYOR AND CITY COUNCIL

<u>Name and Address</u>	<u>Term Expires December 31</u>
Robb Van Cleave, Mayor 912 East 15 th Place The Dalles OR 97058	2008
Carolyn Wood 1709 Liberty Street The Dalles OR 97058	2008
Jim Broehl 318 West 12 th Street The Dalles OR 97058	2008
Rob Kovacich 1401 East 19 th Street The Dalles OR 97058	2008
Jim Wilcox 416 West 7 th Street The Dalles OR 97058	2010
Bill Dick 2520 East 14 th Street The Dalles OR 97058	2010

City Administration

Nolan Young, City Manager – Budget Officer

Julie Krueger, City Clerk

Gene E. Parker, City Attorney

Kate Mast, Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of The Dalles
Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



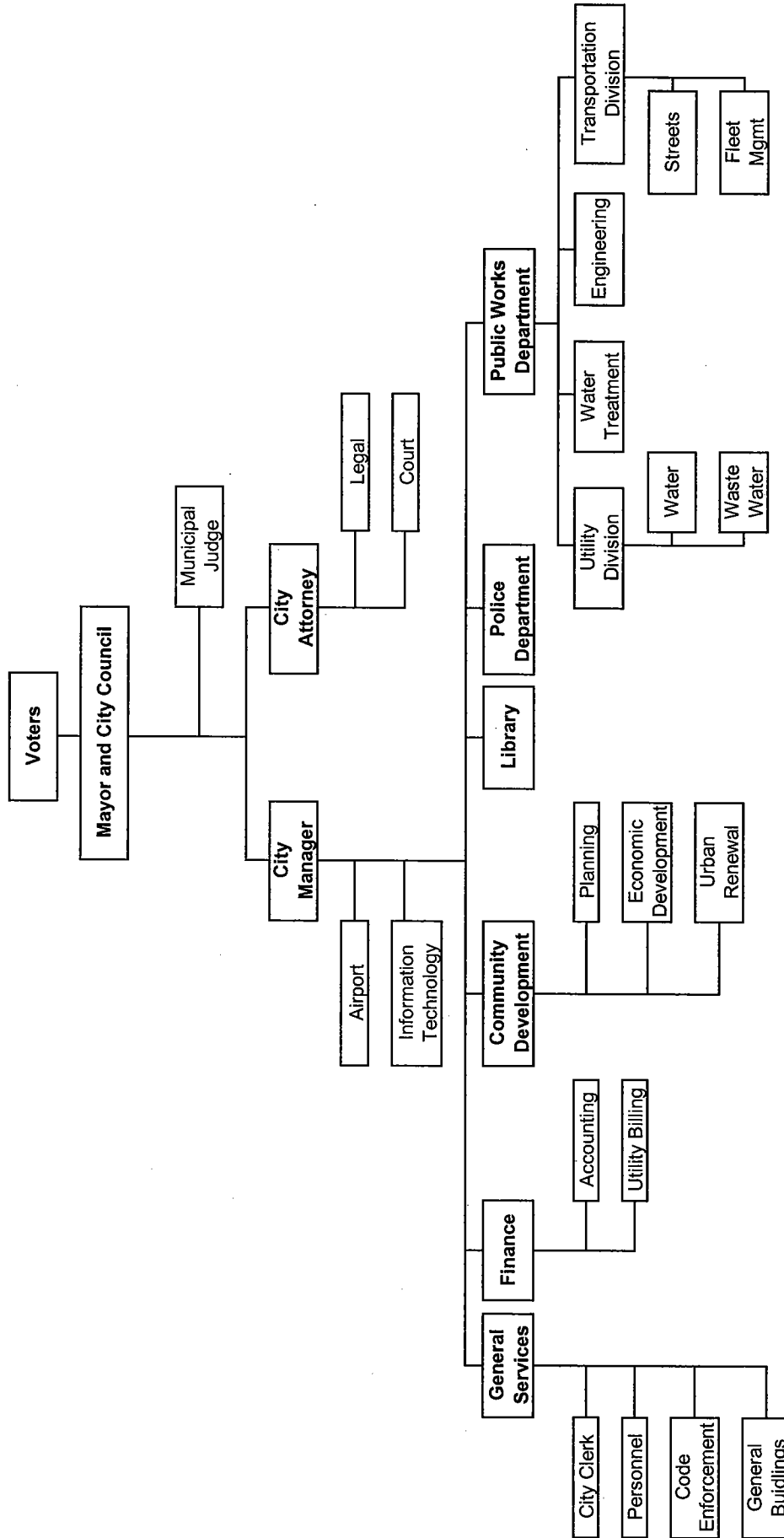
President

Executive Director

CITY OF THE DALLES

ORGANIZATIONAL CHART

June 30, 2007





FINANCIAL SECTION



Dickey and Tremper, LLP

Certified Public Accountants and Business Advisors

110 SE First Street
P.O. Box 1533
Pendleton, OR 97801
Phone: (541) 276-6862
Toll Free: 1-800-332-6862
Fax: (541) 276-9040
Web: www.dickeyandtremper.com

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of The Dalles, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of The Dalles, Oregon, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of The Dalles, Oregon, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the General, Street, and Library Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2007, on our consideration of the City of The Dalles, Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A

Members of: American Institute of Certified Public Accountants
National Association of Certified Valuation Analysts
Oregon Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (Continued)

The management's discussion and analysis on pages *a* through *g* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, accompanying financial information listed as supplemental information in the table of contents, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The financial information listed as supplemental information in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the basic financial statements and, accordingly, we express no opinion on them.

Dickey and Tremper, LLP
Dickey and Tremper, LLP
Certified Public Accountants

December 28, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis presents the highlights of financial activities and financial position for the City of The Dalles, Oregon. The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget, and specific issues related to funds and economic factors affecting the City.

Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes. Please read it in conjunction with the Transmittal Letter (page i) and the City's financial statements.

FINANCIAL HIGHLIGHTS

The City's assets exceeded its liability at June 30, 2007 by \$35,307,204 (net assets). Of this amount \$26,240,917 was invested in capital assets (net of related debt). \$5,448,764 was restricted for specific purposes, resulting in unrestricted net assets of \$3,617,523. The unrestricted net assets are made up of unrestricted governmental net assets of \$3,001,516 and unrestricted business-type net assets of \$616,007.

The City's net assets increased by \$1,271,675 (3.7%), primarily due to the construction and improvement of public infrastructure capital assets.

The City's Governmental Funds had an increase in fund balances in the amount of \$387,019, with the General Fund experiencing an increase in fund balance of \$236,415. An increase in fees paid to the City by the Public Utility District and Natural Gas provider, based on increased consumption by new industry, produced revenues in excess of estimates. The Urban Renewal Fund balance increased approximately \$500,000 due to decreased expenditures in fiscal year 2006-2007 and in increase in property tax revenues from recent commercial and industrial development.

The City's Enterprise Funds experienced an increase in net assets of \$462,664. This was partly due to rate increases (water 10% and sewer 9%) and partly a new high volume industrial customer.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's annual financial report consists of several sections. Taken together they provide a comprehensive financial report of the City. The components of the report include the following:

Management's Discussion and Analysis. This section of the report provides financial highlights, overview and economic factors affecting the City.

Basic Financial Statements. Includes a Statement of Net Assets, a Statement of Activities, fund financial statements and the notes to the financial statements.

Statements of Net Assets and Activities focus on an entity-wide presentation using the accrual basis of accounting and provide both long-term and short-term information about the City's financial status. The Governmental activities include most of the City's basic services such as police, street maintenance and improvement, community planning and governance. The Business-type activities include the operation of the City's water and sewer utilities and the operation of the City owned airport.

Fund financials statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's major governmental funds are presented in their own column and the remaining funds are combined into a column title "Other Governmental Funds". Budgetary comparison statements are

presented for the General Fund, Street Fund and Library Fund, which comprise the City's General and Major Special Revenue Funds.

Statements for the City's proprietary funds follow the governmental funds and include net assets, revenues, expenses and changes in fund net assets, and cash flows.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

Supplemental Information. Readers desiring additional information about other major funds not represented in the Basic Financial Statements and on non-major funds can find it in this section of the report. Included within this section are:

- Combining Statements of other governmental funds, which are classified as non-major. These statements include balance sheets and statements of revenues, expenditures and changes in fund balances.
- Budgetary Comparisons. Budgetary information for all funds, except General, Street and Library Funds, which are presented within the Basic Financial Statements, are presented here.
- Other Financial Schedules complete the Financial Section of this report.

FINANCIAL SUMMARY AND ANALYSIS

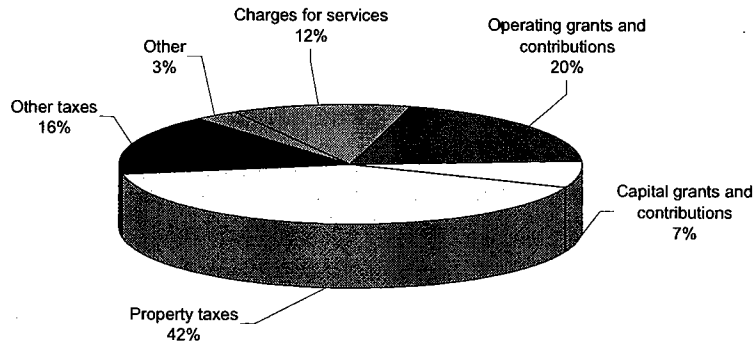
As mentioned earlier, the City's net assets as of June 30, 2007 were \$35,307,204, an increase from June 30, 2006 of \$1,271,675. By far the largest portion of net assets is comprised of the City's investment in capital assets (e.g., land, building, equipment, and public infrastructure), less any related debt outstanding that was used to acquire those assets. The City uses capital assets to provide services to citizens; therefore these assets are not available for future spending. The resources to repay the related debt is not provided by capital assets, but will be provided from other sources.

City of The Dalles Net Assets

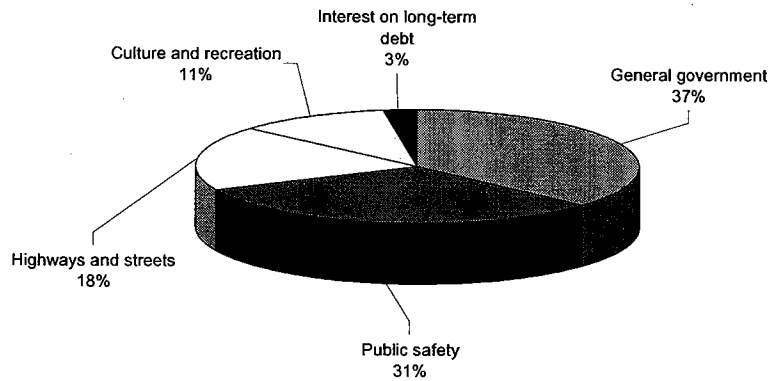
	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 5,868,610	\$ 6,081,074	\$ 12,291,763	\$ 4,034,491	\$ 18,160,373	\$ 10,115,565
Capital assets	14,413,854	14,422,238	22,158,113	22,155,035	36,571,967	36,577,273
Total Assets	20,282,464	20,503,312	34,449,876	26,189,526	54,732,340	46,692,838
Liabilities						
Long-Term liabilities	4,056,948	4,566,424	14,594,105	7,014,942	18,651,053	11,581,366
Other liabilities	227,761	748,144	546,322	327,799	774,083	1,075,943
Total liabilities	4,284,709	5,314,568	15,140,427	7,342,741	19,425,136	12,657,309
Net assets invested in capital assets, net of related debt	10,562,441	10,062,961	15,678,476	15,238,035	26,240,917	25,300,996
Restricted	2,433,798	1,985,594	3,014,966	2,759,840	5,448,764	4,745,434
Unrestricted	3,001,516	3,140,189	616,007	848,910	3,617,523	3,989,099
Total net assets	\$ 15,997,755	\$ 15,188,744	\$ 19,309,449	\$ 18,846,785	\$ 35,307,204	\$ 34,035,529

The governmental activities revenue comes primarily from property taxes, charges for services, various grants and contributions. During the year ending June 30, 2007, the City received a significant amount of revenue from capital grants and contributions. These will not be a continuing source of revenue, but are funding specific projects. The City's governmental expenses cover a wide variety of services, with general government, public safety and streets accounting for most of these expenses.

Governmental Activities Revenue



Governmental Activities Functional Expenses



Property taxes are the City's primary on-going source of revenue. Property taxes comprising 42% of the City's governmental revenue is derived from the permanent tax rate and taxes levied for the repayment of bonded indebtedness.

For the year ending June 30, 2007 the City received a significant amount of capital grants and contributions. These grants and contributions consist primarily of awards for special projects.

For the fiscal year ending June 30, 2007, net assets of the Governmental activities increased by \$809,011, which represents a 5.3% increase. Net assets of the Business-type activities increased by \$462,664, which represents a 2.5% increase. Key elements of these changes, when compared to the year ending June 30, 2006 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program Revenues						
Charges for services	\$ 864,846	\$ 764,065	\$ 6,385,016	\$ 5,560,668	\$ 7,249,862	\$ 6,324,733
Operating grants and contributions	1,370,812	1,263,749	15,430	17,999	1,386,242	1,281,748
Capital grants and contributions	503,768	793,421	88,980	265,256	592,748	1,058,677
General Revenues						
Property taxes	2,852,880	2,602,823	-	-	2,852,880	2,602,823
Other taxes	1,132,588	1,081,091	-	-	1,132,588	1,081,091
Other	221,849	157,630	234,296	179,470	456,145	337,100
Total revenues	6,946,743	6,662,779	6,723,722	6,023,393	13,670,465	12,686,172
Expenses						
General						
government	2,533,876	2,385,912	-	-	2,533,876	2,385,912
Public safety	2,171,312	2,021,934	-	-	2,171,312	2,021,934
Highways and streets	1,264,372	1,357,785	-	-	1,264,372	1,357,785
Culture and recreation	764,592	836,038	-	-	764,592	836,038
Interest on long-term debt	181,684	199,136	-	-	181,684	199,136
Water	-	-	2,522,187	2,365,038	2,522,187	2,365,038
Waste water	-	-	2,520,011	2,093,646	2,520,011	2,093,646
Airport	-	-	440,756	320,789	440,756	320,789
Total Expenses	6,915,836	6,800,805	5,482,954	4,779,473	12,398,790	11,580,278
Change net assets before transfers	30,907	(138,026)	1,240,768	1,243,920	1,271,675	1,105,894
Transfers	778,104	642,400	(778,104)	(642,400)	-	-
Change in net assets	809,011	504,374	462,664	601,520	1,271,675	1,105,894
Net assets-beginning	15,188,744	14,684,370	18,846,785	18,245,265	34,035,529	32,929,635
Total net assets	\$ 15,997,755	\$ 15,188,744	\$ 19,309,449	\$ 18,846,785	\$ 35,307,204	\$ 34,035,529

Governmental Activities

The increase in net assets is attributable to the various grants and contributions received and increases in other taxes.

Business-type Activities

The increase in the net assets of the Business-type activities are due primarily to increase in charges for services. This includes greater usage and increase in sewer rates to fund improvements to the wastewater treatment plant.

The increase in the net assets of the Business-type activities are due primarily to increase in charges for services. This includes greater usage and increase in sewer rates to fund improvements to the wastewater treatment plant.

FINANCIAL ANALYSIS OF FUNDS

As of June 30, 2007 the City's governmental funds reported a combined fund balance of \$4,366,031, which is an increase of \$387,019 from June 30, 2006.

The General Fund is the primary operating fund of the City. As of June 30, 2007, the General Fund balance was \$1,218,851, which is an increase of \$236,415 from June 30, 2006. This increase was the result of increasing revenues without a corresponding increase in costs.

The Street Fund balance as of June 30, 2007 was \$264,712, which is a decrease of \$92,985 from June 30, 2006. This decrease was primarily due to transfers out for purchases of equipment and construction of the Sixth and Cherry Heights traffic signal.

As of June 30, 2007, the Library Fund balance was in a deficit by \$95,091, reflecting a decrease of \$120,133 from June 30, 2006. The fiscal year 2006-2007 Library budget had been prepared in anticipation of tax revenues from the formation of a new Library District. However, the voters did not approve the new District until November of 2006, and so the Library Fund did not receive any tax funds until November 2007. This shortfall of revenue in fiscal year 2006-2007 required the Library Fund to borrow \$102,000 from the General Fund in order to continue to function. This interfund loan has been budgeted for repayment in full from tax revenues in fiscal year 2007-2008.

The Special Assessments Fund balance as of June 30, 2007 was \$474,332, which is a decrease of \$75,713 from June 30, 2006. This decrease was due primarily to the construction of the Sixth and Cherry Heights traffic signal.

The Urban Renewal Capital Projects Fund balance as of June 30, 2007 was \$1,538,807, which is an increase of \$512,286 from June 30, 2006. This increase reflects the minimal expenditures made from this fund during the fiscal year as it was a year of preparation for construction projects in 2008.

The non-major governmental funds balance as of June 30, 2007 was \$964,420. This reflects a decrease of \$72,851, primarily due to expenditures from capital project funds for street and water system improvements.

Proprietary funds provide the same type of information as presented in the government-wide statements of net assets and activities, but in more detail. The proprietary funds net assets amounted to \$19,309,449 as of June 30, 2007, reflecting a \$462,664 increase over net assets as of June 30, 2006.

On the budgetary basis for proprietary funds:

The combined Water Funds balance as of June 30, 2007 was \$8,561,057, which is an increase of 7,314,409 over June 30, 2006, and is due to the receipt of the proceeds of a new Water Revenue Bond.

The combined Wastewater Funds balance as of June 30, 2007 was \$2,778,933, which is an increase of \$487,264 from June 30, 2006. This increase is primarily due to building reserves for Phase II of the treatment plant improvements.

The combined Airport Funds balance as of June 30, 2007 was \$211,151, which is an increase of \$79,382 from June 30, 2006. This increase is primarily due to projects being delayed until 2008.

BUDGETARY HIGHLIGHTS

The original legal appropriations for the General Fund totaled \$5,098,361, with contingency of \$542,542. Budget amendments resulted in final legal appropriations of \$5,176,861, with contingency of \$325,742. Expenditures were \$373,533 under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2007, the City had invested \$36,571,967 in capital assets of its governmental and business-type activities. This investment includes land and land improvements, buildings, equipment, and public infrastructure of roads and bridges. The investment in governmental activities capital assets decreased by \$8,384 and business-type activities capital assets increased by \$95,364. Significant additions during the year ending June 30, 2007 were related to the improvements to water system.

Additional information on the City's capital assets may be found in Note III.C of the financial statements.

The total governmental long-term debt outstanding at June 30, 2007 was \$4,056,948. Business-type activities long-term debt outstanding was \$14,594,105.

During the year the City retired a total of \$859,364 in principal long-term debt.

A summary of the City's long-term debt outstanding is as follows:

Police Facilities Revenue Bond	\$ 270,000
Urban Renewal Agency Debt	\$ 3,080,000
Loans Payable	\$ 505,425
Airport Facilities Revenue Bond	\$ 366,000
Wastewater Revenue Bond	\$ 6,200,000
Compensated Absences	\$ 299,628
Water Revenue Bond	\$ 7,930,000

In addition to the above, the City has acted as a conduit for debt for the QualityLife Intergovernmental Agency (QLife). The Oregon Economic and Community Development Department provided a loan in the amount of \$512,000 to partially fund the construction of the fiber optic loop for high-speed internet access operated by QLife. The loan is in the name of the City. However, QLife has pledged to provide for the full repayment of the loan and, accordingly, the City has not recorded this debt as it is not anticipated that the City will be required to use its resources for repayment. The balance outstanding at June 30, 2007 was \$ 446,374.

The City issued a Water Revenue Bond during the fiscal year ending June 30, 2007, for \$7,930,000.

Additional information on the City's long-term debt may be found in Note III.E of the financial statements.

ECONOMIC FACTORS

The QLife local area fiber optic loop project will enable any current business and any future business that needs high speed access to the Internet a reason to move into our area. Google, the search engine, has started operations in a new facility here in The Dalles. The Port has developed a new subdivision, again trying to attract business to our area. Home Depot, a Fortune 500 company, has opened a new retail and commercial outlet here. A great impact will come from the restart of the Goldendale Aluminum Plant facility in our area and the environmental cleanup of the aluminum plant facility within the City limits, which will make that property useable for other purposes. The foregoing will impact housing and the amount being spent by the local community in our local stores. This and

increased levels of other retail and industrial business will create jobs that will decrease the City's and the county's unemployment, which has been one of the highest in the state. The Wasco County Assessor's rate of increase in appreciation of the housing and business units will increase revenue to the City in the near future. The voters approved creation of a regional Library District with its own tax rate. This will remove a financial burden from the City.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. The Columbia Gateway Urban Renewal Agency has issued a separate report, which is available for those who are interested.

If you have questions about the report or need additional information, please contact the City Finance Director at 313 Court Street, The Dalles, Oregon.



BASIC FINANCIAL STATEMENTS

CITY OF THE DALLES, OREGON
STATEMENT OF NET ASSETS

June 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 888,088	\$ 248,206	\$ 1,136,294
Investments	383,630	210,070	593,700
Receivables:			
Property taxes	171,642	-	171,642
Accounts	369,373	694,810	1,064,183
Intergovernmental	208,599	21,982	230,581
Fines and forfeitures	696,903	-	696,903
Special assessments	56,574	72,221	128,795
Notes	282,445	-	282,445
Internal balances	233,596	(233,596)	-
Prepaid items	82,763	-	82,763
Inventories	57,187	246,741	303,928
Restricted assets (temporary):			
Cash and cash equivalents	2,433,798	10,389,306	12,823,104
Investments	-	382,578	382,578
Bond issuance costs	4,012	259,445	263,457
Capital assets:			
Land	302,445	5,707,215	6,009,660
Assets available for sale	210,917	-	210,917
Construction in progress	-	361,138	361,138
Depreciable assets, net of depreciation	13,900,492	16,089,760	29,990,252
Total assets	20,282,464	34,449,876	54,732,340
LIABILITIES			
Accounts payable and accrued expenses	215,556	382,972	598,528
Accrued interest payable	12,205	163,250	175,455
Deposits	-	100	100
Long-term obligations			
Due within one year	727,207	461,105	1,188,312
Due in more than one year	3,329,741	14,133,000	17,462,741
Total liabilities	4,284,709	15,140,427	19,425,136
NET ASSETS			
Invested in capital assets, net of related debt	10,562,441	15,678,476	26,240,917
Restricted for:			
Streets	264,712	-	264,712
Capital projects	1,574,339	2,759,880	4,334,219
Debt service	594,747	255,086	849,833
Unrestricted	3,001,516	616,007	3,617,523
Total net assets	\$ 15,997,755	\$ 19,309,449	\$ 35,307,204

The notes to the basic financial statements are an integral part of this statement.

CITY OF THE DALLES, OREGON
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 2,533,876	\$ 464,980	\$ 737,227	\$ 82,764	\$ (1,248,905)	\$ -	\$ (1,248,905)
Public safety	2,171,312	358,683	21,879	-	(1,790,750)	-	(1,790,750)
Highways and streets	1,264,372	35,102	589,570	421,004	(218,696)	-	(218,696)
Culture and recreation	764,592	6,081	22,136	-	(736,375)	-	(736,375)
Interest on long-term obligations	181,684	-	-	-	(181,684)	-	(181,684)
Total governmental activities	6,915,836	864,846	1,370,812	503,768	(4,176,410)	-	(4,176,410)
Business-type activities:							
Water	2,522,187	2,635,824	2,715	-	-	116,352	116,352
Wastewater	2,520,011	3,618,498	12,715	-	-	1,111,202	1,111,202
Airport	440,756	130,694	-	88,980	-	(221,082)	(221,082)
Total business-type activities	5,482,954	6,385,016	15,430	88,980	-	1,006,472	1,006,472
Total primary government	\$ 12,398,790	\$ 7,249,862	\$ 1,386,242	\$ 592,748	(4,176,410)	1,006,472	(3,169,938)
General revenues:							
Property taxes levied for:							
General purposes					1,849,162	-	1,849,162
Debt service					1,003,718	-	1,003,718
Franchise and public service taxes					1,132,588	-	1,132,588
Interest and investment earnings					200,116	234,296	434,412
Miscellaneous					21,733	-	21,733
Transfers					778,104	(778,104)	-
Total general revenues and transfers					4,985,421	(543,808)	4,441,613
Change in net assets					809,011	462,664	1,271,675
Net assets - beginning					15,188,744	18,846,785	34,035,529
Net assets - ending					\$ 15,997,755	\$ 19,309,449	\$ 35,307,204

The notes to the basic financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

Major Governmental Funds

General Fund

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those accounted for in another fund. Principal sources of revenue are property taxes, franchise fees, hotel-motel tax, and state shared revenues. Expenditures are primarily for general government operations, public safety (police), and culture and recreation.

Street Fund

The Street Fund accounts for the cost of maintaining City streets and storm water drainage systems. Principal sources of revenues are state gasoline taxes apportioned from the State of Oregon, local fuel taxes, charges for services to other funds, and transfers.

Library Fund

The Library Fund accounts for the operation of the City library. Principal sources of revenues are state grants, county library funds, library fines, donations, and transfers.

Special Assessments Fund

The Special Assessments Fund accounts for the financing of public improvements or services deemed to benefit primarily the properties against which the assessments are levied. Principal sources of revenues are assessment principal and interest collected.

Urban Renewal Capital Projects Fund

The Urban Renewal Capital Projects Fund accounts for services and construction costs for the development within the Columbia Gateway Urban Renewal District. Principal sources of revenues are property taxes, grants, and interest on investments.

CITY OF THE DALLES, OREGON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General Fund	Street Fund	Library Fund	Special Assessments Fund	Urban Renewal Capital Projects Fund	Other Governmental Funds	Totals
ASSETS							
Cash and cash equivalents	\$ 490,575	\$ 124,589	\$ 6,281	\$ 365,093	\$ 1,539,357	\$ 772,802	\$ 3,298,697
Investments	139,420	37,063	1,868	108,608	-	89,773	376,732
Receivables:							
Property taxes	111,615	-	-	-	60,027	-	171,642
Accounts, net	270,920	30,914	-	631	6,353	60,555	369,373
Intergovernmental	22,711	47,994	8,084	-	-	129,810	208,599
Fines and forfeitures	696,903	-	-	-	-	-	696,903
Special assessments	-	-	-	56,574	-	-	56,574
Notes	-	-	-	-	282,445	-	282,445
Due from other funds	369,386	-	-	-	-	-	369,386
Prepaid items	82,763	-	-	-	-	-	82,763
Inventories	-	57,187	-	-	-	-	57,187
Total assets	\$ 2,184,293	\$ 297,747	\$ 16,233	\$ 530,906	\$ 1,888,182	\$ 1,052,940	\$ 5,970,301
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable and accrued liabilities	\$ 157,656	\$ 33,035	\$ 9,324	\$ -	\$ 6,903	\$ 4,171	\$ 211,089
Due to other funds	-	-	102,000	-	-	33,790	135,790
Deferred revenue	807,786	-	-	56,574	342,472	50,559	1,257,391
Total liabilities	965,442	33,035	111,324	56,574	349,375	88,520	1,604,270
FUND BALANCES							
Reserved for:							
Inventories	-	57,187	-	-	-	-	57,187
Debt service	-	-	-	-	-	594,747	594,747
Unreserved, reported in:							
Major funds	1,218,851	207,525	(95,091)	474,332	1,538,807	-	3,344,424
Special revenue funds	-	-	-	-	-	283,646	283,646
Capital projects fund	-	-	-	-	-	86,027	86,027
Total fund balances (deficits)	1,218,851	264,712	(95,091)	474,332	1,538,807	964,420	4,366,031
Total liabilities and fund balances	\$ 2,184,293	\$ 297,747	\$ 16,233	\$ 530,906	\$ 1,888,182	\$ 1,052,940	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities and bond issuance costs are not financial resources and, therefore, are not reported in the funds.	14,417,866
Other long-term assets are not available for current-period expenditures and, therefore, are deferred in the funds.	1,257,391
Internal service funds are used by management to charge the cost of unemployment insurance to individual funds. The assets and liabilities of the internal service fund have been included in governmental activities in the Statement of Net Assets.	25,620
Some liabilities, including bonds payable, accrued interest payable, and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds and loans payable	(3,855,425)
Accrued interest payable	(12,205)
Compensated absences	(201,523)
	<u>(4,069,153)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 15,997,755

The notes to the basic financial statements are an integral part of this statement.

CITY OF THE DALLES, OREGON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2007

	General Fund	Street Fund	Library Fund	Special Assessments Fund	Urban Renewal Capital Projects Fund	Other Governmental Funds	Total
REVENUES							
Property taxes	\$ 1,954,390	\$ -	\$ -	\$ -	\$ 619,435	\$ 442,239	\$ 3,016,064
Other taxes	560,854	306,124	-	-	-	-	866,978
Franchise fees	320,293	-	-	-	-	-	320,293
Assessments	-	-	-	71,560	-	-	71,560
Licenses and fees	16,035	-	-	-	-	-	16,035
Charges for services	16,704	35,102	-	-	-	-	51,806
Intergovernmental	938,430	587,441	15,596	-	-	257,579	1,799,046
Fines and forfeitures	287,014	-	6,081	-	-	-	293,095
Rental income	24,300	-	-	-	-	322,964	347,264
Interest on investments	51,789	8,801	626	19,370	74,094	44,459	199,139
Miscellaneous	34,278	2,129	6,540	-	850	1,000	44,797
TOTAL REVENUES	4,204,087	939,597	28,843	90,930	694,379	1,068,241	7,026,077
EXPENDITURES							
Current:							
General government	1,867,279	-	-	107,423	158,840	251,200	2,384,742
Public safety	2,086,746	-	-	-	-	-	2,086,746
Highways and streets	-	967,521	-	-	-	-	967,521
Culture and recreation	366,865	-	382,833	-	-	-	749,698
Capital outlay	107,642	51,177	-	-	23,253	346,432	528,504
Debt service	-	-	-	-	-	680,284	680,284
TOTAL EXPENDITURES	4,428,532	1,018,698	382,833	107,423	182,093	1,277,916	7,397,495
REVENUES OVER (UNDER) EXPENDITURES	(224,445)	(79,101)	(353,990)	(16,493)	512,286	(209,675)	(371,418)
OTHER FINANCING SOURCES (USES)							
Transfers in	835,656	152,796	234,468	-	-	168,204	1,391,124
Transfers out	(374,796)	(166,680)	(611)	(59,220)	-	(31,380)	(632,687)
TOTAL OTHER FINANCING SOURCES (USES)	460,860	(13,884)	233,857	(59,220)	-	136,824	758,437
NET CHANGE IN FUND BALANCE	236,415	(92,985)	(120,133)	(75,713)	512,286	(72,851)	387,019
FUND BALANCE, Beginning	982,436	357,697	25,042	550,045	1,026,521	1,037,271	3,979,012
FUND BALANCE (DEFICIT), Ending	\$ 1,218,851	\$ 264,712	\$ (95,091)	\$ 474,332	\$ 1,538,807	\$ 964,420	\$ 4,366,031

The notes to the basic financial statements are an integral part of this statement.

**CITY OF THE DALLES, OREGON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007**

Net change in fund balance - governmental funds **\$ 387,019**

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. The difference between these two amounts is:

Capital asset additions	\$ 481,062	
Depreciation expense	<u>(489,446)</u>	(8,384)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred revenues	(83,895)
-------------------	----------

Repayment of long-term obligations principal is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets.

508,364

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

Change in compensated absences	1,112
Change in accrued interest	1,408
Amortization of bond issuance costs	<u>(501)</u>

Internal service funds are used by management to charge the costs of unemployment benefits to individual funds. The net revenue (expense) of the internal service fund is allocated between governmental and business-type activities.

3,888

Change in net assets - governmental activities **\$ 809,011**

CITY OF THE DALLES, OREGON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		Positive / (Negative)
REVENUES				
Property taxes	\$ 1,966,460	\$ 1,966,460	\$ 1,954,390	\$ (12,070)
Other taxes	482,868	498,868	560,854	61,986
Franchise fees	291,871	291,871	320,293	28,422
Licenses and fees	9,540	9,540	16,035	6,495
Charges for services	34,409	34,409	16,704	(17,705)
Intergovernmental	705,954	707,954	938,430	230,476
Fines and forfeitures	280,291	280,291	287,014	6,723
Rental income	23,460	23,460	24,300	840
Interest on investments	40,310	40,310	51,789	11,479
Miscellaneous	33,700	40,700	34,278	(6,422)
TOTAL REVENUES	<u>3,868,863</u>	<u>3,893,863</u>	<u>4,204,087</u>	<u>310,224</u>
EXPENDITURES				
Current:				
General government	1,880,799	1,905,799	1,867,279	38,520
Public safety	2,088,518	2,088,518	2,086,746	1,772
Culture and recreation	352,439	368,439	366,865	1,574
Capital outlay	76,050	113,550	107,642	5,908
Contingency	542,542	325,742	-	325,742
TOTAL EXPENDITURES	<u>4,940,348</u>	<u>4,802,048</u>	<u>4,428,532</u>	<u>373,516</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,071,485)</u>	<u>(908,185)</u>	<u>(224,445)</u>	<u>683,740</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	835,684	835,684	835,656	(28)
Transfers out	(158,013)	(374,813)	(374,796)	17
TOTAL OTHER FINANCING SOURCES (USES)	<u>677,671</u>	<u>460,871</u>	<u>460,860</u>	<u>(11)</u>
NET CHANGE IN FUND BALANCE	(393,814)	(447,314)	236,415	683,729
FUND BALANCE, Beginning	<u>845,884</u>	<u>899,384</u>	<u>982,436</u>	<u>83,052</u>
FUND BALANCE, Ending	<u>\$ 452,070</u>	<u>\$ 452,070</u>	<u>\$ 1,218,851</u>	<u>\$ 766,781</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF THE DALLES, OREGON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
STREET FUND - SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		Positive / (Negative)
REVENUES				
Other taxes	\$ 320,000	\$ 320,000	\$ 306,124	\$ (13,876)
Charges for services	33,370	33,370	35,102	1,732
Intergovernmental	596,940	596,940	587,441	(9,499)
Interest on investments	6,000	6,000	8,801	2,801
Miscellaneous	300	300	2,129	1,829
TOTAL REVENUES	<u>956,610</u>	<u>956,610</u>	<u>939,597</u>	<u>(17,013)</u>
EXPENDITURES				
Current:				
Highway and streets:				
Personal services	601,403	601,403	574,474	26,929
Materials and services	531,233	531,233	393,047	138,186
Capital outlay	83,215	83,215	51,177	32,038
Contingency	73,050	73,050	-	73,050
TOTAL EXPENDITURES	<u>1,288,901</u>	<u>1,288,901</u>	<u>1,018,698</u>	<u>270,203</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(332,291)</u>	<u>(332,291)</u>	<u>(79,101)</u>	<u>253,190</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	152,803	152,803	152,796	(7)
Transfers out	(166,696)	(166,696)	(166,680)	16
TOTAL OTHER FINANCING SOURCES (USES)	<u>(13,893)</u>	<u>(13,893)</u>	<u>(13,884)</u>	<u>9</u>
NET CHANGE IN FUND BALANCE	(346,184)	(346,184)	(92,985)	253,199
FUND BALANCE, Beginning	<u>346,184</u>	<u>346,184</u>	<u>357,697</u>	<u>11,513</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 264,712</u>	<u>\$ 264,712</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF THE DALLES, OREGON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
LIBRARY FUND - SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		Positive / (Negative)
REVENUES				
Intergovernmental	\$ 4,841	\$ 16,673	\$ 15,596	\$ (1,077)
Fines and forfeitures	7,000	7,000	6,081	(919)
Interest on investments	560	560	626	66
Miscellaneous	2,940	2,940	6,540	3,600
TOTAL REVENUES	<u>15,341</u>	<u>27,173</u>	<u>28,843</u>	<u>1,670</u>
EXPENDITURES				
Current:				
Culture and recreation:				
Personal services	274,095	278,177	272,192	5,985
Materials and services	110,616	118,366	110,641	7,725
Debt service	6,440	6,440	-	6,440
TOTAL EXPENDITURES	<u>391,151</u>	<u>402,983</u>	<u>382,833</u>	<u>20,150</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(375,810)</u>	<u>(375,810)</u>	<u>(353,990)</u>	<u>21,820</u>
OTHER FINANCING SOURCES (USES)				
Issuance of debt	120,000	120,000	-	(120,000)
Transfers in	234,472	234,472	234,468	(4)
Transfers out	(611)	(611)	(611)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>353,861</u>	<u>353,861</u>	<u>233,857</u>	<u>(120,004)</u>
NET CHANGE IN FUND BALANCE	(21,949)	(21,949)	(120,133)	(98,184)
FUND BALANCE, Beginning	<u>21,949</u>	<u>21,949</u>	<u>25,042</u>	<u>3,093</u>
FUND BALANCE (DEFICIT), Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (95,091)</u>	<u>\$ (95,091)</u>

The notes to the basic financial statements are an integral part of this statement.



FUND FINANCIAL STATEMENTS

Proprietary Funds

The City of The Dalles uses four Proprietary Funds comprised of three Enterprise Funds and one Internal Service Fund.

Enterprise Funds are used to report activities for which a fee is charged to external users for goods and services and to account for the acquisition, operation, and maintenance of the water, wastewater, and airport facilities. These funds are entirely or predominately self-supported through user charges to the customer. Funds included are:

- **Water**
- **Wastewater**
- **Airport**

For budgetary purposes (see budget schedules in Supplemental Information), the above funds are accounted for in the following separate funds:

- **All Water Funds**
 - Water Utility
 - Water Capital Reserve
- **All Waste Water Funds**
 - Wastewater
 - Wastewater Capital Reserve
 - Sewer Plant Construction
 - Sewer Debt Service
- **All Airport Funds**
 - Airport
 - Airport Debt Service

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City and to other government units on a cost reimbursement basis. The Internal Service Funds are eliminated for the Government-Wide Financial Statements and any residual assets and income and expenses from outside sources are combined with the Governmental Activities. The City's Internal Service Fund is as follows:

- **Unemployment Reserve Fund**

CITY OF THE DALLES, OREGON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007

	<u>Business-type Activities - Enterprise Funds</u>				Governmental Activities - Internal Service Funds
	All Water Funds	All Waste- water Funds	All Airport Funds	Total	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 141,202	\$ 3,287	\$ 103,717	\$ 248,206	\$ 23,189
Investments	169,025	-	41,045	210,070	6,898
Restricted cash and cash equivalents	8,298,684	2,056,363	34,259	10,389,306	-
Restricted Investments	-	382,578	-	382,578	-
Receivables:					
Accounts, net	275,315	395,814	23,681	694,810	-
Intergovernmental	-	-	21,982	21,982	-
Special assessments	-	72,221	-	72,221	-
Inventories	193,312	53,429	-	246,741	-
Total current assets	<u>9,077,538</u>	<u>2,963,692</u>	<u>224,684</u>	<u>12,265,914</u>	<u>30,087</u>
Noncurrent assets:					
Deferred charges	173,082	85,278	1,085	259,445	-
Capital assets, net	6,945,989	11,393,007	3,819,117	22,158,113	-
Total noncurrent assets	<u>7,119,071</u>	<u>11,478,285</u>	<u>3,820,202</u>	<u>22,417,558</u>	<u>-</u>
Total assets	<u>\$ 16,196,609</u>	<u>\$ 14,441,977</u>	<u>\$ 4,044,886</u>	<u>\$ 34,683,472</u>	<u>\$ 30,087</u>
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 353,160	\$ 16,379	\$ 13,433	\$ 382,972	\$ 4,467
Accrued interest payable	104,038	57,641	1,571	163,250	-
Deposits	-	-	100	100	-
Due to other funds	98,568	135,028	-	233,596	-
Compensated absences payable	64,753	33,352	-	98,105	-
Current portion of long-term debt	-	325,000	38,000	363,000	-
Total current liabilities	<u>620,519</u>	<u>567,400</u>	<u>53,104</u>	<u>1,241,023</u>	<u>4,467</u>
Long-term debt, net of current portion:					
Bonds payable	7,930,000	5,875,000	328,000	14,133,000	-
Total liabilities	<u>8,550,519</u>	<u>6,442,400</u>	<u>381,104</u>	<u>15,374,023</u>	<u>4,467</u>
Net assets:					
Invested in capital assets, net of related debt	6,945,989	5,278,285	3,454,202	15,678,476	-
Restricted for capital projects	541,766	2,218,114	-	2,759,880	-
Restricted for debt service	-	220,827	34,259	255,086	-
Unrestricted	158,335	282,351	175,321	616,007	25,620
Total net assets	<u>7,646,090</u>	<u>7,999,577</u>	<u>3,663,782</u>	<u>19,309,449</u>	<u>25,620</u>
Total liabilities and net assets	<u>\$ 16,196,609</u>	<u>\$ 14,441,977</u>	<u>\$ 4,044,886</u>	<u>\$ 34,683,472</u>	<u>\$ 30,087</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF THE DALLES, OREGON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	All Water Funds	All Waste- water Funds	All Airport Funds	Total	
OPERATING REVENUES					
Charges for services	\$ 2,620,570	\$ 3,597,961	\$ 3,737	\$ 6,222,268	\$ -
Rental income	4,080	-	121,407	125,487	-
Miscellaneous	11,174	20,537	5,550	37,261	-
TOTAL OPERATING REVENUES	<u>2,635,824</u>	<u>3,618,498</u>	<u>130,694</u>	<u>6,385,016</u>	<u>-</u>
OPERATING EXPENSES					
Personal services	1,349,572	723,642	-	2,073,214	16,756
Materials and services	854,819	1,287,211	169,286	2,311,316	-
Depreciation	211,450	266,912	245,676	724,038	-
TOTAL OPERATING EXPENSES	<u>2,415,841</u>	<u>2,277,765</u>	<u>414,962</u>	<u>5,108,568</u>	<u>16,756</u>
OPERATING INCOME (LOSS)	<u>219,983</u>	<u>1,340,733</u>	<u>(284,268)</u>	<u>1,276,448</u>	<u>(16,756)</u>
NONOPERATING INCOME (EXPENSES)					
Intergovernmental	2,715	12,715	88,980	104,410	-
Interest on investments	122,796	104,564	6,936	234,296	977
Gain (loss) on disposal	-	-	(6,045)	(6,045)	-
Interest expense	(106,346)	(242,246)	(19,749)	(368,341)	-
TOTAL NONOPERATING INCOME (EXPENSES)	<u>19,165</u>	<u>(124,967)</u>	<u>70,122</u>	<u>(35,680)</u>	<u>977</u>
NET INCOME (LOSS) BEFORE TRANSFERS	<u>239,148</u>	<u>1,215,766</u>	<u>(214,146)</u>	<u>1,240,768</u>	<u>(15,779)</u>
TRANSFERS					
Transfers In	-	1,955,532	95,508	2,051,040	19,667
Transfers out	(463,272)	(2,357,880)	(7,992)	(2,829,144)	-
TOTAL TRANSFERS	<u>(463,272)</u>	<u>(402,348)</u>	<u>87,516</u>	<u>(778,104)</u>	<u>19,667</u>
CHANGE IN NET ASSETS	<u>(224,124)</u>	<u>813,418</u>	<u>(126,630)</u>	<u>462,664</u>	<u>3,888</u>
NET ASSETS, Beginning	<u>7,870,214</u>	<u>7,186,159</u>	<u>3,790,412</u>	<u>18,846,785</u>	<u>21,732</u>
NET ASSETS, Ending	<u>\$ 7,646,090</u>	<u>\$ 7,999,577</u>	<u>\$ 3,663,782</u>	<u>\$ 19,309,449</u>	<u>\$ 25,620</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF THE DALLES, OREGON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007

	<u>Business-type Activities - Enterprise Funds</u>				Governmental Activities Internal Service Funds
	All Water Funds	All Wastewater Funds	All Airport Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 2,551,136	\$ 3,489,624	\$ 128,006	\$ 6,168,766	\$ -
Receipts from interfund services provided	12,322	21,929	-	34,251	-
Payments to suppliers	(1,329,617)	(1,573,739)	(212,231)	(3,115,587)	(12,289)
Payments to employees	(932,493)	(504,565)	-	(1,437,058)	-
Payments for interfund services used	(4,656)	(2,844)	-	(7,500)	-
Net cash provided from (used by) operating activities	<u>296,692</u>	<u>1,430,405</u>	<u>(84,225)</u>	<u>1,642,872</u>	<u>(12,289)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	1,955,532	95,508	2,051,040	19,667
Transfers out	(463,272)	(2,357,880)	(7,992)	(2,829,144)	-
Net cash provided from (used by) non-capital financing activities	<u>(463,272)</u>	<u>(402,348)</u>	<u>87,516</u>	<u>(778,104)</u>	<u>19,667</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from intergovernmental revenue	2,715	12,715	116,820	132,250	-
Proceeds from issuance of debt	7,754,610	-	-	7,754,610	-
Interfund loan proceeds	98,568	135,028	-	233,596	-
Acquisition of capital assets	(231,499)	(281,872)	(49,666)	(563,037)	-
Principal paid on long-term obligations	-	(315,000)	(36,000)	(351,000)	-
Interest paid on long-term obligations	-	(238,440)	(19,749)	(258,189)	-
Net cash provided from (used by) capital and related financing activities	<u>7,624,394</u>	<u>(687,569)</u>	<u>11,405</u>	<u>6,948,230</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Net investment sales (purchases)	(51,773)	(312,992)	(23,097)	(387,862)	(4,420)
Interest on investments	122,796	104,564	6,936	234,296	977
Net cash provided from (used by) investing activities	<u>71,023</u>	<u>(208,428)</u>	<u>(16,161)</u>	<u>(153,566)</u>	<u>(3,443)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>7,528,837</u>	<u>132,060</u>	<u>(1,465)</u>	<u>7,659,432</u>	<u>3,935</u>
CASH AND CASH EQUIVALENTS, Beginning	<u>911,049</u>	<u>1,927,590</u>	<u>139,441</u>	<u>2,978,080</u>	<u>19,254</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 8,439,886</u>	<u>\$ 2,059,650</u>	<u>\$ 137,976</u>	<u>\$ 10,637,512</u>	<u>\$ 23,189</u>
COMPRISED AS FOLLOWS:					
Cash and cash equivalents	\$ 141,202	\$ 3,287	\$ 103,717	\$ 248,206	\$ 23,189
Restricted cash and cash equivalents	<u>8,298,684</u>	<u>2,056,363</u>	<u>34,259</u>	<u>10,389,306</u>	<u>-</u>
	<u>\$ 8,439,886</u>	<u>\$ 2,059,650</u>	<u>\$ 137,976</u>	<u>\$ 10,637,512</u>	<u>\$ 23,189</u>
Reconciliation of operating income (loss) to net cash provided from (used by) operating activities					
Operating income (loss)	\$ 219,983	\$ 1,340,733	\$ (284,268)	\$ 1,276,448	\$ (16,756)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation	211,450	266,912	245,676	724,038	-
(Increase) decrease in assets:					
Receivables	(72,366)	(106,945)	(2,688)	(181,999)	-
Inventories	(32,326)	2,356	-	(29,970)	-
Increase (decrease) in liabilities:					
Accounts payable and accrued expenses	(27,467)	(75,396)	(42,945)	(145,808)	4,467
Compensated absences payable	(2,582)	2,745	-	163	-
Net cash provided from (used by) operating activities	<u>\$ 296,692</u>	<u>\$ 1,430,405</u>	<u>\$ (84,225)</u>	<u>\$ 1,642,872</u>	<u>\$ (12,289)</u>

The notes to the basic financial statements are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF THE DALLES
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of The Dalles, Oregon (the City) is organized under the general laws of the State of Oregon. The City Council, composed of the Mayor and five Council members, comprises the legislative branch of the City. Individual departments are under the direction of the City Manager, who is appointed by the City Council.

The accompanying financial statements present all activities, funds and component units for which the City is considered to be financially accountable. The criteria used in making this determination includes appointment of a voting majority, imposition of will, financial benefit or burden on the primary government, and fiscal dependency on the primary government. Based upon the evaluation of this criteria, the City is a primary government with the following includable component unit.

Columbia Gateway Urban Renewal Agency

The Agency was formed to undertake urban renewal projects and activities pursuant to the City's redevelopment plan. The Board of Directors of the Agency consists of the Mayor and the five elected City Council members, which receives recommendations from a seven member advisory committee appointed by the City Council. The City is required to certify to the County Assessor any incremental taxes to be levied for the benefit of the Agency. Since the City Council acts as its governing board, it has been included as a blended component unit in the financial statements. Complete financial statements for the Agency may be obtained at the City's administrative offices, 313 Court Street, The Dalles, OR 97058.

B. Government – Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City (the primary government) and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-types activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the City is financially accountable.

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

not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statements and proprietary funds have applied all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the functions of the City, the elimination of which would distort the direct costs and program revenues reported for the various functions concerned.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Significant revenues, which are susceptible to accrual under the modified accrual basis of accounting, include property taxes and federal and state grants. Other revenue items are considered to be measurable and available when received by the City. Expenditures generally are recorded when a

liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

The bases of accounting described above are in accordance with accounting principles generally accepted in the United States of America.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Principal sources of revenue are property taxes, franchise fees, hotel-motel tax, and state shared revenues. Expenditures are primarily for general government operations, public safety (police), and culture and recreation.

The *Street Fund* accounts for the cost of maintaining City streets and storm water drainage systems. Principal sources of revenues are state gasoline taxes apportioned from the State of Oregon, local fuel taxes, charges for services to other funds, and transfers.

The *Library Fund* accounts for the operation of the City Library. Principal sources of revenues are state grants, county library funds, library fines, donations, and transfers.

The *Special Assessments Fund* accounts for the financing of public improvements or services deemed to benefit primarily the properties against which the assessments are levied. Principal sources of revenues are assessment principal and interest collected.

The *Urban Renewal Capital Projects Fund* accounts for services and construction costs for the development within the Columbia Gateway Urban Renewal District. Principal sources of revenues are property taxes, grants, and interest on investments.

The City reports the following major proprietary funds:

The *Water Funds* account for revenues and expenses related to the City's water utility operations.

The *Wastewater Funds* account for revenues and expenses related to the City's wastewater utility operations.

The *Airport Funds* account for the activity associated with the operations and capital improvements of the City's municipal airport.

Additionally, the City reports an *Internal Service Fund*. This fund accounts for operations that provide service to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The service provided is the payments of unemployment benefits.

The City also includes the following fund types as other governmental funds:

Special revenue funds are primarily operating funds that account for revenue derived from specific taxes or other revenue sources, which are legally restricted to finance particular functions or activities. When a special revenue fund is not an operating fund, transfers are made from the special revenue fund to the operating funds authorized to make expenditures.

Debt service funds account for the resources accumulated and payments made for principal and interest on long-term debt for governmental funds.

Capital projects funds account for expenditures on major construction projects or equipment acquisition. The principal sources of revenues are proceeds from long-term obligations issued to finance capital acquisitions and improvements.

D. Assets, Liabilities and Equity

1. Cash, Cash Equivalents, and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in the Local Government Investment Pool, and short-term investments with original maturities of three months or less from the date of acquisition.

The City maintains merged bank accounts and investments for its funds in a central pool of cash and investments. The investment policy of the City is to invest in the Local Government Investment Pool, U.S. Government and Agency Obligations, Corporate indebtedness rated A-1 or AA or better, and interest bearing demand deposits with local banks and to transfer resources to the general checking account as the need arises. This policy is in accordance with ORS 294.035, which specifies the types of investments authorized for municipal corporations. The City allocates earnings on investments to selected funds based on the average monthly balances throughout the year.

Investments in the Local Government Investment Pool are stated at amortized cost, which approximates fair value. All other investments are reported at fair value.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not available expendable financial resources.

Other receivables including accounts, entitlements, and shared revenues are reported in accordance with the policies enumerated in Paragraph C above. An allowance for uncollectible accounts has been established for the Water, Wastewater and Airport Funds and represents the portion of receivables not expected to be collected.

3. Inventories and Prepaid Expenses

Inventories in Street, Water, and Wastewater Funds are determined by physical count and are stated at the lower of cost (first in, first out) or market. Expenses are

recognized when inventories are consumed. Other inventories are taken for control purposes only with no dollar value assigned.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when actual cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. There was no interest capitalized during the year.

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

<u>Assets</u>	<u>Years</u>
Building and improvements	45
Plant in service	45
Machinery and equipment	5 - 20

5. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the lives of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not

withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Compensated Absences

It is the City's policy to permit employees to accumulate earned, but unused, vacation, holiday and sick pay benefits. No liability is reported for unpaid accumulated sick pay benefits. All vacation and holiday pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Compensated absences are normally paid from the General, Library, Street, Water, and Wastewater funds.

7. Fund Equity

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

8. Restricted net assets

Restrictions on net assets that are either imposed by creditors, grantors, laws or other regulations, or by enabling legislation are reported as restricted net assets.

9. Estimates

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all funds, except for the proprietary funds. The annual budget for proprietary funds is adopted on the modified accrual basis of accounting, which is not consistent with GAAP, in order to comply with Oregon Local Budget Law. All annual appropriations lapse at fiscal year end.

Oregon Local Budget Law establishes standard procedures relating to the preparation, adoption, and execution of the annual budget.

The City begins its budgeting process by appointing Budget Committee members in the fall of each year. Budget recommendations are developed by management through early spring, with the Budget Committee meeting and approving the budget document in late spring. Public notices of the budget hearing are generally published in May or June and the hearing is held in June. The City Council adopts the budget, makes appropriations, and declares the tax levy no later than June 30. Expenditure

appropriations may not be legally over expended, except in the case of grant receipts and bond sale proceeds which could not be reasonably estimated at the time the budget was adopted.

The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. The level of budgetary control is established at the department level for the General Fund. For all other funds, the level of budgetary control is established at the personal services, materials and services, capital outlay, operating contingency, interfund transfers, debt service, and other uses.

Unexpected additional resources may be added to the budget and appropriated for expenditure through the use of a supplemental budget. The supplemental budget process requires a hearing before the public, publication in the newspaper, and approval by the City Council. Oregon Local Budget Law also provides certain specific exceptions to the supplemental budget process to increase appropriations. Management must obtain City Council authorization for all appropriation transfers and supplementary budgetary appropriations.

During the year ended June 30, 2007, appropriation increases and transfers were approved, and supplemental budgets were adopted. Appropriations are limited to a single fiscal year; therefore, all spending authority of the City lapses as of year-end.

B. Excess of Expenditures over Appropriations

Expenditures exceeded appropriations in the following amounts:

General Fund:	
Finance	\$ 15,898
Police	\$ 2,392
Street and Bridge Replacement Fund:	
Capital outlay	\$ 19,322
Sewer Plant Construction Fund:	
Transfers out	\$ 380

C. Deficit Fund Balance

At June 30, 2007, the Library Fund had a deficit fund balance of \$95,091. Management expects the deficit to be reversed in future years by library revenues and transfers.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits. The Governmental Accounting Standards Board has adopted accounting principles generally accepted in the United States of America (GAAP), which includes standards to categorize deposits to give an indication of the level of custodial credit risk assumed by the City at June 30, 2007. If bank deposits at year end are not entirely insured or collateralized with securities held by the City or by its agent in the City's name, the City must disclose the custodial credit risk that exists. The City's deposits with financial institutions are comprised of bank demand deposits and certificates of deposit. For deposits in excess of federal depository insurance, 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

