

I. Summary of Significant Accounting Policies

A. Description of Reporting Entity

The City of Canby, Oregon is located in Clackamas County 21 miles south of Portland, Oregon and 35 miles north of Salem, Oregon. The City was incorporated as a municipal corporation in 1893 and operates under a council-administrator form of government. The City Council consists of a mayor elected for a two-year term, and six members each elected to four-year terms. The City Council appoints the City Administrator, who is responsible for the day-to-day management of the City.

The accompanying financial statements present the City and its component units, entities for which the City is considered financially responsible. The City is a primary government. A primary government is a financial reporting entity, which has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments. As required by GAAP, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statement to emphasize it is legally separate from the government.

Blended Component Unit

The City has one blended component units, the Urban Renewal Agency (the Agency). The Agency was formed to plan, direct, and manage certain projects within the City. Pursuant to ORS 457.055, the City Council has been appointed governing body of the Agency, which is the same governing board as the primary government. The Urban Renewal District General Fund and Urban Renewal Debt Service Fund are reported as governmental fund types. Complete financial statements for the Urban Renewal Agency for the year ended June 30, 2011 may be obtained at Canby City Hall, located at 182 N. Holly Street, Canby, Oregon 97013.

Discretely Presented Component Unit

The Canby Utility Board (CUB) is responsible for providing Water and Electricity services to residential and commercial customers within the city limits of Canby. The CUB is a legally separate entity from the City, which is currently governed by a board appointed by the members of the City Council. A financial benefit exists as the City is legally entitled to the capital assets of the CUB. Therefore, under the criteria set by the Governmental Accounting Standards Board, the CUB is considered a component unit of the City. The CUB is presented as an enterprise fund type. Complete financial statements for the CUB for the year ended June 30, 2011 may be obtained at the CUB's administrative office located at 154 N.W. First Avenue, Canby, Oregon 97013.

B. Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Separate fund financial statements are provided for governmental

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funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Government-wide financial statements

Government-wide financial statements display information about the reporting government as a whole. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities. Eliminations have been made to minimize the double-counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated and therefore clearly identifiable with a program or function. Indirect expense allocations that have been made in the funds have been eliminated in the Statement of Activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements

These statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

C. Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The City reports the following major governmental funds:

- **General Fund – Generally Accepted Accounting Principles**
This is the City's primary operating fund. It accounts for the financial resources of the City that are not accounted for in any other fund. Principal sources of revenue are property taxes, intergovernmental proceeds from the State of Oregon and Clackamas County, licenses and permits, and fines and forfeitures. Primary expenditures are for general administration, public safety, and culture and recreation.
- **Street Fund**
This fund accounts for revenues from gas tax apportionments received from the State of Oregon and expenditures for maintenance of public streets.
- **Parks Development Fund**
This fund accounts for revenues and expenditures for improvements of City parks.

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- **Transit Fund**
This fund accounts for payroll taxes collected from the local business community as well as grants received and used to fund the City's mass transit program.
- **Street Reserve Fund**
This fund accounts for revenues being accumulated for the construction and reconstruction of local streets.
- **Urban Renewal Agency - General Fund**
This fund accounts for revenues from property taxes and expenditures for construction and reconstruction improvements within the district related to revitalization of property within the district boundaries. This fund accounts for revenues being accumulated for these projects.
- **Urban Renewal - Debt Service Fund**
This fund is used to account for the payment of principal and interest on State of Oregon Economic Development Loans and capital leases. The primary sources of funds are property taxes.

Additionally the City reports non-major funds within the governmental fund type.
- **Special Revenue Funds**
These funds are used to account for proceeds of specific revenue sources that are earmarked for specific purposes including construction and maintenance of streets, 911 emergency services, motor pool, and asset acquisition and replacement. Principal resources include property taxes, intergovernmental revenues, and charges of services.
- **Capital Projects Funds**
Capital projects funds are used to account for major capital outlay expenditures relating to the construction of City facilities and infrastructure. Principal resources include special assessments and operating transfers from other funds.

The City reports the following major proprietary fund:

- **Sewer Combined Fund**
The fund accounts for business type activities of the City that receive a significant portion of funding through user charges with the intent to fully recover the cost of service. The fund accounts for the day-to-day operation of the City's sanitary sewer collection and treatment processes.

The City reports the following fiduciary fund:

- **Agency Fund**
The City reports for an Agency Fund under the heading of fiduciary fund type. This fund accounts for resources received and held by the City in a fiduciary capacity for the City's municipal court activities. Disbursements are made in accordance with the determination of distribution by the court.

D. Measurement Focus and Basis of Accounting

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

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The government-wide financial statements and the Proprietary Funds Financial Statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds do not have a measurement focus. An economic resource focus concentrations 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, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. This measurement 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 focus is inseparable from a modified accrual basis of accounting. Under modified accrual accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term compensated absences are recorded only when payment is due or vested.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

A deferred revenue liability arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable deferred revenue consists primarily of uncollected property taxes and assessments not deemed available to financial operation of the current period. In the government-wide Statement of Activities, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the Governmental Fund Balance Sheet for unavailable deferred revenue is eliminated. Note that deferred revenues also arise outside the scope of measurement focus and basis of accounting, such as when the City receives resources before it has a legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

Similar to the way revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as fund liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expended to be liquidated with

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expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized, Thus, the expense and related accrued liability for long term portions of debt and compensated absences must be included.

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 part of the financial statements.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's Sewer Operations are charges to customers for sales and services. These funds also recognize 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 revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The proprietary financial statements have incorporated all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. No FASB statements and interpretations issued after November 30, 1989 have been applied.

E. Assets, Liabilities and Equity

Cash and Cash Equivalents

The cash and cash equivalents reported on the balance sheet include cash on hand, deposits with financial institutions, and the investment in the Local Government Investment Pool. Investments are reported at fair value.

Restricted Assets

Assets whose use is restricted for construction, debt service, by other agreement or to specific purposes by state statute are segregated on the Government-wide Statement of Net Assets and the Proprietary Fund Statement of Net Assets.

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Receivables and Payables

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Recorded property taxes receivable that are collected within sixty days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as deferred revenue because it is not deemed available to finance operations of the current period. An allowance for doubtful accounts is not deemed necessary, as uncollectible taxes become a lien on the property. Property taxes are levied and become a lien on July 1. Collection dates are November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 15 are considered delinquent.

Assessment liens receivable in the Local Improvement District Fund are recognized at the time property owners are assessed for property improvements, and under full accrual accounting those assessments are recognized in the government-wide financial statements as revenue when assessed. Assessment liens receivable are offset by deferred revenue in the fund financial statements and, accordingly, have not been recognized as revenue in those statements.

Receivables of the enterprise funds are recognized as revenue when earned, including service provided but not yet billed. Receivables in governmental and enterprise funds are stated net of any allowance for uncollectible amounts.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, quarries etc.), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are charged to expenditures as purchased in the governmental fund statements, and capitalized in the proprietary fund statements. Capital assets are recorded at historical cost, or estimated historical cost if actual cost is not available. Donated fixed assets are recorded at their estimated fair market value at the time received.

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more, and having useful lives extending beyond a single reporting period. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets, and is provided on the straight-line basis over the following estimated useful lives:

<u>ASSET</u>	<u>YEARS</u>
Buildings and improvements	20 - 50
Infrastructure	20 - 40
Vehicles and equipment	3 - 30
Utility plant	33 - 50

Depreciation is taken in the year the assets are acquired or retired.

Compensated Absences

Accumulated vested vacation pay is accrued as it is earned. For governmental funds, the non-current portion (the amount estimated to be used in subsequent fiscal years) is maintained separately and represents a reconciling item between the fund-level and government-wide presentations. The compensated absences are only reported in the entity wide governmental financial statement, and is calculated based on historical trends. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as “terminal leave” prior to retirement. Accumulated vested vacation pay is reported in governmental funds only if they matured.

The General Fund is used to liquidate the liability for compensated absences.

Long-Term Debt

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 are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are treated as period costs in the year of issue and are shown as other financial uses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs. The face amount of debt issued is reported as other financial sources while discounts on debt proceeds received are reported as debt service expenditures. Issuance costs, whether or note withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets

In the government-wide financial statements and proprietary funds financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments)

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and include unspent proceeds of bonds issued to acquire or construct capital assets. The nonexpendable portion of permanent funds is reported as a component of restricted net assets. The City's other restricted net assets are temporarily restricted (ultimately expendable) assets. All other net assets are considered unrestricted.

Fund Equity

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – non-spendable, restricted, committed, assigned and unassigned.

Non-Spendable – Includes items not immediately converted to cash, such as prepaid items and inventory.

Restricted – Includes items that are restricted by external creditors, grantors or contributors, or restricted by legal constitutional provisions.

Committed – Includes items committed by the City Council, by formal council action. Commitments of fund balance must be made prior to the end of the fiscal year.

Assigned – Includes items assigned for specific uses, authorized by the City. Assignments of fund balance can be done at any time, including after the fiscal year end date. In accordance with the City's fund balance policy, amounts may be assigned by the City administrator.

Unassigned – This is the residual classification used for those balances not assigned to another category.

Use of Restricted Resources

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions which affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimated.

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

On or before June 30 of each year, the City enacts a resolution approving the budget, appropriating the expenditures, and levying the property taxes. Prior to enacting this resolution,

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the proposed budget is presented to a budget committee consisting of members of the City Council and a like number of interested citizens. The budget committee presents the budget to the City Council for budget hearings prior to enactment of the resolution. The City budgets all funds, except the Fiduciary Funds, as required by Oregon Local Budget Law. The basis of budgeting for all major funds is the same as GAAP.

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Total expenditures by department as established by the resolution are the legal level of control for the General Fund. Expenditure categories of personal services, materials and services, capital outlay, debt service transfers, and contingency are the legal level of control for all other funds. The detail budget document, however, is required to contain more specific information for the above mentioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and adoption by the City Council. Management may modify original and supplemental budgets by the use of appropriation transfers between the legal levels of control within a fund. Such transfers require approval by the City Council. The city had two supplemental budgets and appropriation transfers during the year-ended June 30, 2011. Appropriations lapse as of year-end.

B. Deficit Fund Equity

The Transit Fund had deficit equity of \$230,347 as of June 30, 2011. The deficit is due to a timing difference between capital expenditures made in 2010-11 and their reimbursement with expected grant revenue that was not received until more than 60 day after year end.

III. Cash and Cash Equivalents

At June 30, 2011 investments included in cash and cash equivalents consist of the following:

City:

	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
Investments in the State Treasurer's Local Government Investment Pool	0.00	\$ 11,085,304
Total	<u>0.00</u>	<u>\$ 11,085,304</u>

CUB:

	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
Investments in the State Treasurer's Local Government Investment Pool	0.00	\$ 10,168,209
Total	<u>0.00</u>	<u>\$ 10,168,209</u>

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A. Interest rate risk

City of Canby does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

B. Credit risk

State statutes authorize the City of Canby to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the State Treasurer's Oregon Local Government Investment Pool, among others. The City has no investment policy that would further limit its investment choices. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations, but is not regulated by other laws, organizations or regulations. The reported value of the Pool is the same as the fair value of Pool shares. Investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). The Pool is not registered with the SEC as an investment company, nor is the pool rated.

C. Concentration of credit risk

The City of Canby does not currently have an investment policy for concentration of credit risk.

D. Custodial credit risk – deposits

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits with financial institutions up to \$250,000 for the combined total of all savings deposits and unlimited coverage for non-interest bearing transaction accounts. Deposits in excess of FDIC coverage with institutions participating in the Oregon Public Funds Collateralization Program are considered fully collateralized. As of June 30, 2011, none of the City's bank balances were exposed to credit risk.

E. Custodial credit risk – investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

IV. Receivables

An allowance for doubtful accounts is not deemed necessary for the City's property taxes receivable as uncollectible because a lien is placed on the property. The City's allowance for doubtful accounts for its business-type activities and street maintenance fees at June 30, 2011 was \$125,236.

The CUB's accounts receivable primarily represent user charges for electric and water service, which are recognized as earned. As the Utility discontinues electric and in some circumstances water service on delinquent accounts until payment is received, substantially all accounts are collectible. As of June 30, 2011 an allowance for uncollectible receivables has been provided for the Electric and Water Systems of \$6,154.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds

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also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue included delinquent property taxes receivable and special assessments not yet due.

V. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

Primary Government:	June 30, 2010	Prior Period Adjustment	Beginning Balance	Additions	Transfers and Reclassifications	Deletions	Ending Balance
<i>Capital assets, not being depreciated:</i>							
Land	\$40,597,474	\$ (93,636)	\$ 40,503,838	\$ 600,448	\$ -	\$ -	\$ 41,104,286
Intangibles	5,500	(5,500)	-	-	-	-	-
Construction in progress	1,311,741	(25,145)	1,286,596	1,452,386	-	(2,088,508)	650,474
Total capital assets, not being depreciated	<u>41,914,715</u>	<u>(124,281)</u>	<u>41,790,434</u>	<u>2,052,834</u>	<u>-</u>	<u>(2,088,508)</u>	<u>41,754,760</u>
<i>Capital assets, being depreciated:</i>							
Buildings & improvements	7,544,438	-	7,544,438	423,232	(94,476)	-	7,873,194
Motor vehicles and equipment	4,195,072	-	4,195,072	220,024	94,476	-	4,509,572
Infrastructure	118,697,091	531,580	119,228,671	2,616,034	-	-	121,844,705
Total capital assets, being depreciated	<u>130,436,601</u>	<u>531,580</u>	<u>130,968,181</u>	<u>3,259,290</u>	<u>-</u>	<u>-</u>	<u>134,227,471</u>
<i>Less accumulated depreciation for:</i>							
Buildings & Improvements	(2,529,213)	-	(2,529,213)	(255,891)	81,628	-	(2,703,476)
Motor vehicles and equipment	(2,562,893)	-	(2,562,893)	(391,951)	(81,628)	-	(3,036,472)
Infrastructure	(68,542,899)	443,443	(68,099,456)	(3,264,275)	-	-	(71,363,731)
Total accumulated depreciation	<u>(73,635,005)</u>	<u>443,443</u>	<u>(73,191,562)</u>	<u>(3,912,117)</u>	<u>-</u>	<u>-</u>	<u>(77,103,679)</u>
Total capital assets, being depreciated, net	<u>56,801,596</u>	<u>975,023</u>	<u>57,776,619</u>	<u>(652,827)</u>	<u>-</u>	<u>-</u>	<u>57,123,792</u>
Governmental activities capital assets, net	<u>\$98,716,311</u>	<u>\$ 850,742</u>	<u>\$ 99,567,053</u>	<u>\$1,400,007</u>	<u>\$ -</u>	<u>\$ (2,088,508)</u>	<u>\$ 98,878,552</u>

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Business-type Activities:	Beginning Balance	Additions	Transfers	Deletions	Ending Balance
<i>Capital assets, not being depreciated:</i>					
Land	\$ 1,081,277	\$ -	\$ -	\$ -	\$ 1,081,277
Intangibles	-	5,500	-	-	5,500
Construction in progress	1,334,985	1,346,551	-	(240,523)	2,441,013
Total capital assets, not being depreciated	2,416,262	1,352,051	-	(240,523)	3,527,790
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	7,108,216	-	-	-	7,108,216
Vehicles	306,929	-	(18,139)	-	288,790
Utility plant	3,587,995	246,628	18,139	-	3,852,762
Total capital assets, being depreciated	11,003,140	246,628	-	-	11,249,768
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(2,206,705)	(153,047)	-	-	(2,359,752)
Vehicles	(138,202)	(14,772)	2,793	-	(150,181)
Utility plant	(1,824,175)	(78,317)	(2,793)	-	(1,905,285)
Total accumulated depreciation	(4,169,082)	(246,136)	-	-	(4,415,218)
Total capital assets, being depreciated, net	6,834,058	492	-	-	6,834,550
Business-type activities capital assets, net	\$ 9,250,320	\$ 1,352,543	\$ -	\$ (240,523)	\$ 10,362,340

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 56,678
Public safety	163,653
Highways and streets	3,264,275
Transportation	165,240
Culture and recreation	176,814
Economic development	85,457
Total depreciation expense - governmental activities	\$ 3,912,117

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

Business-type activities:	
Sewer	\$ 246,136
Total depreciation expense - business-type activities	\$ 246,136

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Discretely presented component unit

Activity for the CUB for the year ended June 30, 2011 was as follows:

CUB:	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,340,579	\$ -	\$ -	\$ 1,340,579
Property held for future use	3,633	-	-	3,633
Construction in progress	1,943,617	2,329,933	(3,917,723)	355,827
Total capital assets, not being depreciated	3,287,829	2,329,933	(3,917,723)	1,700,039
<i>Capital assets, being depreciated:</i>				
Plant	39,961,876	3,485,064	(187,816)	43,259,124
Equipment	1,872,529	345,824	(17,800)	2,200,553
Office furniture and equipment	1,015,693	37,476	-	1,053,169
Total capital assets, being depreciated	42,850,098	3,868,364	(205,616)	46,512,846
<i>Less accumulated depreciation for:</i>				
Plant	(12,809,101)	(1,034,386)	218,143	(13,625,344)
Equipment	(1,158,237)	(51,230)	20,878	(1,188,589)
Office furniture and equipment	(644,501)	(27,555)	-	(672,056)
Total accumulated depreciation	(14,611,839)	(1,113,171)	239,021	(15,485,989)
Total capital assets, being depreciated, net	28,238,259	2,755,193	33,405	31,026,857
Business-type activities capital assets, net	\$ 31,526,088	\$ 5,085,126	\$ (3,884,318)	\$ 32,726,896

Depreciation expense for CUB activities is charged to functions as follows:

CUB activities:	
Electric	\$ 572,958
Water	540,213
	\$ 1,113,171
Total depreciation expense – CUB activities	\$ 1,113,171

CITY OF CANBY, OREGON
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

VI. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2011, was as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Cemetery Perpetual Care Fund	General Fund	Mausoleum two	\$ 46,925
General Fund	Transit Fund	Operations	378,880
Parks Development Fund	Capital Reserve Fund	Logging Road Bridge	<u>49,152</u>
Total			<u>\$ 474,957</u>

Interfund Transfers:

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds:		
General Fund – GAAP Basis	\$ 1,876,404	\$ 874,472
Street Fund	-	914,765
Parks Development Fund	3,427	600
Transit Fund	50,000	440,722
Street Reserve Fund	710,332	600
Urban Renewal District – General Fund	1,500,000	72,389
Urban Renewal Debt Service Fund	-	1,500,000
Total Major Governmental Funds	<u>4,140,163</u>	<u>3,803,548</u>
Non-major Funds:		
Library Fund	200,000	177,680
Library Endowment Fund	-	600
Local Improvement District Fund	-	21,395
911 Emergency Fund	50,000	600
Cemetery Perpetual Care Fund	2,783	600
Swim Center Local Option Tax Levy Fund	-	49,931
Capital Reserve Fund	12,400	4,027
Log Road Industrial Park Fund	-	64,062
Forfeiture Fund	-	600
Total Non-major Governmental Funds	<u>265,183</u>	<u>319,495</u>
Proprietary Funds:		
Sewer Combined Fund	<u>8,624</u>	<u>290,927</u>
Total Proprietary Funds	<u>8,624</u>	<u>290,927</u>
Total All Funds	<u>\$ 4,413,970</u>	<u>\$ 4,413,970</u>

Interfund transfers are used to pay administrative services, provide funds for debt service, contribute toward the cost of capital projects, and provide operational resources.

CITY OF CANBY, OREGON
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

VII. Long-term liabilities

The following paragraphs present information on long-term liabilities, presented separately with respect to governmental and business-type activities. The table below presents current year changes in long-term liabilities, and the current portions due for each category of long-term liabilities presented.

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental					
Activities					
Loans Payable	\$ 4,885,158	\$ 417,927	\$ 258,493	\$ 5,044,592	\$ 307,740
Bonds	1,055,000	2,455,831	180,000	3,330,831	332,792
Capital leases	406,902	103,549	198,273	312,178	181,667
Compensated absences	348,805	416,551	348,805	416,551	311,994
Total governmental activities	<u>\$ 6,695,865</u>	<u>\$ 3,393,858</u>	<u>\$ 985,571</u>	<u>\$ 9,104,152</u>	<u>\$ 1,134,193</u>
Business-type					
Activities					
Bonds	\$ 2,097,040	\$ -	\$ 230,424	\$ 1,866,616	\$ 240,424
Compensated absences	41,879	46,848	41,879	46,848	31,793
Total business-type activities	<u>\$ 2,138,919</u>	<u>\$ 46,848</u>	<u>\$ 272,303</u>	<u>\$ 1,913,464</u>	<u>\$ 272,217</u>

CITY OF CANBY, OREGON
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

A. Bonds Payable

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding at June 30, 2011 are as follows:

Governmental Activities	
In 2010, the City issued \$2,500,000 of bonds to finance redevelopment of NE 1st Avenue. The bonds carry interest rates from 3.75% to 7.00% and have final maturity date of December 15, 2030. They are Recovery Zone Economic Development Bonds which provide the City a 45% rebate of the amount of interest paid.	\$ 2,500,000
Bond Discount	(44,169)
In 2008, the City issued \$1,915,000 of bonds to finance improvements to NE 2nd Avenue and a public parking lot at the end of the street. The bonds carry an interest rate of 4.15% over the 6 year term. The bonds have a final maturity date of June 1, 2014.	875,000
Total bonds payable	\$ 3,330,831

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

	U.S. Bank - URD Bond Series 2008		Bank of New York - Bond Series 2010		Bond Discount	Total Governmental Bonds	
	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2012	240,000	36,312	95,000	81,973	(2,208)	332,792	118,285
2013	300,000	26,353	100,000	79,962	(2,208)	397,792	106,315
2014	335,000	13,902	100,000	77,899	(2,208)	432,792	91,801
2015	-	-	100,000	75,837	(2,208)	97,792	75,837
2016	-	-	105,000	73,723	(2,208)	102,792	73,723
2017-2021	-	-	555,000	322,919	(11,040)	543,960	322,919
2022-2026	-	-	650,000	220,523	(11,040)	638,960	220,523
2027-2031	-	-	795,000	81,229	(11,049)	783,951	81,229
Total	875,000	76,567	2,500,000	1,014,065	(44,169)	3,330,831	1,090,632

CITY OF CANBY, OREGON
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

The City also issues bonds where income derived from acquired or constructed assets is pledged to pay debt service. Revenue bonds outstanding at June 30, 2011 are as follows:

Business-type Activities

In 2008 the City issued additional revenue bonds to pay off prior borrowings related to improvements in the sanitary sewer collection and treatment system in the amount of \$2,505,000. These bonds carry interest rates ranging from 3.5% to 4.0% over the life of the issue, have a premium amortized with them, and have a final maturity on December 1, 2017.	\$ 1,830,000
Bond Premium	36,616
Total bonds payable	\$ 1,866,616

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

	Bank of NY - Sewer Bond 2008		Bond Premium	Total Enterprise Bonds	
	Principal	Interest	Principal	Principal	Interest
2012	235,000	63,534	5,424	240,424	63,534
2013	240,000	54,925	5,424	245,424	54,925
2014	250,000	46,044	5,424	255,424	46,044
2015	255,000	36,891	5,424	260,424	36,891
2016	275,000	27,284	5,424	280,424	27,284
2017-2021	575,000	22,950	9,496	584,496	22,950
Total	1,830,000	251,628	36,616	1,866,616	251,628

CITY OF CANBY, OREGON
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

B. Loans/Notes Payable

Governmental Activities

In 1994, the City borrowed \$593,081 through the State of Oregon Economic and Community Development Department's (OECDD) Special Public Works Fund program to finance logging road phase 1. The loan carries interest rates ranging from 5.8% to 6.0% over the 20 year term. The loan has a final maturity date of December 1, 2015.	\$ 179,012
A second loan through the OECDD in the amount of \$260,000 was taken in 1997 to finance logging road phase 2. The loan carries an interest rate of 5.01% over the 20 year term. The loan has a final maturity date of December 1, 2017.	120,658
In 2003, the City borrowed \$1,300,000 through the Oregon Economic and Community Development Department to finance Sequoia Parkway. The loan carries an interest rate of 4.15% over the 20 year term. The loan has a final maturity date of December 1, 2023.	947,278
In 2005, the City borrowed \$1,962,920 through the Oregon Economic and Community Development Department to finance Canby Pioneer Industrial Park. The loan carries an interest rate of 3.9327% over the 20 year term. The loan has a final maturity date of 2024.	1,515,818
In 2009, the City borrowed \$1,981,047 through the OECDD to finance completion of Township Road, Berg Parkway and Sequoia Parkway. The loan included a premium of \$19,067 for a total initial amount of \$2,000,114. The loan carries interest rates from 3.00% to 5.25% over its 20 year term, and has a premium associated with it. The loan has a final maturity date of December 1, 2028.	1,846,738
Loan Premium	17,161
In 2010, the City borrowed \$417,927 from Business Oregon Infrastructure Finance Authority to finance construction of Walnut Street in the Canby Pioneer Industrial Park. The loan carries an interest rate of 5% over its 10-year term. Money to repay the loan will come from the benefitted property owners who formed a local improvement district to finance construction.	417,927
Total loans payable	<u>\$ 5,044,592</u>

CITY OF CANBY, OREGON
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

Annual debt service requirements to maturity for outstanding loan obligations are as follows:

	SPWF 94-003A (OEDD 1A)		SPWF 94-003B (OEDD 1)		SPWF 97-007 (OEDD 2)	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	38,678	9,785	1,829	619	12,536	6,070
2013	40,921	7,541	1,939	509	17,664	5,444
2014	43,295	5,168	2,056	393	17,797	4,560
2015	45,806	2,657	2,179	269	17,936	3,670
2016	-	-	2,309	139	18,083	2,774
2017-2021	-	-	-	-	36,642	2,809
2022-2026	-	-	-	-	-	-
2027-2031	-	-	-	-	-	-
Total	168,700	25,151	10,312	1,929	120,658	25,327

	OEDD #B03004		OECD #B04004		OECD #B08002	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	55,438	40,043	84,540	59,720	72,704	81,846
2013	60,454	38,074	85,049	56,761	73,085	79,665
2014	60,470	35,883	90,575	53,784	78,543	77,107
2015	65,488	33,585	96,120	50,614	79,018	74,358
2016	65,508	30,966	96,685	47,250	79,578	71,198
2017-2021	372,873	111,481	543,460	177,760	467,288	303,416
2022-2026	267,047	24,871	519,389	57,485	577,242	190,599
2027-2031	-	-	-	-	419,280	41,060
Total	947,278	314,903	1,515,818	503,374	1,846,738	919,249

	OECD #B08002 Premium		Business Oregon X09004		Total Governmental Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	953	-	41,062	13,061	307,740	211,144
2013	953	-	35,280	18,843	315,345	206,837
2014	953	-	37,044	17,079	330,733	193,974
2015	953	-	38,896	15,227	346,396	180,380
2016	953	-	40,841	13,282	303,957	165,609
2017-2021	4,765	-	224,804	33,661	1,649,832	629,127
2022-2026	4,765	-	-	-	1,368,443	272,955
2027-2031	2,866	-	-	-	422,146	41,060
Total	17,161	-	417,927	111,153	5,044,592	1,901,086

CITY OF CANBY, OREGON
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

C. Capital Leases

The City has entered into lease agreements for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes (title transfers at the end of the lease term) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following is an analysis of equipment leased under capital leases as of June 30, 2011:

	<u>Lease Obligation</u>	<u>Equipment Carrying Value</u>
General Fund:		
Fleet service equipment, 5.85%, \$7,284.73 annual payment including interest, final payment due November 16, 2011	\$ 6,882	\$ 24,515
Police vehicles, 6.15%, \$19,203 annual payment including interest, final payment due October 22, 2013.	51,188	63,960
Police vehicle, 6.15% \$9,046 annual payment including interest, final payment due October 18, 2013.	24,112	28,135
Transit buses, 5.50%, \$99,588 annual payment including interest, final payment due August 11, 2011	94,396	88,911
Police vehicles, 5.45%, \$21,302 annual payment including interest, final payment due January 8, 2012.	20,201	44,901
Fleet service street sweeper, 5.10%, \$42,454.91 annual payment including interest, final payment due November 18, 2013.	<u>115,399</u>	<u>166,374</u>
Total	<u>\$ 312,178</u>	<u>\$ 416,796</u>

CITY OF CANBY, OREGON
NOTES TO THE FINANCIAL STATEMENTS
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The following is a schedule of future minimum lease payments under the capital leases, and the present value of the net minimum lease payments at June 30, 2011.

	<u>Years ending June 30,</u>	<u>General Fund Amount</u>
	2012	\$ 197,999
	2013	70,704
	2014	70,704
		<hr/>
Total minimum lease payments		339,407
Less amount representing interest		<u>(27,229)</u>
Present value of future minimum lease payments		<u><u>\$ 312,178</u></u>

Discretely presented component unit

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
CUB					
Bonds	\$ 5,350,000	\$ -	\$ 230,000	\$ 5,120,000	\$ 240,000
					<hr/>
Total CUB	<u>\$ 5,350,000</u>	<u>\$ -</u>	<u>\$ 230,000</u>	<u>\$ 5,120,000</u>	<u>\$ 240,000</u>

D. Revenue Bonds

The CUB issued Water System revenue bonds. The bond purchase agreement provides that principal and interest on the bonds are payable solely from and secured by the net revenues of the Water System.

CUB

In 2004 the CUB issued revenue bonds in the amount of \$2,900,000. These bonds carry interest rates ranging from 2.5% to 4.5% over the life of the issue, and mature in 2025.	\$ 2,250,000
In 2007, the CUB issued revenue bonds in the amount of \$3,200,000. These bonds carry interest rates ranging from 3.625% to 3.75% over the life of the issue, and mature in 2027.	<u>2,870,000</u>
Total bonds payable	<u><u>\$ 5,120,000</u></u>

CITY OF CANBY, OREGON
NOTES TO THE FINANCIAL STATEMENTS
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Annual debt service requirements to maturity for outstanding revenue bonds are as follows:

CUB	
Year Ending June 30,	Principal
2012	240,000
2013	250,000
2014	260,000
2015	270,000
2016	280,000
Thereafter	<u>3,820,000</u>
Total	<u>\$ 5,120,000</u>

VIII. Post Employment Benefits Other than Pensions

A. Plan Description

The City does not have a formal post employment benefit plan for employees, however the City is required by Oregon Revised Statutes 243.303 to provide retirees with access to group health and dental insurance from the date of retirement to age 65 at the same rate provided to current employees. GASB 45 is applicable to the City due only to the implicit rate subsidy. This plan is not a stand-alone plan and therefore does not issue its own financial statements.

B. Funding Policy

The City funds the plan only to the extent of current year insurance premium requirement on a pay-as-you-go basis. At June 30, 2011, the City had 72 active employees and four retirees participating in the program with all insurance premium costs paid in full by the individual. The City has not established an irrevocable trust to accumulate assets to fund the cost of the OPEB obligation that arises from the implicit subsidy.

C. Annual OPEB Cost and Net OPEB Obligation

The City's annual other post employment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table show the components of the City's annual OPEB cost for the fiscal year ending June 30, 2011, the amount actually contributed to the plans, and changes in the City's net OPEB obligation:

CITY OF CANBY, OREGON
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Normal cost at year end	\$ 80,152
Amortization of UAAL	<u>69,278</u>
Annual required contribution	149,430
Interest on prior year Net OPEB Obligation	9,523
Adjustment to ARC	(14,938)
Implicit benefit payments	<u>(41,201)</u>
Increase in Net OPEB Obligation	102,814
Net OPEB obligation at beginning of year	<u>211,623</u>
Net OPEB obligation at end of year	<u><u>\$ 314,437</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2011 was as follows:

Fiscal Year End	Annual OPEB Cost	Percent of Annual OPEB Cost Contribution	Net OPEB Obligation
06/30/09	\$ 133,318	20%	\$ 106,011
06/30/10	\$ 136,604	23%	\$ 211,623
06/30/11	\$ 144,015	29%	\$ 314,437

D. Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amount determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents information about the actuarial value of plan assets and the unfunded actuarial liability.

Valuation Date	Assets	Actuarial Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	UAL/ Payroll
08/01/08	\$ -	\$ 826,003	\$ 826,003	0%	\$7,554,600	10.93%
08/01/10	\$ -	\$ 722,154	\$ 722,154	0%	\$7,924,953	9.11%

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the August 1, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumption included a 4.0% rate for discounting future liabilities, a payroll growth rate of 3.75%, an inflation rate of 2.75%, and an annual healthcare cost trend rate of 8.5%, reduced by decrements to an ultimate rate of 5%. The UAAL is being amortized using the level percentage of payroll over an open period of fifteen years.

IX. Pension Plan

A. Plan Description

The City and CUB contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the City's and CUB's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying City and CUB employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. The actuarial method used for valuing assets of the pension plan is market value of assets. The amortization period used are closed. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account.

Both PERS plans provide retirement and disability benefits, post employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERS, PO Box 23700, Tigard, OR, 97281-3700 or by calling 503-598-7377.

B. Funding Policy

Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program, this is paid by the City and CUB. The City and CUB is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan.

CITY OF CANBY, OREGON
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The City's OPERF rate in effect for the year ended June 30, 2011 is 7.23%. The City's OPSRP rates in effect for the year ended June 30, 2011 are 4.49% for general service employees and 7.20% for police and fire employees. The CUB's rates for OPERF and OPSRP are 12.26% and 11.25%, respectively. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

C. Annual Pension Cost

Contribution information for the City and the CUB for the years ended June 30, 2011, 2010, and 2009 were as follows:

Year Ended	City			CUB		
	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
6/30/11	\$ 667,202	100%	\$ -	\$ 198,296	100%	\$ -
6/30/10	633,480	100%	-	242,577	100%	-
6/30/09	714,937	100%	-	276,112	100%	-

Post Retirement Benefits

In addition to pension benefits, the City has contractually agreed to pay employees 50% of accumulated sick leave at the time of retirement. The City recognizes this cost when employees retire. During 2010-2011, there were no costs recognized.

X. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the City/County Insurance Services Trust and pays an annual premium to the Trust for its general and automobile liability, automobile physical damage and property coverage. Under the membership agreement with the Trust, the Trust is to be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits.

The City carries commercial insurance for other risks of loss including workers compensation, boiler and machinery, public official bond, vehicle inspection bond and employee dishonesty coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

XI. Commitments and Contingencies

Grants receivable and grant receipts are subject to adjustment by grantor agencies, principally the Federal Government. Any disallowed claims, including claims already collected, could become a liability to the City.

CITY OF CANBY, OREGON
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Management of the City believes that total amount of liability, if any, which may arise from claims and lawsuits pending against the City beyond that, which is covered by insurance, would not have a material effect on the City's financial condition.

XII. Subsequent Events

On August 9, 2011, the City issued \$9,000,000 of bonds to finance construction of a new police facility. The bonds carry interest rates of 4.6% to 5.0% over the 25 year term. The bonds have a final maturity date of June 30, 2036.

XIII. New Accounting Pronouncement – GASB Statement No. 54

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The City implemented GASB 54 in the year ending June 30, 2011.

XIV. Prior Period Adjustment

During 2010-2011, the City, with the help of a CPA firm, undertook an analysis of fixed assets data for the purpose of consolidating the data in its municipal accounting software. The analysis disclosed inaccuracies in cost and accumulated depreciation of \$850,742 (less than 1% of fixed assets) as of June 30, 2010. This was corrected with a prior period adjustment.