



Comprehensive Annual Financial Report

Fiscal Year Ending

June 30, 2011

City of Canby

Canby, Oregon

Comprehensive Annual Financial Report

Fiscal Year Ending

June 30, 2011

Prepared by

City of Canby, Oregon

Finance Department

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INTRODUCTORY SECTION



City of Canby

Finance Office

133 North Second Ave

Canby, Oregon 97013

December 29, 2011

To the Honorable Mayor, City Council, and Citizens of the City of Canby, Oregon:

Letter of Transmittal

We are pleased to provide you with the Comprehensive Annual Financial Report (CAFR) of the City of Canby, Oregon (the City), for the fiscal year ended June 30, 2011.

For the Fiscal Year Ended June 30, 2011

This report presents the financial position of the City as of June 30, 2011 and the results of its operations and cash flows for all its fund types for the year then ended. The financial statements and supporting schedules have been prepared in accordance with generally accepted accounting principles and meet the requirements of the standards as prescribed by the Secretary of State. We believe the data, as presented, are accurate in all material respects and presented in a manner designed to fairly set forth the financial position and results of operations of the various funds of the City. This report is published to provide the City Council, staff, citizens and other interested readers with detailed information concerning the financial position and activities of the City.

Special points of interest:

- Independent auditors, Merina & Company, LLP.
- Financial Statements free of material misstatement.

The accuracy of the City's financial statements and the completeness and fairness of their presentation is the responsibility of City management. The City maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss of unauthorized use, and that financial records can be relied upon to produce financial statements in accordance with generally accepted accounting principles.

The City's financial statements have been audited by Merina & Company, LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2011 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City as of June 30, 2011, and the results of operation and cash flow for its proprietary fund types. The independent auditor's report is presented as the first component of the financial section of this report.

The Management Discussion & Analysis (MD&A) is a narrative introduction, overview, and analysis to accompany the basic financial statements and should be read in conjunction with the transmittal letter. The basic financial statements include the government-wide financial statements that present an overview of the City's entire operations, while the fund level statements present the financial information of each of the City's major funds, as well as non-major funds.

City of Canby Profile

Canby is a complete community with residences, schools and 800 businesses. Businesses include retail, medical and other professional services, wholesale, light industrial and manufacturing. Manufacturing is 12% of total businesses. The surrounding area contains some of the richest farmland in Oregon. Local nurseries produce a wide variety of plants, bulbs and seeds.

Local development is actively promoted by the city government and an economic development department. Major annual events include the award winning Clackamas County Fair, General Canby Days and Summer Concerts in the Park. The community is located on the Willamette River and Highway 99E, just 4 miles from I-5.

The City of Canby was incorporated in 1893, operating under the provision of its own charter and applicable State of Oregon law, with a Council-Administrator form of government. The City currently has a land area of 3.9 square miles and a population of 15,830. The City Council is ultimately responsible for decisions concerning the fiscal policy of the City, and charges the City Administrator to carry out those policies in the day-to-day management of the City's resources and staff.

The City Council consists of a mayor and six councilors who are elected to serve for two-year and four-year terms respectively. All are elected at-large and the offices are non-partisan. The only requirements for serving on the Council are that the candidate be a registered voter and have lived in Canby for at least 12 months.

The mayor presides over Council meetings and frequently represents the City in a ceremonial capacity. The mayor also makes recommendations to the Council for appointments to the Canby Utility Board.

The City Council is responsible for identifying needs and problems in the community and establishing policy to meet those needs. The Council enacts city laws and changes them as needed, approves contracts, agreements and purchases in excess of \$50,000. Council members are also members of the Budget Committee and therefore, participate in annual fiscal planning and budgeting and decide what resources are available, how much will be spent, and for what purposes. The City Council, appoints the City Administrator, the City Attorney and the Municipal Judge.

The City Administrator has responsibility for all functions with the exception of Canby Utility. The City Administrator appoints or removes the following department directors: Police Chief, City Recorder, Human Resources, Library, Public Works, Transit, Planning and Finance & Court Services.

In addition to the help that Council receives from the appointed staff and employees, eight standing advisory boards assist the City Council. Some 44 Canby citizens serve on these boards and make a valuable contribution to the City of Canby.

The City provides its residents and businesses with a full range of municipal services consisting of public safety, public works, planning and building, park and recreation, library, transit, and general administrative services. The City also operates a waste water treatment facility as an enterprise fund.



Fields in bloom during Canby's annual dahlia festival.

“Canby is a complete community with residences, schools and 800 businesses. Manufacturing is 12% of total businesses.”

“Some 44 Canby citizens serve on eight standing advisory boards”

Financial Foundation

The annual budget serves as the foundation for Canby's financial planning and control.

The City Budget Committee, in conjunction with city staff develop an annual budget based on strategic plans and programmatic goals that directly respond to the Council's and community's goals and expectations.

The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds, Debt Service Funds and

Business-Type Funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second regular Council meeting in June, the Finance Director submits to the City Council a proposed budget for the fiscal year commencing the following July 1.

The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. At a Council meeting in June, the budget is legally enacted

through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. Additional expenditures may be authorized for expenditures directly necessitated by unforeseen events. During 2010-11, there were two supplemental budgets which did not increase appropriations to the original budget.

The expenditure appropriations in the adopted budget are by department and category. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Department appropriations may be amended during the

year. Upon the recommendation of the Finance Director, and with the approval of the City Council: (1) transfers may be made from the appropriations for contingencies to departments; and (2) unexpended appropriations may be transferred from one department to another. Management control of budgets is further maintained at a line item level with the departments.

Strategic Financial Policies

The City of Canby, like other political subdivisions in the State of Oregon continues to face increasing financial challenges in light of voter approved property tax limitations and the on-going, natural increase in cost of service delivery. Expectations are now for very modest revenue growth.

The City has begun to benefit from a local gasoline tax and a street maintenance fee. This revenue is used to upgrade and maintain local streets.

The Budget Committee created long term financial strategies that are focused on achieving and maintaining fiscal stability.

The city's financial policies have been placed into the following major categories: expenditure control, revenue enhancement, and long-term financial health.

Pursuant to the City Council's direction, these financial policies will be reviewed on a regular basis so as to ensure they remain contemporary, meaningful and relevant.

Adopted Financial Policies:

- Efficiency measures should be utilized whenever possible to reduce costs and/or improve productivity in the organization.
- No new personnel or program will be added to the City organization without a corresponding revenue source identified and a complete analysis of the current and ongoing fiscal impact on that funding source.
- The Finance Director will be responsible for maintaining an expenditure control system to ensure strict adherence to the adopted budget.
- The City will continue efforts to expand its revenue base through new sources of revenue.
- The City will, on an annual basis, review the existing fees and charges for discretionary services.
- For cash-flow purposes, the cash balance in the General Fund at the beginning of the fiscal year should be sufficient to cover operational expenses until such time as property tax revenue is collected in November.
- The General Fund must remain intact. As a source of funding it realizes the smallest rate of growth and the largest rate of expenditures. Transfers from the General Fund are discouraged to preserve the financial health of the fund.
- Contributions to the General Fund reserves should be made whenever possible with a goal to achieve a level in reserve to sustain six months of General Fund supported City operations.
- No future capital improvements will be funded from City or Urban Renewal Agency funds unless accompanied by an analysis of all related ongoing annual maintenance and operational and associated costs and the City's capacity to fund those costs.
- The Finance Director will take steps to ensure that the City's investment policies and cash management practices will achieve maximum investment earnings potential. Funds will be invested as authorized by the Oregon Revised Statutes and investment in stocks, speculative ventures, futures or options will be avoided.
- The City's business-type activities will be self-supporting through appropriate rates and charges. Rate setting of these activities will be based on cost recovery.
- The City will maintain vehicle and equipment replacement schedules based upon recognized, industry-standards for the useful life of such assets.

Factors Affecting the City's Financial Condition

Canby's economic base consists of retail establishments, and commercial, nursery production, light industrial and manufacturing businesses.



“Business and industry are discovering the geographic and service amenities of Canby”

The downtown business district is home to commercial businesses, government buildings, financial institutions, medical offices, an eight-screen movie theater with adjacent public parking, and a variety of shops and restaurants. Established commercial areas have been improved with the help of funding from the Canby Urban Renewal Agency. Façade and streetscape improvements, gateway sign projects, business recruitment and retention and strategic planning for the business districts have all been funded by urban renewal.

Industrial growth has been spurred by the development of two industrial parks: Logging Road Industrial Park and Canby Pioneer Industrial Park. The development of these parks has resulted from the combined efforts of local landowners and the City of Canby, and funding from private, Canby Urban Renewal, and state sources. A new hospital, a fire station and other industrial, electronic and manufacturing businesses have located in the parks, creating local jobs. Access to industrial properties within the Canby Pioneer Industrial Park has been increased by construction of a new street that provides ready access to several industrial properties.

Residential construction was almost at a standstill because of economic conditions in Oregon and the rest of the country.

Tax Base—Due to the economic downturn in Oregon and the rest of the nation, Canby has seen its rate of growth in property tax revenues slow compared to rates before the 2008-09 recession. Property tax receipts for the current year were 2.9% greater than for the previous year. Property is subject to a maximum 3% increase in assessed valuation per year.

Franchise fees receipts increased 8.8% over the prior year, due to a new solid waste franchise fee.

Shared (non-gasoline tax) revenues from the State of Oregon increased 6% from the prior year.

On January 26, 2010, Oregon voters approved two measures that will increase income tax revenue to the state. The receipts of these taxes may allow the state to keep shared revenues to local governments flowing. As a safeguard, state shared revenue is not budgeted to meet general operating expenses.

The State of Oregon continues to face fiscal challenges because the state general fund relies on income taxes for most of its revenue. State income tax receipts increased in the past year, but the rate of increases is expected to slow down starting in 2012.

“...in November 2008, the voters of Clackamas County approved a county-wide library district...”

State gasoline tax receipts to the City increased 19.2% over the previous year. The increase is in large part due to a 6-cents-per-gallon increase in the state gasoline tax starting in January 2011.

Receipts from a local 3-cents-per-gallon gasoline tax, and a monthly street maintenance fee assessed to homes and businesses have also increased over the previous year.

These local and state sources of funding are helping the City maintain a vigorous local street maintenance and improvement program.

In November 2008, the voters of Clackamas County approved a county-wide library district. The City's share of revenues from the library district—in excess of \$700,000 per year beginning in 2009-2010—is nearly twice the previous contribution amount from Clackamas County. Library district proceeds replace the county contributions.

Other Financial Information

Special Tax Levy—Voters approved a five-year (2007-2012) local option levy for Swim Center operations. The levy is based on a fixed rate of \$0.42 per \$1,000 of assessed property value. This levy expires in 2012. In November 2011, voters approved a five-year (2012-2017) to continue operation of the pool. The levy rate will increase to \$0.49 per thousand.

The property tax revenue from the local option levy is used to fund current Swim Center services, life-guards, and provide for pool maintenance. The levy is based on a 5-year operating plan created by the Budget Committee, City Council and City staff.

The Swim Center is fully funded through a combination of levy dollars and user fees. Fees, which have recently been updated, pay for approximately 32% of operating costs.

PERS—The Oregon Public Employees' Retirement System (PERS), through past long standing administrative practices of the Board of Directors, the nature of retiree benefit plan options, and significant losses in investment income in the failing economy, is facing a deficit in terms of the system's ability to meet the financial resources needed to maintain the fiscal integrity of the system. Under current PERS regulations, employer contributions rates are adjusted every two years.

Current rates apply to 2010-2012. The rates are based on the value of PERS investments and on PERS ability to meet the financial resources needed to maintain the integrity of the retirement system for the state's public employees.



The Canby Swim Center has been under the operation of the City since 1966.

Accounting System and Reporting—During the year, the City's accounting system is maintained primarily on a modified cash basis with certain accruals to provide financial controls. Appropriations are encumbered for major purchase amounts prior to the release of purchase orders to vendors. This system provides budgetary control on all operating funds at a minimum cost. At year-end, journal entries are prepared by the City's Finance Department staff as a preparatory step for

completion of the annual financial report. The auditors' report on these financial statements accompanies the financial statements following this letter. The City has adopted all recent applicable Governmental Accounting Standards Board (GASB) statements in the preparation of the City's financial statements.

We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. It is further our intention to review these controls in depth on an ongoing basis for continued refinements and improvements.

“Voters approved a new five-year (2012-2017) local option levy to fund the Swim Center after the current levy expires.”

Debt Management



Sequoia Parkway opens 151 acres for industrial development within the city.

The City issues various types of debt for the purpose of carrying out its capital financing activities and currently has \$5,197,447 of outstanding bonded indebtedness.

The City also has entered into a number of other financing arrangements with the State of Oregon and other institutions for energy improvements, infrastructure development, vehicles and other projects.

The City's total debt at the close of 2011 was \$11,017,616 for all bond types, loans, capital leases and compensated absences. Urban Renewal debt is repaid from tax increment revenues collected under the urban renewal system.

The City's healthy economic base and its sound financial condition have helped maintain the "Aa2" bond rating from Moody's Investors Services.

"The City's primary investment tool is the Local Government Investment Pool (LGIP) managed by the State Treasury."

Cash Management

The City Finance Director is responsible for the control of cash and the investment of city funds. The City's Budget Committee, establishes investment policy for all city funds. Funds will be invested as authorized by the Oregon Revised Statutes. Fortunately, state-imposed safeguards minimize the dangers of investing in highly leveraged financial instruments, which have been a cause of national concern.

The City subscribes to the "pooled" cash concept of investing, which means that all funds with cash balances participate in an investment

pool. This permits some funds to be overdrawn and others to show cash balances when, in fact, the City as a whole has a cash balance. This pooled cash concept provides for investing greater amounts of money. Interest earnings are then allocated back across the participating funds.

The City's primary investment tool is the Local Government Investment Pool (LGIP) managed by the State Treasury. State and County agencies deposit monies due to the City into the State Treasury. The State Treasurer pools all available cash

into the LGIP, which invests in a variety of instruments. For the year ended June 30, 2011, the average monthly portfolio was 10.14 million and the average yield on these investments was .50 percent.

Risk Management



City Hall

The City is a member of City County Insurance Services (CCIS), which provides for the administration, investigation, and settlement of claims against the City. CCIS maintains an insurance pool for participating local municipalities.

The City is represented by a local independent insurance agent to help preserve the City's interests within the pool. We currently contract all

insurance needs with CCIS with the exception of health insurance.

We annually review coverage and costs for all types of coverage. The City conducts various loss prevention programs to control claim expenses.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Canby for its comprehensive annual financial report (CAFR) for fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

To earn a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for a certificate. We are committed to this effort and intend to maintain a highly qualified and professional staff to make Canby's certification possible in the future.

Acknowledgements

The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Finance Department and through the competent service of our independent auditors.

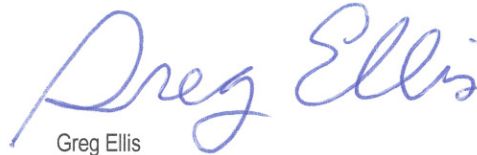
The City's Finance Department takes great pride in the preparation of the City's Comprehensive Annual Financial Report (CAFR). We greatly appreciate the professionalism, commitment, and effort set forth by the Mayor, City Council, Budget Committee, City Administrator and the Department Directors whose leadership is vital to the health and vitality of Canby.

Respectfully submitted,



Sue Engels

Finance Director



Greg Ellis

City Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Canby
Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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



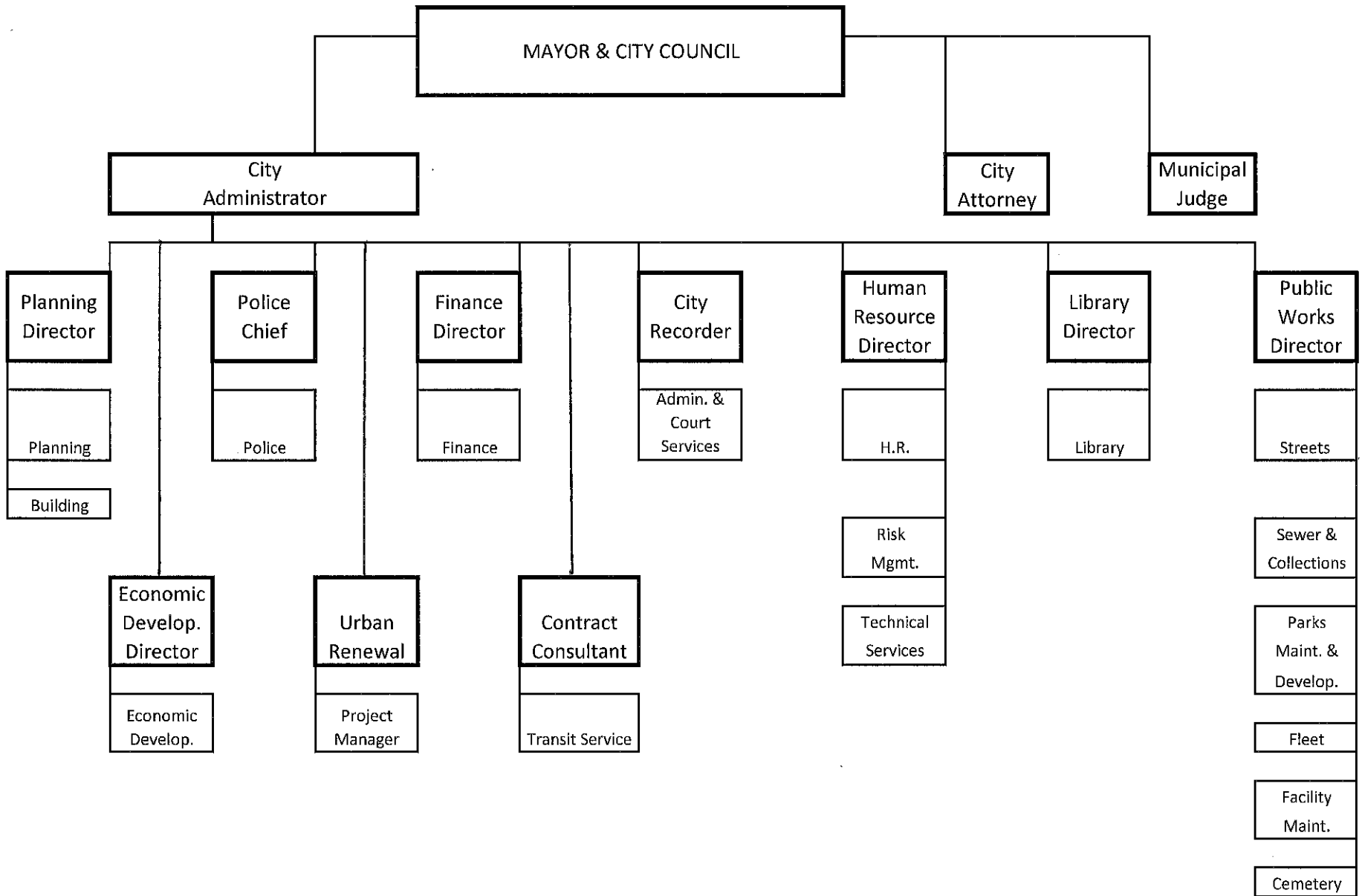
Linda C. Dandson

President

Jeffrey R. Enos

Executive Director

CITY OF CANBY ORGANIZATION



CITY OF CANBY, OREGON
CITY OFFICIALS
June 30, 2011

City Officials

Randy Carson, Mayor
Canby, Oregon 97013

Term Expires

December 31, 2012

Council Members

Walt Daniels, President
Canby, Oregon 97013

December 31, 2012

Traci Hensley
Canby, Oregon 97013

December 31, 2012

Tim Dale
Canby, Oregon 97013

December 31, 2012

Richard Ayres
Canby, Oregon 97013

December 31, 2014

Brian Hodson
Canby, Oregon 97013

December 31, 2014

Greg Parker
Canby, Oregon 97013

December 31, 2014

City Administrator

Greg Ellis
Canby, Oregon 97013

Legal Counsel

John Kelly
Canby, Oregon 97013

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Canby, Oregon
Canby, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canby, Oregon, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Canby, Oregon's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Canby Utility Board (CUB), a discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CUB, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

In our opinion, based on our audit and the report of the other auditors, 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 Canby, Oregon, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards

Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The required supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Canby, Oregon's financial statements as a whole. The introductory section, other supplementary information, and statistical section, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Merina & Company, LLP
West Linn, Oregon
December 29, 2011

Management Discussion & Analysis

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 or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some times that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (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 seven major funds: general fund, street fund, parks development fund, transit fund, street reserve fund, urban renewal agency general fund, and urban renewal debt service fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for each of these major funds, as defined by GASB Statement No. 34. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in the report.

The **business-type activity** of the City encompasses the sewer treatment plant. The government-wide financial statements are for the City itself. However, included within the business-type activities of the government-wide financial statements are the operations of Canby Utility (CU).

CU is responsible for providing water and electric services to residential and commercial customers within the city limits of Canby. CU is a legally separate entity from the city, governed by a board appointed by the Mayor of the City and confirmed by the majority of the City Council. CU is presented as an enterprise fund type. Complete financial statements may be obtained at CU's administrative office, 154 NW First Avenue, Canby, Oregon 97013. This component unit is not discussed in this MD&A.

The City also has one blended component unit, the Urban Renewal Agency (URA). 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. The URA is reported as a special

revenue fund. Complete financial statements for the URA for the year ended June 30, 2011 may be obtained at Canby City Hall, 182 North Holly Street, Canby, Oregon 97013.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into the following three categories: **Governmental Funds**, **Proprietary Funds**, and **Fiduciary Funds**.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of \$10,280,185 (61% unrestricted), an increase in net fund balances of \$1,814,103 (21%). The change is primarily due to the increased fund balance of the urban renewal general fund.

The net change in the General Fund's Fund Balance over the prior year was a decrease of \$246,088 (a 9% decrease over the prior year). This is due to a decrease in assets at June 30, 2011.

Significant changes in the City's other major funds consisted of the following:

- Street Fund – fund balance increased by \$158,524, an increase of 49% over the prior year. The change is due to increased receipts from state gasoline tax and street maintenance fees.
- Parks Development Fund – fund balance increased by \$21,549, an increase of 2% over the prior year. The change is due to a slight increase in Parks SDC revenue, and little capital expenditure.
- Transit Fund – fund balance decreased by \$140,898 because of less grant revenue and increased fleet maintenance costs. Transit tax revenue—which is a payroll tax/self-employment tax-- increased \$52,184 (7%) over the prior year.

- Street Reserve Fund – fund balance decreased \$564,456 over the prior year, a 24% decrease year due to increased spending on capital projects.
- Urban Renewal Agency – General Fund – fund balance increased \$2,635,403 over the prior year due to debt proceeds received but not spent by year end.
- Urban Renewal Debt Service Fund – fund balance decreased \$10,794 (2%). This decrease is primarily due to the net result of an increased transfer to the urban renewal general fund, and decreased debt service payments. The prior year debt service included a one-time large principal payment.

Proprietary Funds

Proprietary Funds are generally used to account for services for which the City charges customers. Proprietary Funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains one type of Proprietary Fund: the Sewer Combined Fund accounts for the operations of the sewer treatment plant, debt service and funds reserved for future sewer improvements. The fund is treated as a major fund of the City

Fiduciary Funds

Fiduciary funds account for resources held for the benefit of parties outside the government. 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 for the City’s municipal court activities. Disbursements are made in accordance with the determination of distribution by the court.

The City maintains budgetary controls over all funds. The objective of budgetary controls is to ensure compliance with legal provisions contained in the annually appropriated budget. Budgetary comparison schedules for all appropriated funds are provided following the notes to the financial statements.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information (RSI) concerning the City. The RSI (excluding the MD&A) is presented immediately following the notes to the financial statements.

Government Wide Financial Statements

Statement of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the city, net assets totaled \$110,826,770 as of June 30, 2011. The following table reflects the condensed Government-Wide Statement of Net Assets.

The largest portion of the City's net assets (92%) reflects its investment of \$101,614,210 in capital assets – net of debt (i.e. land, buildings, infrastructure, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to retire the associated debt.

Noncurrent liabilities for governmental activities increased 37% as a result of a loan from the State of Oregon, a 2010 bond and an increase in liability for post employment health care benefits. The business-type activities' (combined sewer fund) noncurrent liabilities decreased 12% as a result of paying down principal on the 2008 bond.

Unrestricted net assets for the City decreased \$5,475,332 (52%) from the prior year. The decrease is due to implementation of Governmental Accounting Standards Board (GASB) statement No. 54, which expanded the definition of restricted fund balances. Unrestricted net assets may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City reported no fund deficits for its governmental-activities as a whole, or for its business type activities.

Net Assets

June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total 2011
	2011	2010	2011	2010	
Assets					
Current Assets	\$ 11,438,872	\$ 9,683,801	\$ 1,974,308	\$ 2,709,172	\$ 13,413,180
Capital Assets	98,878,552	98,716,311	10,362,340	9,250,320	109,240,892
Total Assets	<u>\$ 110,317,424</u>	<u>\$ 108,400,112</u>	<u>\$12,336,648</u>	<u>\$ 11,959,492</u>	<u>\$ 122,654,072</u>
Liabilities					
Current liabilities	\$ 1,594,929	\$ 1,653,684	\$ 306,730	\$ 491,584	\$ 1,901,659
Noncurrent liabilities	8,252,952	6,013,175	1,672,691	1,899,915	9,925,643
Total liabilities	9,847,881	7,666,859	1,979,421	2,391,499	11,827,302
Net Assets					
Capital assets, net of related debt	93,081,870	92,387,365	8,532,340	7,195,320	101,614,210
Restricted	3,969,331	-	250,500	250,500	4,219,831
Unrestricted	3,418,342	8,345,888	1,574,387	2,122,173	4,992,729
Total Net Assets	<u>100,469,543</u>	<u>100,733,253</u>	<u>10,357,227</u>	<u>9,567,993</u>	<u>110,826,770</u>
Total Liabilities and Net Assets	<u>\$ 110,317,424</u>	<u>\$ 108,400,112</u>	<u>\$12,336,648</u>	<u>\$ 11,959,492</u>	<u>\$ 122,654,072</u>

Statement of Activities June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total
	2011	2010	2011	2110	2011
Revenues					
Program revenues					
Charges for services	\$ 2,486,418	\$ 1,669,332	\$ 2,576,118	\$ 2,393,574	\$ 5,062,536
Operating grants and contributions	576,493	682,856	-	-	576,493
Capital grants and contributions	285,355	501,499	-	-	285,355
General Revenues					
Property taxes	5,968,707	5,826,797	-	-	5,968,707
Franchise ,transit, and public service taxes	4,202,924	3,893,434	-	-	4,202,924
Interest and investment income	71,184	80,933	9,295	20,166	80,479
Other revenues	49,858	46,935	3,587	8,646	53,445
Total Revenues	<u>\$13,640,939</u>	<u>\$ 12,701,786</u>	<u>\$2,589,000</u>	<u>\$ 2,422,386</u>	<u>\$ 16,229,939</u>
Program Expenses					
General government	\$ 2,820,495	\$ 2,061,735	\$ -	\$ -	\$ 2,820,495
Public safety	4,168,007	4,081,875	-	-	4,168,007
Highways and streets	3,826,242	4,981,906	-	-	3,826,242
Culture and recreation	1,920,450	1,752,634	-	-	1,920,450
Transportation	1,304,747	1,989,289	-	-	1,304,747
Community development	657,712	757,344	-	-	657,712
Interest on long-term debt	340,041	300,883	-	-	340,041
Sewer operations	-	-	1,517,463	1,606,323	1,517,463
Total expenses	<u>15,037,694</u>	<u>15,925,666</u>	<u>1,517,463</u>	<u>1,606,323</u>	<u>16,555,157</u>
Change in net assets before transfers	(1,396,755)	(3,223,880)	1,071,537	816,063	(325,218)
Transfers in (out)	282,303	358,550	(282,303)	(358,550)	-
Change in net assets	(1,114,452)	(2,865,330)	789,234	457,513	(325,218)
Net assets, beginning of year	100,733,253	103,598,583)	9,567,993	9,110,480	110,301,246
Prior period adjustment	850,742	-	-	-	850,742
Net assets, end of year	<u>\$ 100,469,543</u>	<u>\$100,733,253</u>	<u>\$10,357,227</u>	<u>\$ 9,567,933</u>	<u>\$ 110,286,770</u>

Business-type activities

Business-type activities provided \$789,234 to the sewer combined fund's net assets. At the end of the year total net assets for the sewer combined fund was \$10,357,227. Of that amount, \$1,574,387 is unrestricted. Revenues from operations increased \$166,614 or 7%.

Governmental activities

Governmental activities decreased the City's net assets by \$1,114,452, a decrease of 1%.

General Fund budget highlights

Original budgeted appropriations for the general fund were \$8,433,597. Cash carryover from the previous year was \$719,769 less than anticipated. In a supplemental budget, general fund contingency was reduced to cover the carryover shortfall and a \$63,000 increase in administration department personal services expense.

Capital Assets

As the schedule below displays, infrastructure is the largest component of governmental activities which includes streets, street improvements, sidewalks and curbs. The largest component for business-type activities is the wastewater treatment plant and building that houses the plant. The second largest component for governmental activities is land for buildings, parks and roadways. Within business-type activities, the second largest component is for the sewer lines and associated sewer pumps. Capital assets used in governmental activities increased \$162,241 due to current year additions; and those used in business-type activities increased \$1,112,020, for an increase of \$1,274,261 during the fiscal year. Additional information about the City's capital assets and depreciation can be found in the Notes to the Financial Statements (pages 37-39).

Capital Assets at Fiscal Year End

Net of Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 41,104,286	\$ 40,602,974	\$ 1,086,777	\$ 1,081,277	\$ 42,191,063	\$ 41,684,251
Buildings and improvements	5,169,718	5,015,225	4,748,464	4,901,511	9,918,182	9,916,736
Infrastructure	50,480,974	50,154,192	1,947,477	1,763,820	52,428,451	51,918,012
Vehicles and Equipment	1,473,100	1,632,179	138,609	168,727	1,611,709	1,800,906
Construction in Process	650,474	1,311,741	2,441,013	1,334,985	3,091,487	2,646,726
Total Capital Assets	<u>\$ 98,878,552</u>	<u>\$ 98,716,311</u>	<u>\$ 10,362,340</u>	<u>\$ 9,250,320</u>	<u>\$ 109,240,892</u>	<u>\$ 107,966,631</u>

Debt Administration

At year-end, the City had \$11,017,616 in debt outstanding compared to \$8,834,784 in the prior year. \$1,406,410 of the debt outstanding at June 30, 2011 is due within one year. Additional information can be found in the Notes to the Financial Statements on pages 41-47.

Outstanding Debt at Fiscal Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Bonds	\$ 3,330,831	\$ 1,055,000	\$ 1,866,616	\$ 2,097,040	\$ 5,197,447	\$ 3,152,040
Loans	5,044,592	4,885,158	-	-	5,044,592	4,885,158
Capital leases	312,178	406,902	-	-	312,178	406,902
Compensated absences	416,551	348,805	46,848	41,879	463,399	390,684
Total Debt	\$9,104,152	\$ 6,695,865	\$ 1,913,464	\$ 2,138,919	\$ 11,017,616	\$ 8,834,784

During the fiscal year ended June 30, 2011 the following debt issuances and highlights occurred:

- A \$2.5 million bond was issued for the 1st Avenue Redevelopment project.
- A \$417,927 loan was obtained from the State of Oregon to fund construction of Walnut Street. The loan will be repaid by the benefitted property owners who formed a local improvement district.
- Compensated absences increased \$72,715 over the prior year.

Under Oregon Revised Statutes, general obligation debt issues are limited to 3% of the real market value of all taxable property within the City's boundaries. Currently, the City has no general obligation debt that is applicable to this limit. Therefore, the City is well within the limitation.

Economic Factors and Next Year's Budget

Oregon's seasonally adjusted unemployment rate was 9.1% in November 2011. Prolonged unemployment could eventually have an impact on residents' ability to pay property taxes. It is not possible to accurately predict unemployment levels for the coming year.

The General Fund is the one fund in the city that is the narrowest in its ability to grow in terms of increased revenues (due to property tax limitations) yet it supports a wide range of critical governmental functions such as public safety, municipal court services, parks and community development. Property tax collections increased 2.5% over the prior year.

Requests for Information

This financial report is designed to provide our citizens, customers, creditors with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Finance Department at 182 North Holly Street, PO Box 930, Canby, Oregon 97013.