

***CITY OF LAFAYETTE, OREGON
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2012***

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Lafayette, Oregon 97127

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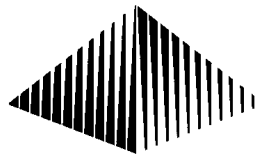
Preston Polasek
486 3rd Street
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GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Lafayette
486 Third Street
Lafayette, Oregon 97127

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lafayette, Oregon, as of June 30, 2012, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described below, 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 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.

As described in the summary of significant accounting policies in the notes to the financial statements, the City prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Oregon, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The City does not maintain any historical cost and depreciation records for capital assets including infrastructure, and therefore, no information for capital assets is presented in the financial statements.

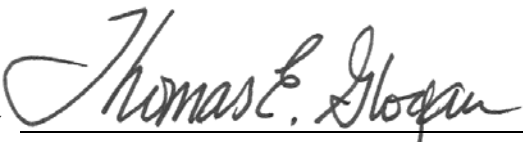
In our opinion, except for the matters discussed above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lafayette, Oregon, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended, in conformity with the basis of accounting described in the summary of significant accounting policies in the notes to the financial statements.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) (pages 3 through 8) and the budgetary comparison information (pages 27 through 28) 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 MD&A 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 budgetary comparison information on pages 27 through 28 is the responsibility of management and was derived from and relates 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's financial statements as a whole. The combining and individual fund financial statements and schedules and other financial schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were 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 other financial schedules 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.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By 
Thomas E. Glogau, A Shareholder
November 30, 2012

CITY OF LAFAYETTE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

As management of the City of Lafayette, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012.

Financial Highlights

Following are the financial highlights of the City for the FYE June 30, 2012:

	<u>June 30,</u>		<u>change</u>
	<u>2012</u>	<u>2011</u>	
Net assets	\$ 3,853,922	\$ 3,902,392	\$ (48,470)
Change in net assets	(48,470)	406,113	(454,583)
Governmental net assets	1,667,900	1,458,762	209,138
Proprietary net assets	2,186,022	2,443,630	(257,608)
Change in governmental net assets	209,138	195,264	13,874
Change in proprietary net assets	(257,608)	210,849	(468,457)

OVERVIEW OF THE FINANCIAL STATEMENTS

This overview and analysis is to explain the changes in the financial position of the City of Lafayette and why they occurred. The City's detailed information is provided in the *audited financial statements* provided by an independent auditor similar to a private-sector business.

This discussion and analysis is intended to serve as an introduction to the City of Lafayette's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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. These statements include:

The Statement of Net Assets (Modified Cash Basis). This presents information on all of the assets and liabilities of the City as of the date on the statement. Net assets are what remain after the liabilities have been paid off or otherwise satisfied. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities (Modified Cash Basis). The *statement of activities* presents information showing how the net assets of the City changed over the most recent fiscal year by tracking receipts, disbursements and other transactions that increase or reduce net assets.

The City reports on the modified cash basis of accounting.

Fund financial statements. The *fund financial statements* provide more detailed information about the City's funds, focusing on its most significant or "major" funds – not the City of Lafayette as a whole. 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 of Lafayette, like state and other 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 two categories: governmental funds and proprietary funds.

Governmental funds. The *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 the individual funds, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of receipts, disbursements and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. The City of Lafayette charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. The City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required and other supplementary information*, including this management's discussion and analysis, combining statements for non-major funds, and the schedules of receipts, disbursements and changes in fund balance-budget and actual for all City funds.

The combining statements for the non-major funds are presented following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of Lafayette, assets exceeded liabilities by \$3,852,143 at June 30, 2012.

The *Restricted Net Assets* represent resources that are subject to external restrictions on their use, such as debt service or construction.

The *Unrestricted Assets* may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net assets decreased by \$50,249 during the current fiscal year. The key element of the change is an increase in personal services which increased approximately \$75,000 due to the filling of two empty positions during 2011-12.

City of Lafayette
Statement of Net Assets (Modified Cash Basis)
June 30,

	2012			2011		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Assets:						
Cash and investments	\$ 1,670,452	\$ 2,186,024	\$ 3,856,476	\$ 1,464,720	\$ 2,443,630	\$ 3,908,350
Property taxes	55,468	-	55,468	52,642	-	52,642
Total Assets	1,725,920	2,186,024	3,911,944	1,517,362	2,443,630	3,960,992
Liabilities:						
Payroll withholdings	2,550	-	2,550	5,958	-	5,958
Deferred revenue	55,468	-	55,468	52,642	-	52,642
Total Liabilities	58,018	-	58,018	58,600	-	58,600
Net Assets:						
Restricted	504,018	94,489	598,507	409,486	990,615	1,400,101
Unrestricted	1,163,880	2,091,532	3,255,412	1,049,276	1,453,015	2,502,291
Total Net Assets	\$ 1,667,898	\$ 2,186,021	\$ 3,853,919	\$ 1,458,762	\$ 2,443,630	\$ 3,902,392

City of Lafayette
Statement of Activities (Modified Cash Basis)
Year Ended June 30,

	2012			2011		
	Government Activities	Business- type Activities	Total	Government Activities	Business- type Activities	Total
Receipts						
Program receipts						
Charges for service	\$ 81,336	\$ 1,485,385	1,566,721	\$ 75,440	\$ 1,607,489	\$ 1,682,929
Operating grants	222,140	-	222,140	204,741	-	204,741
Capital grants	63,240	62,850	126,090	30,579	25,140	55,719
General receipts						
Taxes and assessments	577,614	-	577,614	573,444	-	573,444
Franchise taxes	131,693	-	131,693	126,637	-	126,637
Intergovernmental	83,029	-	83,029	84,351	-	84,351
Proceeds from issuance of debt	-	3,229,318	3,229,318	-	2,086,039	2,086,039
Miscellaneous	21,547	11,258	32,805	17,815	361,635	379,450
<i>Total receipts</i>	1,180,599	4,788,811	5,969,410	1,113,007	4,080,303	5,193,310
Disbursements						
General government	288,596	-	288,596	206,092	-	206,092
Court and police	270,516	-	270,516	273,992	-	273,992
Community services and development	102,196	-	102,196	111,419	-	111,419
Fire	84,091	-	84,091	82,628	-	82,628
Parks	59,746	-	59,746	71,927	-	71,927
Streets	216,691	-	216,691	185,685	-	185,685
Water	-	933,255	933,255	-	3,116,280	3,116,280
Sewer	-	4,062,789	4,062,789	-	739,174	739,174
<i>Total disbursements</i>	1,021,836	4,996,044	6,017,880	931,743	3,855,454	4,787,197
Transfers	50,375	(50,375)	-	14,000	(14,000)	-
Change in net assets	209,138	(257,608)	(48,470)	195,264	210,849	406,113
Net assets, beginning of year	1,458,762	2,443,630	3,902,392	1,263,498	2,232,781	3,496,279
Net assets, end of year	\$ 1,667,900	\$ 2,186,022	\$ 3,853,922	\$ 1,458,762	\$ 2,443,630	\$ 3,902,392

GOVERNMENTAL ACTIVITIES

The cost for all *governmental* activities was \$1,021,950 this year. However, our taxpayers only paid \$577,614 in property taxes. Those who directly benefited from the programs (fines, fees and charges for services) paid \$81,336 this year, or 8%.

The City's governmental net assets increased by \$209,008 during the year. The primary reason for the increase was an increase in operating and capital grants.

BUSINESS-TYPE ACTIVITIES

The cost for all *business-type* activities was \$4,997,709 this year. These costs are paid by utility service fees, system development charges and other utility related income.

The City's business-type net assets decreased by \$259,257 this year. The primary reason for the decrease was a decrease in miscellaneous receipts and an increase in sewer disbursements related to refinancing of the sewer revenue bonds.

FINANCIAL ANALYSIS OF THE CITY OF LAFAYETTE FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund. The General Fund is the primary operating fund of the City. The fund balance was \$710,134 at year end. The fund balance increased by \$142,792 during the current fiscal year. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund disbursements. Fund balance represents 101% of total General Fund disbursements. The increase was due to an increase in licenses and permits receipts. The City also approved charging other funds an administrative fee starting in 2011-12.

Street Fund. The Street Fund accounts for the use of gas tax receipts. Disbursements are restricted to street-related projects and costs, plus debt service on street-related debt. The fund balance increased \$169,685 during the current fiscal year due a consolidation of the Street Capital Projects Fund into the Street Fund.

Fire Capital Projects Fund. The Fire Capital Projects Fund accounts for funds used for fire-related capital projects. Disbursements have been committed by the City for these projects and are primarily funded by transfers from the General Fund. The only other activity in the fund during the current year was investment income.

BUDGETARY HIGHLIGHTS

The City adopts an annual appropriated budget for all funds. The Lafayette City Council approved two appropriation transfers during the year; however one of the transfers was repealed prior to year end. This annual financial report provides budgetary comparison statements for all funds, to demonstrate compliance with the budget.

DEBT ADMINISTRATION

The City had total outstanding long-term debt of \$5,500,048 at year end. Net revenues of the utility operations and SDCs received from new development are pledged to the payment of the debt. Additional information on the City's debt can be found in the notes to the annual financial report.

FISCAL YEAR 2012-13 BUDGET AND RATES

During the preparation of the budget for the 2012-13 fiscal year, we examined the long-term impacts of the local economy in conjunction with business decisions made by the City. The following are the major assumptions used in developing the FYE 2013 budget:

- The City's permanent tax rate of \$3.4857 per thousand will be levied.
- The base for property taxes was estimated to grow by the standard 3%.
- Interest rates on investments will be less than 2%.
- Employee health insurance costs will continue to increase.

FUTURE ECONOMIC FACTORS FOR THE CITY OF LAFAYETTE

Continuing the established practice of placing money into cash reserves for public works vehicles and equipment, as well as for fire capital equipment, will provide funding for replacement and purchases, as they become necessary.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present the user (citizens, taxpayers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Preston Polasek
City Administrator
City of Lafayette
486 Third Street
Lafayette, Oregon 97127

BASIC FINANCIAL STATEMENTS

CITY OF LAFAYETTE, OREGON
STATEMENT OF NET ASSETS (MODIFIED CASH BASIS)
JUNE 30, 2012

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
<i>ASSETS</i>			
Cash and investments	\$ 1,670,452	\$ 2,186,024	\$ 3,856,476
Taxes receivable	55,468	-	55,468
<i>Total Assets</i>	1,725,920	2,186,024	3,911,944
<i>LIABILITIES</i>			
Payroll withholdings	2,550	-	2,550
Deferred revenue	55,468	-	55,468
<i>Total Liabilities</i>	58,018	-	58,018
<i>NET ASSETS</i>			
Restricted for:			
Capital outlay	160,027	94,489	254,516
Streets	295,852	-	295,852
Community development	48,139	-	48,139
Unrestricted	1,163,880	2,091,532	3,255,412
<i>Total Net Assets</i>	\$ 1,667,898	\$ 2,186,021	\$ 3,853,919

The accompanying notes are an integral part of the financial statements.

CITY OF LAFAYETTE, OREGON
STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)
YEAR ENDED JUNE 30, 2012

<i>FUNCTIONS/PROGRAMS</i>	<i>Disbursements</i>	<i>Program Receipts</i>		
		<i>Fees, Fines and Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>
<i>Governmental activities:</i>				
General government	\$ 288,596	\$ -	\$ -	\$ -
Court and police	270,516	22,057	18,409	-
Community services and development	102,196	59,279	-	-
Fire	84,091	-	-	-
Parks	59,746	-	-	8,110
Streets	216,691	-	203,731	55,130
<i>Total Governmental activities</i>	1,021,836	81,336	222,140	63,240
<i>Business-type activities:</i>				
Water	933,255	719,682	-	25,650
Sewer	4,062,789	765,703	-	37,200
<i>Total Business-type activities</i>	4,996,044	1,485,385	-	62,850
<i>Total Activities</i>	<u>\$ 6,017,880</u>	<u>\$ 1,566,721</u>	<u>\$ 222,140</u>	<u>\$ 126,090</u>
<i>General Receipts:</i>				
Property taxes				
Franchise taxes				
Intergovernmental				
Proceeds from issuance of debt				
Bond premium received				
Miscellaneous				
<i>Total General Receipts</i>				
<i>Transfers</i>				
<i>Change in net assets</i>				
<i>Net Assets - beginning of year</i>				
<i>Net Assets - end of year</i>				

***Net (Disbursements) Receipts
and Changes in Net Assets***

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
\$ (288,596)	\$ -	\$ (288,596)
(230,050)	-	(230,050)
(42,917)	-	(42,917)
(84,091)	-	(84,091)
(51,636)	-	(51,636)
42,170	-	42,170
(655,120)	-	(655,120)
-	(187,923)	(187,923)
-	(3,259,886)	(3,259,886)
-	(3,447,809)	(3,447,809)
(655,120)	(3,447,809)	(4,102,929)
577,614	-	577,614
131,693	-	131,693
83,029	-	83,029
-	3,125,000	3,125,000
-	104,318	104,318
21,547	11,258	32,805
813,883	3,240,576	4,054,459
50,375	(50,375)	-
209,138	(257,608)	(48,470)
1,458,762	2,443,630	3,902,392
\$ 1,667,900	\$ 2,186,022	\$ 3,853,922

The accompanying notes are an integral part of the financial statements.

CITY OF LAFAYETTE, OREGON**STATEMENT OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS**JUNE 30, 2012

	<u>General</u>	<u>Street</u>	<u>Fire Capital Projects</u>
ASSETS			
Cash and investments	\$ 712,691	\$ 295,853	\$ 231,527
Taxes receivable	55,468	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	\$ 768,159	\$ 295,853	\$ 231,527
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
 LIABILITIES AND FUND BALANCE			
Liabilities:			
Payroll withholdings	\$ 2,550	\$ -	\$ -
Deferred revenue	55,468	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	58,018	-	-
 Fund Balance:			
Restricted for:			
Capital outlay	-	-	-
Streets	-	295,852	-
Community development	-	-	-
Committed to:			
Capital outlay	-	-	231,526
Community development	-	-	-
Unassigned	710,141	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balance</i>	710,141	295,852	231,526
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Total Liabilities and Fund Balance</i>	\$ 768,159	\$ 295,852	\$ 231,526
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

<i>Other</i>		
<i>Governmental</i>		
<i>Funds</i>	<i>Total</i>	
\$ 430,381	\$ 1,670,452	
-	55,468	
<hr/>	<hr/>	
\$ 430,381	\$ 1,725,920	
<hr/>	<hr/>	
\$ -	\$ 2,550	
-	55,468	
<hr/>	<hr/>	
-	58,018	
160,028	160,028	
-	295,852	
48,139	48,139	
203,220	434,746	
18,992	18,992	
-	710,141	
<hr/>	<hr/>	
430,379	1,667,898	
<hr/>	<hr/>	
\$ 430,379	\$ 1,725,916	
<hr/>	<hr/>	

The accompanying notes are an integral part of the financial statements.

CITY OF LAFAYETTE, OREGON**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES****(MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS****YEAR ENDED JUNE 30, 2012**

	<u>General</u>	<u>Street</u>	<u>Fire Capital Projects</u>
RECEIPTS			
Taxes and assessments	\$ 577,614	\$ -	\$ -
Fines and forfeitures	22,057	-	-
Licenses and permits	156,784	-	-
Charges for services	-	-	-
Intergovernmental	101,438	203,731	-
Miscellaneous	13,599	1,533	892
<i>Total Receipts</i>	871,492	205,264	892
DISBURSEMENTS			
Current			
General government	226,392	-	-
Court and police	270,516	-	-
Community services and development	62,448	-	-
Fire	84,091	-	-
Parks	59,746	-	-
Streets	-	88,088	-
Capital outlay	-	128,603	-
<i>Total Disbursements</i>	703,193	216,691	-
RECEIPTS OVER (UNDER) DISBURSEMENTS	168,299	(11,427)	892
OTHER FINANCING SOURCES (USES)			
Transfers in	37,500	187,238	50,000
Transfers out	(63,000)	(6,125)	-
<i>Total Other Financing Sources (Uses)</i>	(25,500)	181,113	50,000
NET CHANGE IN FUND BALANCE	142,799	169,686	50,892
FUND BALANCE, beginning of year	567,342	126,166	180,634
FUND BALANCE, end of year	\$ 710,141	\$ 295,852	\$ 231,526

<i>Other Governmental Funds</i>	<i>Total</i>
\$ -	\$ 577,614
-	22,057
78,295	235,079
19,133	19,133
-	305,169
5,521	21,545
102,949	1,180,597
13,406	239,798
-	270,516
39,748	102,196
-	84,091
-	59,746
-	88,088
48,798	177,401
101,952	1,021,836
997	158,761
32,000	306,738
(187,238)	(256,363)
(155,238)	50,375
(154,241)	209,136
584,620	1,458,762
\$ 430,379	\$ 1,667,898

The accompanying notes are an integral part of the financial statements.

CITY OF LAFAYETTE, OREGON

STATEMENT OF FUND NET ASSETS (MODIFIED CASH BASIS) - PROPRIETARY FUNDS

JUNE 30, 2012

	<u>Sewer Fund</u>	<u>Sewer Debt Service</u>	<u>Water</u>
ASSETS			
Current assets:			
Cash and investments	\$ 893,796	\$ 440,572	\$ 476,102
LIABILITIES			
	-	-	-
FUND NET ASSETS:			
Restricted for capital outlay	-	-	-
Unrestricted	893,795	440,572	476,101
<i>Total Fund Net Assets</i>	<u>\$ 893,795</u>	<u>\$ 440,572</u>	<u>\$ 476,101</u>

<i>Water Debt Service</i>	<i>Other Business- type Funds</i>	<i>Total</i>
\$ 281,063	\$ 94,491	\$ 2,186,024
-	-	-
-	94,489	94,489
281,064	-	2,091,532
\$ 281,064	\$ 94,489	\$ 2,186,021

The accompanying notes are an integral part of the financial statements.

CITY OF LAFAYETTE, OREGON**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS****(MODIFIED CASH BASIS) - PROPRIETARY FUNDS****YEAR ENDED JUNE 30, 2012**

	<u>Sewer Fund</u>	<u>Sewer Debt Service</u>	<u>Water</u>
OPERATING RECEIPTS			
Charges for services	\$ 765,703	\$ -	\$ 715,015
Miscellaneous	-	-	4,667
<i>Total Operating Receipts</i>	765,703	-	719,682
OPERATING DISBURSEMENTS			
Personal services	228,293	-	223,851
Materials and services	117,529	-	233,647
Capital outlay	44,593	-	195,397
<i>Total Operating Disbursements</i>	390,415	-	652,895
OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	375,288	-	66,787
NONOPERATING RECEIPTS (DISBURSEMENTS)			
Investment earnings	6,039	835	2,658
Proceeds from issuance of debt	-	3,125,000	-
Bond premium received	-	104,318	-
Debt service:			
Principal	-	(264,573)	-
Interest	-	(249,987)	-
Refunded debt principal paid	-	(3,073,621)	-
Issuance costs	-	(84,193)	-
<i>Total Nonoperating Receipts (Disbursements)</i>	6,039	(442,221)	2,658
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	381,327	(442,221)	69,445
Transfers in	613,389	445,565	405,971
Transfers out	(530,440)	-	(160,450)
Capital contributions	-	-	-
CHANGE IN FUND NET ASSETS	464,276	3,344	314,966
FUND NET ASSETS, Beginning of year	429,519	437,228	161,135
FUND NET ASSETS, End of year	\$ 893,795	\$ 440,572	\$ 476,101

<i>Water Debt Service</i>	<i>Other Business- type Funds</i>	<i>Total</i>
\$ -	\$ -	\$ 1,480,718
-	-	4,667
-	-	1,485,385
-	-	452,144
-	-	351,176
-	-	239,990
-	-	1,043,310
-	-	442,075
1,341	384	11,257
-	-	3,125,000
-	-	104,318
(203,903)	-	(468,476)
(76,457)	-	(326,444)
-	-	(3,073,621)
-	-	(84,193)
(279,019)	384	(712,159)
(279,019)	384	(270,084)
134,950	-	1,599,875
-	(959,360)	(1,650,250)
-	62,850	62,850
(144,069)	(896,126)	(257,609)
425,133	990,615	2,443,630
\$ 281,064	\$ 94,489	\$ 2,186,021

The accompanying notes are an integral part of the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lafayette, Oregon is governed by an elected mayor and up to six council members who comprise the City Council. The City Council exercises supervisory responsibilities over the City operations, but day-to-day management control is the responsibility of the City Administrator. All significant activities and organizations for which the City is financially accountable are included in the financial statements.

There are certain governmental agencies and various service districts which provide services within the City. These agencies have independently elected governing boards and the City is not financially accountable for these organizations. Therefore, financial information for these agencies is not included in the accompanying basic financial statements.

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 receipts, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Government-wide financial statements display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. 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 (Modified Cash Basis) and the Statement of Activities (Modified Cash Basis).

The Statement of Net Assets (Modified Cash Basis) presents all the assets and liabilities of the City, including capital assets and related debt. Net assets, representing assets less liabilities, is shown in two components: 1) restricted for special purposes, amounts which must be spent in accordance with legal restrictions, and 2) unrestricted, the amount available for ongoing City activities.

The Statement of Activities (Modified Cash Basis) demonstrates the degree to which the direct disbursements of a given function or segment are offset by program receipts. *Direct disbursements* are those that are clearly identifiable with a specific function or segment. *Program receipts* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts are reported instead as *general receipts*.

Fund financial 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. Currently, the City has governmental (general, special revenue and capital projects funds) and proprietary (enterprise) type funds. Major individual 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, receipts and disbursements. The various funds are reported by generic classification within the financial statements.

The City reports the following major governmental funds:

General Fund

This is the City's primary operating fund. It accounts for all the financial operations of the City, except those required to be accounted for in another fund. Principal sources of receipts are property taxes, licenses and permits, and state shared revenues. Primary disbursements are for general government, police protection, and culture and recreation.

Street Fund

This fund satisfies the requirements of ORS 366.815 to account for funds distributed by the State Highway Division. Disbursements are for construction and maintenance of public streets and street lighting.

Fire Capital Equipment Fund

This fund accounts for funds used for fire-related capital projects.

The City reports the following nonmajor governmental funds:

Community Center Fund

This fund accounts for Community Center operations.

Refundable Deposits/Pass-through Fees Fund

This fund accounts for refundable deposits and pass through fees.

Street Capital Projects Fund

This fund was closed in the current year and all assets were transferred to the Street Fund.

Street SDC Projects Fund

This fund accounts for receipts from SDC charges which are designated for the construction of streets.

Parks SDC Projects Fund

This fund accounts for receipts from SDC charges which are designated for the construction of parks.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

City Hall Building Fund

This fund accounts for funds set aside for the City Hall building and repairs.

Vehicle and Equipment Replacement Fund

This fund accounts for the purchase of equipment.

The City reports the following major enterprise funds:

Sewer Fund

This fund accounts for the operation of the City's sewer system.

Sewer Debt Service Fund

This fund was established during the 2003-04 fiscal year to set aside money as a debt service reserve.

Water Fund

This fund accounts for the operation of the City's water system.

Water Debt Service Fund

This fund was established during the 2003-04 fiscal year to set aside money as a debt service reserve.

The City reports the following nonmajor enterprise funds:

Sewer Capital Projects Fund

This fund was closed in the current year and all assets were transferred to the Sewer Fund.

Sewer SDC Projects Fund

This fund accounts for the collection and use of the improvement fee portion of sewer system development charge receipts.

Water Capital Projects Fund

This fund was closed in the current year and all assets were transferred to the Water Fund.

Water SDC Projects Fund

This fund accounts for the collection and use of the improvement fee portion of water system development charge receipts.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

In the fund financial statements, the 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 purposes for which amounts in those funds can be spent. Governmental Fund type fund balances are reported in the following classifications.

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Fund balance is reported as restricted when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Fund balance is reported as committed when the City Council takes formal action that places specific constraints on how the resources may be used. The City Council can modify or rescind the commitment at any time through taking a similar formal action.

Resources that are constrained by the City's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the City Council approves which resources should be "reserved" during the adoption of the annual budget. The City's Finance Director uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the City's Annual Financial Report.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds

Definitions of Governmental Fund Types

The General Fund is used to account for all financial resources not accounted for in another fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term "proceeds of specific revenues sources" means that the revenue sources for the fund must be from restricted or committed sources, specifically that a substantial portion of the revenue must be from these sources and be expended in accordance with those requirements.

Capital Projects Funds are utilized to account for financial resources to be used for the acquisition or construction of capital equipment and facilities.

Measurement Focus and Basis of Accounting

Accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standards Board, define principles that should be used to report financial transactions. The government-wide and proprietary fund financial statements are reported using the economic resources and accrual

CITY OF LAFAYETTE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

basis of accounting. Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded when the liability is incurred. The governmental fund financial statements are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when they become both measurable and available, while expenditures are recorded when the related liability is incurred.

The City's policy is to prepare its financial statements on the basis of modified cash receipts and disbursements. Consequently, certain receipts and the related assets are recognized when received rather than when earned, and certain disbursements and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred. Also, assets that are measurable, but not yet collected are recorded on the City's statement of assets and liabilities as an asset and deferred revenue. Capital assets and the related debt obligations are not recorded. The City's policy, although not in accordance with accounting principles generally accepted in the United States of America, is acceptable under Oregon Law (ORS 294.333), which leaves the selection of the method of accounting to the discretion of the municipal corporation.

The City has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting." The City has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed under GASB No. 20, the City has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB.

Enterprise funds distinguish between operating receipts and disbursements and nonoperating items. Operating receipts and disbursements result from providing services to customers in connection with ongoing utility operations. The principal operating receipts are charges to customers for service. Operating disbursements include payroll and related costs, materials and supplies, and capital outlay. All receipts not considered operating are reported as nonoperating items.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, receipts and disbursements as of and for the year ended June 30, 2012. Actual results may differ from such estimates.

Cash and Investments

The City maintains cash and investments in a common pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net assets as cash and investments.

Oregon Revised Statutes authorize the City to invest in certificates of deposit, savings accounts, bank repurchase agreements, bankers' acceptances, general obligations of U.S. Government and its agencies, certain bonded obligations of Oregon municipalities and the State Treasurer's Local Government Investment Pool, among others.

Investments are stated at cost, which approximates fair value.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Deferred Revenues

Property taxes are levied by the County Assessor and collected by the County Tax Collector. The taxes are levied and become a lien as of July 1. They may be paid in three installments payable in equal payments due November 15, February 15, and May 15. Uncollected property taxes levied for the current year are recorded as receivable at year-end. The City's property tax collection records show that most of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years.

Property tax receivables are offset by deferred revenue and, accordingly, have not been recorded as revenues.

Long-term Debt

In the government-wide and proprietary fund type financial statements, long-term obligations are not reported. Bond premiums, discounts, and issuance costs are expensed as incurred. Repayment of long term debt principal and interest will be made primarily from the Water and Sewer Debt Service Funds.

Accrued Compensated Absences

Accumulated unpaid vacation pay is accrued, but not recorded. Earned but unpaid sick pay is recorded as a disbursement when paid.

Budgets and Budgetary Accounting

The City adopts the budget on a functions basis (personal services, materials and services, capital outlay, debt service and transfers), therefore, cash disbursements of a fund may not legally exceed that fund's functional appropriations. The City Council may amend the budget to expend unforeseen receipts by supplemental appropriations. All supplemental appropriations are included in the budget comparison statements. Appropriations lapse at year-end and may not be carried over. The City does not use encumbrance accounting.

Use of Restricted Assets

When disbursements are paid for purposes in which both restricted and unrestricted net assets are available, the City deems restricted assets to be spent first.

CITY OF LAFAYETTE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2012:

	<u>Carrying Value</u>	<u>Fair Value</u>
Cash		
Cash on hand	\$ 500	\$ 500
Deposits with financial institutions	151,147	151,147
Investments		
Local Government Investment Pool	3,704,825	3,704,825
	<u>\$ 3,856,472</u>	<u>\$ 3,856,472</u>

Deposits

The book balance of the City's bank deposits (checking account) was \$149,368 and the bank balance was \$250,248. The difference is due to transactions in process. Bank deposits are secured to legal limits by federal deposit insurance. All deposits not covered by FDIC insurance are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon.

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 unlimited insurance for the City's deposits with financial institutions for the aggregate of all non-interest bearing accounts and up to \$250,000 for the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage are covered by the Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2012, none of the City's bank balances were exposed to custodial credit risk as they were collateralized by deposit insurance or the PFCP program.

Custodial Risk - Investments

For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The City's investment policy limits the types of investments that may be held and does not allow securities to be held by the counterparty.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking

CITY OF LAFAYETTE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

CASH AND INVESTMENTS (Continued)

Custodial Risk – Investments (Continued)

to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

Investments

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2012, the fair value of the position in the Oregon State Treasurer's Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

Interest Rate Risk

In accordance with its investment policy, the City manages its exposure to declines in fair value of its investments by limiting the weighted average maturity of its investments through use of the Local Government Investment Pool.

LONG-TERM DEBT

The City refunded the 2000 Oregon Bond Bank loan in May of 2012 via the issuance of new sewer system revenue refunding bonds. The new bonds are payable through 2021 and bear interest at the rate of 3.5%. The principal balance on the new debt at June 30, 2012 is \$3,125,000.

The new debt has total debt service requirements of \$3,575,481 compared to debt service requirements of \$3,959,187 for the refunded debt. The refunding resulted in a net present value savings to the City of \$349,070.

CITY OF LAFAYETTE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

LONG-TERM DEBT (Continued)

Proprietary fund long-term debt transactions for the year ended June 30, 2012 were as follows:

	<i>Outstanding July 1, 2011</i>	<i>Issued</i>	<i>Matured/ Redeemed During Year</i>	<i>Outstanding June 30, 2012</i>	<i>Due Within One Year</i>
Oregon Bond Bank loan, issued October 2000, in varying annual installments, including interest at 5.276% through 2021	\$ 3,338,194	\$ -	\$ (3,338,194)	\$ -	\$ -
Safe Drinking Water Revolving Fund loan, issued 2003, annual installments of \$6,096 including interest at 1% through 2024	68,556	-	(5,410)	63,146	5,464
City of Dayton (OECDP passthrough), issued in 2004, annual installments of \$23,249 including interest at 1% through 2034	475,395	-	(18,493)	456,902	18,678
Water System Revenue Refunding Bonds, issued May, 2011, in varying annual installments plus interest at 3.5% through 2021	2,035,000	-	(180,000)	1,855,000	185,000
Sewer System Revenue Refunding Bonds, issued May, 2012, in varying annual installments plus interest at 2.00% to 3.25% through 2021	-	3,125,000	-	3,125,000	310,000
	<u>\$ 5,917,145</u>	<u>\$ 3,125,000</u>	<u>\$ (3,542,097)</u>	<u>\$ 5,500,048</u>	<u>\$ 519,142</u>

Future debt service requirements are as follows:

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 519,142	\$ 161,827	\$ 680,969
2014	529,383	145,057	674,440
2015	539,627	131,926	671,553
2016	559,873	116,739	676,612
2017	575,123	100,215	675,338
2018-2022	2,509,427	204,591	2,714,018
2023-2027	111,228	11,062	122,290
2028-2032	110,614	5,631	116,245
2033-2034	45,631	687	46,318
	<u>\$ 5,500,048</u>	<u>\$ 877,732</u>	<u>\$ 6,377,780</u>

CITY OF LAFAYETTE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Plan Description

The City 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 contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The City participates in the state and local government rate pool (SLGRP). 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 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. 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.

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. The City 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 and a police/fire rate for the qualifying employees under the OPSRP plan. The OPERF and the OPSRP rates in effect for the year ended June 30, 2012 were 9.55%, 5.16% and 7.87% respectively. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual Pension Cost

The City's contributions to PERS for the years ending June 30, 2010, 2011, and 2012 were \$27,937, \$26,511 and \$57,975 respectively, which equaled the required contribution for the year.

INTERFUND TRANSFERS

Transfers are used to (1) move resources from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF LAFAYETTE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

INTERFUND TRANSFERS (Continued)

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 37,500	\$ 63,000
Street	-	6,125
Fire Capital Projects	50,000	-
Community Center	5,000	-
City Hall Building	15,000	-
Vehicle and Equipment Replacement	12,000	-
Sewer	-	530,440
Sewer Debt Service	445,565	-
Water	60,000	160,450
Water Debt Service	134,950	-
	<u>\$ 760,015</u>	<u>\$ 760,015</u>

CONTINGENCIES

The City purchases commercial insurance to cover all commonly insurable risks, which includes property damage, liability and employee bonds. Most policies carry a small deductible amount. No insurance claims settled in each of the prior three years have exceeded policy coverage.

From time to time, the City is a defendant in various litigation proceedings. Management believes any losses arising from these actions will not materially affect the City's financial position.

NEW PRONOUNCEMENTS

The City will implement new GASB pronouncements no later than the required fiscal year. Management has not determined the effect on the financial statements from implementing any of the pronouncements.

GASB Statement No. 61 "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34." This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government. The statement is effective for fiscal years beginning after June 15, 2012.

GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The objective of this Statement is to incorporate into GASB's authoritative literature certain accounting and financial reporting guidance that were issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The statement is effective for fiscal years beginning after December 15, 2011.

GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." The statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The statement is effective for fiscal years beginning after December 15, 2011.

CITY OF LAFAYETTE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NEW PRONOUNCEMENTS (Continued)

GASB Statement No. 68 “Accounting and Reporting for Pension Plans—an amendment of GASB Statement No. 27.” The statement establishes accounting and financial reporting requirements related to pensions provided by governments. The statement is effective for fiscal years beginning after June 15, 2014.

SUBSEQUENT EVENTS

The City follows the provisions of Accounting Standards Codification (ASC) 855 "Subsequent Events". ASC 855 establishes accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through November 30, 2012, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAFAYETTE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Taxes and assessments	\$ 583,322	\$ 583,322	\$ 577,614	\$ (5,708)
Fines and forfeitures	25,000	25,000	22,057	(2,943)
Licenses and permits	140,800	140,800	156,784	15,984
Intergovernmental	146,726	146,726	101,438	(45,288)
Miscellaneous	1,000	1,000	13,599	12,599
<i>Total Receipts</i>	896,848	896,848	871,492	(25,356)
DISBURSEMENTS				
Current				
Administration	298,547	298,547	226,392	72,155
Planning	85,148	85,148	38,730	46,418
Building inspection	21,449	42,949	23,718	19,231
Municipal court	32,375	32,375	21,389	10,986
Law enforcement	256,941	256,941	249,127	7,814
Parks	126,711	126,711	59,746	66,965
Fire	124,230	124,230	84,091	40,139
Contingency	462,412	440,912	-	440,912
<i>Total Disbursements</i>	1,407,813	1,407,813	703,193	704,620
RECEIPTS OVER (UNDER) DISBURSEMENTS	(510,965)	(510,965)	168,299	679,264
OTHER FINANCING SOURCES (USES)				
Transfers in	37,500	37,500	37,500	-
Transfers out	(63,000)	(63,000)	(63,000)	-
<i>Total Other Financing Sources and Uses</i>	(25,500)	(25,500)	(25,500)	-
NET CHANGE IN FUND BALANCE	(536,465)	(536,465)	142,799	679,264
FUND BALANCE, beginning of year	536,465	536,465	567,342	30,877
FUND BALANCE, end of year	\$ -	\$ -	\$ 710,141	\$ 710,141

CITY OF LAFAYETTE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -****BUDGET AND ACTUAL - STREET FUND****YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Intergovernmental	\$ 227,000	\$ 227,000	\$ 203,731	\$ (23,269)
Miscellaneous	1,000	1,000	1,533	533
<i>Total Receipts</i>	228,000	228,000	205,264	(22,736)
DISBURSEMENTS				
Current				
Personal services	45,355	45,355	38,279	7,076
Materials and services	114,100	114,100	49,809	64,291
Capital outlay	150,000	150,000	128,603	21,397
Contingency	205,771	205,771	-	205,771
<i>Total Disbursements</i>	515,226	515,226	216,691	298,535
RECEIPTS OVER (UNDER) DISBURSEMENTS	(287,226)	(287,226)	(11,427)	275,799
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	187,238	187,238
Transfers out	(6,125)	(6,125)	(6,125)	-
NET CHANGE IN FUND BALANCE	(293,351)	(293,351)	169,686	463,037
FUND BALANCE, beginning of year	293,351	293,351	126,166	(167,185)
FUND BALANCE, end of year	\$ -	\$ -	\$ 295,852	\$ 295,852

OTHER SUPPLEMENTARY INFORMATION

CITY OF LAFAYETTE, OREGON
COMBINING STATEMENT OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS) -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	<i>Special Revenue</i>	
	<i>Community Center</i>	<i>Refundable Deposits/Pass- Through Fees</i>
ASSETS		
Cash and investments	\$ 18,991	\$ 48,140
	<hr/>	<hr/>
<i>Total Assets</i>	<u>\$ 18,991</u>	<u>\$ 48,140</u>
 LIABILITIES AND FUND BALANCE		
Liabilities:	\$ -	\$ -
 Fund Balance:		
Restricted for:		
Capital outlay	-	-
Streets	-	-
Community development	-	48,139
Committed to:		
Capital outlay	-	-
Community development	18,992	-
	<hr/>	<hr/>
<i>Total Fund Balance</i>	<u>18,992</u>	<u>48,139</u>
 <i>Total Liabilities and Fund Balance</i>	<u>\$ 18,992</u>	<u>\$ 48,139</u>

Capital Projects

<i>Street SDC Projects</i>	<i>Parks SDC Projects</i>	<i>City Hall Building</i>	<i>Vehicle and Equipment Replacement</i>	<i>Total</i>
\$ 104,868	\$ 55,161	\$ 142,368	\$ 60,853	\$ 430,381
<u>\$ 104,868</u>	<u>\$ 55,161</u>	<u>\$ 142,368</u>	<u>\$ 60,853</u>	<u>\$ 430,381</u>
\$ -	\$ -	\$ -	\$ -	\$ -
104,868	55,160	-	-	160,028
-	-	-	-	-
-	-	-	-	48,139
-	-	142,368	60,852	203,220
-	-	-	-	18,992
<u>104,868</u>	<u>55,160</u>	<u>142,368</u>	<u>60,852</u>	<u>430,379</u>
<u>\$ 104,868</u>	<u>\$ 55,160</u>	<u>\$ 142,368</u>	<u>\$ 60,852</u>	<u>\$ 430,379</u>

CITY OF LAFAYETTE, OREGON**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
(MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	<i>Special Revenue</i>	
	<i>Community Center</i>	<i>Refundable Deposits/Pass- Through Fees</i>
RECEIPTS		
Licenses and permits	\$ -	\$ 15,055
Charges for services	-	19,133
Miscellaneous	2,948	969
<i>Total Receipts</i>	2,948	35,157
DISBURSEMENTS		
Current		
General government	10,301	-
Community services and development	-	39,748
Capital outlay	-	-
<i>Total Disbursements</i>	10,301	39,748
RECEIPTS OVER (UNDER) DISBURSEMENTS	(7,353)	(4,591)
OTHER FINANCING SOURCES (USES)		
Transfers in	5,000	-
Transfers out	-	-
<i>Total Other Financing Sources and Uses</i>	5,000	-
NET CHANGE IN FUND BALANCE	(2,353)	(4,591)
FUND BALANCE, beginning of year	21,345	52,730
FUND BALANCE, end of year	\$ 18,992	\$ 48,139

Capital Projects

Street Capital Projects	Street SDC Projects	Parks SDC Projects	City Hall Building	Vehicle and Equipment Replacement	Total
\$ -	\$ 55,130	\$ 8,110	\$ -	\$ -	\$ 78,295
-	-	-	-	-	19,133
-	446	260	658	240	5,521
-	55,576	8,370	658	240	102,949
-	-	-	3,105	-	13,406
-	-	-	-	-	39,748
-	-	-	48,798	-	48,798
-	-	-	51,903	-	101,952
-	55,576	8,370	(51,245)	240	997
-	-	-	15,000	12,000	32,000
(187,238)	-	-	-	-	(187,238)
(187,238)	-	-	15,000	12,000	(155,238)
(187,238)	55,576	8,370	(36,245)	12,240	(154,241)
187,238	49,292	46,790	178,613	48,612	584,620
\$ -	\$ 104,868	\$ 55,160	\$ 142,368	\$ 60,852	\$ 430,379

CITY OF LAFAYETTE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - COMMUNITY CENTER FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Miscellaneous	\$ 600	\$ 600	\$ 2,948	\$ 2,348
DISBURSEMENTS				
Current				
Materials and services	12,000	12,000	10,301	1,699
Contingency	8,500	8,500	-	8,500
<i>Total Disbursements</i>	<u>20,500</u>	<u>20,500</u>	<u>10,301</u>	<u>10,199</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(19,900)	(19,900)	(7,353)	12,547
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(14,900)	(14,900)	(2,353)	12,547
FUND BALANCE, beginning of year	<u>14,900</u>	<u>14,900</u>	<u>21,345</u>	<u>6,445</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,992</u>	<u>\$ 18,992</u>

CITY OF LAFAYETTE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - REFUNDABLE DEPOSITS/PASS-THROUGH FEES FUND
YEAR ENDED JUNE 30, 2012**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Licenses and permits	\$ 5,000	\$ 5,000	\$ 15,055	\$ 10,055
Charges for services	15,000	15,000	19,133	4,133
Miscellaneous	2,500	2,500	969	(1,531)
<i>Total Receipts</i>	22,500	22,500	35,157	12,657
DISBURSEMENTS				
Current				
Materials and services	72,066	72,066	39,748	32,318
NET CHANGE IN FUND BALANCE	(49,566)	(49,566)	(4,591)	44,975
FUND BALANCE, beginning of year	49,566	49,566	52,730	3,164
FUND BALANCE, end of year	\$ -	\$ -	\$ 48,139	\$ 48,139

CITY OF LAFAYETTE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - STREET CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS	\$ -	\$ -	\$ -	\$ -
DISBURSEMENTS	-	-	-	-
RECEIPTS OVER (UNDER) DISBURSEMENTS	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(187,238)	(187,238)
NET CHANGE IN FUND BALANCE	-	-	(187,238)	(187,238)
FUND BALANCE, beginning of year	-	-	187,238	187,238
FUND BALANCE, end of year	\$ -	\$ -	\$ -	\$ -

CITY OF LAFAYETTE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - STREET SDC PROJECTS FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Licenses and permits	\$ -	\$ -	\$ 55,130	\$ 55,130
Miscellaneous	200	200	446	246
<i>Total Receipts</i>	200	200	55,576	55,376
DISBURSEMENTS				
Capital outlay	78,154	78,154	-	78,154
NET CHANGE IN FUND BALANCE	(77,954)	(77,954)	55,576	133,530
FUND BALANCE, beginning of year	77,954	77,954	49,292	(28,662)
FUND BALANCE, end of year	\$ -	\$ -	\$ 104,868	\$ 104,868

CITY OF LAFAYETTE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - PARKS SDC PROJECTS FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Licenses and permits	\$ -	\$ -	\$ 8,110	\$ 8,110
Miscellaneous	100	100	260	160
<i>Total Receipts</i>	100	100	8,370	8,270
DISBURSEMENTS				
Capital outlay	45,062	45,062	-	45,062
NET CHANGE IN FUND BALANCE	(44,962)	(44,962)	8,370	53,332
FUND BALANCE, beginning of year	44,962	44,962	46,790	1,828
FUND BALANCE, end of year	\$ -	\$ -	\$ 55,160	\$ 55,160

CITY OF LAFAYETTE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - CITY HALL BUILDING FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Miscellaneous	\$ 500	\$ 500	\$ 658	\$ 158
DISBURSEMENTS				
Current				
Materials and services	30,000	30,000	3,105	26,895
Capital outlay	50,000	50,000	48,798	1,202
Contingency	114,120	114,120	-	114,120
<i>Total Disbursements</i>	<u>194,120</u>	<u>194,120</u>	<u>51,903</u>	<u>142,217</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(193,620)	(193,620)	(51,245)	142,375
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(178,620)	(178,620)	(36,245)	142,375
FUND BALANCE, beginning of year	<u>178,620</u>	<u>178,620</u>	<u>178,613</u>	<u>(7)</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142,368</u>	<u>\$ 142,368</u>

CITY OF LAFAYETTE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - FIRE CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Miscellaneous	\$ 500	\$ 500	\$ 892	\$ 392
DISBURSEMENTS				
Capital outlay	231,184	231,184	-	231,184
RECEIPTS OVER (UNDER) DISBURSEMENTS	(230,684)	(230,684)	892	231,576
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	50,000	50,000	-
NET CHANGE IN FUND BALANCE	(180,684)	(180,684)	50,892	231,576
FUND BALANCE, beginning of year	180,684	180,684	180,634	(50)
FUND BALANCE, end of year	\$ -	\$ -	\$ 231,526	\$ 231,526

CITY OF LAFAYETTE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - VEHICLE AND EQUIPMENT REPLACEMENT FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Miscellaneous	\$ 500	\$ 500	\$ 240	\$ (260)
DISBURSEMENTS				
Current				
Capital outlay	61,065	61,065	-	61,065
RECEIPTS OVER (UNDER) DISBURSEMENTS	(60,565)	(60,565)	240	60,805
OTHER FINANCING SOURCES (USES)				
Transfers in	12,000	12,000	12,000	-
NET CHANGE IN FUND BALANCE	(48,565)	(48,565)	12,240	60,805
FUND BALANCE, beginning of year	48,565	48,565	48,612	47
FUND BALANCE, end of year	\$ -	\$ -	\$ 60,852	\$ 60,852

CITY OF LAFAYETTE, OREGON
COMBINING STATEMENT OF FUND NET ASSETS (MODIFIED CASH BASIS) –
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2012

	<u>Sewer SDC Projects</u>	<u>Water SDC Projects</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 55,736	\$ 38,755	\$ 94,491
LIABILITIES			
	-	-	-
NET ASSETS:			
Restructed for construction	55,735	38,754	94,489
<i>Total Net Assets</i>	<u>\$ 55,735</u>	<u>\$ 38,754</u>	<u>\$ 94,489</u>

CITY OF LAFAYETTE, OREGON**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS
(MODIFIED CASH BASIS) – NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012**

	<u>Sewer Capital Projects</u>	<u>Sewer SDC Projects</u>	<u>Water Capital Projects</u>
OPERATING RECEIPTS	\$ -	\$ -	\$ -
OPERATING DISBURSEMENTS	-	-	-
OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	-	-	-
NONOPERATING RECEIPTS (DISBURSEMENTS)			
Investment earnings	-	226	-
INCOME BEFORE CONTRIBUTIONS	-	226	-
Transfers out	(613,389)	-	(345,971)
Capital contributions	-	37,200	-
CHANGE IN FUND NET ASSETS	(613,389)	37,426	(345,971)
FUND NET ASSETS, Beginning of year	613,389	18,309	345,971
FUND NET ASSETS, End of year	\$ -	\$ 55,735	\$ -

<i>Water SDC Projects</i>	<i>Total</i>
\$ -	\$ -
-	-
-	-
158	384
158	384
-	(959,360)
25,650	62,850
25,808	(896,126)
12,946	990,615
\$ 38,754	\$ 94,489

CITY OF LAFAYETTE, OREGON
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - SEWER FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Charges for services	\$ 657,205	\$ 657,205	\$ 765,703	\$ 108,498
Investment earnings	1,000	1,000	6,039	5,039
<i>Total Receipts</i>	658,205	658,205	771,742	113,537
DISBURSEMENTS				
Current				
Personal services	257,427	257,427	228,293	29,134
Materials and services	212,400	212,400	117,529	94,871
Capital outlay	252,546	252,546	44,593	207,953
Contingency	438,492	438,492	-	438,492
<i>Total Disbursements</i>	1,160,865	1,160,865	390,415	770,450
RECEIPTS OVER (UNDER) DISBURSEMENTS	(502,660)	(502,660)	381,327	883,987
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	613,389	613,389
Transfers out	(530,440)	(530,440)	(530,440)	-
NET CHANGE IN FUND BALANCE	(1,033,100)	(1,033,100)	464,276	1,497,376
FUND BALANCE, beginning of year	1,033,100	1,033,100	429,519	(603,581)
FUND BALANCE, end of year	\$ -	\$ -	\$ 893,795	\$ 893,795

CITY OF LAFAYETTE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - SEWER DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Investment earnings	\$ 2,000	\$ 2,000	\$ 835	\$ (1,165)
DISBURSEMENTS				
Current				
Debt service				
Principal	264,573	264,573	264,573	-
Interest	178,484	178,484	249,987	(71,503)
Contingency	443,057	443,057	-	443,057
<i>Total Disbursements</i>	<u>886,114</u>	<u>886,114</u>	<u>514,560</u>	<u>371,554</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(884,114)	(884,114)	(513,725)	370,389
OTHER FINANCING SOURCES (USES)				
Transfers in	445,565	445,565	445,565	-
Proceeds from issuance of debt	-	-	3,125,000	3,125,000
Bond premium received	-	-	104,318	104,318
Refunded debt principal paid	-	-	(3,073,621)	(3,073,621)
Issuance costs	-	-	(84,193)	(84,193)
<i>Total Other Financing Sources and Uses</i>	<u>445,565</u>	<u>445,565</u>	<u>517,069</u>	<u>71,504</u>
NET CHANGE IN FUND BALANCE	(438,549)	(438,549)	3,344	441,893
FUND BALANCE, beginning of year	<u>438,549</u>	<u>438,549</u>	<u>437,228</u>	<u>(1,321)</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 440,572</u>	<u>\$ 440,572</u>

CITY OF LAFAYETTE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - WATER FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Charges for services	\$ 710,100	\$ 710,100	\$ 715,015	\$ 4,915
Miscellaneous	-	-	4,667	4,667
Investment earnings	1,000	1,000	2,658	1,658
<i>Total Receipts</i>	711,100	711,100	722,340	11,240
DISBURSEMENTS				
Current				
Personal services	254,695	254,695	223,851	30,844
Materials and services	272,150	272,150	233,647	38,503
Capital outlay	249,925	249,925	195,397	54,528
Contingency	281,000	281,000	-	281,000
<i>Total Disbursements</i>	1,057,770	1,057,770	652,895	404,875
RECEIPTS OVER (UNDER) DISBURSEMENTS	(346,670)	(346,670)	69,445	416,115
OTHER FINANCING SOURCES (USES)				
Transfers in	60,000	60,000	405,971	345,971
Transfers out	(160,450)	(160,450)	(160,450)	-
<i>Total Other Financing Sources and Uses</i>	(100,450)	(100,450)	245,521	345,971
NET CHANGE IN FUND BALANCE	(447,120)	(447,120)	314,966	762,086
FUND BALANCE, beginning of year	447,120	447,120	161,135	(285,985)
FUND BALANCE, end of year	\$ -	\$ -	\$ 476,101	\$ 476,101

CITY OF LAFAYETTE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - WATER DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Investment earnings	\$ 2,000	\$ 2,000	\$ 1,341	\$ (659)
DISBURSEMENTS				
Debt service				
Principal	204,088	204,088	203,903	185
Interest	76,273	76,273	76,457	(184)
Contingency	280,389	280,389	-	280,389
<i>Total Disbursements</i>	<u>560,750</u>	<u>560,750</u>	<u>280,360</u>	<u>280,390</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(558,750)	(558,750)	(279,019)	279,731
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>134,950</u>	<u>134,950</u>	<u>134,950</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(423,800)	(423,800)	(144,069)	279,731
FUND BALANCE, beginning of year	<u>423,800</u>	<u>423,800</u>	<u>425,133</u>	<u>1,333</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 281,064</u>	<u>\$ 281,064</u>

CITY OF LAFAYETTE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL – SEWER CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2012**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS	\$ -	\$ -	\$ -	\$ -
DISBURSEMENTS	-	-	-	-
RECEIPTS OVER (UNDER) DISBURSEMENTS	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(613,389)	(613,389)
NET CHANGE IN FUND BALANCE	-	-	(613,389)	(613,389)
FUND BALANCE, beginning of year	-	-	613,389	613,389
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LAFAYETTE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - SEWER SDC PROJECTS FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Licenses and permits	\$ -	\$ -	\$ 37,200	\$ 37,200
Investment earnings	100	100	226	126
<i>Total Receipts</i>	100	100	37,426	37,326
DISBURSEMENTS				
Materials and services	11,159	11,159	-	11,159
NET CHANGE IN FUND BALANCE	(11,059)	(11,059)	37,426	48,485
FUND BALANCE, beginning of year	11,059	11,059	18,309	7,250
FUND BALANCE, end of year	\$ -	\$ -	\$ 55,735	\$ 55,735

CITY OF LAFAYETTE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - WATER CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS	\$ -	\$ -	\$ -	\$ -
DISBURSEMENTS	-	-	-	-
RECEIPTS OVER (UNDER) DISBURSEMENTS	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(345,971)	(345,971)
NET CHANGE IN FUND BALANCE	-	-	(345,971)	(345,971)
FUND BALANCE, beginning of year	-	-	345,971	345,971
FUND BALANCE, end of year	\$ -	\$ -	\$ -	\$ -

CITY OF LAFAYETTE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) -
BUDGET AND ACTUAL - WATER SDC PROJECTS FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Licenses and permits	\$ -	\$ -	\$ 25,650	\$ 25,650
Investment earnings	100	100	158	58
<i>Total Receipts</i>	100	100	25,808	25,708
DISBURSEMENTS				
Materials and services	8,267	8,267	-	8,267
NET CHANGE IN FUND BALANCE	(8,167)	(8,167)	25,808	33,975
FUND BALANCE, beginning of year	8,167	8,167	12,946	4,779
FUND BALANCE, end of year	\$ -	\$ -	\$ 38,754	\$ 38,754

OTHER SCHEDULES

CITY OF LAFAYETTE, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2012

<u>Tax Year</u>	<u>Uncollected Balances July 1, 2011</u>	<u>2011-2012 Levy</u>	<u>Added To Rolls</u>	<u>Interest, Discounts & Adjustments</u>	<u>Turnovers</u>	<u>Uncollected Balances June 30, 2012</u>
2011-12	\$ -	\$ 594,127	\$ 21	\$ (17,341)	\$ (550,347)	\$ 26,460
2010-11	29,509	-	-	(2,920)	(11,119)	15,470
2009-10	12,540	-	-	(463)	(3,837)	8,240
2008-09	6,023	-	-	(70)	(3,516)	2,437
2007-08	2,278	-	-	(11)	(1,381)	886
2006-07	688	-	-	(5)	(171)	512
2005-06	333	-	-	-	(73)	260
Prior years	1,271	-	-	(8)	(60)	1,203
Total	<u>\$ 52,642</u>	<u>\$ 594,127</u>	<u>\$ 21</u>	<u>\$ (20,818)</u>	<u>\$ (570,504)</u>	<u>\$ 55,468</u>

CITY OF LAFAYETTE, OREGON
SCHEDULE OF LONG-TERM DEBT TRANSACTIONS
YEAR ENDED JUNE 30, 2012

	<u><i>Interest Rates</i></u>	<u><i>Date of Issue</i></u>	<u><i>Fiscal Year of Maturity</i></u>
<i>PRINCIPAL TRANSACTIONS</i>			
2000 Oregon Bond Bank Loan	5.276%	2000	2020-21
Safe Drinking Water Revolving Loan	1%	2003	2023-24
City of Dayton	1%	2004	2033-34
2011 Water Revenue Refunding Bonds	3.49%	2011	2020-21
2012 Sewer Revenue Refunding Bonds	2% - 3.25%	2012	2020-21

	<u><i>Interest Rates</i></u>	<u><i>Date of Issue</i></u>
<i>INTEREST TRANSACTIONS</i>		
2000 Oregon Bond Bank Loan	5.276%	2000
Safe Drinking Water Revolving Loan	1%	2003
City of Dayton	1%	2004
2011 Water Revenue Refunding Bonds	3.49%	2011
2012 Sewer Revenue Refunding Bonds	2% - 3.25%	2012

<i>Outstanding July 1, 2011</i>	<i>Debt Issued</i>	<i>Refunded</i>	<i>Debt Paid</i>	<i>Outstanding June 30, 2012</i>
\$ 3,338,194	\$ -	(3,073,621)	\$ (264,573)	\$ -
68,556	-	-	(5,410)	63,146
475,395	-	-	(18,493)	456,902
2,035,000	-	-	(180,000)	1,855,000
-	3,125,000	-	-	3,125,000
<u>\$ 5,917,145</u>	<u>\$ 3,125,000</u>	<u>\$ (3,073,621)</u>	<u>\$ (468,476)</u>	<u>\$ 5,500,048</u>

<i>Interest July 1, 2011</i>	<i>Issued</i>	<i>Early Payoff</i>	<i>Interest Paid</i>	<i>Interest June 30, 2012</i>
\$ 1,064,048	\$ -	(814,061)	\$ (249,987)	\$ -
4,539	-	-	(686)	3,853
59,152	-	-	(4,756)	54,396
440,017	-	-	(71,015)	369,002
-	450,481	-	-	450,481
<u>\$ 1,567,756</u>	<u>\$ 450,481</u>	<u>\$ (814,061)</u>	<u>\$ (326,444)</u>	<u>\$ 877,732</u>

CITY OF LAFAYETTE, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS
JUNE 30, 2012

<i>Fiscal Year</i>	<i>Safe Drinking Water Revolving Loan</i>			<i>City of Dayton</i>								
	<i>Ending</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>					
<i>June 30,</i>												
2013	\$	5,464	\$	632	\$	6,096	\$	18,678	\$	4,571	\$	23,249
2014		5,518		577		6,095		18,865		4,384		23,249
2015		5,574		522		6,096		19,053		4,196		23,249
2016		5,629		466		6,095		19,244		4,005		23,249
2017		5,686		410		6,096		19,437		3,812		23,249
2018		5,742		353		6,095		19,631		3,618		23,249
2019		5,800		296		6,096		19,827		3,422		23,249
2020		5,857		238		6,095		20,025		3,224		23,249
2021		5,916		179		6,095		20,226		3,023		23,249
2022		5,975		120		6,095		20,428		2,821		23,249
2023		5,985		60		6,045		20,632		2,617		23,249
2024		-		-		-		20,838		2,411		23,249
2025		-		-		-		21,046		2,203		23,249
2026		-		-		-		21,257		1,992		23,249
2027		-		-		-		21,470		1,779		23,249
2028		-		-		-		21,685		1,564		23,249
2029		-		-		-		21,901		1,348		23,249
2030		-		-		-		22,121		1,128		23,249
2031		-		-		-		22,342		907		23,249
2032		-		-		-		22,565		684		23,249
2033		-		-		-		22,791		458		23,249
2034		-		-		-		22,840		229		23,069
	\$	63,146	\$	3,853	\$	66,999	\$	456,902	\$	54,396	\$	511,298

CITY OF LAFAYETTE, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS (Continued)
JUNE 30, 2012

<i>Fiscal Year</i>	<i>Totals</i>					
	<i>Ending</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>		
<i>June 30,</i>						
2013	\$	519,142	\$	161,827	\$	680,969
2014		529,383		145,057		674,440
2015		539,627		131,926		671,553
2016		559,873		116,739		676,612
2017		575,123		100,215		675,338
2018		585,373		82,955		668,328
2019		605,627		63,093		668,720
2020		635,882		40,062		675,944
2021		656,142		15,540		671,682
2022		26,403		2,941		29,344
2023		26,617		2,677		29,294
2024		20,838		2,411		23,249
2025		21,046		2,203		23,249
2026		21,257		1,992		23,249
2027		21,470		1,779		23,249
2028		21,685		1,564		23,249
2029		21,901		1,348		23,249
2030		22,121		1,128		23,249
2031		22,342		907		23,249
2032		22,565		684		23,249
2033		22,791		458		23,249
2034		22,840		229		23,069
	\$	5,500,048	\$	877,732	\$	6,377,780



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Honorable Mayor and City Council
City of Lafayette
486 Third Street
Lafayette, Oregon 97127

We have audited the basic financial statements of the City of Lafayette, Oregon as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the City of Lafayette, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Highway revenues used for public highways, roads, and streets.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials - no money was collected or received by elected officials.**

In connection with our testing nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations except as follows:

1. The City does not maintain historical cost and depreciation records for capital assets.
2. Bank reconciliations are not being consistently prepared in a timely fashion
3. The public notices for budget committee meetings contained meeting dates for 2011 rather than for 2012

4. Some budgeted beginning cash balances appeared to be estimated incorrectly.
5. In the budget, the water fund resources were greater than disbursements.
6. First prior period beginning balance in the General fund did not equal the second prior period's ending balance.
7. The adopted budget amounts in the council resolution were not the same as the LB-1 or the budget for the General Fund.
8. The outstanding debt was incorrectly overstated on the LB-1 Summary of Indebtedness schedule. The City disclosed outstanding principal and interest, but should have only disclosed principal.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

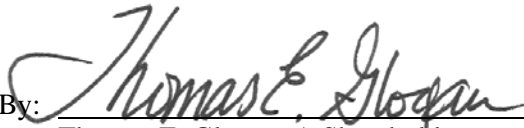
Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

We issued a separate letter to management dated November 30, 2012 on significant deficiencies.

This report is intended solely for the information and use of the City Council and management of the City of Lafayette, Oregon and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 
Thomas E. Glogau, A Shareholder
November 30, 2012