



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2008

Prepared by:
The City of The Dalles
Finance Department

CITY OF THE DALLES, OREGON

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TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Introductory Letter	i - vi
Officials of the City	vii
GFOA Certificate of Achievement	viii
Organizational Chart	ix
<u>FINANCIAL SECTION</u>	
INDEPENDENT AUDITOR'S REPORT	A, B
MANAGEMENT'S DISCUSSION AND ANALYSIS	a - g
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Funds:	3
Balance Sheet	4
Statement of Revenues, Expenditures, and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Revenues, Expenditures, and Changes In Fund Balance – Budget and Actual	
General Fund	7
Street Fund	8
Library	9
Proprietary Funds:	10
Statement of Net Assets	11
Statement of Revenues, Expenses and Changes in Fund Net Assets	12
Statement of Cash Flows	13
Notes to the Basic Financial Statements	14 - 33
SUPPLEMENTAL INFORMATION	
Combining Statements – Non-Major Governmental Funds:	34
Combining Balance Sheet	35
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	36

	<u>Page</u>
Budgetary Comparison Schedules:	37
Schedule of Expenditures and Other Financing Uses – Budget and Actual,	
By Department:	38
General Fund	39
Schedules of Revenues, Expenditures and Changes in Fund Balance –	
Budget and Actual:	
Governmental Funds:	40
Special Revenue Funds:	
Public Works Reserve	41
Community Benevolence	42
Street and Bridge Replacement	43
Special Grants	44
State Office Building	45
Unemployment Reserve	46
Debt Service Funds:	
Police Facility Revenue Bond	47
Urban Renewal	48
Capital Projects Funds:	
Capital Projects	49
Special Assessments	50
Urban Renewal Capital Projects	51
Proprietary Funds:	52
Enterprise Funds:	
All Water Funds:	
Water Utility	53
Water Capital Reserve	54
Water Bond Debt	55
Reconciliation to Generally Accepted Accounting Principles	56
All Waste Water Funds:	
Waste Water	57
Waste Water Capital Reserve	58
Sewer Plant Construction	59
Sewer Debt Service	60
Reconciliation to Generally Accepted Accounting Principles	61
All Airport Funds:	
Airport	62
Airport Debt Service	63
Reconciliation to Generally Accepted Accounting Principles	64
Other Financial Schedules:	
Schedule of Outstanding Debt Principal and Interest Transactions	65
Schedule of Governmental Activities Debt Service Future Requirements	66
Schedule of Business-Type Activities Debt Service Future Requirements	67

STATISTICAL INFORMATION SECTION

Net Assets By Component – Last Six Fiscal Years	69
Changes in Net Assets – Last Six Fiscal Years	70
Fund Balances, Governmental Funds – Last Ten Fiscal Years	71
Changes in Fund Balances, Governmental Funds – Last Ten Fiscal Years	72

	<u>Page</u>
Program Revenues by Function/Program – Last Six Fiscal Years	73
Tax Revenues by Source, Governmental Funds – Last Ten Fiscal Years	74
Assessed Valuation and Actual Values of Taxable Property – Last Ten Fiscal Years	75
Property Tax Rates – Direct and Overlapping Governments – Last Ten Fiscal Years	76
Property Tax Levies and Collections – Last Ten Fiscal Years	77
Principal Taxpayers – December 31, 2007 and December 31, 1998	78
Ratios of Outstanding Debt By Type – Last Ten Fiscal Years	79
Ratios of General Bonded Debt Outstanding – Last Ten Fiscal Years	80
Direct and Overlapping Governmental Activities Debt	81
Legal Debt Margin Information – Last Ten Fiscal Years	82
Demographic and Economic Statistics – Last Ten Fiscal Years	83
Principal Employers – Current and Nine Years Ago	84
Full Time Equivalent City Employees by Function/Program and Bargaining Unit – Last Ten Fiscal Years	85
Operating Indicators by Function/Program – Last Ten Fiscal Years	86
Capital Asset and Infrastructure Statistics by Function/Program – Last Ten Fiscal Years	87

**REPORTS OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS**

INDEPENDENT AUDITOR'S COMMENTS	88 - 89
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GOVERNMENT AUDITING STANDARDS COMPLIANCE REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	90 - 91
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INTRODUCTORY SECTION



CITY of THE DALLES

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THE DALLES, OREGON 97058

(541) 296-5481

City Council
City of The Dalles
The Dalles, Oregon 97058

November 10, 2008

The Comprehensive Annual Financial Report (CAFR) of the City of The Dalles, Oregon, for the year ended June 30, 2008, is submitted herewith. This report presents a comprehensive and detailed picture of The Dalles' financial transactions during fiscal year 2007-2008 and the financial condition of the various funds and account groups at June 30, 2008. 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, 2008, 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 13,112, 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, hydro and wind power generation/transmission, and tourism, along with healthcare, government, and retail services. Mid Columbia Medical Center is the area's largest employer with approximately 800 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 80 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 300 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 and kite boarding 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. Thousands of 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 151 bed Veterans' long-term nursing and care home. The facility opened in November 1997, currently providing 195 jobs and has 145 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. A new 150,000 square foot super Wal-Mart store is planned for 2009 and will employ around four hundred people.

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, including a \$5 million dollar East Gateway public infrastructure project that will leverage \$25 million in private investment and a \$6 million dollar Downtown/Riverfront Connection project that includes a public dock planned for 2008.

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 2007-2008 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 was scheduled for fiscal years 2007-2008 and 2008-2009 with a similar amount in 5 years. A \$7.9 water revenue bond was issued in 2007. Several of the improvement projects were started in FY 2007-2008 and should be completed in 2009.

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.

Storm Water Master Plan

Storm Water Master Plan was completed in 2007. A System Development Charge and a storm water utility charge have 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.

Public Works Facility Relocation

In FY 2007-2008 the City exchanged its public works property in the 6th Street commercial district for property in the East Port Industrial Park. The exchange has provided the City room for growth and allowed a downtown car dealership to move to the visible commercial site and frees up over two acres in the downtown for redevelopment. When finished, the City will have spent approximately 2.8 million in renovating the new facilities for our use.

Columbia Gateway Urban Renewal Agency

The Columbia Gateway Urban Renewal Agency, a component unit of the City of the Dalles, operated throughout the 2007-2008 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 2007-2008. We are currently investigating expanding the expiration date from 2015 for an additional five to ten years, and increasing the debt limit.

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, 2008. 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 2007-2008. 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

Management Discussion and Analysis

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditor.

Independent Audit

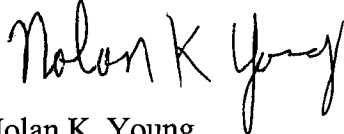
Oregon Revised Statutes Chapter 297 requires that an independent audit be made of all City funds and account groups within six months following the close of a fiscal year. The independent auditors, who were selected by the City Council, have completed their audit of the

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

