

CLACKAMAS COUNTY FIRE DISTRICT NO. 1
CLACKMAS COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012



12700 SW 72nd Ave.
Tigard, OR 97223

CLACKAMAS COUNTY FIRE DISTRICT #1

CLACKAMAS, OREGON

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

BOARD OF DIRECTORS

TERM EXPIRES

Don Trotter	Director	June 30, 2013
David McTeague	Chairperson	June 30, 2015
Toby Forsberg	Vice Chairperson	June 30, 2013
Thomas Joseph	Secretary/Treasurer	June 30, 2015
Marilyn Wall	Director	June 30, 2015

All directors receive their mail at the address listed below

OFFICERS

Ed Kirchhofer, District Fire Chief

ADMINISTRATION

Susan McSperitt, Finance Director

Ed Kirchhofer, Registered Agent
11300 SE Fuller Road
Milwaukie, Oregon 97222

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CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON
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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
- (503) 620-2632 • FAX (503) 684-7523

October 1, 2012

To the Board of Directors
Clackamas County Fire District #1
Clackamas, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clackamas County Fire District #1, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. The basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 basic 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 District'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 basic 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, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clackamas County Fire District #1 at June 30, 2012, the results of its operations, 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 the 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, as listed in the table of contents, 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 Management's Discussion and Analysis, as listed in the table of contents, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedules presented as Required Supplemental Information, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting 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, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clackamas County Fire District #1's financial statements. The supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information 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 supplementary information, as listed in the table of contents, 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 Clackamas County Fire District #1's financial statements. The listing of board members containing their term expiration dates, located before the table of contents, and the other information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.


PAULY, ROGERS and CO., P.C.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

As management of the District, we offer readers of the District's financial statements a narrative overview and analysis of the financial activities of the District for fiscal year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$20,035,302 (net assets). Of this amount, \$5,432,226 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets decreased by \$784,301. This decrease is due to a combination of increases in accrued liabilities, debt retirement, and reduced asset investment.
- The investment in capital assets decreased \$347,207 to \$19,069,883 during the year.
- Long-term debt decreased by \$1,297,173 to \$24,123,865. The net decrease is attributable to payment of bonded debt, loan payments to the City of Oregon City, and payments on the promissory note for the Training Center property.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The District is a municipal corporation engaged in fire protection and emergency medical services, disaster preparedness, and other related emergency services.

INDEPENDENT AUDITOR'S REPORT

Our auditor has provided assurance in their independent auditor's report, located immediately preceding this Management's Discussion and Analysis, that the basic financial statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the other information included in this report. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts of this report.

FINANCIAL ANALYSIS

The District's net assets were \$20,035,302 at June 30, 2012. Of this amount, \$5,432,226 was unrestricted, \$22,057 was restricted for special purposes and \$14,581,019 was invested in fixed assets net of related debt.

<i>Assets</i>	<u>2012</u>	<u>2011</u>	<u>% +/-</u>
Cash and investments	\$ 12,420,150	\$ 13,281,035	-6.5
Current assets	18,306,294	18,735,807	-2.3
Note receivable	-0-	-0-	-0-
Capital assets	19,069,883	19,417,090	-1.8
<i>Total Assets</i>	<u>49,796,327</u>	<u>51,433,932</u>	<u>-3.2</u>
<i>Liabilities</i>			
Accounts payable	\$ 270,120	\$ 753,339	-64.1
Payroll liabilities and Compensated absences	2,215,994	1,958,986	13.1
Noncurrent liabilities	27,274,911	27,902,004	-2.3

<i>Total Liabilities</i>	29,761,025	30,614,329	-2.8
<i>Net Assets</i>			
Investment in capital assets (net of related debt)	14,581,019	13,903,052	4.9
Restricted for special purposes	22,057	143,614	-84.6
Unrestricted	5,432,226	6,772,937	-19.8
<i>Total Net Assets</i>	\$20,035,302	\$20,819,603	-3.8

Statement of Activities. During the current fiscal year, the District's net assets decreased by \$784,301. The key elements of the change in the District's net assets for the year ended June 30, 2012 are as follows:

Assets:

- Net income (revenue vs. expenditure) for all funds decreased net assets by \$349,537.
- Property tax receivable increased by \$333,091 to \$2,367,393. This represents taxes levied but not received.
- Prepaid PERS decreased by \$924,318, to \$14,789,091. Each year this will decrease as it offsets the unfunded actuarial liability with PERS.
- Capital assets net of depreciation decreased by \$347,207, predominantly due to depreciation expense exceeding the District's investment in capital assets. However, the District completed the purchase of a fire engine, purchased a new rescue boat, purchased a new rescue unit, purchased 91 replacement radios, purchased small equipment and IT equipment. In addition to equipment and apparatus purchases, the District completed a remodel at the Oak Grove Station #3 to improve the women's locker room, completed a remodel of the locker room and restroom at Station #12 installed a fire alarm and security system at the Logistics Center and Fleet Maintenance Facility.

Liabilities:

- Payment on the 2010 Refunding Bond and the 2005 PERS Refunding Bond has reduced the District's obligations by a net \$1,120,000. During Fiscal Year 2009-10, favorable market conditions allowed the District to refund a portion of the 2001 Bond issue saving the District's taxpayers \$185,952 through the retirement of the debt in 2015.
- Payment to the City of Oregon City for the South End Station #17 and payment to a private party for property adjacent to the Training Center reduced the District's liabilities by \$177,173.
- The Government Accounting Standards Board pronouncement #45 (GASB 45) requires the District to report the implied subsidy for health insurance provided to retiree's of the District. This benefit is also known as Other Post Employment Benefits (OPEB) and the District is statutorily required to provide the benefit to retirees. The GASB 45 requirement was implemented with the Fiscal 2008-10 financial reports. This year the OPEB liability increased the District's liabilities by \$670,080 to \$3,151,046. This liability is discussed in further detail on Page 20 of the Notes to Basic Financial Statements.
- Vacation liability increases or decreases year to year based on use and contract commitments. The liability increased by \$133,119 to \$1,765,862.

Revenues:	2012	2011	% +/-
Program revenues:			
Charges for Service	\$ 6,940	\$ 14,977	-53.7
Capital Grants and Contributions	158,784	257,592	-38.4
General Revenues:			
Taxes and assessments	35,707,780	34,511,405	3.5
Miscellaneous	794,414	695,231	14.3
Gain on disposition of assets	-0-	-0-	-0-
Total Revenues	36,667,918	35,479,205	3.4
Expenses:			
Operating Expenses	37,364,319	35,496,112	5.3
Interest on long-term debt	87,900	123,058	-28.6
Loss on Disposal of Asset	-0-	-0-	-0-
Total Expenses	37,452,219	35,619,170	5.2
Change in net assets	-784,301	-139,965	-460.4
Fund net assets – July 1, 2011	20,819,603	20,959,568	-7
Fund net assets – June 30, 2012	\$20,035,302	\$20,819,603	-3.8

NOTES TO THE BASIC 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. The notes to the financial statement can be found on pages 13 through 21 of this report.

REQUIRED SUPPLEMENTAL INFORMATION

Progress in funding the District’s pension obligations and budgetary comparison statement for the General Fund has been provided. The budget is adopted on the modified accrual basis.

The Districts funds are broken into the following categories: General Fund, Equipment Reserve Fund, Capital Projects Fund, Training Enterprise Fund, Debt Service Fund and PERS Reserve Fund. GASB 54 requires certain funds to be consolidated with the General Fund if the predominant funding source is from transfers from the General Fund. For the GASB 54 requirement the District has consolidated the Equipment Reserve Fund, Capital Projects Fund, and the PERS Reserve Fund for reporting purposes. The activity of the individual funds is as follows:

General Fund

The resources allocated in the General Fund are for the day to day operations of the District. The fund balance in the General Fund increased by \$96,384 due to a reduction in planned expenditure in response to reduced revenue experience.

Other Funds

Other Funds include the Equipment Reserve Fund, Capital Projects Fund, Training Enterprise Fund, PERS Reserve Fund and Debt Service Fund. The fund balances in these funds changed as follows:

Equipment Reserve Fund – The balance in this fund increased by \$177,994 in preparation for future equipment needs. The District utilized funding in the Equipment Reserve Fund to complete the purchase of a fire engine ordered in Fiscal Year 2010-11, purchase a rescue unit, purchase a leveling system for Command 16, and purchase a rescue boat.

Capital Projects Fund (land and buildings) – The balance in the Capital Projects Fund increased by \$56,056. The District utilized funding in the Capital Projects Fund to complete the project to remodel the Oak Grove Station #3 with improved female facilities, remodel the Logan Station #12 locker room and restroom, to make a payment to the City of Oregon City for fire stations, and make payments on the loan for the property adjacent to the Training Center.

Training Enterprise Fund – This fund earned \$4,846 in revenue from classes provided to outside agencies and interest accrued. The fund balance increased by \$4,846.

Debt Service Fund – The fund balance decreased by \$36,706 in this fund. The Debt Service Fund ending balance is \$11,006.

PERS Reserve Fund – This was new fund budgeted beginning July 1, 2009 to prepare for the anticipated PERS employer rate increases for the 2011-13 biennium. The District transferred \$650,000 to the General Fund and utilized it to offset the PERS employer rate increases effective Fiscal 2011-12. Further discussion of the PERS employer rate increases are provided in the next page of this report.

INVESTMENTS

The bulk of the Districts cash assets are placed in the State of Oregon's Local Government Investment Pool (LGIP), also known as the Oregon Short Term Fund (OSTF). At June 30, 2012 the District had \$11,804,846 invested with the LGIP. The current audit of the OSTF Fund indicates 100.08 percent funded status for overall assets placed with the fund as of June 30, 2012.

CAPITAL ASSETS

At June 30, 2012, the District had \$19,069,883 invested in capital assets, including land, buildings, and equipment. This amount represents a net decrease (including additions, deductions and depreciation) of \$347,207. Fiscal Year 2011-12 additions are mainly the result of major equipment purchases including completion of one fire engine, purchase of one rescue unit, purchase of a rescue boat, small equipment and IT equipment. In addition to major equipment purchases, building improvements were completed as follows; completed a remodel at the Oak Grove Station #3 to improve the women's locker room, completed a remodel of the locker room and restroom at Station #12 installed a fire alarm and security system at the Logistics Center and Fleet Maintenance Facility. The decrease in net assets is attributable to depreciation outpacing the Districts investment in capital assets.

LONG-TERM DEBT

At June 30, 2012, the District had long-term debt outstanding of \$24,123,865 (general obligation bonds of \$2,655,000., PERS Bonds of \$19,635,000, a Loan Payable to the City of Oregon City for Fire Station purchases with a balance of \$738,804, and a Promissory Note for the purchase of the Training Center Property for \$1,095,061). The amount represents a decrease of \$1,297,173.

The District was able to refund a portion of the remaining debt on the 2001 Bond issue during Fiscal 2009-10. A savings to the taxpayer was realized by taking advantage of favorable market conditions that allowed the District to refund bonds issued at a higher interest rate with those of a lower interest rate. While refunding the bonds did not improve the Districts financial position, it will save District taxpayers \$185,952 in interest over the remaining life of the bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District is primarily dependent upon property taxes for the funding of operations; therefore, the District is affected by the local economic conditions. The budget for Fiscal 2012-13 has been approved by the board, and includes a conservative revenue increase related to property value increases/additions and increased expenses due to contract commitments.

Cash Flow

Due to the successful annexation of the City of Oregon City effective at the beginning of Fiscal 2008, there has been a shift in revenue from Contract Revenue to Tax Revenue. This shift has affected the cash flow of the District in that the City of Oregon City submitted payment for services to the District on a monthly basis. Now that the District is assessing taxes directly to the citizens of Oregon City, the funding to provide the services are received with the regular tax receipts. This poses a cash flow issue for the District because there is not sufficient ending fund balance to pay for operations from July 1 through the middle of November when tax revenues are received. The District will utilize Tax Anticipation Financing during Fiscal 2012-13.

PERS Update

On September 27, 2010, PERS notified the District of rate changes that will take affect on July 1, 2011. As shown on the table below, the rates increase significantly for the Tier1/Tier 2 and OPSRP employee groups. The District continues to be concerned regarding current economic conditions. In response to this concern the District implemented a PERS Reserve Fund during the Fiscal 2009 budget cycle to transfer the saving of the PERS reduction from the 2007 Tier 1/Tier 2 rates. At the end of Fiscal 2010-11 the District had \$860,955 available to offset the cost of the PERS Employer rate increases. Of these funds, \$650,000 was utilized during Fiscal Year 2011-12 to mitigate the anticipated PERS increases. The remaining balance in the fund will be utilized during Fiscal 2012-13.

Employer rates for the next biennium have been announced and the District has been notified of the rates that will be in effect beginning Fiscal Year 2013-14 through Fiscal Year 2014-15. The rates are listed in the table below.

Payroll	2005	2007	2009	2011	2013
Tier 1/Tier 2	12.86%	12.81%	10.62%	17.55%	21.64%
OPSRP – General Service	8.04%	8.90%	3.79%	8.59%	13.25%
OPSRP – Police & Fire	11.65%	12.17%	6.50%	11.30%	15.98%

Grant Administration

The District is in the final performance period on one of the SAFER Grants awarded to the District from the Department of Homeland Security. The SAFER Grant allowed the District to augment fire station staffing with grant funding in the amount of \$1,265,100 over a four year period. The District was required to match this funding at an increasing rate over the four year period, with a fifth year fully funded by the District. The Districts matching amount of \$3,667,640. The grant allowed 12 firefighters to be hired and placed at specific stations to increase four response units to 4-person staffing as is recommended by NFPA 1710.

During Fiscal Year 2011-12, the District received an Assistance to Firefighters Grant from the Department of Homeland Security to purchase radio equipment. The grant required a 20 percent match on the Districts part but allowed the District to purchase 91 Motorola XTS 5000 portable radios with batteries, microphones, and chargers with a total purchase price of \$309,383; the District’s matching portion was \$61,877. The grant allowed the District relief to commit resources on other equipment needs.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact the Finance Director for Clackamas County Fire District #1, Susan Geiger at Ph. #503-742-2600 or e-mail: susan.geiger@clackamasfire.com.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

BASIC FINANCIAL STATEMENTS

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CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

STATEMENT OF NET ASSETS

June 30, 2012

ASSETS:

Cash and Investments	\$ 12,420,150
Property Taxes Receivable	2,367,393
Accounts Receivable	416,684
Prepaid Expenses	547,882
Inventories	185,244
Prepaid PERS	14,789,091
Capital Assets, net	<u>19,069,883</u>
 Total Assets	 <u>\$ 49,796,327</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 270,120
Payroll Liabilities	450,132
Accrued Vacation	<u>1,765,862</u>
 Total Current Liabilities	 <u>2,486,114</u>
Non-Current Liabilities:	
Accrued OPEB Liability	3,151,046
Due Within 1 Year:	
Bonds Payable	1,225,000
Capital Lease	180,506
Due In More than 1 Year:	
Bonds Payable	21,065,000
Capital Lease	<u>1,653,359</u>
 Total Non-Current Liabilities	 27,274,911
 Total Liabilities	 <u>29,761,025</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	14,581,019
Restricted for special purposes	22,057
Unrestricted	<u>5,432,226</u>
 Total Net Assets	 <u>\$ 20,035,302</u>

The accompanying notes are an integral part of this statement.

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

FUNCTIONS	EXPENSES	FUNCTION REVENUES		NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Fire Services	\$ 37,364,319	\$ 6,940	\$ 158,784	\$ (37,198,595)
Interest on Long-Term Debt	87,900	-	-	(87,900)
Total Governmental Activities	<u>\$ 37,452,219</u>	<u>\$ 6,940</u>	<u>\$ 158,784</u>	<u>(37,286,495)</u>

GENERAL REVENUES:

Taxes	\$ 35,707,780
Miscellaneous	794,414
Total General Revenues	<u>36,502,194</u>
Change in Net Assets	(784,301)
Beginning Net Assets	<u>20,819,603</u>
Ending Net Assets	<u>\$ 20,035,302</u>

The accompanying notes are an integral part of this statement.

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	GOVERNMENTAL FUNDS		TOTAL
	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	
ASSETS			
Cash and Investments	\$ 12,409,099	\$ 11,051	\$ 12,420,150
Taxes Receivable	2,302,701	64,692	2,367,393
Accounts Receivable	411,114	5,570	416,684
Prepaid Expenses	547,882	-	547,882
Inventories	185,244	-	185,244
Total Assets	\$ 15,856,040	\$ 81,313	\$ 15,937,353
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 270,120	\$ -	\$ 270,120
Payroll Liabilities	450,132	-	450,132
Interfund Loans Payable	-	-	-
Deferred Tax Revenues	2,130,579	59,256	2,189,835
Total Liabilities	2,850,831	59,256	2,910,087
Fund Balances			
Non-Spendable for -			
Inventory	185,244	-	185,244
Prepaid Expenses	547,882	-	547,882
Restricted for -			
Debt Payments	-	11,006	11,006
Grant Restrictions	-	-	-
Committed - Training Classes	-	11,051	11,051
Assigned for -			
Future Equipment Purchases	576,672	-	576,672
Future Capital Projects	132,109	-	132,109
PERS Payments	212,845	-	212,845
Unassigned	11,350,457	-	11,350,457
Total Fund Balances	13,005,209	22,057	13,027,266
Total Liabilities and Fund Balances	\$ 15,856,040	\$ 81,313	\$ 15,937,353

The accompanying notes are an integral part of this statement.

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

RECONCILIATION OF BALANCE SHEET TO STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
June 30, 2012

Total Fund Balances - Governmental Funds	\$ 13,027,266
<p>The cost of capital assets (land, buildings, furniture and equipment) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Assets includes those capital assets among the assets of the District as a whole.</p>	
Net Capital Assets	19,069,883
<p>Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long term, are reported in the Statement of Net Assets.</p>	
	(25,889,727)
<p>The unamortized portion of prepaid pension costs is not available to pay for current period expenditures, and therefore is not reported in the governmental funds</p>	
	14,789,091
Deferred revenue related to property taxes	2,189,835
Accrual of OPEB	<u>(3,151,046)</u>
Net Assets	<u>\$ 20,035,302</u>

The accompanying notes are an integral part of this statement.

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2012

	GOVERNMENTAL FUNDS		TOTAL GOVERNMENTAL FUNDS
	GENERAL	OTHER GOVERNMENTAL FUNDS	
REVENUES:			
Taxes	\$ 34,471,274	\$ 893,720	\$ 35,364,994
Contract Income	6,940	-	6,940
Earnings on Investments	234,450	2,524	236,974
Miscellaneous	711,428	4,796	716,224
Total Revenues	35,424,092	901,040	36,325,132
EXPENDITURES:			
Fire Protection Services:			
Personal Services	30,161,338	-	30,161,338
Materials and Services	4,455,243	-	4,455,243
Capital Outlay	1,125,187	-	1,125,187
Debt Service	-	932,900	932,900
Total Expenditures	35,741,768	932,900	36,674,668
Excess of Revenues Over, (Under) Expenditures	(317,676)	(31,860)	(349,536)
Other Financing Sources, (Uses):			
Proceeds from Sales	-	-	-
Transfers In	1,655,000	-	1,655,000
Transfers Out	(1,655,000)	-	(1,655,000)
Total Other Financing Sources, (Uses)	-	-	-
Net Change in Fund Balance	(317,676)	(31,860)	(349,536)
Beginning Fund Balance	13,322,885	53,917	13,376,802
Ending Fund Balance	\$ 13,005,209	\$ 22,057	\$ 13,027,266

The accompanying notes are an integral part of this statement.

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

Net Changes in Fund Balances - Governmental Funds	\$	(349,536)
<p>Repayment of bond principal, capital leases and post retirement obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Additions to bond principal, capital leases and post retirement obligations is an expense for the Statement of Net Assets but not the governmental funds.</p>		
Repayments		1,297,173
		<u>1,297,173</u>
<p>Fixed asset additions are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which fixed asset additions exceeds depreciation.</p>		
		(347,207)
<p>In the governmental funds, the current year payment to PERS to advance fund the District's UAL is charged as expenditures. In the Statement of Net Assets it is reported as an asset and amortized over the life of the pension bonds issued to fund the payment.</p>		
		(924,318)
<p>Property tax revenue in the Statement of Activities differs from the amount reported in the governmental funds. In the governmental funds, which are on the modified accrual basis, the District recognizes a deferred revenue for all property taxes levied but not received, however in the Statement of Activities, there is no deferred revenue and the full property tax receivable is accrued.</p>		
		342,786
Change in Accrued Vacation		(133,119)
Change in Accrued OPEB Liability		(670,080)
		<u>(784,301)</u>
Change in Net Assets of Governmental Activities	\$	<u>(784,301)</u>

The accompanying notes are an integral part of this statement.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. THE FINANCIAL REPORTING ENTITY

The District was organized under provisions of Oregon Statutes Chapter 478 for the purpose of providing fire protection and other emergency services. The Clackamas County Fire District #1 is a municipal corporation governed by an elected five member board. As required by accounting principles generally accepted in the United States of America, these financial statements present Clackamas County Fire District #1 (the primary government) and any component units. Component units, as established by GASB Statement 39, are separate organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. The District has no component units.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS)

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 "Accounting and Financial Reporting for Non-exchange Transactions."

The government-wide statements report information on the District irrespective of fund activity, and the fund financial statements report information using the District's funds. The District has only "governmental activities" and one "program" as defined in the Statement.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities.

FUND FINANCIAL STATEMENTS

The accounts of the District are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUND TYPES

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

C. DESCRIPTION OF FUNDS

The District reports the following major fund:

GENERAL FUND

This fund accounts for all financial resources and expenditures of the District, except those required to be accounted for in another fund. The primary source of revenue is property taxes and the primary expenditures are for fire protection and administration.

D. BUDGET

A budget is prepared and legally adopted for each fund on the modified accrual basis of accounting in the main program categories required by the Oregon Local Budget Law. The budgets for all funds are adopted on a basis consistent with generally accepted accounting principles. The District begins its budget process early in each fiscal year with the establishment of the budget committee. Recommendations are developed through late winter with the budget committee approving the budget in early spring. Public notices of the budget hearing are published generally in early spring with a public hearing being held approximately three weeks later. The board may amend the budget prior to adoption; however, budgeted expenditures for each fund may not be increased by more than ten percent. The budget is adopted and appropriations are made no later than June 30th.

Expenditures budgets are appropriated at the following levels for each fund: Personal Services, Materials and Services, Capital Outlay, Interfund Transactions, Debt Service, and Operating Contingency.

Expenditures cannot legally exceed the above appropriations levels. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur if the Board approves them due to a need which exists which was not determined at the time the budget was adopted. Budget amounts shown in the basic financial statements reflect the original appropriations and a supplemental budget. Expenditures of the various funds were within authorized appropriation levels.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. PROPERTY TAXES RECEIVABLE

In the Government-Wide Financial Statements uncollected property taxes are recorded on the Statement of Net Assets. In the Fund Financial Statements property taxes that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as deferred revenue because it is not deemed available to finance operation of the current period. An allowance for doubtful accounts is not deemed necessary, as uncollectible taxes become a lien on the property. Property taxes are levied on all taxable property as of July 1, the beginning of the fiscal year, and become a lien on that date. Property taxes are payable on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

F. CAPITAL ASSETS

Capital assets are recorded at the original or estimated cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The District defines capital assets as assets with an initial cost of more than \$5,000 and an estimated life in excess of one year. Interest incurred during construction, maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives: 5 to 40 years.

G. RETIREMENT PLANS

All of the District's full time employees are participants in Public Employees' Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged to expenditures.

H. USE OF ESTIMATES

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

I. VESTED COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All unused vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net assets are classified in the following three categories:

Invested in capital assets, net of related debt – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of external constraints placed on asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – consists of all other assets that are not included in the other categories previously mentioned.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

K. LONG-TERM OBLIGATIONS

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt. As permitted by GASB Statement No. 34 the cost of bond issuance will be amortized prospectively from the date of adoption of GASB Statement No. 34.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. FUND EQUITY

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications – nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents inventories and prepaid items.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. FUND EQUITY (CONTINUED)

- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Authority to classify portions of ending fund balance as Assigned has been given to the Fire Chief and Finance Director
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

The governing body has approved the following order of spending regarding fund balance categories: Restricted resources are spent first when both restricted and unrestricted (committed, assigned or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed, assigned, and unassigned.

To preserve a sound financial system and to provide a stable financial base, the governing body has adopted a minimum fund balance policy in the General Fund. The policy states the District wants to maintain a minimum General Fund ending fund balance totaling 5 months of Personnel Services expenditures and 25 percent of the Materials & Services and Capital Outlay annual appropriations for expenditures.

2. CASH AND INVESTMENTS

Oregon Revised Statutes (294.035) and District policy authorize the authority to invest in obligations of the U.S. Treasury and agencies, time certificates of deposit, bankers' acceptances, repurchase agreements, and the State of Oregon Local Government Investment Pool. Such investments are stated at cost, increased by accretion of discounts and reduced by amortization of premiums, both computed by the straight-line method, which approximates fair value.

Cash and Investments at June 30 (recorded at cost) consisted of:

Deposits with Financial Institutions:	
Demand Deposits	\$ 611,504
Petty Cash	3,800
Investments	11,804,846
Total	<u>\$ 12,420,150</u>

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Investments

The State Treasurer's Local Government Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State's investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund was in compliance with all portfolio guidelines at June 30, 2012.

Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. As of June 30, 2012 the fair value of the position in the LGIP is 100.08% of the value of the pool shares as reported in the Oregon Short Term Fund audited financial statements. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

The District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in months)</u>	
		<u>Less than 3</u>	<u>More than 3</u>
State Treasurer's Investment Pool	\$ 11,804,846	\$ 11,804,846	\$ -
Total	<u>\$ 11,804,846</u>	<u>\$ 11,804,846</u>	<u>\$ -</u>

Deposits

Deposits with financial institutions include bank demand deposits. Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury.

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. The District does not have any investments that have a maturity date.

Credit Risk

Oregon Revised Statutes does not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

Concentration of Credit/Deposit Risk

At year-end, the District's net carrying amount of deposits was \$611,504 and the bank balance was \$723,283. Of these deposits, \$723,823 was covered by federal depository insurance. Oregon Revised Statutes and District policy require depository institutions to maintain on deposit, with the collateral pool manager, securities having a value not less than 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.

**CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

3. CAPITAL ASSETS

The changes in capital assets for the fiscal year ended June 30, 2012 are as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Land (non Depreciable)	\$ 1,642,871	\$ -	\$ -	\$ 1,642,871
Buildings	19,999,386	41,884	-	20,041,270
Trucks and Equipment	13,616,360	1,113,092	(80,000)	14,649,452
Construction in Progress	150,000	-	(150,000)	-
Total Assets	35,408,617	1,154,976	(230,000)	36,333,593
Less: Accumulated Depreciation				
Buildings	6,524,055	531,776	-	7,055,831
Trucks and Equipment	9,467,472	820,407	(80,000)	10,207,879
Total Accumulated Depreciation	15,991,527	1,352,183	(80,000)	17,263,710
Capital Assets, Net	\$ 19,417,090	\$ (197,207)	\$ (150,000)	\$ 19,069,883

4. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM

Plan Description:

The District is a participating employer in the State of Oregon Public Employees Retirement System Plan. PERS is a defined benefit pension plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Benefits are established by state statute.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan ("OPSRP") is effective for all new employees hired on or after August 29, 2003, and applies to any inactive PERS members who returned to employment following a six month or greater break in service. The new plan consists of a defined benefit program (the Individual Account Program or "IAP"). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. 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 and a factor that varies based on type of service (general verses police or fire).

Both PERS and OPSRP are administered by the Oregon Public Employees Retirement Board ("OPERB"). The comprehensive annual financial report of the funds administered by the OPERB may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700, by calling (503) 598-7377, or by accessing the PERS website at www.state.or.us.

Description of Funding Policy:

Covered employees are required by State statute to contribute 6% of their salary to the plan. The District is required to contribute at actuarially determined rates, as adopted by the PERS Board. The current rate effective July 1, 2011 is 17.55% of covered payroll and 8.59% for OPSRP. The District's contribution to the plan for the years ending June 30, 2012, 2011 and 2010 were \$3,151,522, \$1,930,486, and \$1,872,636, respectively, and were equal to the required contributions for each year.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG-TERM DEBT

The changes in long-term debt for the year ended June 30, 2012 is comprised of the following:

	Outstanding July 1, 2011	Additions	Payments & Deletions	Outstanding June 30, 2012
2005 PERS Bonds	\$ 19,910,000	\$ -	\$ 275,000	\$ 19,635,000
2010 Refunding Bond	3,500,000	-	845,000	2,655,000
Oregon City Loan Payable - Fire Station	861,938	-	123,134	738,804
Promissory Note	1,149,100	-	54,039	1,095,061
Accrued Compensated Absences	1,632,743	133,119	-	1,765,862
Total	\$ 27,053,781	\$ 133,119	\$ 1,297,173	\$ 25,889,727

Future debt service requirements for bonds payable and loans payable are as follow:

	Principal	Interest	Total
2012-2013	1,405,506	1,107,592	2,513,098
2013-2014	1,509,045	1,090,146	2,599,191
2014-2015	1,637,802	1,019,230	2,657,032
2015-2016	836,790	961,703	1,798,493
2016-2017	951,025	926,128	1,877,153
2017-2022	6,295,834	3,884,503	10,180,337
2022-2027	10,402,861	1,918,194	12,321,055
2027-2032	1,085,000	5,429	1,090,429
	\$ 24,123,863	\$ 10,912,926	\$ 35,036,789

The Accrued Compensated Absences are considered to be current liabilities.

6. INTERFUND TRANSFERS

	Transfers In	Transfers Out
General Fund	\$ 650,000	\$ 1,005,000
Capital Reserve Fund	705,000	-
PERS Reserve Fund	-	650,000
Capital Projects Fund	300,000	-
	\$ 1,655,000	\$ 1,655,000

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

7. PROPERTY TAX LIMITATIONS

The State of Oregon imposes a constitutional limit on property taxes for schools and nonschool government operations. School operations include community colleges, local school districts, and education service districts. The limitation provides that property taxes for nonschool operations are limited to \$10.00 for each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt. The State further reduced property taxes by replacing the previous constitutional limits on tax bases with a rate and value limit in 1997. This reduction is accomplished by rolling property values back to their 1995-96 values less 10% and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The State Constitution sets restrictive voter approval requirements for most tax and many fee increases and new bond issues, and requires the State to minimize the impact to school districts from the impact of the tax cuts.

8. RISK MANAGEMENT

The Fire District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Fire District purchases commercial insurance to minimize its exposure to these risks. Settled claims have not exceeded this commercial coverage for any of the past three years.

9. OTHER POST EMPLOYMENT BENEFITS

Post Employment Health Insurance Subsidy

Plan Description - The District operates a single-employer retiree benefit plan that provides postemployment health benefits to eligible employees and their dependents. There are active and retired members in the plan. The retiree must be eligible to receive benefits from Oregon PERS. Eligibility requirements for earliest retirement under Oregon PERS are as follows: Tier 1 or Tier 2 General Service – Earlier of age 55, or any age with 30 years of service, OPSRP General Service – Age 55 with 5 years of service, Tier 1 or Tier 2 Firefighter – Earlier of age 50, or any age with 25 years of service, and OPSRP firefighter – Age 50 with 5 years of service.

The District's post-retirement healthcare plan established in accordance with Oregon Revised Statutes (ORS) 243.303. ORS stipulated that for the purpose of establishing healthcare premiums, the rate must be based on all plan members, including both active employees and retirees. The difference between retiree claims cost, which because of the effect of age is generally higher in comparison to all plan members, and the amount of retiree healthcare premiums represents the District's implicit employer contribution. The benefit duration covers all retirees and eligible dependents until Medicare eligibility.

The District did not establish an irrevocable trust (or equivalent arrangement) to account for the plan.

Funding Policy – The benefits from this program are paid by the retired employees on a self-pay basis and the required contribution is based on projected pay-as-you go financing requirements. There is no obligation on the part of the District to fund these benefits in advance.

Annual Pension Cost and Net Pension Obligation (NPO) - The District's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance within the parameter of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

10. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

The following table shows the components of the OPEB obligation at the end of the year:

	2010	2011	2012
Annual required contribution	\$ 1,153,824	\$ 864,771	\$ 921,876
Interest on net pension obligation	-	74,641	99,239
Adjustment to annual required contribution	603	(126,812)	(168,604)
Annual pension cost	1,154,427	812,600	852,511
Contributions made	(214,318)	(197,653)	(182,431)
Increase in net pension obligation	940,109	614,947	670,080
NPO (Asset) at beginning of year	925,910	1,866,019	2,480,966
NPO (Asset) at end of year	<u>\$ 1,866,019</u>	<u>\$ 2,480,966</u>	<u>\$ 3,151,046</u>

Actuarial Methods and Assumptions – The annual required contribution (ARC) for the current year was determined as part of the July 1, 2011 actuarial valuation using the projected unit credit method. The objective of this method is to fund each participant’s benefits under the plans as they accrue. The unfunded accrued liability is amortized over an open period of 30 years as a percentage of payroll. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 4% compounded annually and a payroll growth rate of 3.00%, (b) 80% of future retirees electing coverage are assumed to cover a spouse as well, males are assumed to be three years older than their female spouses.; (c) medical costs would increase at 10 percent inflation for the current year, grading down to annual rate of 5 percent after ten years. The demographic assumptions, such as mortality rates, disability incidence rates, retirement rates and withdrawal rates, are the same as those used by Oregon PERS.

Funding Status and Funding Progress – As of July 1, 2011, the plan was 0% funded. The actuarial accrued liability for benefits was \$6,243,344, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,243,344. The covered payroll (annual payroll of active employees covered by the plan) was undetermined by the actuarial, and thus the ratio of the UAAL to the covered payroll was undetermined. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

11. RISK MANAGEMENT

The District established the Health Self-Insurance Plan during the 2010-2011 fiscal year. The Health Self-Insurance is used to pay employee medical bills, vision, and administrative fees. The District purchases commercial insurance for claims in excess of coverage provided by the Health Self Insurance Plan and for all other risks of loss. The claim liability of \$102,800 reported in the funds at June 30, 2012 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amounts of the loss can be reasonably estimated.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

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CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2012

GENERAL FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES:				
Taxes	\$ 34,694,864	\$ 34,694,864	\$ 34,471,274	\$ (223,590)
Contract Income	14,400	14,400	6,940	(7,460)
Earnings on Investments	180,000	336,087	229,083	(107,004)
Grants	151,980	151,980	158,784	6,804
Miscellaneous	569,000	569,000	552,644	(16,356)
Total Revenue	35,610,244	35,766,331	35,418,725	(347,606)
EXPENDITURES:				
Personal Services	30,838,329	30,838,329 (1)	30,161,338	676,991
Materials and Services	4,896,246	4,896,246 (1)	4,455,243	441,003
Capital Outlay	500,495	500,495 (1)	350,760	149,735
Contingency	1,000,000	1,000,000 (1)	-	1,000,000
Total Expenditures	37,235,070	37,235,070	34,967,341	2,267,729
Excess of Revenues Over, (Under) Expenditures	(1,624,826)	(1,468,739)	451,384	1,920,123
Other Financing Sources, (Uses):				
Proceeds from Sales	-	-	-	-
Interfund Loan	-	-	-	-
Transfers In	650,000	650,000	650,000	-
Transfers Out	(1,005,000)	(1,005,000) (1)	(1,005,000)	-
Total Other Financing Sources, (Uses)	(355,000)	(355,000)	(355,000)	-
Net Change in Fund Balance	(1,979,826)	(1,823,739)	96,384	1,920,123
Beginning Fund Balance	11,843,529	11,843,529	11,987,199	143,670
Ending Fund Balance	<u>\$ 9,863,703</u>	<u>\$ 10,019,790</u>	<u>\$ 12,083,583</u>	<u>\$ 2,063,793</u>
Reconciliation to GAAP Fund Balance				
Ending Fund Balances:				
Equipment Reserve Fund			\$ 576,672	
PERS Reserve Fund			212,845	
Capital Projects Fund			132,109	
			<u>\$ 13,005,209</u>	

(1) Appropriation Level

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CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

SUPPLEMENTARY DATA

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CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2012

EQUIPMENT RESERVE FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES:				
Earnings on Investments	\$ 3,188	\$ 3,188	\$ 2,772	\$ (416)
Total Revenue	<u>3,188</u>	<u>3,188</u>	<u>2,772</u>	<u>(416)</u>
EXPENDITURES:				
Capital Outlay	<u>542,350</u>	<u>542,350 (1)</u>	<u>529,778</u>	<u>12,572</u>
Total Expenditures	<u>542,350</u>	<u>542,350</u>	<u>529,778</u>	<u>12,572</u>
Excess of Revenues Over, (Under) Expenditures	(539,162)	(539,162)	(527,006)	12,156
Other Financing Sources, (Uses):				
Proceeds from Sales	-	-	-	-
Transfers In	<u>705,000</u>	<u>705,000</u>	<u>705,000</u>	<u>-</u>
Total Other Financing Sources, (Uses)	<u>705,000</u>	<u>705,000</u>	<u>705,000</u>	<u>-</u>
Net Change in Fund Balance	165,838	165,838	177,994	12,156
Beginning Fund Balance	<u>353,598</u>	<u>353,598</u>	<u>398,678</u>	<u>45,080</u>
Ending Fund Balance	<u>\$ 519,436</u>	<u>\$ 519,436</u>	<u>\$ 576,672</u>	<u>\$ 57,236</u>

(1) Appropriation Level

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2012

	<u>PERS RESERVE</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES:				
Earnings on Investments	\$ 4,303	\$ 4,303	\$ 1,890	\$ (2,413)
Total Revenues	<u>4,303</u>	<u>4,303</u>	<u>1,890</u>	<u>(2,413)</u>
EXPENDITURES:				
Expenditures	-	- (1)	-	-
Total Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over, (Under) Expenditures	4,303	4,303	1,890	(2,413)
Other Financing Sources, (Uses):				
Transfers Out	(650,000)	(650,000)	(650,000)	-
Transfers In	-	-	-	-
Total Other Financing Sources, (Uses)	<u>(650,000)</u>	<u>(650,000)</u>	<u>(650,000)</u>	<u>-</u>
Net Change in Fund Balance	(645,697)	(645,697)	(648,110)	(2,413)
Beginning Fund Balance	<u>860,711</u>	<u>860,711</u>	<u>860,955</u>	<u>244</u>
Ending Fund Balance	<u>\$ 215,014</u>	<u>\$ 215,014</u>	<u>\$ 212,845</u>	<u>\$ (2,169)</u>

(1) Appropriation Level

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2012

CAPITAL PROJECTS FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Earnings on Investments	\$ 402	\$ 402	\$ 705	\$ 303
Total Revenues	402	402	705	303
EXPENDITURES:				
Capital Outlay	308,434	308,434	244,649	63,785
Total Expenses	308,434	308,434	244,649	63,785
Excess of Revenues Over, (Under) Expenditures	(308,032)	(308,032)	(243,944)	64,088
Other Financing Sources, (Uses):				
Transfers In	300,000	300,000	300,000	-
Total Other Financing Sources, (Uses)	300,000	300,000	300,000	-
Net Change in Fund Balance	(8,032)	(8,032)	56,056	64,088
Beginning Fund Balance	36,745	36,745	76,053	39,308
Ending Fund Balance	\$ 28,713	\$ 28,713	\$ 132,109	\$ 103,396

(1) Appropriation Level

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

June 30, 2012

	GOVERNMENTAL FUNDS		
	DEBT SERVICE FUND	TRAINING ENTERPRISE FUND	TOTAL
ASSETS			
Cash and Investments	\$ -	\$ 11,051	\$ 11,051
Accounts Receivable	5,570	-	5,570
Taxes Receivable	64,692	-	64,692
Total Assets	\$ 70,262	\$ 11,051	\$ 81,313
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred Tax Revenues	\$ 59,256	\$ -	\$ 59,256
Total Liabilities	59,256	-	59,256
Fund Balances			
Unreserved, Reported in:			
Special Revenue Fund	-	11,051	11,051
Debt Service Fund	11,006	-	11,006
Capital Projects Fund	-	-	-
Total Fund Balances	11,006	11,051	22,057
Total Liabilities and Fund Balances	\$ 70,262	\$ 11,051	\$ 81,313

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	GOVERNMENTAL FUNDS		
	DEBT SERVICE FUND	TRAINING ENTERPRISE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Taxes	\$ 893,720	\$ -	\$ 893,720
Earnings on Investments	2,474	50	2,524
Miscellaneous	-	4,796	4,796
Total Revenues	896,194	4,846	901,040
EXPENDITURES:			
Fire Protection Services:			
Capital Outlay	-	-	-
Debt Service	932,900	-	932,900
Total Expenditures	932,900	-	932,900
Excess of Revenues Over, (Under) Expenditures	(36,706)	4,846	(31,860)
Other Financing Sources, (Uses):			
Proceeds from Sales	-	-	-
Transfers In	-	-	-
Total Other Financing Sources, (Uses)	-	-	-
Net Change in Fund Balance	(36,706)	4,846	(31,860)
Beginning Fund Balance	47,712	6,205	53,917
Ending Fund Balance	\$ 11,006	\$ 11,051	\$ 22,057

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2012

	<u>DEBT SERVICE FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES:				
Taxes	\$ 889,167	\$ 889,167	\$ 893,720	\$ 4,553
Earnings on Investments	2,500	2,500	2,474	(26)
Total Revenue	<u>891,667</u>	<u>891,667</u>	<u>896,194</u>	<u>4,527</u>
EXPENDITURES:				
Debt Service:				
Principal	845,000	845,000	845,000	-
Interest	87,900	87,900	87,900	-
Total Expenditures	<u>932,900</u>	<u>932,900 (1)</u>	<u>932,900</u>	<u>-</u>
Excess of Revenue over, under Expenditures	(41,233)	(41,233)	(36,706)	4,527
OTHER FINANCING SOURCES				
Interfund Loan Receipts	-	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(41,233)	(41,233)	(36,706)	4,527
Beginning Fund Balance	41,233	41,233	47,712	6,479
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,006</u>	<u>\$ 11,006</u>

(1) Appropriation Level

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 ACTUAL AND BUDGET
 For the Year Ended June 30, 2012

TRAINING ENTERPRISE FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Earnings on Investments	\$ 100	\$ 100	\$ 50	\$ (50)
Miscellaneous	12,000	12,000	4,796	(7,204)
Total Revenues	12,100	12,100	4,846	(7,254)
EXPENDITURES:				
Capital Outlay	-	- (1)	-	-
Total Expenses	-	-	-	-
Excess of Revenues Over, (Under) Expenditures	12,100	12,100	4,846	(7,254)
Net Change in Fund Balance	12,100	12,100	4,846	(7,254)
Beginning Fund Balance	10,360	10,360	6,205	(4,155)
Ending Fund Balance	<u>\$ 22,460</u>	<u>\$ 22,460</u>	<u>\$ 11,051</u>	<u>\$ (11,409)</u>

(1) Appropriation Level

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED
For the Year Ended June 30, 2012

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED AT JULY 1, 2011	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED AT June 30, 2012
Current:						
2011-2012	\$ 36,450,814	\$ 894,020	\$ (118,803)	\$ 11,375	\$ 34,257,566	\$ 1,191,800
Prior Years:						
2010-2011	1,144,103	(4,349)	76,719	34,773	655,826	604,118
2009-2010	509,027	(3,964)	(11,411)	29,829	132,738	398,671
2008-2009	269,208	(19)	(4,822)	32,648	175,410	121,643
2007-2008	66,049	(6)	(1,693)	12,216	57,134	19,444
Prior	45,914	(2)	(2,124)	479	12,554	31,717
Total Prior	2,034,301	(8,340)	56,669	109,945	1,033,662	1,175,593
Total	\$ 38,485,115	\$ 885,680	\$ (62,134)	\$ 121,320	\$ 35,291,228	\$ 2,367,393

RECONCILIATION TO REVENUE

Cash Collections by County Treasurer Above	\$ 35,291,228
Other Taxes	83,461
Accrual of Receivables:	
June 30, 2012	177,557
June 30, 2011	(187,252)
Total Revenue	\$ 35,364,994

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

AUDITORS' COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

• 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
• (503) 620-2632 • FAX (503) 684-7523

October 1, 2012

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the Clackamas County Fire District #1 as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 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 Clackamas County Fire District #1'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, our audit was not directed primarily toward obtaining knowledge of such noncompliance. As such, 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.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

In connection with our testing nothing came to our attention that caused us to believe the Clackamas County Fire District #1 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.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the Clackamas County Fire District #1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clackamas County Fire District #1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clackamas County Fire District #1's internal control over financial reporting.

This report is intended solely for the information and use of the board of directors/council members/commissioners and management of Clackamas County Fire District #1 and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.


PAULY, ROGERS AND CO., P.C.

CLACKAMAS COUNTY FIRE DISTRICT No. 1
CLACKAMAS COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

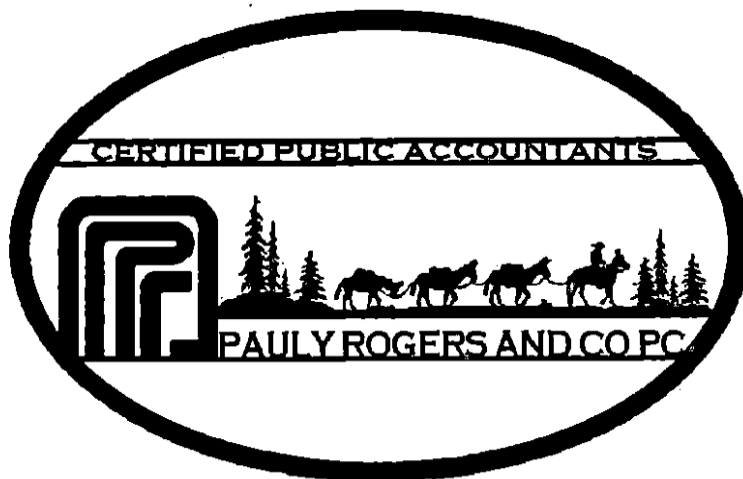


12700 SW 72nd Ave.
Tigard, OR 97223

CLACKAMAS COUNTY FIRE DISTRICT No. 1
CLACKAMAS COUNTY, OREGON

MANAGEMENT LETTER
(SAS 115 LETTER)

FOR THE YEAR ENDED JUNE 30, 2011



12700 SW 72nd Ave.
Tigard, OR 97223

CLACKAMAS COUNTY FIRE DISTRICT

2010-2011

MANAGEMENT REPORT



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
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 - (503) 620-2632 • FAX (503) 684-7523

September 27, 2011

Clackamas County Fire District
Board of Directors

In planning and performing our audit of the financial statements of Clackamas County Fire District as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Clackamas County Fire District's internal control over financial reporting (internal controls) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal controls. Accordingly, we do not express an opinion on the effectiveness of the District's internal controls.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal controls that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal controls that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

The Auditing Standards Board issued SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, effective for audits of financial statements for periods ending on or after December 15, 2006. This statement requires auditors to evaluate identified control deficiencies and determine whether those deficiencies, individually or in combination, are significant deficiencies or material weaknesses, and if so communicate them in writing to those charged with governance.

SAS No. 112 specifically identifies a few common control deficiencies which must be addressed in each audit to determine if a significant deficiency exists, and based on our evaluation we have identified significant deficiencies in the design or implementation of internal controls, which are noted below.

We noted no new issues to be considered significant deficiencies for 2010-11.

The following are our recommendations for the previous year. The comments are repeated from our report to management for the year ended June 30, 2011, for perspective.

1. We noted that staff maintains their fixed asset register in excel. Excel is not made to account for fixed assets and is prone to formula errors and other problems. We recommend that the District purchase an off the shelf fixed asset system to account for their fixed assets.

Status: The District is still in the process of determining if they want to purchase a separate fixed asset tracking software or if they want to wait and get one that can be incorporated into the accounting software.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any significant deficiencies that are considered to be material weaknesses.

This communication is intended solely for the information and use of management, the Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



PAULY, ROGERS AND CO., P.C.

CLACKAMAS COUNTY FIRE DISTRICT No. 1
CLACKAMAS COUNTY, OREGON

COMMUNICATION TO THE GOVERNING BODY
(SAS 114 LETTER)

FOR THE YEAR ENDED JUNE 30, 2011



12700 SW 72nd Ave.
Tigard, OR 97223



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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 - (503) 620-2632 • FAX (503) 684-7523

September 27, 2011

To the Board of Directors
Clackamas County Fire District

We have audited the financial statements of Clackamas County Fire District for the year ended June 30, 2011, and have issued our report thereon dated September 27, 2011. Professional standards require that we provide you with the following information related to our audit.

Purpose of the Audit

Our audit was conducted using sampling, inquiries and analytical procedures to opine on the fair presentation of the financial statements and compliance with:

- generally accepted accounting principles
- the Oregon Municipal Audit Law and the related administrative rules, and

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Clackamas County Fire District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Results of Audit

1. Audit opinion letter - an unqualified opinion on the financial statements has been issued. This means we have given a "clean" opinion with no reservations.
2. State minimum standards for audits - We found no exceptions or issues requiring comment.

Management Letter

We noted a significant deficiency during the audit which is listed in our management letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Clackamas County Fire District are described in Note one to the financial statements. A new accounting policy, GASB 54 – Fund Balance Reporting, was adopted. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was Management's estimate of the Depreciation is based on the useful lives and costs of each individual fixed asset. We evaluated the key factors and assumptions used to develop the Depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements or determined that their effects are immaterial. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. There were no uncorrected misstatements noted during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The financial affairs have been professionally conducted. The accounting records were in good condition and we commend the staff for their assistance and support during the audit.

Other Matters – Future Accounting and Auditing Issues

In order to keep you aware of new auditing standards issued by the American Institute of Certified Public Accountants and accounting statements issued by the Governmental Accounting Standards Board (GASB), we have prepared the following summary of the more significant upcoming issues:

GAO

The Government Accountability Office is issuing a new edition of the *Yellow Book* in 2011, which will include some new documentation requirements for auditors.

SAS 118-120

The AICPA has issued three new auditing standards which will take effect for the 2011-2012 fiscal year. These standards change some of the terminology used by auditors in communicating opinions and modify guidelines for the auditor's responsibility for information contained in Required Supplementary Information.

GASB 61

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus*, changes the requirements for inclusion of component units in the primary government's financial report. The implementation date for this statement is fiscal year 2012-13.

This information is intended solely for the use of Board of Directors and management of Clackamas County Fire District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Kenny Allen, CPA
PAULY, ROGERS AND CO., P.C.

CLACKAMAS COUNTY FIRE DISTRICT #1

CLACKAMAS, OREGON

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

BOARD OF DIRECTORS

TERM EXPIRES

Don Trotter	Chairperson	June 30, 2013
David McTeague	Vice Chairperson	June 30, 2011
Toby Forsberg	Secretary/Treasurer	June 30, 2013
Thomas Joseph	Director	June 30, 2011
Marilyn Wall	Director	June 30, 2011

All directors receive their mail at the address listed below

OFFICERS

Ed Kirchhofer, District Fire Chief

ADMINISTRATION

Kyle Gorman, Executive Officer
Susan McSperitt, Finance Director

Ed Kirchhofer, Registered Agent
11300 SE Fuller Road
Milwaukie, Oregon 97222

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CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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- (503) 620-2632 • FAX (503) 684-7523

September 27, 2011

To the Board of Directors
Clackamas County Fire District #1
Clackamas, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clackamas County Fire District #1, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. The basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 basic 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 District'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 basic 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, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clackamas County Fire District #1 at June 30, 2011, the results of its operations, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clackamas County Fire District #1's basic financial statements. The supplementary information, including budgetary comparison schedules listed in the table of contents and the Schedule of Property Tax Transactions of Balances of Taxes Uncollected, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pauly, Rogers and Co., P.C.

PAULY, ROGERS and CO., P.C.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

As management of the District, we offer readers of the District's financial statements a narrative overview and analysis of the financial activities of the District for fiscal year ended June 30, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$20,819,603 (net assets). Of this amount, \$6,772,937 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets decreased by \$139,965. This decrease is due to a combination of increases in accrued liabilities, debt retirement, and reduced asset investment.
- The investment in capital assets decreased \$397,485 to \$19,417,090 during the year.
- Long-term debt decreased by \$1,189,034 to \$25,421,038. The net decrease is attributable to payment of bonded debt, loan payments to the City of Oregon City, and payments on the promissory note for the Training Center property.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The District is a municipal corporation engaged in fire protection and emergency medical services, disaster preparedness, and other related emergency services.

INDEPENDENT AUDITOR'S REPORT

Our auditor has provided assurance in their independent auditor's report, located immediately preceding this Management's Discussion and Analysis, that the basic financial statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the other information included in this report. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts of this report.

FINANCIAL ANALYSIS

The District's net assets were \$20,819,603 at June 30, 2011. Of this amount, \$6,772,937 was unrestricted, \$143,614 was restricted for special purposes and \$13,903,052 was invested in fixed assets net of related debt.

<i>Assets</i>	2011	2010	% +/-
Cash and investments	\$ 13,281,035	\$ 11,942,367	11.2
Current assets	18,735,807	19,956,657	-6.1
Note receivable	-0-	-0-	-0-
Capital assets	19,417,090	19,814,575	-2.0
<i>Total Assets</i>	<u>51,433,932</u>	<u>51,713,599</u>	<u>-5</u>
<i>Liabilities</i>			
Accounts payable	\$ 753,339	\$ 516,787	45.8
Payroll liabilities and Compensated absences	1,958,986	1,761,154	11.2
Noncurrent liabilities	27,902,004	28,476,091	-2.0
<i>Total Liabilities</i>	<u>30,614,329</u>	<u>30,754,032</u>	<u>-5</u>
<i>Net Assets</i>			
Investment in capital assets (net of related debt)	13,903,052	13,319,503	4.4
Restricted for special purposes	143,614	398,488	-63.9
Unrestricted	6,772,937	7,241,577	-6.5
<i>Total Net Assets</i>	<u>\$20,819,603</u>	<u>\$20,959,568</u>	<u>-7</u>

Statement of Activities. During the current fiscal year, the District's net assets decreased by \$139,965. The key elements of the change in the District's net assets for the year ended June 30, 2011 are as follows:

Assets:

- Net income (revenue vs. expenditure) for all funds increased net assets by \$818,069.
- Property tax receivable decreased by \$124,010 to \$2,034,301. This represents taxes levied but not received.
- Prepaid PERS decreased by \$924,318, to \$15,713,409. Each year this will decrease as it offsets the unfunded actuarial liability with PERS.
- Capital assets net of depreciation decreased by \$397,485, predominantly due to depreciation expense exceeding the District's investment in capital assets. However, the District completed the purchase of a fire engine, refurbished a brush unit, fabricated two rescue squads, purchased a chassis for a fire engine to be completed and delivered next fiscal year, purchased a battalion chief response vehicle, replaced two staff vehicles, purchased an ATV and trailer for use on the training grounds, purchased small equipment, and IT equipment. In addition to equipment and apparatus purchases, the District completed the Clarkes Station #13 living quarters installation, installed a sprinkler system at the Hilltop Station #16, and remodeled a building to be used as the Logistics Center and Fleet Maintenance Facility.

Liabilities:

- Payment on the 2010 Refunding Bond and the 2005 PERS Refunding Bond has reduced the District's obligations by a net \$1,015,000. During last fiscal year, favorable market conditions allowed the District to refund a portion of the 2001 Bond issue saving the District's taxpayers \$185,952 through the retirement of the debt in 2015.
- Payment to the City of Oregon City for the South End Station #17 and payment to a private party for property adjacent to the Training Center reduced the District's liabilities by \$174,034.
- The Government Accounting Standards Board pronouncement #45 (GASB 45) requires the District to report the implied subsidy for health insurance provided to retiree's of the District. This benefit is also known as Other Post Employment Benefits (OPEB) and the District is statutorily required to provide the benefit to retirees. The GASB 45 requirement was implemented with the Fiscal 2008-10 financial reports. This year the OPEB liability increased the District's liabilities by \$614,947 to \$2,480,966. This liability is discussed in further detail on Page 20 of the Notes to Basic Financial Statements.
- Vacation liability increases or decreases year to year based on use and contract commitments. The liability increased by \$87,534 to \$1,632,743.

Revenues:

	2011	2010	% +/-
Program revenues:			
Charges for Service	\$ 14,977	\$ 5,700	162.8
Capital Grants and Contributions	257,592	488,723	-47.3
General Revenues:			
Taxes and assessments	34,511,405	34,031,114	1.4
Miscellaneous	695,231	569,013	22.2
Gain on disposition of assets	-0-	-0-	-0-
Total Revenues	35,479,205	35,094,550	1.1

Expenses:

Operating Expenses	35,496,112	33,520,869	5.9
Interest on long-term debt	123,058	1,042,552	-88.2
Loss on Disposal of Asset	-0-	-0-	-0-
Total Expenses	35,619,170	34,563,421	3.4
Change in net assets	-139,965	531,129	-126.4
Fund net assets – July 1, 2010	20,959,568	20,428,439	2.6
Fund net assets – June 30, 2011	\$20,819,603	\$20,959,568	-.7

NOTES TO THE BASIC 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. The notes to the financial statement can be found on pages 12 through 22 of this report.

REQUIRED SUPPLEMENTAL INFORMATION

Progress in funding the District's pension obligations and budgetary comparison statement for the General Fund has been provided. The budget is adopted on the modified accrual basis.

The Districts funds are broken into the following categories: General Fund, Equipment Reserve Fund, Capital Projects Fund, Training Enterprise Fund, Debt Service Fund and PERS Reserve Fund. The new pronouncement from GASB, GASB 54, implemented this reporting period requires certain funds to be consolidated with the General Fund if the predominant funding source is from transfers from the General Fund. For the GASB 54 requirement the District has consolidated the Equipment Reserve Fund, Capital Projects Fund, and the PERS Reserve Fund for reporting purposes. The activity of the individual funds is as follows:

General Fund

The resources allocated in the General Fund are for the day to day operations of the District. The fund balance in the General Fund increased by \$314,182 due to a reduction in planned expenditure in response to reduced revenue experience.

Other Funds

Other Funds include the Equipment Reserve Fund, Capital Projects Fund, Training Enterprise Fund, PERS Reserve Fund and Debt Service Fund. The fund balances in these funds changed as follows:

Equipment Reserve Fund – The balance in this fund increased by \$204,509 in preparation for future equipment needs. The District utilized funding in the Equipment Reserve Fund to refurbish a brush unit, fabricate two squad units, purchased a battalion chiefs vehicle, purchased two staff vehicles, order one cab and chassis for a fire engine to be delivered in Fiscal 2011, and received delivery of one fire engines ordered in Fiscal 2009.

Capital Projects Fund (land and buildings) – The balance in the Capital Projects Fund reduced by \$128,266. The District utilized funding in the Capital Projects Fund to complete the project to replace the living quarters at the Clarkes Station #13, make a payment to the City of Oregon City for fire stations, and make payments on the loan for land adjacent to the Training Center.

Training Enterprise Fund – This fund earned \$3,818 in revenue from classes provided to outside agencies and interest accrued. The District utilized funds to purchase two trailers and an ATV for use on the training grounds. The fund balance decreased by \$16,055.

Debt Service Fund – The revenue collected in this fund for the payment of the bonded debt was ahead of budgeted projections which increased the fund balance by \$6,476.

PERS Reserve Fund – This was new fund budgeted beginning July 1, 2009 to prepare for the anticipated PERS employer rate increases for the 2011-13 biennium. The District was able transfer an additional \$433,452 this fiscal year added with the interest on the funds increased the fund balance to \$860,955. Of this amount, \$650,000 will be used to offset the PERS employer rate increases effective Fiscal 2011-12. Further discussion of the PERS employer rate increases are provided in the next page of this report.

INVESTMENTS

The bulk of the Districts cash assets are placed in the State of Oregon's Local Government Investment Pool (LGIP), also known as the Oregon Short Term Fund (OSTF). At June 30, 2011 the District had \$12,573,303 invested with the LGIP. Last year we reported, that the audit of the OSTF Fund indicated a 99.56 percent funded status for overall assets placed with the fund. The audit this year indicates the fair value position of the LGIP is 100%. Investment losses, such as the Lehman Bros. bankruptcy, lowered the book value of all of the funds in the LGIP. Although the book value for the OSTF was underfunded last year, the Board of the OSTF maintained the liquidity of the District assets placed with them.

CAPITAL ASSETS

At June 30, 2011, the District had \$19,417,090 invested in capital assets, including land, buildings, and equipment. This amount represents a net decrease (including additions, deductions and depreciation) of \$397,485. Fiscal 2010-11 additions are mainly the result of major equipment purchases including staff vehicles, completion of one fire engine, refurbish one brush unit, fabricate two squad units, small equipment and IT equipment. In addition to major equipment purchases, building improvements were completed as follows; the completion of the installation of the living quarters at the Clarkes Station #13, a sprinkler system install at the Hilltop Station #16 and a remodel of a building on the grounds adjacent to the Training Center for use as a Logistics and Fleet Maintenance Center. The decrease in net assets is attributable to depreciation outpacing the Districts investment in capital assets.

LONG-TERM DEBT

At June 30, 2011, the District had long-term debt outstanding of \$25,421,038 (general obligation bonds of \$3,500,000., PERS Bonds of \$19,910,000, a Loan Payable to the City of Oregon City for Fire Station purchases with a balance of \$861,938, and a Promissory Note for the purchase of the Training Center Property for \$1,149,100). The amount represents a decrease of \$1,189,034.

As mentioned previously, the District was able to refund a portion of the remaining debt on the 2001 Bond issue during Fiscal 2009-10. A savings to the taxpayer was realized by taking advantage of favorable market conditions that allowed the District to refund bonds issued at a higher interest rate with those of a lower interest rate. While refunding the bonds did not improve the District's financial position, it will save District taxpayers \$185,952 in interest over the remaining life of the bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District is primarily dependent upon property taxes for the funding of operations; therefore, the District is affected by the local economic conditions. The budget for Fiscal 2011 has already been approved by the board, and includes a conservative revenue increase related to property value increases/additions and increased expenses due to contract commitments.

Cash Flow

Due to the successful annexation of the City of Oregon City effective at the beginning of Fiscal 2008, there has been a shift in revenue from Contract Revenue to Tax Revenue. This shift has affected the cash flow of the District in that the City of Oregon City submitted payment for services to the District on a monthly basis. Now that the District is assessing taxes directly to the citizens of Oregon City, the funding to provide the services are received with the regular tax receipts. This poses a cash flow issue for the District because there is not sufficient ending fund balance to pay for operations from July 1 through the middle of November when tax revenues are received. The District has begun to close this funding gap by conservative budgeting and spending habits but may need to utilize Tax Anticipation Financing during Fiscal 2011. The funding mechanism will be set up to provide cash flow assurance.

PERS Update

On September 27, 2010, PERS notified the District of rate changes that will take effect on July 1, 2011. As shown on the table below, the rates increase significantly for the Tier 1/Tier 2 and OPSRP employee groups. The District continues to be concerned regarding current economic conditions. In response to this concern the District implemented a PERS Reserve Fund during the Fiscal 2009 budget cycle to transfer the saving of the PERS reduction from the 2007 Tier 1/Tier 2 rates. At the end of Fiscal 2010-11 the District had \$860,955 available to offset the cost of the PERS Employer rate increases. Of these funds, \$650,000 will be utilized to mitigate the PERS increases anticipated in Fiscal 2011-12.

Payroll	2005	2007	2009	2010
Tier 1/Tier 2	12.86%	12.81%	10.62%	17.55%
OPSRP – General Service	8.04%	8.90%	3.79%	8.59%
OPSRP – Police & Fire	11.65%	12.17%	6.50%	11.30%

Grant Administration

The District is in the fourth of the four year performance period on one of the SAFER Grants awarded to the District from the Department of Homeland Security. The SAFER Grant allowed the District to augment fire station staffing with grant funding in the amount of \$1,265,100 over a four year period. The District is required to match this funding at an increasing rate over the four year period. The District's matching amount of \$3,667,640. The grant allowed 12 firefighters to be hired and placed at specific stations to increase four response units to 4-person staffing as is recommended by NFPA 1710.

The second SAFER Grant the District has received was for Volunteer Recruitment and Retention. This grant requires no matching funds from the District and provided \$290,440 in funding over four years to accomplish the mission of the grant request. Volunteer participation has doubled in the last few years, and recruitment continues to be at an all time high. The District considers the mission of this grant to have been a tremendous success.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact the Finance Director for Clackamas County Fire District #1, Susan McSperitt at Ph. #503-742-2600 or e-mail: susanmcs@ccfd1.com.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

BASIC FINANCIAL STATEMENTS

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

STATEMENT OF NET ASSETS

June 30, 2011

ASSETS:

Cash and Investments	\$ 13,281,035
Property Taxes Receivable	2,034,301
Accounts Receivable	351,341
Prepaid Expenses	484,400
Inventories	152,356
Prepaid PERS	15,713,409
Capital Assets, net	<u>19,417,090</u>
 Total Assets	 <u>\$ 51,433,932</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 753,339
Payroll Liabilities	326,243
Accrued Vacation	<u>1,632,743</u>
 Total Current Liabilities	 <u>2,712,325</u>
Non-Current Liabilities:	
Accrued OPEB Liability	2,480,966
Due Within 1 Year:	
Bonds Payable	1,120,000
Capital Lease	177,173
Due In More than 1 Year:	
Bonds Payable	22,290,000
Capital Lease	<u>1,833,865</u>
 Total Non-Current Liabilities	 27,902,004
 Total Liabilities	 <u>30,614,329</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	13,903,052
Restricted for special purposes	143,614
Unrestricted	<u>6,772,937</u>
 Total Net Assets	 <u>\$ 20,819,603</u>

The accompanying notes are an integral part of this statement.

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

FUNCTIONS	EXPENSES	FUNCTION REVENUES		NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Fire Services	\$ 35,496,112	\$ 14,977	\$ 257,592	\$ (35,223,543)
Interest on Long-Term Debt	123,058	-	-	(123,058)
Total Governmental Activities	<u>\$ 35,619,170</u>	<u>\$ 14,977</u>	<u>\$ 257,592</u>	<u>(35,346,601)</u>

GENERAL REVENUES:

Taxes	\$ 34,511,405
Miscellaneous	695,231
Total General Revenues	<u>35,206,636</u>
Change in Net Assets	(139,965)
Beginning Net Assets	<u>20,959,568</u>
Ending Net Assets	<u>\$ 20,819,603</u>

The accompanying notes are an integral part of this statement.

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	GOVERNMENTAL FUNDS		TOTAL
	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	
ASSETS			
Cash and Investments	\$ 13,237,744	\$ 43,291	\$ 13,281,035
Taxes Receivable	1,975,674	58,627	2,034,301
Accounts Receivable	345,771	5,570	351,341
Prepaid Expenses	484,400	-	484,400
Interfund Loans Receivable	-	-	-
Inventories	152,356	-	152,356
Total Assets	\$ 16,195,945	\$ 107,488	\$ 16,303,433
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 753,339	\$ -	\$ 753,339
Payroll Liabilities	326,243	-	326,243
Interfund Loans Payable	-	-	-
Deferred Tax Revenues	1,793,478	53,571	1,847,049
Total Liabilities	2,873,060	53,571	2,926,631
Fund Balances			
Non-Spendable for -			
Inventory	152,356	-	152,356
Prepaid Expenses	484,400	-	484,400
Restricted for -			
Debt Payments	-	47,712	47,712
Grant Restrictions	89,697	-	89,697
Committed - Training Classes	-	6,205	6,205
Assigned for -			
Future Equipment Purchases	398,678	-	398,678
Future Capital Projects	76,053	-	76,053
PERS Payments	860,955	-	860,955
Unassigned	11,260,746	-	11,260,746
Total Fund Balances	13,322,885	53,917	13,376,802
Total Liabilities and Fund Balances	\$ 16,195,945	\$ 107,488	\$ 16,303,433

The accompanying notes are an integral part of this statement.

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

RECONCILIATION OF BALANCE SHEET TO STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS

June 30, 2011

Total Fund Balances - Governmental Funds	\$ 13,376,802
<p>The cost of capital assets (land, buildings, furniture and equipment) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Assets includes those capital assets among the assets of the District as a whole.</p>	
Net Capital Assets	19,417,090
<p>Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long term, are reported in the Statement of Net Assets.</p>	
	(27,053,781)
<p>The unamortized portion of prepaid pension costs is not available to pay for current period expenditures, and therefore is not reported in the governmental funds</p>	
	15,713,409
Deferred revenue related to property taxes	1,847,049
Accrual of OPEB	<u>(2,480,966)</u>
Net Assets	<u>\$ 20,819,603</u>

The accompanying notes are an integral part of this statement.

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	GOVERNMENTAL FUNDS		TOTAL — GOVERNMENTAL FUNDS
	GENERAL	OTHER GOVERNMENTAL FUNDS	
REVENUES:			
Taxes	\$ 33,696,621	\$ 937,567	\$ 34,634,188
Contract Income	14,977	-	14,977
Earnings on Investments	76,307	2,092	78,399
Miscellaneous	643,630	3,693	647,323
Total Revenues	34,431,535	943,352	35,374,887
EXPENDITURES:			
Fire Protection Services:			
Personal Services	27,984,308	-	27,984,308
Materials and Services	4,342,871	-	4,342,871
Capital Outlay	1,535,646	19,873	1,555,519
Debt Service	-	933,058	933,058
Total Expenditures	33,862,825	952,931	34,815,756
Excess of Revenues Over, (Under) Expenditures	568,710	(9,579)	559,131
Other Financing Sources, (Uses):			
Proceeds from Sales	258,938	-	258,938
Transfers In	1,488,452	-	1,488,452
Transfers Out	(1,488,452)	-	(1,488,452)
Total Other Financing Sources, (Uses)	258,938	-	258,938
Net Change in Fund Balance	827,648	(9,579)	818,069
Beginning Fund Balance	12,495,237	63,496	12,558,733
Ending Fund Balance	\$ 13,322,885	\$ 53,917	\$ 13,376,802

The accompanying notes are an integral part of this statement.

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

Net Changes in Fund Balances - Governmental Funds	\$	818,069
<p>Repayment of bond principal, capital leases and post retirement obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Additions to bond principal, capital leases and post retirement obligations is an expense for the Statement of Net Assets but not the governmental funds.</p>		
Repayments		1,189,034
		<u>1,189,034</u>
<p>Fixed asset additions are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which fixed asset additions exceeds depreciation.</p>		
		(397,485)
<p>In the governmental funds, the current year payment to PERS to advance fund the District's UAL is charged as expenditures. In the Statement of Net Assets it is reported as an asset and amortized over the life of the pension bonds issued to fund the payment.</p>		
		(924,318)
<p>Property tax revenue in the Statement of Activities differs from the amount reported in the governmental funds. In the governmental funds, which are on the modified accrual basis, the District recognizes a deferred revenue for all property taxes levied but not received, however in the Statement of Activities, there is no deferred revenue and the full property tax receivable is accrued.</p>		
		(122,784)
Change in Accrued Vacation		(87,534)
Change in Accrued OPEB Liability		(614,947)
		<u>(614,947)</u>
Change in Net Assets of Governmental Activities	\$	<u>(139,965)</u>

The accompanying notes are an integral part of this statement.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. THE FINANCIAL REPORTING ENTITY

The District was organized under provisions of Oregon Statutes Chapter 478 for the purpose of providing fire protection and other emergency services. The Clackamas County Fire District #1 is a municipal corporation governed by an elected five member board. As required by accounting principles generally accepted in the United States of America, these financial statements present Clackamas County Fire District #1 (the primary government) and any component units. Component units, as established by GASB Statement 39, are separate organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. The District has no component units.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS)

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions."

The government-wide statements report information on the District irrespective of fund activity, and the fund financial statements report information using the District's funds. The District has only "governmental activities" and one "program" as defined in the Statement.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities.

FUND FINANCIAL STATEMENTS

The accounts of the District are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUND TYPES

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

C. DESCRIPTION OF FUNDS

The District reports the following major fund:

GENERAL FUND

This fund accounts for all financial resources and expenditures of the District, except those required to be accounted for in another fund. The primary source of revenue is property taxes and the primary expenditures are for fire protection and administration.

D. BUDGET

A budget is prepared and legally adopted for each fund on the modified accrual basis of accounting in the main program categories required by the Oregon Local Budget Law. The budgets for all funds are adopted on a basis consistent with generally accepted accounting principles. The District begins its budget process early in each fiscal year with the establishment of the budget committee. Recommendations are developed through late winter with the budget committee approving the budget in early spring. Public notices of the budget hearing are published generally in early spring with a public hearing being held approximately three weeks later. The board may amend the budget prior to adoption; however, budgeted expenditures for each fund may not be increased by more than ten percent. The budget is adopted and appropriations are made no later than June 30th.

Expenditures budgets are appropriated at the following levels for each fund: Personal Services, Materials and Services, Capital Outlay, Interfund Transactions, Debt Service, and Operating Contingency.

Expenditures can not legally exceed the above appropriations levels. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur if the Board approves them due to a need which exists which was not determined at the time the budget was adopted. Budget amounts shown in the basic financial statements reflect the original appropriations. Expenditures of the various funds were within authorized appropriation levels.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. PROPERTY TAXES RECEIVABLE

In the Government-Wide Financial Statements uncollected property taxes are recorded on the Statement of Net Assets. In the Fund Financial Statements property taxes that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as deferred revenue because it is not deemed available to finance operation of the current period. An allowance for doubtful accounts is not deemed necessary, as uncollectible taxes become a lien on the property. Property taxes are levied on all taxable property as of July 1, the beginning of the fiscal year, and become a lien on that date. Property taxes are payable on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

F. CAPITAL ASSETS

Capital assets are recorded at the original or estimated cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The District defines capital assets as assets with an initial cost of more than \$5,000 and an estimated life in excess of one year. Interest incurred during construction, maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives: 5 to 40 years.

G. RETIREMENT PLANS

All of the District's full time employees are participants in Public Employees' Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged to expenditures.

H. USE OF ESTIMATES

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

I. VESTED COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All unused vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net assets are classified in the following three categories:

Invested in capital assets, net of related debt – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of external constraints placed on asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – consists of all other assets that are not included in the other categories previously mentioned.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

K. LONG-TERM OBLIGATIONS

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt. As permitted by GASB Statement No. 34 the cost of bond issuance will be amortized prospectively from the date of adoption of GASB Statement No. 34.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. FUND EQUITY

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications – nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents inventories and prepaid items.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. FUND EQUITY (CONTINUED)

- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Authority to classify portions of ending fund balance as Assigned has been given to the Fire Chief and Finance Director
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

The governing body has approved the following order of spending regarding fund balance categories: Restricted resources are spent first when both restricted and unrestricted (committed, assigned or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed, assigned, and unassigned.

To preserve a sound financial system and to provide a stable financial base, the governing body has adopted a minimum fund balance policy in the General Fund. The policy states the District wants to maintain a minimum General Fund ending fund balance totaling 5 months of Personnel Services expenditures and 25 percent of the Materials & Services and Capital Outlay annual appropriations for expenditures.

2. CASH AND INVESTMENTS

Oregon Revised Statutes (294.035) and District policy authorize the authority to invest in obligations of the U.S. Treasury and agencies, time certificates of deposit, bankers' acceptances, repurchase agreements, and the State of Oregon Local Government Investment Pool. Such investments are stated at cost, increased by accretion of discounts and reduced by amortization of premiums, both computed by the straight-line method, which approximates fair value.

Cash and Investments at June 30 (recorded at cost) consisted of:

Deposits with Financial Institutions:	
Demand Deposits	\$ 703,932
Petty Cash	3,800
Investments	<u>12,573,303</u>
Total	<u>\$ 13,281,035</u>

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Investments

The State Treasurer's Local Government Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State's investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund was in compliance with all portfolio guidelines at June 30, 2011.

Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. As of June 30, 2011 the fair value of the position in the LGIP is 100% of the value of the pool shares as reported in the Oregon Short Term Fund audited financial statements. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

The District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in months)</u>	
		<u>Less than 3</u>	<u>More than 3</u>
State Treasurer's Investment Pool	<u>\$ 12,573,303</u>	<u>\$ 12,573,303</u>	<u>\$ -</u>
Total	<u>\$ 12,573,303</u>	<u>\$ 12,573,303</u>	<u>\$ -</u>

Deposits

Deposits with financial institutions include bank demand deposits. Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury.

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. The District does not have any investments that have a maturity date.

Credit Risk

Oregon Revised Statutes does not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

Concentration of Credit/Deposit Risk

At year-end, the District's net carrying amount of deposits was \$703,932 and the bank balance was \$867,348. Of these deposits, \$867,348 was covered by federal depository insurance. Oregon Revised Statutes and District policy require depository institutions to maintain on deposit, with the collateral pool manager, securities having a value not less than 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.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

3. CAPITAL ASSETS

The changes in capital assets for the fiscal year ended June 30, 2011 are as follows:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Land (non Depreciable)	\$ 1,642,871	\$ -	\$ -	\$ 1,642,871
Buildings	19,846,856	152,530	-	19,999,386
Trucks and Equipment	12,976,046	913,902	(273,588)	13,616,360
Construction in Progress	150,000	150,000	(150,000)	150,000
Total Assets	<u>34,615,773</u>	<u>1,216,432</u>	<u>(423,588)</u>	<u>35,408,617</u>
Less: Accumulated Depreciation				
Buildings	6,026,657	497,398	-	6,524,055
Trucks and Equipment	8,774,541	966,519	(273,588)	9,467,472
Total Accumulated Depreciation	<u>14,801,198</u>	<u>1,463,917</u>	<u>(273,588)</u>	<u>15,991,527</u>
Capital Assets, Net	<u>\$ 19,814,575</u>	<u>\$ (247,485)</u>	<u>\$ (150,000)</u>	<u>\$ 19,417,090</u>

4. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM

Plan Description:

The District is a participating employer in the State of Oregon Public Employees Retirement System Plan. PERS is a defined benefit pension plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Benefits are established by state statute.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan ("OPSRP") is effective for all new employees hired on or after August 29, 2003, and applies to any inactive PERS members who returned to employment following a six month or greater break in service. The new plan consists of a defined benefit program (the Individual Account Program or "IAP"). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. 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 and a factor that varies based on type of service (general verses police or fire).

Both PERS and OPSRP are administered by the Oregon Public Employees Retirement Board ("OPERB"). The comprehensive annual financial report of the funds administered by the OPERB may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700, by calling (503) 598-7377, or by accessing the PERS website at www.state.or.us.

Description of Funding Policy:

Covered employees are required by State statute to contribute 6% of their salary to the plan. The District is required to contribute at actuarially determined rates, as adopted by the PERS Board. The current rate effective October 1, 2006 is 10.62% of covered payroll and 3.79% for OPSRP. The District's contribution to the plan for the years ending June 30, 2011, 2010 and 2009 were \$1,930,486, \$1,872,636, and \$2,221,239, respectively, and were equal to the required contributions for each year.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG-TERM DEBT

The changes in long-term debt for the year ended June 30, 2011 is comprised of the following:

	<u>Outstanding July 1, 2010</u>	<u>Additions</u>	<u>Payments and Deletions</u>	<u>Outstanding June 30, 2011</u>
Series 2001 Bonds Payable	\$ 770,000	\$ -	\$ 770,000	\$ -
2005 PERS Bonds	20,115,000	-	205,000	19,910,000
2010 Refunding Bond	3,540,000	-	40,000	3,500,000
Oregon City Loan Payable - Fire Station	985,072	-	123,134	861,938
Promissory Note	1,200,000	-	50,900	1,149,100
Accrued Compensated Absences	1,545,209	87,534	-	1,632,743
Total	<u>\$ 28,155,281</u>	<u>\$ 87,534</u>	<u>\$ 1,189,034</u>	<u>\$ 27,053,781</u>

Future debt service requirements for bonds payable and loans payable are as follow:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-2012	\$ 1,297,173	\$ 1,142,950	\$ 2,440,123
2012-2013	1,405,506	1,107,592	2,513,098
2013-2014	1,509,045	1,090,146	2,599,191
2014-2015	1,637,802	1,019,230	2,657,032
2015-2016	836,790	961,703	1,798,493
2016-2021	5,703,540	4,156,932	9,860,472
2021-2026	9,506,181	2,395,503	11,901,684
2026-2031	3,525,000	181,820	3,706,820
	<u>\$ 25,421,038</u>	<u>\$ 12,055,877</u>	<u>\$ 37,476,915</u>

The Accrued Compensated Absences are considered to be current liabilities.

6. INTERFUND TRANSFERS

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 1,488,452
Capital Reserve Fund	880,000	-
PERS Reserve Fund	433,452	-
Capital Projects Fund	175,000	-
	<u>\$ 1,488,452</u>	<u>\$ 1,488,452</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

7. PROPERTY TAX LIMITATIONS

The State of Oregon imposes a constitutional limit on property taxes for schools and nonschool government operations. School operations include community colleges, local school districts, and education service districts. The limitation provides that property taxes for nonschool operations are limited to \$10.00 for each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt. The State further reduced property taxes by replacing the previous constitutional limits on tax bases with a rate and value limit in 1997. This reduction is accomplished by rolling property values back to their 1995-96 values less 10% and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The State Constitution sets restrictive voter approval requirements for most tax and many fee increases and new bond issues, and requires the State to minimize the impact to school districts from the impact of the tax cuts.

8. RISK MANAGEMENT

The Fire District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Fire District purchases commercial insurance to minimize its exposure to these risks. Settled claims have not exceeded this commercial coverage for any of the past three years.

9. OTHER POST EMPLOYMENT BENEFITS

Post Employment Health Insurance Subsidy

Plan Description - The District operates a single-employer retiree benefit plan that provides postemployment health benefits to eligible employees and their dependents. There are active and retired members in the plan. The retiree must be eligible to receive benefits from Oregon PERS. Eligibility requirements for earliest retirement under Oregon PERS are as follows: Tier 1 or Tier 2 General Service – Earlier of age 55, or any age with 30 years of service, OPSRP General Service – Age 55 with 5 years of service, Tier 1 or Tier 2 Firefighter – Earlier of age 50, or any age with 25 years of service, and OPSRP firefighter – Age 50 with 5 years of service.

The District's post-retirement healthcare plan established in accordance with Oregon Revised Statutes (ORS) 243.303. ORS stipulated that for the purpose of establishing healthcare premiums, the rate must be based on all plan members, including both active employees and retirees. The difference between retiree claims cost, which because of the effect of age is generally higher in comparison to all plan members, and the amount of retiree healthcare premiums represents the District's implicit employer contribution. The benefit duration covers all retirees and eligible dependents until Medicare eligibility.

The District did not establish an irrevocable trust (or equivalent arrangement) to account for the plan.

Funding Policy – The benefits from this program are paid by the retired employees on a self-pay basis and the required contribution is based on projected pay-as-you go financing requirements. There is no obligation on the part of the District to fund these benefits in advance.

Annual Pension Cost and Net Pension Obligation (NPO) - The District's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance within the parameter of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

10. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

The following table shows the components of the OPEB obligation at the end of the year:

	2009	2010	2011
Annual required contribution	\$ 1,120,217	\$ 1,153,824	\$ 864,771
Interest on net pension obligation	-	-	74,641
Adjustment to annual required contribution	-	603	(126,812)
Annual pension cost	1,120,217	1,154,427	812,600
Contributions made	(194,307)	(214,318)	(197,653)
Increase in net pension obligation	925,910	940,109	614,947
NPO (Asset) at beginning of year	-	925,910	1,866,019
NPO (Asset) at end of year	<u>\$ 925,910</u>	<u>\$ 1,866,019</u>	<u>\$ 2,480,966</u>

Actuarial Methods and Assumptions – The annual required contribution (ARC) for the current year was determined as part of the July 1, 2010 actuarial valuation using the projected unit credit method. The objective of this method is to fund each participant’s benefits under the plans as they accrue. The unfunded accrued liability is amortized over an open period of 30 years as a percentage of payroll. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 4% compounded annually and a payroll growth rate of 3.00%, (b) 80% of future retirees electing coverage are assumed to cover a spouse as well, males are assumed to be three years older than their female spouses.; (c) medical costs would increase at 10 percent inflation for the current year, grading down to annual rate of 5 percent after ten years. The demographic assumptions, such as mortality rates, disability incidence rates, retirement rates and withdrawal rates, are the same as those used by Oregon PERS.

Funding Status and Funding Progress – As of July 1, 2010, the plan was 0% funded. The actuarial accrued liability for benefits was \$6,243,344, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,243,344. The covered payroll (annual payroll of active employees covered by the plan) was undetermined by the actuarial, and thus the ratio of the UAAL to the covered payroll was undetermined. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

11. RISK MANAGEMENT

The District established the Health Self-Insurance Plan during the 2009-2010 fiscal year. The Health Self-Insurance is used to pay employee medical bills, vision, and administrative fees. The District purchases commercial insurance for claims in excess of coverage provided by the Health Self Insurance Plan and for all other risks of loss. The claim liability of \$34,028 reported in the funds at June 30, 2011 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amounts of the loss can be reasonably estimated.

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

12. CONTINGENCY

In December 2009, the Department of Revenue notifies Clackamas County that Comcast Corporation appealed their 2009-2010 property value. Comcast is currently treated as a public utility account, valued by the Department of Revenue, and potentially impacts a number of counties. The total potential impact to all taxing districts within Clackamas County is estimated to be about 1.8 million dollars. The District's share of this estimate was withheld from their 2010-2011 November property tax payment in the amount of \$104,866. The withheld amount was added to a reserve account that the County has established in response to the 2009-2010 appeal. The County has also advised the Districts within the county that Comcast Corporation could potentially appeal their 2010-2011 property value, which would potentially impact the taxing districts by about 1.8 million dollars. The district's share of this estimate is roughly \$105,000.

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CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2011

GENERAL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	\$ 34,280,463	\$ 34,330,463	\$ 33,696,621	\$ (633,842)
Contract Income	14,400	14,400	14,977	577
Earnings on Investments	160,000	160,000	69,683	(90,317)
Grants	338,784	338,784	257,592	(81,192)
Miscellaneous	332,000	557,000	386,038	(170,962)
Total Revenue	35,125,647	35,400,647	34,424,911	(975,736)
EXPENDITURES:				
Personal Services	27,925,072	28,200,072 (1)	27,984,308	215,764
Materials and Services	4,596,914	4,592,914 (1)	4,342,871	250,043
Capital Outlay	536,003	540,003 (1)	537,036	2,967
Contingency	1,861,615	1,861,615 (1)	-	1,861,615
Total Expenditures	34,919,604	35,194,604	32,864,215	2,330,389
Excess of Revenues Over, (Under) Expenditures	206,043	206,043	1,560,696	1,354,653
Other Financing Sources, (Uses):				
Proceeds from Sales	15,000	15,000	241,938	226,938
Interfund Loan	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	(1,488,452)	(1,488,452) (1)	(1,488,452)	-
Total Other Financing Sources, (Uses)	(1,473,452)	(1,473,452)	(1,246,514)	226,938
Net Change in Fund Balance	(1,267,409)	(1,267,409)	314,182	1,581,591
Beginning Fund Balance	11,021,050	11,021,050	11,673,017	651,967
Ending Fund Balance	\$ 9,753,641	\$ 9,753,641	\$ 11,987,199	\$ 2,233,558
Reconciliation to GAAP Fund Balance				
Ending Fund Balances:				
Equipment Reserve Fund			\$ 398,678	
PERS Reserve Fund			860,955	
Capital Projects Fund			76,053	
			<u>\$ 13,322,885</u>	

(1) Appropriation Level

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CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

SUPPLEMENTARY DATA

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CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2011

EQUIPMENT RESERVE FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES:				
Grant Income	\$ -	\$ -	\$ -	\$ -
Earnings on Investments	1,165	1,165	1,848	683
Total Revenue	1,165	1,165	1,848	683
EXPENDITURES:				
Capital Outlay	721,737	721,737 (1)	694,339	27,398
Total Expenditures	721,737	721,737	694,339	27,398
Excess of Revenues Over, (Under) Expenditures	(720,572)	(720,572)	(692,491)	28,081
Other Financing Sources, (Uses):				
Proceeds from Sales	-	-	17,000	17,000
Transfers In	880,000	880,000	880,000	-
Total Other Financing Sources, (Uses)	880,000	880,000	897,000	17,000
Net Change in Fund Balance	159,428	159,428	204,509	45,081
Beginning Fund Balance	116,506	116,506	194,169	77,663
Ending Fund Balance	\$ 275,934	\$ 275,934	\$ 398,678	\$ 122,744

(1) Appropriation Level

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2011

PERS RESERVE

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Earnings on Investments	\$ 3,527	\$ 3,527	\$ 3,771	\$ 244
Total Revenues	3,527	3,527	3,771	244
EXPENDITURES:				
Expenditures	-	- (1)	-	-
Total Expenses	-	-	-	-
Excess of Revenues Over, (Under) Expenditures	3,527	3,527	3,771	244
Other Financing Sources, (Uses):				
Transfers In	433,452	433,452	433,452	-
Total Other Financing Sources, (Uses)	433,452	433,452	433,452	-
Net Change in Fund Balance	436,979	436,979	437,223	244
Beginning Fund Balance	426,300	426,300	423,732	(2,568)
Ending Fund Balance	\$ 863,279	\$ 863,279	\$ 860,955	\$ (2,324)

(1) Appropriation Level

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2011

CAPITAL PROJECTS FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES:				
Earnings on Investments	\$ 2,060	\$ 2,060	\$ 1,005	\$ (1,055)
Total Revenues	<u>2,060</u>	<u>2,060</u>	<u>1,005</u>	<u>(1,055)</u>
EXPENDITURES:				
Capital Outlay	<u>344,634</u>	<u>344,634 (1)</u>	<u>304,271</u>	<u>40,363</u>
Total Expenses	<u>344,634</u>	<u>344,634</u>	<u>304,271</u>	<u>40,363</u>
Excess of Revenues Over, (Under) Expenditures	(342,574)	(342,574)	(303,266)	39,308
Other Financing Sources, (Uses):				
Proceeds from Sale	-	-	-	-
Loan Proceeds	-	-	-	-
Transfers In	<u>175,000</u>	<u>175,000</u>	<u>175,000</u>	<u>-</u>
Total Other Financing Sources, (Uses)	<u>175,000</u>	<u>175,000</u>	<u>175,000</u>	<u>-</u>
Net Change in Fund Balance	(167,574)	(167,574)	(128,266)	39,308
Beginning Fund Balance	<u>205,961</u>	<u>205,961</u>	<u>204,319</u>	<u>(1,642)</u>
Ending Fund Balance	<u>\$ 38,387</u>	<u>\$ 38,387</u>	<u>\$ 76,053</u>	<u>\$ 37,666</u>

(1) Appropriation Level

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

June 30, 2011

	GOVERNMENTAL FUNDS		
	DEBT SERVICE FUND	TRAINING ENTERPRISE FUND	TOTAL
ASSETS			
Cash and Investments	\$ 37,086	\$ 6,205	\$ 43,291
Accounts Receivable	5,570	-	5,570
Taxes Receivable	58,627	-	58,627
Total Assets	\$ 101,283	\$ 6,205	\$ 107,488
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred Tax Revenues	\$ 53,571	\$ -	\$ 53,571
Total Liabilities	53,571	-	53,571
Fund Balances			
Unreserved, Reported in:			
Special Revenue Fund	-	6,205	6,205
Debt Service Fund	47,712	-	47,712
Capital Projects Fund	-	-	-
Total Fund Balances	47,712	6,205	53,917
Total Liabilities and Fund Balances	\$ 101,283	\$ 6,205	\$ 107,488

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	GOVERNMENTAL FUNDS		
	DEBT SERVICE FUND	TRAINING ENTERPRISE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Taxes	\$ 937,567	\$ -	\$ 937,567
Earnings on Investments	1,967	125	2,092
Miscellaneous	-	3,693	3,693
Total Revenues	<u>939,534</u>	<u>3,818</u>	<u>943,352</u>
EXPENDITURES:			
Fire Protection Services:			
Capital Outlay	-	19,873	19,873
Debt Service	933,058	-	933,058
Total Expenditures	<u>933,058</u>	<u>19,873</u>	<u>952,931</u>
Excess of Revenues Over, (Under) Expenditures	6,476	(16,055)	(9,579)
Other Financing Sources, (Uses):			
Proceeds from Sales	-	-	-
Transfers In	-	-	-
Total Other Financing Sources, (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	6,476	(16,055)	(9,579)
Beginning Fund Balance	<u>41,236</u>	<u>22,260</u>	<u>63,496</u>
Ending Fund Balance	<u>\$ 47,712</u>	<u>\$ 6,205</u>	<u>\$ 53,917</u>

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2011

DEBT SERVICE FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	\$ 930,558	\$ 930,558	\$ 937,567	\$ 7,009
Earnings on Investments	2,500	2,500	1,967	(533)
Total Revenue	933,058	933,058	939,534	6,476
EXPENDITURES:				
Debt Service:				
Principal	810,000	810,000	810,000	-
Interest	123,058	123,058	123,058	-
Total Expenditures	933,058	933,058 (1)	933,058	-
Excess of Revenue over, under Expenditures	-	-	6,476	6,476
OTHER FINANCING SOURCES				
Interfund Loan Receipts	-	-	-	-
Total Other Financing Sources	-	-	-	-
Net Change in Fund Balance	-	-	6,476	6,476
Beginning Fund Balance	-	-	41,236	41,236
Ending Fund Balance	\$ -	\$ -	\$ 47,712	\$ 47,712

(1) Appropriation Level

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

ACTUAL AND BUDGET

For the Year Ended June 30, 2011

TRAINING ENTERPRISE FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Earnings on Investments	\$ 100	\$ 100	\$ 125	\$ 25
Miscellaneous	12,000	12,000	3,693	(8,307)
Total Revenues	12,100	12,100	3,818	(8,282)
EXPENDITURES:				
Capital Outlay	24,000	24,000 (1)	19,873	4,127
Total Expenses	24,000	24,000	19,873	4,127
Excess of Revenues Over, (Under) Expenditures	(11,900)	(11,900)	(16,055)	(4,155)
Net Change in Fund Balance	(11,900)	(11,900)	(16,055)	(4,155)
Beginning Fund Balance	18,598	18,598	22,260	3,662
Ending Fund Balance	\$ 6,698	\$ 6,698	\$ 6,205	\$ (493)

(1) Appropriation Level

CLACKAMAS FIRE DISTRICT #1

CLACKAMAS, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED
For the Year Ended June 30, 2011

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED AT JULY 1, 2010	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED AT June 30, 2011
Current:						
2010-2011	\$ 35,622,145	\$ 866,882	\$ (277,017)	\$ 12,795	\$ 33,346,938	\$ 1,144,103
Prior Years:						
2009-2010	1,294,574	(1,922)	(83,774)	41,652	745,347	509,027
2008-2009	572,202	(343)	(24,925)	40,016	318,428	269,208
2007-2008	186,283	31	(7,525)	24,908	137,586	66,049
2006-2007	58,727	(67)	(3,739)	9,249	46,217	18,087
Prior	46,525	(2)	(13,116)	(15,995)	(10,411)	27,827
Total Prior	2,158,311	(2,303)	(133,079)	99,830	1,237,167	890,198
Total	\$ 37,780,456	\$ 864,579	\$ (410,096)	\$ 112,625	\$ 34,584,105	\$ 2,034,301

RECONCILIATION TO REVENUE

Cash Collections by County Treasurer Above Other Taxes	\$ 34,584,105
Accrual of Receivables:	
June 30, 2011	187,252
June 30, 2010	(188,478)
Total Revenue	\$ 34,634,188

CLACKAMAS COUNTY FIRE DISTRICT #1
CLACKAMAS, OREGON

AUDITORS' COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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September 27, 2011

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the Clackamas County Fire District #1 as of and for the year ended June 30, 2011, and have issued our report thereon dated September 27, 2011. 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 Clackamas County Fire District #1'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, our audit was not directed primarily toward obtaining knowledge of such noncompliance. As such, 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.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

In connection with our testing nothing came to our attention that caused us to believe the Clackamas County Fire District #1 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.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the Clackamas County Fire District #1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clackamas County Fire District #1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clackamas County Fire District #1's internal control over financial reporting.

This report is intended solely for the information and use of the board of directors/council members/commissioners and management of Clackamas County Fire District #1 and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

Pauly, Rogers and Co., P.C.

PAULY, ROGERS AND CO., P.C.