

Financial Section

Auditors' Report

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ACCOUNTING

INDEPENDENT AUDITORS' REPORT

AND

Honorable Mayor, Members of the
City Council and City Manager
City of Milton-Freewater
Milton-Freewater, Oregon

CONSULTING

SERVICES

MEMBER OF

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 Milton-Freewater, Oregon, as of June 30, 2004, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the City of Milton-Freewater, Oregon, management. Our responsibility is to express an opinion on these financial statements.

McGLADREY

NETWORK

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

In our opinion, based on our audit, 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 Milton-Freewater, Oregon, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, 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 a report dated October 15, 2004, on our consideration of the City of Milton-Freewater, Oregon's, internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 17 through 24 and 104 through 129 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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 of Milton-Freewater, Oregon's, basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "LeMaster & Daniels PLLC".

John T. Fisher, CPA, CGFM
Member of the Firm
LeMaster & Daniels PLLC
Yakima, Washington
October 15, 2004

Management's Discussion and Analysis

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City of Milton-Freewater, Oregon

Management's Discussion and Analysis

The management of the city of Milton-Freewater, Oregon, presents this narrative overview and analysis to facilitate both a short and long-term analysis of the financial activities of the City for the fiscal year ended June 30, 2004. This Management's Discussion and Analysis (MD&A) is based on currently known facts, decisions, and conditions that existed as of the date of the independent auditors' report. Additional information outside the scope of this analysis can be found in the Letter of Transmittal. This is the second year the City is reporting under the provisions of GASB 34. This is the first year prior year information is available; a comparative analysis of government-wide data is being presented.

Financial Highlights

- The City's Governmental Activities net assets at June 30, 2004, increased \$464,170 from the prior year.
- The City's Business Activities net assets increased \$161,561 from the prior year.
- The General Fund's unreserved fund balance is \$803,377 at the end of the current fiscal year.
- The City's cash and cash equivalents as of June 30, 2004, are \$6,023,861.
- The City's 2003 budget was \$21,599,358 with \$4,771,154 in contingency and reserve funds.
- This fiscal year the City's staff wrote grants and the City was awarded \$170,194 in grant money for use on ancillary projects.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the City's basic financial statements and other required supplementary information. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include the following:

Finance
Fire
Library
Human Resources
Planning and Economic Development
Police and Emergency Communications
Public Works

City of Milton-Freewater, Oregon

Management's Discussion and Analysis (continued)

The Business-type activities of the City include the following:

- Electric Utility
- Water Utility
- Sewer Utility
- Solid Waste Utility
- Golf Course

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Urban Renewal Agency (URA) for which the City is financially accountable. Although legally separate, the URA's governing body is identical to the City's, and because the services of the URA are exclusively for the benefit of the City, it is included as an integral part of the primary Government.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for activities where the emphasis is placed on available financial resources, rather than upon net income determination. Therefore, unlike the government-wide financial statements, governmental fund financials focus on the acquisition and use of current spendable resources, as well as the balances of spendable resources at the end of the fiscal year. The City maintains 12 individual governmental funds with the information presented separately for General, Special Revenue and Debt Service Funds. Please see the NOTES TO FINANCIAL STATEMENTS for further explanation of each individual fund.

Proprietary funds. Proprietary funds are used to account for activities where the emphasis is placed on net income determination. The City maintains two different types of proprietary funds – enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The city uses internal service funds to account for warehouse, fleet management, and risk and benefits management. Please see the NOTES TO FINANCIAL STATEMENTS for further explanation of each individual fund.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the financial statements. They are an integral part of the financial statements and should be read in conjunction with them.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$3,610,078 at June 30, 2004. This figure includes \$2,228,987 invested in capital assets, \$133,781 reserved for debt service and community development, and \$1,221,234 of unrestricted funds. This does not account for all governmental infrastructure, which will be fully capitalized by June 30, 2007.

Total liabilities of \$2,954,930 includes current liabilities of \$317,464 and noncurrent liabilities of \$2,637,466. For a more detailed breakdown please see the Statement of Net Assets.

City of Milton-Freewater, Oregon

Management's Discussion and Analysis (continued)

FUND-BASED FINANCIAL STATEMENTS

General Fund

The General Fund ended the year with a fund balance of \$806,254. Revenue for fiscal 2004 was \$2,165,047. This is a .10% increase over last year. The increase was mainly due to an increase in property tax revenue and franchise fees. Intergovernmental revenue was down because the state has cut some of the city's funding. The ending fund balance was \$108,435 higher than last years \$697,819.

Franchise fees are a consistent revenue source for this fund, rather than property taxes. Since the franchise fees for the utilities are collected monthly based on that month's revenue, the City enjoys a relatively stable cash flow. It is not heavily dependent upon property tax revenue. Revenue sources are as follows:

Property taxes	\$ 683,920	31.6%
Utility tax	128,151	5.9
Intergovernmental	151,535	7.0
Franchise fees	763,693	35.3
Fines and licenses	160,141	7.6
Services	168,187	7.8
Interest	12,315	0.6
Miscellaneous	<u>97,105</u>	<u>4.2</u>
Total	<u>\$2,165,047</u>	<u>100.0%</u>

Expenditures for the fiscal year were \$3,570,436.

The operation of the General Fund can be summarized as follows:

Beginning fund balance	\$ 697,819
Revenue	2,165,047
Transfers in	<u>1,618,548</u>
	<u>4,481,414</u>
Expenditures	3,570,436
Transfers out	<u>104,724</u>
	<u>3,675,160</u>
Fund balance June 30, 2004	<u>\$ 806,254</u>

Expenditures were as follows:

Public Safety	\$1,491,180	41.8%
General Government	1,144,181	32.0
Culture and Recreation	380,055	10.7
Public Works	389,763	10.9
Community Development	86,603	2.4
Engineering and Planning	<u>78,654</u>	<u>2.2</u>
Total	<u>\$3,570,436</u>	<u>100.0%</u>

City of Milton-Freewater, Oregon

Management's Discussion and Analysis (continued)

Special Revenue Funds

The City of Milton-Freewater has seven Special Revenue Funds, including one component unit. Special Revenue funds are used to account for revenue from earmarked sources, which by law are designated to finance particular functions of the government. A description of these funds follows.

Street Fund. This fund controls the revenue which must be spent on streets, primarily from State gas tax revenue. In order to assure that the 24 miles of the street system are maintained in a safe, clean, well prepared manner.

Street Improvement Fund. This fund accounts for revenue from street opening permits which will be used for major street repairs at a later date.

Library Fund. In 1989, the voters approved a special library district to fund the libraries in our county. The Umatilla County Special Library District levies the taxes and distributes them to the libraries. This fund accounts for those and other library revenue.

Senior/Disabled Transportation Fund. The City has been running a senior citizen transportation program for over 20 years. The program during this last year, allowed seniors and disabled persons who live within city limits of Milton-Freewater to purchase an unlimited number of taxi tickets for \$1 each. The cost to seniors and disabled persons living outside the city limits is \$2 per ticket. This charge helps supplement the funds necessary to operate the program due to increased taxi contract costs. Revenue also came from one state grant and one county grant.

Drug Enforcement Fund. This fund's revenue source is from revenue received from other agencies for the City's participation in reducing drug crimes.

Urban Renewal Agency. This component unit's special revenue fund was created to improve property values, create jobs, and promote business expansion. The agency acts under a Board of Directors, which are the City Council members. Additional information regarding the component unit may be found in the Financial Statement Notes.

Debt Service Fund

The City's General Obligation Bonded Debt at June 30, 2004, is \$1,105,000. During this fiscal year, \$70,000 in bonds was retired. The General Obligation Bonded Debt is as follows:

Fire Equipment and Station	Issued 10/01/89	\$ 10,000
Family Aquatic Center	Issued 08/01/95	1,095,000

Current bonded debt is 27.1% of the bonded debt allowable. The fire protection bond issue was passed by voters May 16, 1989, for \$193,000 and issued October 1989. The Family Aquatic Center bond issue was passed by voters May 16, 1995, and issued August 1, 1995, for \$1,500,000. Additional general obligation bonds with a value of \$3.5 million could be sold within the legal debt limit if approved by the voters.

City of Milton-Freewater, Oregon

Management's Discussion and Analysis (continued)

Enterprise Funds

The City operates four major utility services and a golf course in Milton-Freewater. These funds are operated like private enterprises, and the accounting reflects this. Following are the significant highlights for each.

Electric Fund. The electric department is one of the oldest documented municipal systems still in operation in the United States. The hydro generating plant was first in service in 1888, and sold to the City of Milton about 1890. Daniel Franklin Brown was responsible for the installation of the plant, and remained the electric supervisor for the City until 1903. It is interesting to note his monthly salary was \$50.00, and that his pay was docked for any time the electrical plant was not in production. Although none of the original equipment is now functional, the City still maintains the pioneer spirit of the original crew to bring its citizens low-cost dependable power.

Electric Funds financial comparison to last year is as follows:

	<u>2004</u>	<u>2003</u>	<u>% increase (decrease)</u>
Operating revenue	\$7,172,458	\$6,304,261	13.77 %
Operating expenses	<u>6,202,937</u>	<u>6,025,783</u>	2.93
Operating income (loss)	969,521	278,478	248.14
Nonoperating revenue (expenses)	43,939	150,238	(70.75)
Net operating transfers	<u>(709,355)</u>	<u>(653,884)</u>	8.48
Net income (loss)	\$ 304,105	\$ (225,168)	235.05 %

Colder weather generates increased sales, which increases revenue. It also increases the expenses at a greater proportion due to BPA's rate structure. The City charges the same rates all year long, however, BPA has a higher rate for winter months than they do for summer months. The Electric Department rebuilt and energized the Milton Substation during this last year. The Electric Department purchased and installed a new SCADA system with a station in the Water Department. In the SCADA system, spread-spectrum radios were installed for communication and also new connections to the fiber optic network were made.

Electric Replacement Fund. This fund was created to set aside funds from the Electric Fund to pay for major replacement costs.

Electric Operating and Maintenance Fund. This fund was created to set aside funds from the Electric Fund to assure sufficient revenue is available to pay for unanticipated operating or maintenance costs.

Water Fund. The water system consists of seven City-owned wells and approximately 40 miles of mains.

City of Milton-Freewater, Oregon

Management's Discussion and Analysis (continued)

Financial comparison to last year is as follows:

	<u>2004</u>	<u>2003</u>	<u>% increase (decrease)</u>
Operating revenue	\$ 916,798	\$ 871,784	5.16 %
Operating expenses	<u>520,798</u>	<u>533,005</u>	(2.29)
Operating income (loss)	396,000	338,779	16.89
Nonoperating revenue (expenses)	(84,294)	(88,176)	4.40
Net operating transfers	<u>(371,742)</u>	<u>(338,058)</u>	(9.96)
Net income (loss)	\$ (60,036)	\$ (87,455)	31.35 %

A rate increase was approved this year to help this fund get a positive net income to offset increased expenses due mainly to increased energy costs to run wells.

Sewer Fund. The sewage control system consists of approximately 26 miles of gravity flow collector lines. The system has been in place since 1947.

Sewer Funds financial comparison to last year is as follows:

	<u>2004</u>	<u>2003</u>	<u>% increase (decrease)</u>
Operating revenue	\$ 845,318	\$ 837,621	.91 %
Operating expenses	<u>590,905</u>	<u>492,310</u>	20.02
Operating income (loss)	254,413	345,311	(26.32)
Nonoperating revenue (expenses)	(42,549)	277,985	(115.30)
Net operating transfers	<u>(298,016)</u>	<u>(273,513)</u>	8.95
Net income (loss)	\$ (86,152)	\$ 349,783	(124.63)%

The main difference between this year and last year is intergovernmental income from the state for sewer plant improvements.

Sewer Improvement Fund. This fund was created to set aside funds from the Sewer Fund to pay for system improvements that are currently taking place at the sewer treatment plant.

Solid Waste Fund. The Solid Waste Fund handles city-wide collection of solid waste, and the operation and maintenance of the landfill. The landfill is located about 3.2 miles west of the City, and is no longer open to the public in order to control waste tonnage.

City of Milton-Freewater, Oregon

Management's Discussion and Analysis (continued)

Financial comparison to last year is as follows:

	<u>2004</u>	<u>2003</u>	<u>% increase (decrease)</u>
Operating revenue	\$ 533,539	\$ 446,409	19.51 %
Operating expenses	<u>367,472</u>	<u>402,642</u>	(8.73)
Operating income (loss)	166,067	43,767	279.43
Nonoperating revenue (expenses)	38	645	(94.10)
Net operating transfers	<u>(145,799)</u>	<u>(90,447)</u>	61.19
Net income (loss)	\$ 20,306	\$ (46,035)	144.10%

The City expects the costs of waste disposal and waste recycling to continue to increase as governmental mandates are put into law.

Landfill Closure Fund. This fund was created to set aside funds from the Landfill Fund to pay for closure costs as required. The fund equity is now \$63,533.

Golf Course Fund. This is the tenth year of operation of the Golf Course Fund as an enterprise fund. The course is an 18-hole par 60 located in the west center part of the City. Financial comparison to last year is as follows:

	<u>2004</u>	<u>2003</u>	<u>% increase (decrease)</u>
Operating revenue	\$ 219,916	\$ 224,118	1.87 %
Operating expenses	<u>198,485</u>	<u>189,749</u>	4.60
Operating income (loss)	21,431	34,369	(37.64)
Nonoperating revenue (expenses)	(17,938)	(12,065)	(48.67)
Net operating transfers	<u>(13,554)</u>	<u>(11,997)</u>	(12.98)
Net income (loss)	\$ (10,061)	\$ 10,307	(197.61)%

Golf Course Irrigation Fund. This fund was created to set aside funds from the Golf Course Fund to pay for a new irrigation system which was completed last fiscal year.

Internal Service Funds

The City has five internal service funds. These funds are similar to enterprise funds because they are operated and accounted for like a private business. The only difference is the customers for these businesses are the different departments or funds of the City. Following are the highlights for each fund:

Warehouse Fund. The warehouse is located on Lamb Street and holds the inventory for all the utility funds. This fund was established to correctly allocate the costs of running the warehouse to those funds that use the service. The warehouse purchases all inventories that are charged to the Warehouse Fund. The utilities then requisition inventory from the warehouse and are charged for the inventory purchased at that time.

City of Milton-Freewater, Oregon

Management's Discussion and Analysis (continued)

Vehicle Maintenance Fund. This fund tracks the cost of maintaining the City's vehicles, and allocates those costs to the actual users. All revenue from this fund is from intra-city charges with the exception of revenue generated by a contract to service buses operated by School District #7 and interest. Vehicle rates are reviewed annually during budget preparation to ensure that all costs of maintaining the vehicles are charged accordingly to each user.

Vehicle Replacement Fund. Part of the rental rate charged on each vehicle is depreciation and an inflation factor for the vehicle. This portion of the rate is kept in this fund and used to replace the vehicles when scheduled. This portion of the rent previously was included in the vehicle maintenance fund, but it was hard to keep the replacement funds separate from the repair funds. Consequently, some replacement money was used to make repairs to keep the rates low. This fund's purpose is to ensure that timely replacement of vehicles will be possible.

Sick Leave Liability Fund. Only sick leave earned in the current year is budgeted for. This leaves all the previous year's sick leave balance as a possible unfunded liability. This fund collects money to fund a portion of leaves that are not budgeted for. It is the intention of the City to let the interest accumulate, and add to the principal until the full amount of sick leave liability is covered. The City used \$1,740 of these funds during the fiscal year 2004. The fund equity is now \$95,729.

Risk Management Fund. This fund's revenue source is primarily the reimbursement from City County Insurance that are in excess of funds needed to cover outstanding insurance liabilities.

FINANCIAL RECAP

Governmental Activities

The City's Governmental Activities net assets increased \$535,570 from the prior year. The General Funds ending fund balance increased \$108,439 from \$697,815 to \$806,254. Cash has increased, mainly due to property taxes and special assessments.

Business-type Activities

The City's Business Activities net assets increased \$161,561 from the prior year. Bonneville Power has raised electric rates to the City each of the last four years for an approximate increase of 55%. The City has passed some of this increase to its customers by increasing the rate approximately 23%. In an effort to keep the City's utility costs to our customers as low as possible, there is no increase in electric rates this year. This has caused a decrease in ending fund balances. The Electric utility spent \$642,888 on capital additions this year, including rebuilding the Milton Substation.

Budgetary Highlights

In the General Fund property taxes and assessment income is 15% or \$105,400 higher than budgeted. With the fear of Sykes a local operating call center closing, the budgeted amount was very conservative. Thankfully Sykes is still in business. The City's 2004 budget was \$21,599,358 with \$4,771,154 in contingency and reserve funds.

As stated above, this is the second year the City is reporting under GASB 34. The City's financial statements are designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have any questions about this report please contact the City's finance director, Dave Richmond at 722 S. Main, Milton-Freewater, Oregon 97862.

Financial Statements

Government-Wide Financial Statements

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City of Milton-Freewater

Statement of Net Assets

June 30, 2004

	Governmental <u>Activities</u>	Business <u>Activities</u>	<u>Total</u>
Assets			
Cash and restricted cash	\$ 1,432,451	\$ 4,348,206	\$ 5,780,657
Receivables	266,104	647,120	913,224
Due from other funds	-	140,526	140,526
Inventory	-	227,770	227,770
Other assets	-	147,512	147,512
Restricted assets:			
Cash held for closure and post closure	-	64,383	64,383
Cash held for consumer deposits	-	100,998	100,998
Cash held for retirement of long-term debt	-	77,823	77,823
Capital assets:			
Land	307,290	-	307,290
Other capital assets (net of accumulated depreciation)	4,559,163	17,997,479	22,556,642
Total assets	<u>\$ 6,565,008</u>	<u>\$23,751,817</u>	<u>\$30,316,825</u>
Liabilities			
Accounts payable and other current liabilities	\$ 287,164	\$ 487,488	\$ 774,652
Due to other funds	30,300	110,226	140,526
Deferred revenue	-	27,200	27,200
Landfill closure liability	-	60,712	60,712
Noncurrent liabilities:			
Portion due or payable within one year	268,931	267,404	536,335
Portion due or payable after one year	2,368,535	3,428,057	5,796,592
Total liabilities	<u>\$ 2,954,930</u>	<u>\$ 4,381,087</u>	<u>\$ 7,336,017</u>
Net Assets			
Invested in capital assets (net of related debt)	\$ 2,228,987	\$13,426,843	\$15,655,830
Restricted for:			
Capital projects	-	77,253	77,253
Footpaths and bikeways	26,076	-	26,076
Landfill closure and postclosure	-	3,671	3,671
Debt service	133,781	-	133,781
Unrestricted	1,221,234	5,862,963	7,084,197
Total net assets	<u>\$ 3,610,078</u>	<u>\$19,370,730</u>	<u>\$22,980,808</u>

See accompanying notes to financial statements.

City of Milton-Freewater

Statement of Activities

	<u>Expenses</u>	<u>Program Revenue</u>	
		<u>Fees, Fines and Charges for Services</u>	<u>Inter- Governmental Revenue</u>
<u>Functions/Programs</u>			
<i>GOVERNMENTAL ACTIVITIES:</i>			
General government	\$ 1,211,205	\$ 310,239	\$ 218,994
Public safety	1,515,805	147,968	-
Culture and recreation	700,828	1,340	135,659
Planning and economic development	185,731	3,030	-
Engineering	78,654	-	-
Public works	414,014	3,440	-
Highways and streets	235,220	7,880	291,886
Depreciation	-	-	-
Interest on long-term debt	225,222	-	-
Total governmental activities	<u>4,566,679</u>	<u>473,897</u>	<u>646,539</u>
<i>BUSINESS-TYPE ACTIVITIES:</i>			
Electric utility	6,202,937	7,216,397	-
Water utility	520,798	919,268	-
Sewer utility	590,905	852,206	51,887
Solid waste utility	377,184	534,427	-
Golf course	198,485	220,560	-
Internal service funds - primarily benefit business activities	542,969	567,341	-
Interest on long-term debt	213,286	-	-
Total business-type activities	<u>8,646,564</u>	<u>10,310,199</u>	<u>51,887</u>
Total activities	<u>\$ 13,213,243</u>	<u>\$ 10,784,096</u>	<u>\$ 698,426</u>

GENERAL REVENUE:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Other taxes

Franchise fees

Unrestricted investment earnings

Transfers

Total general revenue and transfers

CHANGE IN NET ASSETS

NET ASSETS, JULY 1, 2003

NET ASSETS, JUNE 30, 2004

See accompanying notes to financial statements.

Year Ended June 30, 2004

Program Revenue		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
\$ -	\$ -	\$ (681,972)	\$ -	\$ (681,972)
8,430	981	(1,358,426)	-	(1,358,426)
1,025	17,292	(545,512)	-	(545,512)
-	-	(182,701)	-	(182,701)
-	-	(78,654)	-	(78,654)
-	-	(410,574)	-	(410,574)
-	154,758	219,304	-	219,304
-	-	-	-	-
-	-	(225,222)	-	(225,222)
<u>9,455</u>	<u>173,031</u>	<u>(3,263,757)</u>	<u>-</u>	<u>(3,263,757)</u>
-	-	-	1,013,460	1,013,460
-	-	-	398,470	398,470
-	-	-	313,188	313,188
-	-	-	157,243	157,243
-	-	-	22,075	22,075
-	-	-	24,372	24,372
-	-	-	(213,286)	(213,286)
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,715,522</u>	<u>1,715,522</u>
<u>\$ 9,455</u>	<u>\$ 173,031</u>	<u>(3,263,757)</u>	<u>1,715,522</u>	<u>(1,548,235)</u>
		1,120,915	-	1,120,915
		141,469	-	141,469
		128,151	-	128,151
		763,693	-	763,693
		19,711	-	19,711
		<u>1,553,958</u>	<u>(1,553,958)</u>	<u>-</u>
		3,727,897	(1,553,958)	2,173,939
		464,140	161,564	625,704
		<u>3,145,938</u>	<u>19,209,166</u>	<u>22,355,104</u>
		<u>\$ 3,610,078</u>	<u>\$ 19,370,730</u>	<u>\$ 22,980,808</u>

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Fund Financial Statements

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City of Milton-Freewater

Balance Sheet - Governmental Funds

June 30, 2004

	General Fund	Street Fund	Library Fund	Other Governmental Funds	Total
<i>ASSETS:</i>					
Cash and cash equivalents	\$ 900,331	\$ 117,641	\$ 47,755	\$ 366,724	\$ 1,432,451
Property tax receivable	49,570	-	-	37,602	87,172
Accounts receivable	105,613	41,916	-	30,036	177,565
Assessment receivable	1,367	-	-	-	1,367
Total assets	\$ 1,056,881	\$ 159,557	\$ 47,755	\$ 434,362	\$ 1,698,555
<i>LIABILITIES:</i>					
Accounts payable	\$ 38,112	\$ 1,659	\$ 270	\$ 9,331	\$ 49,372
Accrued vacation payable	66,208	976	9,263	278	76,725
Accrued wages payable	63,473	2,316	3,797	-	69,586
Customer deposits	1,599	-	-	-	1,599
Accrued interest payable	-	-	-	344	344
Deferred revenue	50,937	-	-	59,545	110,482
Due to other funds	30,300	-	-	-	30,300
Total liabilities	\$ 250,629	\$ 4,951	\$ 13,330	\$ 69,498	\$ 338,408
<i>FUND BALANCES:</i>					
Reserved for:					
Park system development	\$ 2,875	\$ -	\$ -	\$ -	\$ 2,875
Bike paths	-	26,076	-	-	26,076
Debt retirement	-	-	-	133,781	133,781
Unreserved:					
General fund	803,377	-	-	-	803,377
Special revenue funds	-	128,530	34,425	231,083	394,038
Total fund balances	\$ 806,252	\$ 154,606	\$ 34,425	\$ 364,864	1,360,147

Reconciliation to statement of net assets:

Long-term liabilities, including accrued interest, are reported in the statement of net assets. However, if they are not due and payable in the current period they are not recorded in governmental funds.	(2,506,040)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: property taxes.	(110,482)
Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Assets at their net depreciable value.	4,866,453
Net assets of governmental activities	\$ 3,610,078

See accompanying notes to financial statements.

City of Milton-Freewater

Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds

For the year ended
June 30, 2004

	General Fund	Street Fund	Library Fund	Other Governmental Funds	Total
<i>REVENUE:</i>					
Taxes/special assessments	\$ 683,920	\$ -	\$ -	\$ 467,982	\$1,151,902
Utility tax	128,151	-	-	-	128,151
Intergovernmental	151,532	446,644	136,686	94,160	829,022
Franchise fees	763,693	-	-	-	763,693
Licenses and fines	160,141	-	-	1,730	161,871
Services	168,187	-	-	-	168,187
Interest income	12,315	1,067	684	5,645	19,711
Miscellaneous	97,105	9,294	29,156	8,284	143,839
Total revenue	<u>2,165,044</u>	<u>457,005</u>	<u>166,526</u>	<u>577,801</u>	<u>3,366,376</u>
<i>EXPENDITURES:</i>					
Current expenditures:					
General government	1,144,181	-	-	58,940	1,203,121
Public safety	1,491,179	-	-	23,258	1,514,437
Culture and recreation	380,055	-	235,176	-	615,231
Public works	389,763	-	-	-	389,763
Community development	86,603	-	-	99,128	185,731
Engineering	78,654	-	-	-	78,654
Highways and streets	-	235,219	-	-	235,219
Total current expenditures	<u>3,570,435</u>	<u>235,219</u>	<u>235,176</u>	<u>181,326</u>	<u>4,222,156</u>
Capital outlay	-	146,887	6,622	-	153,509
Debt service:					
Principal	-	-	-	209,451	209,451
Interest	-	-	-	135,684	135,684
Total expenditures	<u>3,570,435</u>	<u>382,106</u>	<u>241,798</u>	<u>526,461</u>	<u>4,720,800</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(1,405,391)</u>	<u>74,899</u>	<u>(75,272)</u>	<u>51,340</u>	<u>(1,354,424)</u>
<i>OTHER FINANCING SOURCES (USES):</i>					
Operating transfers in	1,618,548	74,950	79,724	20,000	1,793,222
Operating transfers out	<u>(104,724)</u>	<u>(59,090)</u>	<u>(500)</u>	<u>(74,950)</u>	<u>(239,264)</u>
Total other financing sources (uses)	<u>1,513,824</u>	<u>15,860</u>	<u>79,224</u>	<u>(54,950)</u>	<u>1,553,958</u>
Net change in fund balances	108,433	90,759	3,952	(3,610)	199,534
<i>FUND BALANCES - JUNE 30, 2003</i>	<u>697,819</u>	<u>63,847</u>	<u>30,473</u>	<u>368,474</u>	<u>1,160,613</u>
<i>FUND BALANCES - JUNE 30, 2004</i>	<u>\$ 806,252</u>	<u>\$ 154,606</u>	<u>\$ 34,425</u>	<u>\$ 364,864</u>	<u>\$1,360,147</u>

See accompanying notes to financial statements.

City of Milton-Freewater

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities

For the year ended
June 30, 2004

Net change in fund balances - total governmental funds	\$ 199,535
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, the Statement of Activities allocates the cost of capital outlays over their estimated useful lives as depreciation expense.	191,209
Proceeds from the issuance of long-term debt provide current financial resources to governmental funds and are reported as revenue. In the same way, repayments of long-term debt use current financial resources and are reported as expenditures in governmental funds. However, the receipt of debt proceeds nor the payment of debt principal affect the Statement of Activities, but are reported as increases and decreases in noncurrent liabilities in the Statement of Net Assets.	209,451
Governmental funds defer revenue that do not provide current financial resources. However, the Statement of Activities recognizes such revenue at their net realizable value when earned, regardless of when received.	110,482
Governmental funds do not report expenditures for interest expense since they do not require the use of current financial resources. However, the Statement of Activities reports such expenses when incurred, regardless of when settlement ultimately occurs.	(89,538)
Depreciation is not reported in governmental funds. The Statement of Activities reports depreciation expense.	<u>(156,999)</u>
Change in net assets of governmental activities.	<u><u>\$ 464,140</u></u>

City of Milton-Freewater

Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund

For the year ended
June 30, 2004

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<i>REVENUE:</i>				
General property taxes	\$ 584,670	\$ 584,670	\$ 683,920	\$ 99,250
Utility tax	122,000	122,000	128,151	6,151
Intergovernmental revenue	302,789	327,188	151,532	(175,656)
Franchise fees	734,793	734,793	763,693	28,900
Fines	127,600	127,600	147,969	20,369
License and permits	3,620	3,620	12,172	8,552
Services	152,650	152,650	168,187	15,537
Interest income	13,000	13,000	12,315	(685)
Miscellaneous revenue	86,500	86,500	97,105	10,605
Total revenue	<u>2,127,622</u>	<u>2,152,021</u>	<u>2,165,044</u>	<u>13,023</u>
<i>EXPENDITURES:</i>				
City council	21,250	21,250	19,050	2,200
City manager	143,966	145,061	143,768	1,293
Assistant city manager	61,330	61,330	54,847	6,483
City attorney	25,000	25,000	18,073	6,927
Municipal court	114,615	125,315	124,388	927
Finance department	658,142	646,347	644,064	2,283
Planning	92,722	92,722	86,603	6,119
Police department	1,308,057	1,318,257	1,236,864	81,393
Fire department	441,772	441,772	254,315	187,457
Public works	823,811	838,010	769,818	68,192
City hall	144,516	144,516	139,991	4,525
Civil engineering	96,017	96,017	78,654	17,363
Contingency	107,150	107,150	-	107,150
Total expenditures	<u>4,038,348</u>	<u>4,062,747</u>	<u>3,570,435</u>	<u>492,312</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(1,910,726)</u>	<u>(1,910,726)</u>	<u>(1,405,391)</u>	<u>505,335</u>
<i>OTHER FINANCING SOURCES (USES):</i>				
Operating transfers in	1,629,626	1,629,626	1,618,548	(11,078)
Operating transfers out	<u>(107,000)</u>	<u>(107,000)</u>	<u>(104,724)</u>	<u>2,276</u>
Total other financing sources (uses)	<u>1,522,626</u>	<u>1,522,626</u>	<u>1,513,824</u>	<u>(8,802)</u>
Net change in fund balance	(388,100)	(388,100)	108,433	496,533
<i>FUND BALANCE - JUNE 30, 2003</i>	<u>388,100</u>	<u>388,100</u>	<u>697,819</u>	<u>309,719</u>
<i>FUND BALANCE - JUNE 30, 2004</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 806,252</u>	<u>\$ 806,252</u>

See accompanying notes to financial statements.

City of Milton-Freewater

Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - Street Fund

For the year ended
June 30, 2004

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<i>REVENUE:</i>				
Intergovernmental	\$ 275,000	\$ 429,759	\$ 446,644	\$ 16,885
Merchandising	6,000	6,000	7,881	1,881
Interest income	1,000	1,000	1,067	67
Miscellaneous	250	250	1,413	1,163
Total revenue	<u>282,250</u>	<u>437,009</u>	<u>457,005</u>	<u>19,996</u>
<i>EXPENDITURES:</i>				
Personal services	149,247	149,247	125,976	23,271
Operating	121,050	121,050	109,243	11,807
Capital	50,000	204,759	146,887	57,872
Contingency and reserves	14,016	14,016	-	14,016
Total expenditures	<u>334,313</u>	<u>489,072</u>	<u>382,106</u>	<u>106,966</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(52,063)</u>	<u>(52,063)</u>	<u>74,899</u>	<u>126,962</u>
<i>OTHER FINANCING (USES):</i>				
Operating transfers in	75,000	75,000	74,950	(50)
Operating transfers out	<u>(59,090)</u>	<u>(59,090)</u>	<u>(59,090)</u>	<u>-</u>
Total other financing	<u>15,910</u>	<u>15,910</u>	<u>15,860</u>	<u>(50)</u>
Net change in fund balance	(36,153)	(36,153)	90,759	126,912
<i>FUND BALANCE - JUNE 30, 2003</i>	<u>36,153</u>	<u>36,153</u>	<u>63,847</u>	<u>27,694</u>
<i>FUND BALANCE - JUNE 30, 2004</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,606</u>	<u>\$ 154,606</u>

See accompanying notes to financial statements.

City of Milton-Freewater

Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - Library Fund

For the year ended
June 30, 2004

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<i>REVENUE:</i>				
Intergovernmental	\$ 133,351	\$ 133,351	\$ 136,686	\$ 3,335
Interest income	300	300	684	384
Miscellaneous	3,950	3,950	29,156	25,206
Total revenue	<u>137,601</u>	<u>137,601</u>	<u>166,526</u>	<u>28,925</u>
<i>EXPENDITURES:</i>				
Personnel	183,367	183,367	186,543	(3,176)
Operating	47,478	47,478	48,633	(1,155)
Capital	(7,091)	1,422	6,622	(5,200)
Contingencies	19,847	11,334	-	11,334
Total expenditures	<u>243,601</u>	<u>243,601</u>	<u>241,798</u>	<u>1,803</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(106,000)</u>	<u>(106,000)</u>	<u>(75,272)</u>	<u>30,728</u>
<i>OTHER FINANCING (USES):</i>				
Operating transfers in	82,000	82,000	79,724	(2,276)
Operating transfers out	(500)	(500)	(500)	-
Total other financing	<u>81,500</u>	<u>81,500</u>	<u>79,224</u>	<u>(2,276)</u>
Net change in fund balance	(24,500)	(24,500)	3,952	28,452
<i>FUND BALANCE - JUNE 30, 2003</i>	<u>24,500</u>	<u>24,500</u>	<u>30,473</u>	<u>5,973</u>
<i>FUND BALANCE - JUNE 30, 2004</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,425</u>	<u>\$ 34,425</u>

See accompanying notes to financial statements.

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City of Milton-Freewater

Statement of Net Assets - Proprietary Funds

	Enterprise Funds					Total Internal Service Funds
	Electric Funds	Water Fund	Sewer Funds	Other Enterprise Funds	Total	
Assets						
<i>CURRENT ASSETS:</i>						
Cash	\$ 3,177,712	\$ 93,460	\$ 431,014	\$ 33,925	\$ 3,736,111	\$ 612,095
Inventory	-	-	-	-	-	227,770
Accounts receivable	376,815	104,641	95,130	65,119	641,705	5,415
Total current assets	<u>3,554,527</u>	<u>198,101</u>	<u>526,144</u>	<u>99,044</u>	<u>4,377,816</u>	<u>845,280</u>
<i>NONCURRENT ASSETS:</i>						
Restricted assets:						
Cash held for closure and post closure	-	-	-	64,383	64,383	-
Cash held for consumer deposits	100,998	-	-	-	100,998	-
Cash held for retirement of long-term debt	-	46,176	31,647	-	77,823	-
Total restricted assets	<u>100,998</u>	<u>46,176</u>	<u>31,647</u>	<u>64,383</u>	<u>243,204</u>	<u>-</u>
Capital assets less depreciation	<u>7,144,376</u>	<u>3,864,676</u>	<u>5,225,543</u>	<u>648,971</u>	<u>16,883,566</u>	<u>1,113,913</u>
Other assets:						
Unamortized discount on bonds	-	7,747	4,865	-	12,612	-
Due from other funds	92,300	-	48,226	-	140,526	-
Weatherization loans	134,900	-	-	-	134,900	-
Total other assets	<u>227,200</u>	<u>7,747</u>	<u>53,091</u>	<u>-</u>	<u>288,038</u>	<u>-</u>
Total noncurrent assets	<u>7,472,574</u>	<u>3,918,599</u>	<u>5,310,281</u>	<u>713,354</u>	<u>17,414,808</u>	<u>1,113,913</u>
 Total assets	 <u>\$11,027,101</u>	 <u>\$ 4,116,700</u>	 <u>\$ 5,836,425</u>	 <u>\$ 812,398</u>	 <u>\$21,792,624</u>	 <u>\$ 1,959,193</u>

See accompanying notes to financial statements.

June 30, 2004

	Enterprise Funds					Total Internal Service Funds
	Electric Funds	Water Fund	Sewer Funds	Other Enterprise Funds	Total	
<i>Liabilities and Net Assets</i>						
<i>CURRENT LIABILITIES:</i>						
Accounts payable	\$ 132,467	\$ 13,721	\$ 10,141	\$ 11,096	\$ 167,425	\$ 18,200
Accrued vacation payable	51,863	7,019	8,478	14,785	82,145	9,443
Accrued wages payable	15,687	2,048	3,052	4,573	25,360	-
Customer deposits	100,998	-	-	-	100,998	-
Deferred revenue	27,200	-	-	-	27,200	-
Accrued interest payable	-	44,718	29,938	9,261	83,917	-
Current portion of long-term debt	-	97,467	117,602	18,374	233,443	33,961
Total current liabilities	<u>328,215</u>	<u>164,973</u>	<u>169,211</u>	<u>58,089</u>	<u>720,488</u>	<u>61,604</u>
<i>LONG-TERM LIABILITIES:</i>						
Notes payable	-	1,430,218	1,108,273	348,006	2,886,497	241,336
Revenue bonds payable	-	275,000	185,000	-	460,000	-
Landfill closure liability	-	-	-	60,712	60,712	-
Due to other funds	-	110,226	-	-	110,226	-
Due to Bonneville Power Administration	107,628	-	-	-	107,628	-
Total long-term liabilities	107,628	1,815,444	1,293,273	408,718	3,625,063	241,336
Less current portion	-	(97,467)	(117,602)	(18,374)	(233,443)	(33,961)
Total long-term liabilities	<u>107,628</u>	<u>1,717,977</u>	<u>1,175,671</u>	<u>390,344</u>	<u>3,391,620</u>	<u>207,375</u>
Total liabilities	<u>\$ 435,843</u>	<u>\$ 1,882,950</u>	<u>\$ 1,344,882</u>	<u>\$ 448,433</u>	<u>\$ 4,112,108</u>	<u>\$ 268,979</u>
<i>NET ASSETS:</i>						
Invested in capital assets (net of related debt)	\$ 7,144,376	\$ 2,049,232	\$ 3,932,270	\$ 300,965	\$13,426,843	\$ -
Restricted for system devpmt.	-	77,253	-	-	77,253	-
Restricted for landfill closure and post closure	-	-	-	3,671	3,671	-
Unrestricted	3,446,882	107,265	559,273	59,329	4,172,749	1,690,214
Total net assets	<u>\$10,591,258</u>	<u>\$ 2,233,750</u>	<u>\$ 4,491,543</u>	<u>\$ 363,965</u>	<u>17,680,516</u>	<u>\$ 1,690,214</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					<u>1,690,214</u>	
Net assets of business-type activities					<u>\$19,370,730</u>	

City of Milton-Freewater

Statement of Revenue, Expenses, and Changes in Net Assets - Proprietary Funds

For the year ended
June 30, 2004

	Enterprise Funds					Total Internal Service Funds
	Electric Funds	Water Fund	Sewer Funds	Other Enterprise Funds	Total	
<i>OPERATING REVENUE:</i>						
Service sales	\$ 7,090,704	\$ 905,976	\$ 833,904	\$ 753,455	\$ 9,584,039	\$ 161,713
System development charges	-	10,440	10,230	-	20,670	-
Replacement and vehicle revenue	-	-	-	-	-	361,071
Miscellaneous	81,754	382	1,184	-	83,320	36,427
Total operating revenue	<u>7,172,458</u>	<u>916,798</u>	<u>845,318</u>	<u>753,455</u>	<u>9,688,029</u>	<u>559,211</u>
<i>OPERATING EXPENSES:</i>						
Personal services	487,402	110,676	181,216	240,708	1,020,002	187,253
Operating	5,497,591	224,410	222,796	326,429	6,271,226	255,108
Depreciation	217,944	185,712	186,893	8,532	599,081	100,608
Total operating expenses	<u>6,202,937</u>	<u>520,798</u>	<u>590,905</u>	<u>575,669</u>	<u>7,890,309</u>	<u>542,969</u>
Operating income	<u>969,521</u>	<u>396,000</u>	<u>254,413</u>	<u>177,786</u>	<u>1,797,720</u>	<u>16,242</u>
<i>NONOPERATING REVENUE (EXPENSES):</i>						
Intergovernmental	-	-	10,939	-	10,939	-
Interest income	43,939	2,086	6,888	1,532	54,445	8,130
Farm lease	-	-	40,948	-	40,948	-
Bond interest expense	-	(16,943)	(11,558)	-	(28,501)	-
Loan interest expense	-	(69,821)	(89,766)	(18,582)	(178,169)	(6,616)
Miscellaneous	-	384	-	-	384	-
Total nonoperating revenue (expenses)	<u>43,939</u>	<u>(84,294)</u>	<u>(42,549)</u>	<u>(17,050)</u>	<u>(99,954)</u>	<u>1,514</u>
Income before operating transfers	<u>1,013,460</u>	<u>311,706</u>	<u>211,864</u>	<u>160,736</u>	<u>1,697,766</u>	<u>17,756</u>
<i>OPERATING TRANSFERS:</i>						
Operating transfers in	106,389	-	115,000	1,500	222,889	70,419
Operating transfers out	(815,744)	(371,742)	(413,016)	(160,853)	(1,761,355)	(85,911)
Total operating transfers	<u>(709,355)</u>	<u>(371,742)</u>	<u>(298,016)</u>	<u>(159,353)</u>	<u>(1,538,466)</u>	<u>(15,492)</u>
<i>CHANGE IN NET ASSETS</i>	304,105	(60,036)	(86,152)	1,383	159,300	2,264
<i>NET ASSETS - JUNE 30, 2003</i>	<u>10,287,153</u>	<u>2,293,785</u>	<u>4,577,696</u>	<u>362,581</u>		<u>1,687,950</u>
<i>NET ASSETS- JUNE 30, 2004</i>	<u>\$10,591,258</u>	<u>\$ 2,233,749</u>	<u>\$ 4,491,544</u>	<u>\$ 363,964</u>		<u>\$ 1,690,214</u>

Some amounts reported for business type activities in the statement of activities are different because the net revenue (expense) of internal service funds is reported within business type activities.

Change in net assets of business type activities

2,264
\$ 161,564

See accompanying notes to financial statements.

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City of Milton-Freewater

Statement of Cash Flows - Proprietary Funds

	Enterprise Funds		
	Electric Funds	Water Fund	Sewer Funds
<i>Increase (decrease) in cash and restricted cash</i>			
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>			
Receipts from customers	\$ 7,077,102	\$ 935,360	\$ 843,791
Payments to suppliers	(5,548,687)	(221,600)	(190,578)
Payments to employees	(475,134)	(108,901)	(181,503)
Other receipts	81,754	2,470	51,887
Net cash provided by operating activities	<u>1,135,035</u>	<u>607,329</u>	<u>523,597</u>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</i>			
Operating transfers in	106,389	-	115,000
Operating transfers out	(815,744)	(371,742)	(413,016)
Net cash used in noncapital financing activities	<u>(709,355)</u>	<u>(371,742)</u>	<u>(298,016)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>			
Acquisition of PP&E	(804,997)	(32,192)	(96,341)
Interfund borrowing	32,508	30,226	(48,226)
Proceeds from loans	-	-	-
Principal paid on loans	-	(96,942)	(106,727)
Interest paid on loans	-	(86,763)	(101,324)
Net cash used in capital and related financing activities	<u>(772,489)</u>	<u>(185,671)</u>	<u>(352,618)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>			
Interest from cash and investments	<u>43,937</u>	<u>2,086</u>	<u>6,885</u>
<i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, RESTRICTED AND UNRESTRICTED CASH</i>	(302,872)	52,002	(120,152)
<i>CASH AND CASH EQUIVALENTS, RESTRICTED AND UNRESTRICTED, BEGINNING OF YEAR</i>	<u>3,581,582</u>	<u>87,634</u>	<u>582,813</u>
<i>CASH AND CASH EQUIVALENTS, RESTRICTED AND UNRESTRICTED, END OF YEAR</i>	<u>\$ 3,278,710</u>	<u>\$ 139,636</u>	<u>\$ 462,661</u>

See accompanying notes to financial statements.

**For the year ended
June 30, 2004**

<u>Enterprise Funds</u>		<u>Total Internal Service Funds</u>
<u>Other Enterprise Funds</u>	<u>Total</u>	
\$ 743,632	\$ 9,599,885	\$ 556,133
(316,444)	(6,277,309)	(250,761)
(237,701)	(1,003,239)	(185,396)
<u>-</u>	<u>136,111</u>	<u>4,106</u>
<u>189,487</u>	<u>2,455,448</u>	<u>124,082</u>
1,500	222,889	70,419
<u>(160,853)</u>	<u>(1,761,355)</u>	<u>(85,911)</u>
<u>(159,353)</u>	<u>(1,538,466)</u>	<u>(15,492)</u>
(10,033)	(943,563)	(195,348)
-	14,508	-
-	-	102,350
(15,262)	(218,931)	(14,514)
<u>(18,581)</u>	<u>(206,668)</u>	<u>(6,616)</u>
<u>(43,876)</u>	<u>(1,354,654)</u>	<u>(114,128)</u>
<u>1,532</u>	<u>54,440</u>	<u>8,129</u>
(12,210)	(383,232)	2,591
<u>110,518</u>	<u>4,362,547</u>	<u>609,504</u>
<u>\$ 98,308</u>	<u>\$ 3,979,315</u>	<u>\$ 612,095</u>

City of Milton-Freewater

Statement of Cash Flows - Proprietary Funds

	Enterprise Funds		
	Electric Funds	Water Fund	Sewer Funds
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</i>			
Operating income	\$ 969,521	\$ 396,000	\$ 254,413
Adjustments to reconcile operating income to net cash provided by operating activities:			
Intergovernmental revenue	-	-	10,939
Farm lease and miscellaneous income	-	384	40,948
Depreciation	217,944	185,712	186,893
Amortization of bond discount	-	540	362
(Increase) decrease in accounts receivable	2,658	18,944	(1,889)
Increase (decrease) in inventory	-	-	-
Increase (decrease) in accounts payable	(85,309)	8,037	3,602
Increase (decrease) in accrued interest	-	(4,063)	28,616
Increase (decrease) in accrued personal services	12,268	1,775	(287)
Increase (decrease) in customer deposits	12,181	-	-
Increase (decrease) in deferred revenue	27,200	-	-
Principal payments on BPA weatherization debt	(5,168)	-	-
Collections of weatherization loans	(16,260)	-	-
Net cash provided by operating activities	\$ 1,135,035	\$ 607,329	\$ 523,597

See accompanying notes to financial statements.

**For the year ended
June 30, 2004**

Enterprise Funds		Total Internal Service Funds
Other Enterprise Funds	Total	Funds
\$ 177,786	\$ 1,797,720	\$ 16,242
-	10,939	-
-	41,332	-
8,532	599,081	100,608
-	902	-
(9,823)	9,890	(2,389)
-	-	3,417
10,185	(63,485)	4,347
(200)	24,353	-
3,007	16,763	1,857
-	12,181	-
-	27,200	-
-	(5,168)	-
-	(16,260)	-
\$ 189,487	\$ 2,455,448	\$ 124,082

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Notes to Financial Statements

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City of Milton-Freewater

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Milton-Freewater was incorporated January 1, 1951. The City operates under a Council-City Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, electric distribution, water production and distribution, sewage collection and treatment, refuse collection and disposal, public improvements, planning and zoning, recreation, and general administrative services. As required by generally accepted accounting principles, these financial statements present the City government and its component units, entities for which the government is considered to be financially accountable. There is one blended component unit, which is reported within the special revenue funds.

The Milton-Freewater Urban Renewal Agency (URA) is a blended component unit and is responsible for the urban growth and development within its boundaries. The URA's governing body is the same as that of the City of Milton-Freewater's governing body, so the City has the ability to significantly impose its will over URA. Management of the agency consists of those individuals responsible for the day-to-day operations of the City; and the URA provides services wholly within the City boundaries with the intention of increasing tax revenues and employment. Therefore, the Milton-Freewater Urban Renewal Agency is presented as a blended component unit and is grouped as a special revenue fund. Complete financial statements for the individual component unit may be obtained at the Milton-Freewater Urban Renewal Agency's office located at 722 S. Main, Milton-Freewater, OR 97862.

The accompanying financial statements have been prepared in accordance with a new reporting model defined by GASB Statement 34, Basic Financial Statements and Managements' Discussion and Analysis. GASB 34 significantly changes financial reporting for governmental entities, including municipalities. Significant changes of the new reporting model include requirements for Government-wide financial statements, management's discussion and analysis (presented as required supplementary information), and reporting of infrastructure such as roads, bridges, and water systems. Statement 34 permits reporting infrastructure on a prospective basis until the City's fiscal year ending in 2007. Accordingly, major networks of infrastructure assets (as defined in GASB 34) acquired since 1979 are not reported in the Government-wide statements for fiscal year 2004. The more significant of the government's accounting policies are described below:

a. *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. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Milton-Freewater

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

b. *Fund accounting:*

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance/net assets, revenue, and expenditures or expenses, as appropriate. The City has the following funds:

Governmental fund types:

Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as “fund balance.” The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the City’s major governmental funds:

General Fund - The general fund is the City’s primary operating fund. It accounts for all governmental financial resources, except those required to be accounted for in another fund.

Street Fund - This special revenue fund accounts for gasoline tax apportionments and expenditures for those street improvements so specified by statute.

Library Fund - The Umatilla County Special Library District levies the taxes and distributes them to the libraries. This fund accounts for those revenue, other library revenue, and expenditures.

The other governmental funds of the City are considered nonmajor and are as follows:

Special Revenue Funds are used to account for revenue derived from specific sources, which are usually required by law or regulation to be accounted for in separate funds.

The following nonmajor funds are included in this fund type:

Street improvement fund – This fund was created by the City to account for revenue collected from street opening permits. The funds are collected until a street project is identified.

Senior/disabled transportation fund – This fund was created to accumulate revenue dedicated to the senior/disabled transportation program, which provides tax services to seniors or disabled persons.

Drug enforcement fund – This fund is for keeping track of revenue and expenditures from court forfeited illegal drug monies received through the participation with the Blue Mountain Narcotics Team.

911 fund – This fund accounts for 911 telephone tax revenue.

Urban renewal agency fund – As is discussed above, the Urban Renewal Agency is a blended component unit of the City of Milton-Freewater, Oregon.

City of Milton-Freewater

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

b. *Fund accounting (continued):*

Governmental fund types (continued):

Debt Service Funds are used by the City to account for the funding and payment of interest and principal of general obligation and tax increment debt as well as special assessment debt of the City.

The following nonmajor funds are included in this fund type:

General obligation debt fund – This fund is used to track debt financing on long-term capital projects. Revenue to pay for the City’s two general obligation bonds are collected in this fund.

Special assessment fund – This fund was created to provide construction capital for residents by taking out loans with financial institutions. Revenue from residents and payments on the LID debt to financial institutions are tracked here.

Proprietary fund types:

Proprietary fund types are used to account for a government’s ongoing organizations and activities that are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows. In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the City has elected to apply all applicable FASB pronouncements, including those issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

Internal Service Funds - 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, or to other governments, on a cost-reimbursement basis.

The following funds are included in this fund type:

Warehouse fund – This fund provides for materials and supplies for the utility programs.

Vehicle maintenance fund – This fund provides for the maintenance of the vehicles and equipment used by all departments.

Vehicle replacement fund – This fund was designed to acquire the necessary capital revenue to purchase replacement vehicles for the City fleet as required.

Sick leave liability fund – This fund is used to set-aside resources to cover costs of part-time help needed to replace employees who are out on extended sick leave or family leave issues.

Risk management fund – This fund accounts unanticipated unemployment and insurance costs and claims.

City of Milton-Freewater

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

b. *Fund accounting (continued):*

Enterprise Funds:

Enterprise Funds – Enterprise funds are used to finance and account for the acquisition, operation, and maintenance of the City’s facilities and services that are supported primarily by user charges.

The following comprise the City’s major enterprise funds:

Electric Funds – These funds account for income and expenses related to providing electricity to its customers. They include the Electric, Electric Replacement, and Electric Operating and Maintenance Funds.

Water Fund – This enterprise fund accounts for income and expenses related to providing water to its customers.

Sewer Funds – These funds account for all income and expenses from customers for sewer services provided by the City as well as capital improvements at the sewer treatment plant. They include the Sewer and Sewer Improvement Funds.

The following nonmajor funds are included in this fund type:

Solid waste fund – This fund accounts for the City’s solid waste program, collection of solid waste from residents, and operation of the City’s landfill.

Landfill closure fund – This fund creates a reserve to cover the anticipated closure and postclosure care costs for the City’s landfill.

Golf course fund – This fund accounts for the user fees associated with the City’s golf course as well as maintenance of the golf course facilities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include charges between the City’s business-type activities/enterprise funds, as well as some special revenue funds, and the General Fund. The City allocates charges as reimbursement for services provided by the General Fund in support of those functions based on levels of service provided. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned. These charges are included in direct program expenses.

c. *Measurement focus and basis of accounting:*

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

c. *Measurement focus and basis of accounting (continued):*

Government-wide Financial Statements and Proprietary Funds Financial Statements are presented on a full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenue is recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Governmental Funds and Permanent Fund Financial Statements are presented on a modified accrual basis of accounting with a current financial resource measurement focus. This focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus and full accrual accounting, a current financial resource measurement is inseparable from a modified accrual basis of accounting. Under modified accrual accounting, revenue is recognized as soon as they are both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred as under accrual accounting. Property taxes, franchise fees, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered susceptible to accrual as revenue of the current period. All other revenue is considered to be measurable and available only when the City receives cash.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is a part of the financial statements.

Amounts reported as program revenue 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 revenue rather than as program revenue. Likewise, general revenue include all taxes.

Proprietary funds distinguish operating revenue and expense from nonoperating items. Operating revenue and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's enterprise are charges to customers for sales and services. The Enterprise also recognizes fees intended to recover the cost of connecting new customers to the City's utility systems as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and overheads, and depreciation on capital assets. All revenue and expense not meeting this definition are reported as nonoperating revenue and expenses.

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

d. *Capital assets and depreciation:*

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value when donated.

As mentioned previously, GASB Statement 34 permits reporting infrastructure on a prospective basis until the City's fiscal year ending in 2007. Accordingly, major networks of infrastructure assets (as defined in GASB 34) acquired since 1979 are not reported in the Government-wide statements for fiscal year 2004. However, current year additions are accounted for and being depreciated.

Assets with an initial, individual cost of more than \$1,000 and an estimated useful life of more than one year are capitalized. The cost of normal repairs and maintenance that do not add to the asset's utility or materially extend the asset's useful life are not capitalized. Depreciation has been provided for all capital assets, except as noted above, over the assets' estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	25-50 years
Improvements	25-50 years
Equipment	3-15 years
Vehicles	3-20 years

e. *Budgets:*

The City budgets all funds in accordance with generally accepted accounting principles (GAAP) except where those standards do not conform to the Oregon Revised Statutes (ORS). Conflicting areas are budgeted to conform to the ORS. Financial statements conform to GAAP, but separate schedules are prepared in accordance with ORS. All governmental and proprietary funds are required to have budgets per ORS. Governmental funds are budgeted on a modified accrual basis with the exception of bond principal and interfund debt payments.

ORS requires that annual debt service payments be budgeted as current expenditures. Proprietary funds are budgeted on the accrual basis except for annual long-term and interfund debt payments, and capital acquisitions, which also must be budgeted as current expenses per ORS. The City budgets all funds to meet state law requirements. The resolution authorizing appropriations for each fund sets the maximum legal expenditures.

Expenditures in all funds except the General Fund have five types of expenditures that establish the fund's level of control; (1) personnel, (2) operating, (3) transfers, (4) capital, and (5) contingencies and reserves. In the General Fund the breakdown is (1) operations by department and (2) contingencies.

City of Milton-Freewater

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

e. *Budgets (continued):*

The detailed budget document is required to contain more specific detailed information for the above mentioned expenditure categories. Department heads are allowed to over expend line items, as long as the levels of control are not over expended. 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. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriations resolution. A supplemental budget may require a hearing before the Budget Committee and the City Council if expenditures are 10% or greater of the annual fund being adjusted and are not designated for a specific purpose. The City Council approved four supplemental and budget transfer resolutions during the year ended June 30, 2004. Appropriations lapse at year-end.

f. *The City does not use encumbrance accounting.*

g. *Cash, cash equivalents, and pooled cash investments:*

Cash and restricted cash include currency on hand and demand deposits with banks or financial institutions. The City maintains a cash pool available for use by all funds. Each fund type's portion of this pool is shown on the balance sheet as cash or restricted cash.

The City has pooled excess cash in the State of Oregon local government cash management pool, which is not required by state statute to be collateralized. However, the pool must comply with ORS Chapters 293 and 294. This cash is available within 24 hours. This investment pool, certificates of deposit, and other debt instruments with maturity dates of 90 days or less from the date of purchase are considered cash equivalents.

ORS authorizes cities to invest in obligations of the U. S. Treasury, agencies, and instrumentalities of the United States, bankers' acceptances guaranteed by a qualified financial institution, and repurchase agreements, among others. Also included are certificates of deposits and savings accounts held at local financial institutions in the City's name. The City has adopted investment policies in compliance with state statutes.

h. *Statement of cash flows:*

For purposes of the statement of cash flows for proprietary fund type funds, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

i. *Inventories:*

Inventories are stated at the lower of cost or market and consist of consumable supplies. The cost of these supplies is recorded as an expense at the time they are relieved from inventory for use. Inventories are determined by actual count and priced on the first-in, first-out basis.

City of Milton-Freewater

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

j. *Compensated absences:*

The City records a liability for accrued vacation and sick time when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in governmental funds only if they have matured. The annual accrued amounts do not exceed a normal year's accumulation.

k. *Comparative data:*

Comparative total data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

l. *Interfund transactions:*

Transactions among City funds that would be treated as revenue and expenditures or expenses if they involved organizations external to City government are accounted for as revenue and expenditures or expenses in the funds involved.

Transactions that constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenue is to be expended, are separately reported in the respective funds' operating statements. Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" or "advances 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."

Noncurrent portions of long-term inter-fund loan receivables are reported as advances within the governmental funds, and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

m. *Use of estimates:*

Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

n. *Accounts receivable and allowance for doubtful accounts:*

Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a regular review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. At June 30, 2004, the City deemed all accounts receivable to be collectible in all material respects and, therefore, no allowance was provided.

City of Milton-Freewater

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

o. *Long-term obligations:*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Long-term liabilities to be repaid or financed by proprietary fund operations are accounted for in the proprietary fund.

NOTE 2 — PROPERTY TAX:

With the passage of measures 47 and 50, Oregon voters approved that taxes now be a fixed rate per \$1,000 of assessed property value. Assessed property values are limited to a 3% growth unless renovations and/or additions have been made to the property. The fixed rate for Milton-Freewater residents is \$3.7499 per \$1,000 of assessed value. The 1990 \$10 maximum per year limit still applies as well.

The method used to allocate property tax revenue among local government operations is a complex system. The assessor computes the value based on property value and applicable rates. Each individual tax statement is reviewed to determine if the property comes under compression. If the property is under compression, then the taxes are allocated on the percentage due to each taxing district. Milton-Freewater's tax code area is under the \$10 limit and therefore is not under tax compression.

Assessments are made on July 1 for both real and personal property. The property has a lien as of July 1 for real property and for personal property. Property tax levies are due from governmental agencies (including the City) by July 15. Taxes are due one-third on November 15, and one-third each on February 15 and May 15 of the following year. A three percent discount is given if the total tax bill is paid on November 15th. A two percent discount is given if the total tax bill is paid by February 15th. Taxes are remitted to the City by the county weekly from the last Friday in October through the month of November. Remittances are made quarterly the rest of the year unless certain conditions require monthly statements.

NOTE 3 — POOLED DEPOSITS AND INVESTMENTS – ADDITIONAL DISCLOSURES:

The City maintains a cash management pool for its cash and cash equivalents in which each fund participates. Interest earnings are distributed monthly based on average daily balances.

Cash on hand	\$ 475
Deposits with financial institutions	2,715,602
State of Oregon local government cash management pool	<u>3,307,784</u>
	<u>\$6,023,861</u>

City of Milton-Freewater

Notes to Financial Statements

NOTE 3 — POOLED DEPOSITS AND INVESTMENTS – ADDITIONAL DISCLOSURES (continued):

Deposits with financial institutions are comprised of bank demand deposits and certificates of deposit. The total bank balance per the bank statements is \$2,885,673. Of these deposits, all were covered by federal depository insurance. 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 participation issued by the pool manager. All bank balances in excess of federal depository insurance, if any, are collateralized by securities held by an entity other than the financial institution as an agent of the bank. This collateral is held in the name of the bank(s). The City did not have any investments as of and for the year ended June 30, 2004.

Investments are categorized into these three categories of investment risk:

1. Insured or registered, or securities held by the city or its agent in the agency's name.
2. Uninsured or unregistered, with securities held by the counterparty's trust department or agent in the city's name.
3. Uninsured or unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the city's name.

At June 30, 2004, the City had no investments subject to this categorization. The cash on hand balance of \$475, the cash deposits with financial institutions \$2,715,602 and the amounts invested in the local government investment pool of \$3,307,784 are all reported at fair value.

NOTE 4 — CAPITAL ASSETS:

Capital asset activity for the primary government for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$ 303,290	\$ 4,000	\$ -	\$ 307,290
Construction in progress	<u>1,144,363</u>	<u>-</u>	<u>1,144,363</u>	<u>-</u>
Total capital assets not being depreciated	<u>1,447,653</u>	<u>4,000</u>	<u>1,144,363</u>	<u>307,290</u>
Capital assets being depreciated:				
Machinery and equipment	1,428,173	46,746	-	1,474,919
Buildings and improvements	3,213,355	-	-	3,213,355
Infrastructure	<u>-</u>	<u>1,284,826</u>	<u>-</u>	<u>1,284,826</u>
Total capital assets being depreciated	4,641,528	1,331,572	-	5,973,100
Less accumulated depreciation	<u>1,256,938</u>	<u>156,999</u>	<u>-</u>	<u>1,413,937</u>
Total capital assets being depreciated, net	<u>3,384,590</u>	<u>1,174,573</u>	<u>-</u>	<u>4,559,163</u>
Governmental activities capital assets, net	<u>\$4,832,243</u>	<u>\$1,178,573</u>	<u>\$1,144,363</u>	<u>\$4,866,453</u>

City of Milton-Freewater

Notes to Financial Statements

NOTE 4 — CAPITAL ASSETS (continued):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
BUSINESS-TYPE ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$ 753,069	\$ -	\$ -	\$ 753,069
Total capital assets not being depreciated	<u>753,069</u>	<u>-</u>	<u>-</u>	<u>753,069</u>
Capital assets being depreciated:				
Buildings and improvements	21,721,984	302,416	-	22,024,400
Vehicles, machinery, and equipment	<u>2,453,925</u>	<u>195,348</u>	<u>-</u>	<u>2,649,273</u>
Total capital assets being depreciated	<u>24,175,909</u>	<u>497,764</u>	<u>-</u>	<u>24,673,673</u>
Less accumulated depreciation for:				
Buildings and improvements	5,504,047	571,942	641,148	5,434,841
Vehicles, machinery, and equipment	<u>1,866,675</u>	<u>127,747</u>	<u>-</u>	<u>1,994,422</u>
Total accumulated depreciation	<u>7,370,722</u>	<u>699,689</u>	<u>641,148</u>	<u>7,429,263</u>
Total capital assets being depreciated, net	<u>16,805,187</u>	<u>(201,925)</u>	<u>(641,148)</u>	<u>17,244,410</u>
Business-type activities capital assets, net	<u>\$17,558,256</u>	<u>\$ (201,925)</u>	<u>\$ (641,148)</u>	<u>\$17,997,479</u>
Depreciation expense for governmental activities was charged to functions as follows:				
General Government				\$ 8,084
Public Safety				1,367
Culture and Recreation				123,297
Public Works				<u>24,251</u>
				<u>\$ 156,999</u>

City of Milton-Freewater

Notes to Financial Statements

NOTE 5 — LONG-TERM DEBT:

Bonds payable:

Future maturities of general obligation bond principal and interest at June 30, 2004, are as follows:

<u>Fiscal Year</u>	<u>Bond Principal</u>			<u>Interest</u>
	<u>Outstanding June 30, 2003</u>	<u>Matured During the Year</u>	<u>Outstanding June 30, 2004</u>	
<u>General obligation bonds:</u>				
Fire equipment bonds at 6.25 to 7.25%				
2004	\$ 10,000	\$ 10,000	\$ -	\$ -
2005	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>362</u>
Total of issue	\$ 20,000	\$ 10,000	\$ 10,000	\$ 362

The Fire Equipment Bond Issue (1989) are registered bonds with payments mailed to the registered owners by the paying agent, First Trust National Association in Portland, Oregon. Interest payments totaled \$1,087 for the fiscal year ending 2004.

The bond issue is a general obligation of the City. The City has covenanted to levy an ad valorem tax which, with other available funds, will be sufficient to pay principal and interest as the issue comes due. There are no reserve or sinking fund requirements to cover defaults by property owners.

City of Milton-Freewater

Notes to Financial Statements

NOTE 5 — LONG-TERM DEBT (continued):

Bonds payable (continued):

Fiscal Year	Bond Principal			Interest
	Outstanding June 30, 2003	Matured During the Year	Outstanding June 30, 2004	
<u>General obligation bonds:</u>				
Family Aquatic Center Bonds at 5.00 to 5.90%				
2004	\$ 60,000	\$ 60,000	\$ -	\$ -
2005	65,000	-	65,000	58,838
2006	70,000	-	70,000	55,395
2007	70,000	-	70,000	51,825
2008	75,000	-	75,000	48,090
2009	80,000	-	80,000	44,020
2010	85,000	-	85,000	39,605
2011	90,000	-	90,000	34,835
2012	100,000	-	100,000	29,560
2013	105,000	-	105,000	23,768
2014	110,000	-	110,000	17,585
2015	120,000	-	120,000	10,885
2016	<u>125,000</u>	<u>-</u>	<u>125,000</u>	<u>3,688</u>
Total of issue	\$1,155,000	\$ 60,000	\$1,095,000	\$ 418,094

The Family Aquatic Center Bond Issue (1995) are registered bonds with payments mailed to the registered owners by the paying agent, First Trust National Association in Portland, Oregon. Interest payments totaled \$61,995 for the fiscal year ending 2004.

The bond issue is a general obligation of the City. The City has covenanted to levy an ad valorem tax which with other available funds, will be sufficient to pay principal and interest as the issue comes due. There are no reserve or sinking fund requirements to cover defaults by property owners.

City of Milton-Freewater

Notes to Financial Statements

NOTE 5 — LONG-TERM DEBT (continued):

Bonds payable (continued):

Future maturities of revenue bonds and interest at June 30, 2004, are as follows:

Fiscal Year	Bond Principal			Interest
	Outstanding June 30, 2003	Matured During the Year	Outstanding June 30, 2004	
<u>Water System Revenue Bonds:</u>				
Water system revenue bonds at 3.25 to 5.70%				
2004	\$ 25,000	\$ 25,000	\$ -	\$ -
2005	25,000	-	25,000	15,675
2006	25,000	-	25,000	14,250
2007	25,000	-	25,000	12,825
2008	30,000	-	30,000	11,400
2009	30,000	-	30,000	9,690
2010	30,000	-	30,000	7,980
2011	35,000	-	35,000	6,270
2012	35,000	-	35,000	4,275
2013	<u>40,000</u>	<u>-</u>	<u>40,000</u>	<u>2,280</u>
Total of issue	\$ 300,000	\$ 25,000	\$ 275,000	\$ 84,645

The Water System Bond Issue (1993) are registered bonds issued in denominations of \$5,000 with payments mailed to the registered owners by the paying agent, First Trust National Association in Portland, Oregon. The bonds were issued to cover Water Fund capital projects. Interest payments totaled \$17,000 for the fiscal year ending 2004.

The bond issue is not a general obligation of the City, but is payable from net revenue of the Water Fund. The City has covenanted to set aside and pay from net revenue of the water system, into a debt service account, an amount equal to the annual reserve requirement to pay principal and interest as the issue comes due. There are no reserve or sinking fund requirements to cover payments of principal and interest. Term bonds maturing in 2004 through 2013 are subject to mandatory redemption by lot by the City.

City of Milton-Freewater

Notes to Financial Statements

NOTE 5 — LONG-TERM DEBT (continued):

Bonds payable (continued):

Fiscal Year	Bond Principal			Interest
	Outstanding June 30, 2003	Matured During the Year	Outstanding June 30, 2004	
<u>Sewer System Revenue Bonds:</u>				
Sewer system revenue bonds at 3.25 to 5.70%				
2004	\$ 15,000	\$ 15,000	\$ -	\$ -
2005	15,000	-	15,000	10,545
2006	15,000	-	15,000	9,690
2007	20,000	-	20,000	8,835
2008	20,000	-	20,000	7,695
2009	20,000	-	20,000	6,555
2010	20,000	-	20,000	5,415
2011	25,000	-	25,000	4,275
2012	25,000	-	25,000	2,850
2013	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>1,425</u>
Total of issue	\$ 200,000	\$ 15,000	\$ 185,000	\$ 57,285

The Sewer System Bond Issue (1993) are registered bonds issued in denominations of \$5,000 with payments mailed to the registered owners by the paying agent, First Trust National Association in Portland, Oregon. The bonds were issued to cover Sewer Fund capital projects. Interest payments totaled \$11,340 for the fiscal year ending 2004.

The bond issue is not a general obligation of the City, but is payable from net revenue of the Sewer Fund. The City has covenanted to set aside and pay from net revenue of the sewer system, into a debt service account, an amount equal to the annual reserve requirement to pay principal and interest as the issue comes due. There are no reserve or sinking fund requirements to cover payments of principal and interest. Term bonds maturing in 2004 through 2013 are subject to mandatory redemption by lot by the City.

City of Milton-Freewater

Notes to Financial Statements

NOTE 5 — LONG-TERM DEBT (continued):

Notes payable:

Special Assessment:

The City has entered into three notes that are accounted for in the Special Assessment Fund. The notes are for charges assessed to property owners who elected to pay Local Improvement District (LID) Assessments under installment payments.

A note for the NW Fourth Street Local Improvement District was signed on December 13, 1994, for \$49,693 with an interest rate of 7.75% and 20 semi-annual installments of \$3,637 due July 10th and January 10th of each year beginning July 10, 1995. The unpaid principal balance on June 30, 2004, is \$6,429.

A note for the Maple Street Local Improvement District was for \$25,000 with an interest rate of 5.98% and 20 semi-annual installments of \$1,643 due June 15th and December 15th of each year beginning June 15, 1997. The unpaid principal balance on June 30, 2004, is \$8,910.

A note for the Thorn Street Local Improvement District was for \$60,645 with an interest rate of 6.49% and 20 semi-annual installments of \$4,143 due October 10th and April 10th of each year beginning October 10, 2000. The unpaid principal balance on June 30, 2004, is \$41,047.

The City reserves the right to prepay both principal and interest on these notes at any time without penalty. The balance due reflects monies that will be collected from property owners by special assessment.

Fire truck note:

The City financed the purchase of a fire truck in 2002. This original debt was refinanced with Baker Boyer Bank in 2003 at a lower interest rate. The agreement requires payments be made annually over a ten year period starting November 16, 2003 and ending November 16, 2011. The annual payments will be \$21,129, including principal and interest. The underlying equipment secures the note.

Urban Renewal Agency:

The URA entered into a ten-year agreement with Bank of Commerce (which has since merged with its parent company, Baker Boyer Bank) for the Sykes construction project. The URA has since refinanced this debt with two notes. The first note, with Baker Boyer Bank, requires two annual payments of \$52,889, including principal and interest at 3.85%. The second note, with Community Bank, requires annual payments due December 1 each year until 2012. The interest rate is 4.19%. The combined unpaid principal balance of these two loans on June 30, 2004, was \$1,476,080.

Golf course irrigation loan:

The City also entered into an unsecured agreement with Banner Bank to help fund the construction of an irrigation project in the amount of \$363,268 for the golf course. This note was also refinanced with Baker Boyer Bank at a lower interest rate in 2003. The note requires semi-annual payments in the amount of \$17,022, including principal and interest, be made starting July 20, 2003 and ending November 20, 2019.

City of Milton-Freewater

Notes to Financial Statements

NOTE 5 — LONG-TERM DEBT (continued):

Special Public Works Loan – Bank of New York:

On June 30, 1999, the City had entered into an agreement with Bank of New York to borrow \$1,852,500 for construction of a high elevation water tower. The debt carries an interest rate of 5.01% per annum and is payable on an annual installment basis over 20 years beginning in fiscal year 1999. This loan is paid from Water Fund revenue. The unpaid principal balance on June 30, 2004, is \$1,430,218.

Sewer Plant Phase III Loan – Community Bank:

On October 10, 2002, the City entered into an agreement with the Community Bank of Milton-Freewater to borrow \$1,200,000 for the Construction of Phase III of the sewer plant improvement project. The debt carries an interest rate of 4.49% with 10 annual payments of \$152,533. This loan will be paid by Sewer Fund revenue, the unpaid principle balance as of June 30, 2004, is \$1,108,273.

Changes in long-term liabilities:

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	Ending Balance <u>2004</u>	<u>Due within One year</u>
GOVERNMENTAL ACTIVITIES:					
General obligation bonds:					
Fire equipment	\$ 20,000	\$ -	\$ 10,000	\$ 10,000	\$ 10,000
Family aquatic center	<u>1,155,000</u>	<u>-</u>	<u>60,000</u>	<u>1,095,000</u>	<u>65,000</u>
Total general obligation bonds	<u>1,175,000</u>	<u>-</u>	<u>70,000</u>	<u>1,105,000</u>	<u>75,000</u>
Special assessment debt:					
Maple street	11,539	-	2,629	8,910	3,287
Thorn street	46,318	-	5,271	41,047	6,173
Main street	<u>13,041</u>	<u>-</u>	<u>6,612</u>	<u>6,429</u>	<u>6,429</u>
Total special assessment debt	<u>70,898</u>	<u>-</u>	<u>14,512</u>	<u>56,386</u>	<u>15,889</u>
Urban Renewal Agency	<u>1,601,019</u>	<u>100,100</u>	<u>225,039</u>	<u>1,476,080</u>	<u>178,042</u>
Total governmental activities long-term liabilities	<u>\$2,846,917</u>	<u>\$ 100,100</u>	<u>\$ 309,551</u>	<u>\$2,637,466</u>	<u>\$ 268,931</u>

City of Milton-Freewater

Notes to Financial Statements

NOTE 5 — LONG-TERM DEBT (continued):

	Beginning Balance <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	Ending Balance <u>2004</u>	Due within <u>One year</u>
BUSINESS-TYPE ACTIVITIES:					
Revenue bonds:					
Water	\$ 300,000	\$ -	\$ 25,000	\$ 275,000	\$ 25,000
Sewer	200,000	-	15,000	185,000	15,000
Total revenue bonds	<u>500,000</u>	<u>-</u>	<u>40,000</u>	<u>460,000</u>	<u>40,000</u>
Notes payable:					
Water special public works loan	1,502,160	-	71,942	1,430,218	72,467
Sewer phase III loan	1,200,000	-	91,727	1,108,273	102,602
Golf course irrigation loan	363,268	-	15,262	348,006	18,374
Internal service vehicle loans	<u>153,500</u>	<u>102,350</u>	<u>14,514</u>	<u>241,336</u>	<u>33,961</u>
Total notes payable	<u>3,218,928</u>	<u>102,350</u>	<u>193,445</u>	<u>3,127,833</u>	<u>227,404</u>
BPA weatherization loans	<u>112,796</u>	<u>-</u>	<u>5,168</u>	<u>107,628</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$3,831,724</u>	<u>\$ 102,350</u>	<u>\$ 238,613</u>	<u>\$3,695,461</u>	<u>\$ 267,404</u>

Summary of five-year debt retirement:

Aggregate future long-term debt retirement requirements for governmental and business-type long-term liabilities are as follows:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
2005	\$ 268,931	\$ 267,404	\$ 536,335
2006	264,060	201,798	465,858
2007	219,312	208,882	428,194
2008	228,246	226,290	454,536
2009	239,377	234,031	473,408
Balance	<u>1,417,540</u>	<u>2,557,056</u>	<u>3,974,596</u>
Principal	<u>\$ 2,637,466</u>	<u>\$ 3,695,461</u>	<u>\$ 6,332,927</u>

City of Milton-Freewater

Notes to Financial Statements

NOTE 6 — RISK MANAGEMENT:

The City participates in a trust established in 1981, by the League of Oregon Cities (LOC) and the Association of Oregon Counties, City County Insurance Services (CCIS), to provide risk management services including insurance and loss control. CCIS provides self-insurance pooling for general liability, auto liability, auto physical damage, property damage, and earthquake. Workers compensation is covered by SAIF. The City's deductibles on all policies are limited to only small amounts.

In administering the pool, CCIS bills the City premiums for insurance coverage that are competitive with commercial rates. CCIS has limited its exposure to major claims by purchasing insurance from commercial insurance companies to cover losses in excess of specified deductibles.

Insurance coverage is deemed necessary. No reductions of coverage were made during the year and the City has no significant uninsured losses as of June 30, 2004. All claims during the three years for the period ending June 30, 2004, were below the limits of the insurance coverage.

NOTE 7 — POWER SALES AND EXCHANGE CONTRACTS:

Priest Rapids and Wanapum Hydroelectric Projects:

The City has entered into two 50 year Power Sales Contracts with Public Utility District No. 2 of Grant County, Washington, for purchases of power generated from the Priest Rapids Hydroelectric Project on the Columbia River. Under terms of these contracts, the City has agreed to purchase .5% of the Priest Rapids Development Output until October 31, 2005, and .7% of the Wanapum Development Output until October 31, 2009. The cost of the power purchased from the two developments is determined based on the percentage purchased applied to the "Annual Power Costs" as defined in the contracts. Power available from the contracts is sold to the Bonneville Power Administration. Revenue from surplus power sales amounted to \$1,535,003 for the year ended June 30, 2004.

NOTE 8 — WEATHERIZATION PROGRAM:

The City was involved in two residential weatherization programs in past years. The funds for the program were supplied by BPA in the form of advances, which are noninterest bearing, and are liens against the property weatherized. They are repayable to the BPA when the property is sold. At the conclusion of the program as of December 31, 1982, approximately \$575,000 had been expended under this program of which \$107,628 was outstanding on June 30, 2004.

City of Milton-Freewater

Notes to Financial Statements

NOTE 9 — ENERGY NORTHWEST PROJECT 2:

Energy Northwest has a project for a nuclear electric generating plant, referred to as Energy Northwest (formerly known as Washington Public Power Supply System Nuclear) Project 2. The City, together with other BPA preference customers, executed agreements with BPA and Energy Northwest to purchase a portion of the electric power and energy capability of this project. Pursuant to this agreement (the Net Billing Agreement) as executed by BPA, Energy Northwest, and certain BPA preference customers, including the City (the participating utilities) will make payments to Energy Northwest for their proportionate share of the annual cost of this project, including debt service payments. The participating utilities have assigned their share of the project capabilities to BPA. The power and energy from the project become part of the power and energy made available to the City and other BPA preference customers under the terms of their respective power sales contracts with BPA. In return, BPA will credit the payments made by the participating utilities to Energy Northwest against billing by BPA for power and certain other services rendered by BPA under the power sales contracts, or will pay for such project capability in cash.

NOTE 10 — DEFINED BENEFIT PENSION PLAN:

Plan description:

The City contributes to the Oregon Public Employee's Retirement System (PERS), an administrative agent for Oregon municipalities that administrates a cost sharing retirement plan. The 72nd Oregon Legislature created a new retirement plan for PERS, the agency, to administer the Oregon Public Service Retirement Plan (ORSRP). New public employees hired on or after August 29, 2003, become part of OPSRP, unless previous PERS membership was established. OPSRP is a hybrid (defined contribution/defined benefit) pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). A defined benefit plan is service-credit based and uses predictable criteria such as a pension determined by salary x length x factor service. A defined contribution plan has no guarantee. Members make contributions; employers may or may not make contributions. As mentioned above, the City of Milton-Freewater makes contributions to PERS and also will make contributions to OPSRP. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute.

Funding policy:

The rate of employee contribution is set by the Public Employees Retirement Board based upon actuarial valuations. The employer rate for PERS was 8.70% starting January 1, 1990 through June 30, 1992, 6.48% starting July 1, 1992 through May 31, 1995, and 9.15% starting June 1, 1995. The City paid both the employer contribution of \$290,663 (11.55% of covered payroll), and \$141,414 of the employee's total contribution of \$142,508 (6.0% of covered payroll) for a total of \$433,171 for the fiscal year ended June 30, 2004. The employer rate starting July 1, 2001 to June 30, 2003, is 11.55%

City of Milton-Freewater

Notes to Financial Statements

NOTE 10 — DEFINED BENEFIT PENSION PLAN (continued):

Annual pension cost:

The City's annual pension cost of \$478,381 for PERS was equal to the City's required and actuarial contributions for fiscal year ended June 30, 2004. The pension benefit obligation was computed as part of an actuarial valuation performed as of December 31, 1994, which is the latest actuarial valuation available. PERS uses an entry-age actuarial cost method for its funding policy. Significant actuarial assumptions used in the valuation include a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 5% per year compounded annually, attributable to general wage adjustments with additional increases for promotion and longevity that vary by age and service, (c) projected automatic cost of living benefit increases of 2% per year, (d) inflation rate of 4.5%, and (e) demographic assumptions that have been chosen to reflect the best estimate of emerging experience of the members of the system. Under the entry age actuarial cost method, the normal costs for a member are assumed to be paid from the date of hire to retirement and interest accrual. The PERS actuarial liability is amortized over a closed 30-year period that started January 1, 1976.

Trend information:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/1996	\$ 327,492	100%	-
6/30/1997	324,772	100	-
6/30/1998	333,844	100	-
6/30/1999	365,595	100	-
6/30/2000	483,251	100	-
6/30/2001	512,397	100	-
6/30/2002	433,171	100	-
6/30/2003	471,990	100	-
6/30/2004	478,381	100	-

Available historical trend data is shown as required below:

<u>Fiscal Year</u>	<u>Actual Value Net Assets Available for Benefits</u>	<u>Actuarial Accrued Liability</u>	<u>Percentage Funded</u>	<u>Annual Covered Payroll</u>
1996	\$ 3,833,586	\$ 5,182,901	74.0%	\$ 2,000,009
1997	N/A	N/A	N/A	2,055,684
1998	4,522,272	6,314,703	72.0	2,173,051
1999	N/A	N/A	N/A	2,369,529
2000	14,687,305	15,344,693	96.0	2,349,079
2001	N/A	N/A	N/A	2,465,601
2002	Pooled	Pooled	Pooled	2,349,079
2003	N/A	N/A	N/A	2,682,109
2004	N/A	N/A	N/A	2,819,477

N/A - No actuarial reports were available for these years.

* - Estimated by Oregon PERS.

City of Milton-Freewater

Notes to Financial Statements

NOTE 11 — POST-RETIREMENT HEALTH CARE BENEFITS:

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. For employees retiring after July 1, 1991, the City provides a medical plan for employees who are eligible for and receive an Oregon State PERS retirement benefit, except employees who retire on disability. The City pays 50% of the employee only premium for a specified medical benefit plan from the date of retirement until the employee is eligible for Medicare coverage. The cost of retiree health care benefits is recognized as an expenditure when premiums are paid. In fiscal 2004, costs totaled \$12,355 and there were six eligible participants.

NOTE 12 — DEFERRED COMPENSATION:

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to government employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The City Manager approves the withdrawal.

Investments are managed by the plan's trustee, ICMA Retirement Corporation. The choice of investment options offered by ICMA is made by the participant.

Recent changes in the Internal Revenue Code provided that such funds administered by municipalities are not subject to claims by general creditors. In accordance with Governmental Accounting Standards such programs administered by independent outside trustees do not require inclusion in the financial statements. As a result, assets and liabilities relating to this deferred compensation plan have been excluded from the City's financial statements.

NOTE 13 — RESERVE, DEFICIT FUND BALANCES, AND RETAINED EARNINGS:

The reserved fund balance of \$26,076 in the Street Fund represents the amount required by the State of Oregon to be held for footpaths and bikeways. The Water Fund has a reserve balance of \$77,253 on June 30, 2004, which consist of funds received from system development charges to be used in the future for system development. The reserve fund balances in the Debt Service Funds of \$133,781 has been reserved to repay the outstanding GOB debt on the fire equipment bond issue, the aquatic center bond issue, and special assessment loans. The reserve fund balances in the Landfill fund of \$3,671 has been reserved to cover the costs of closure and postclosure as described below.

NOTE 14 — LANDFILL CLOSURE AND POST-CLOSURE CARE COST:

During the previous fiscal year the Oregon Department of Environmental Quality (ODEQ) issued sufficient guidance to enable the City to estimate the future costs to close and monitor its solid waste landfill site when it is eventually closed. State and federal laws and regulations require the City to place a final cover on its solid waste landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure.

City of Milton-Freewater

Notes to Financial Statements

NOTE 14 — LANDFILL CLOSURE AND POST-CLOSURE CARE COST (continued):

Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City moves a portion of these closure and post-closure care costs to a reserve fund set up to accrue funds necessary to pay expenses when the landfill is closed. The \$64,383 reported as working capital in the Landfill Closure Fund at June 30, 2004, represents the cumulative amount reported to date based on the use of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of \$288,713 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2003. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The current landfill capacity in use is 22.3% and the City expects to close the landfill in the year 2075, which means the estimated life in years is 72.

NOTE 15 — TRANSFERS AND INTERFUND ITEMS:

The following is a schedule of transfers as included in the basic financial statements of the City:

	<u>Transfers In</u>	<u>Transfers Out</u>
GOVERNMENTAL ACTIVITIES:		
Major governmental funds:		
General	\$ 1,618,548	\$ 104,724
Street	74,950	59,090
Library	79,724	500
Nonmajor governmental funds:		
Street improvement	-	74,950
Senior disabled	20,000	-
Total governmental activities	<u>1,793,222</u>	<u>239,264</u>
BUSINESS-TYPE ACTIVITIES:		
Major proprietary funds:		
Electric	106,389	815,744
Water	-	371,742
Sewer	115,000	413,016
Nonmajor proprietary funds:		
Solid waste	1,500	147,299
Golf course	-	13,554
Internal service funds:		
Warehouse	60,428	16,716
Vehicle maintenance	-	49,195
Sick leave liability	9,991	-
Risk management	-	20,000
Total business-type activities	<u>293,308</u>	<u>1,847,266</u>
Total	<u>\$ 2,086,530</u>	<u>\$ 2,086,530</u>

City of Milton-Freewater

Notes to Financial Statements

NOTE 15 — TRANSFERS AND INTERFUND ITEMS (continued):

Individual interfund receivables and payables balances as of June 30, 2004, were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
GOVERNMENTAL ACTIVITIES:		
General	\$ -	\$ 30,300
BUSINESS-TYPE ACTIVITIES:		
Electric	92,300	-
Sewer	48,226	-
Water	<u>-</u>	<u>110,226</u>
Total	<u>\$140,526</u>	<u>\$140,526</u>

NOTE 16 — SUBSEQUENT EVENTS AND CONTINGENT LIABILITIES:

Subsequent to the end of the fiscal year, the City formalized plans to refund the aquatic center general obligation bonds along with the water system revenue bonds. The City plans to issue new bonds to replace the refunded obligations. The refunding will take advantage of lower interest rates.

Also subsequent to year-end, the City received notice from the State of Oregon Department of Environmental Quality (DEQ) regarding a slight exceedance of permitted nitrate levels in one of the monitoring wells at the sanitary landfill. DEQ is requiring the City make a preliminary assessment as to why there are higher than expected nitrate levels. Once that assessment is made and if the nitrate level remains uncorrected DEQ could require the City take remediation steps. Those steps could include requiring the City maintain a synthetic liner at the landfill or they could shut down the landfill and require the City's solid waste be hauled to a specific landfill facility elsewhere. Although the outcome is not presently determinable, in the opinion of the City, the resolution of this matter will not have a material affect on the financial position of the City.

NOTE 17 — RESTATEMENT OF NET ASSETS:

The City's beginning net assets have been restated to reflect prior period adjustments to the governmental activities' net assets for the fiscal year ended June 30, 2003. The adjustments are a result of the City recording too much debt on its books during the implementation of GASB 34 on the previous year's financial statements:

Net assets at June 30, 2003, as previously reported governmental activities	\$3,074,508
Correction of amount of long-term debt	<u>71,430</u>
Net assets, June 30, 2003, as restated – governmental activities	<u>\$3,145,938</u>
