

**CITY OF SHADY COVE, OREGON  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2009  
WITH  
INDEPENDENT AUDITOR'S REPORT**

INTRODUCTORY SECTION

CITY OF SHADY COVE, OREGON

Year Ended June 30, 2009

ELECTIVE OFFICIALS OF THE CITY OF SHADY COVE, OREGON

Ron Holthusen  
P.O. Box 1210  
Shady Cove, Oregon 97539

Mayor

Bill Kyle  
P.O. Box 1210  
Shady Cove, Oregon 97539

Councilor

Margaret Bradburn  
P.O. Box 1210  
Shady Cove, Oregon 97539

Councilor

Leith Hayes  
P.O. Box 1210  
Shady Cove, Oregon 97539

Councilor

Gary Hughes  
P.O. Box 1210  
Shady Cove, Oregon 97539

Councilor

ADMINISTRATION

Elise Smurzynski  
P.O. Box 1210  
Shady Cove, Oregon 97539

City Administrator

Steven E. Rich, Esq  
P.O. Box 375  
Grants Pass, Oregon 97528

City Attorney

CITY OF SHADY COVE, OREGON

Year Ended June 30, 2009

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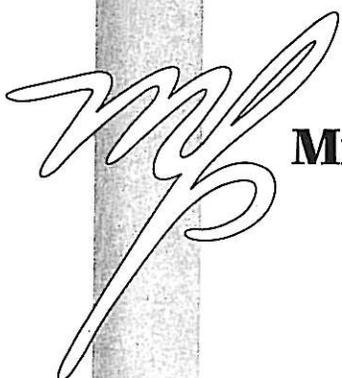
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**FINANCIAL SECTION**

**MICHAEL L. PIELS** CERTIFIED PUBLIC ACCOUNTANTS, LLP

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**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Council  
City of Shady Cove  
Shady Cove, OR

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shady Cove, Oregon, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Shady Cove'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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shady Cove, Oregon as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2009, on our consideration of City of Shady Cove, Oregon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Honorable Mayor and Council  
City of Shady Cove  
Shady Cove, Oregon

Management's discussion and analysis and the major governmental funds budgetary comparison information as listed on the Table of Contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied limited procedures to the management's discussion and analysis, 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. The major governmental funds budgetary comparison 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Shady Cove's basic financial statements. The other supplementary presented as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Michael L. Piels CPA's, LLP

October 28, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Fiscal Year Ended June 30, 2009

This Management Discussion and Analysis (MD&A) is presented to facilitate financial analysis and provide an overview of the financial activities of the City of Shady Cove (the City) for the fiscal year ended June 30, 2009. Information in the MD&A is based on currently known facts, decisions and conditions. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

### FINANCIAL HIGHLIGHTS

- In the **government-wide statements**, the City's assets totaled \$9.55 million at June 30, 2009 consisting of \$8.19 million in capital assets, \$1.22 million in cash and investments, and \$137 thousand in receivables and other assets. Capital assets, net of accumulated depreciation decreased by \$275 thousand in the current year. Cash and investment balances decreased by \$55 thousand from the prior year.
- In the **government-wide statements**, the City's liabilities totaled \$4.39 million at June 30, 2009 consisting of \$4.28 million in long-term debt and \$112 thousand in accounts payable and other current liabilities.
- **Government-wide** net assets (assets minus liabilities) totaled \$5.16 million at June 30, 2009 of which \$3.87 million was invested in capital assets net of related debt, \$6 thousand was restricted for debt service, \$721 thousand was restricted for system development, and \$565 thousand was considered unrestricted. In the prior year, net assets totaled \$5.28 million, of which \$3.95 million was invested in capital assets net of related debt, \$838 thousand was restricted for debt service and system development and \$491 thousand was considered unrestricted.
- In the **government-wide statements**, the City generated program revenues of \$1.37 million from its governmental and business activities. Direct expenses of all programs totaled \$2.09 million. General revenues which include taxes, franchise fees and investment income totaled \$595 thousand. In the prior year the City generated program revenues of \$1.43 million from its governmental and business activities. Direct expenses of all programs totaled \$2.15 million. General revenues which include taxes, franchise fees and investment income totaled \$640 thousand.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Basic Financial Statements and supplementary information are presented using the integrated approach as prescribed by GASB Statement No. 34. The Basic Financial Statements are comprised of three components:

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

The Basic Financial Statements present financial information about the City as a whole and about its activities. Following the Basic Financial Statements are Required Supplementary Information, which consists of the major governmental funds, Other Supplementary Information, which provides budgetary comparisons, and the combining non-major enterprise fund schedules. Finally, completing the document is a series of other financial schedules, and two reports by the independent certified public accountants, as required by statute.

## 1. Government-wide Financial Statements

The government-wide financial statements are designed to present the financial picture of the City in a manner similar to a private-sector business, i.e. from the economic resources measurement focus using the accrual basis of accounting.

The Statement of Net Assets includes all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Net assets are the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets may be an indicator of whether its financial health is improving or deteriorating.

The Statement of Activities reports all revenues when earned and expenses when incurred regardless of the timing of related cash flows. The focus of the Statement of Activities is to present the major program costs, matching major resources with each. To the extent a program's costs are not recovered by grants and direct charges, it is paid from general taxes and other general revenues. This Statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

The government-wide financial statements distinguish programs/functions of the City that are governmental (principally supported by taxes and intergovernmental revenues) to those that are business-type (intended to recover all or a significant portion of their costs through user fees and charges).

Governmental activities of the City are categorized as follows:

- General government - includes centralized services such as public works administration and support, information technology, community development, building and planning functions, administration and financial services and other general functions not separately identified as a program.
- Police department - includes public safety
- Parks department - includes maintenance of the City's parks and playgrounds
- Highways and streets - includes the City's street maintenance operations, street and local improvement construction and the City's engineering activities.

Business-type activities include the following:

- Wastewater

## 2. Fund Financial Statements

Following the government-wide statements is a section containing fund financial statements. The fund financial statements include statements for governmental funds and proprietary funds. Funds are used to segregate resources for specific activities or objectives.

**Governmental Funds.** The governmental fund statements emphasize available financial resources rather than net income. They are prepared using the current financial resources measurement focus and modified accrual basis of accounting. A reconciliation of the fund balance reported in the governmental funds Balance Sheet to the net assets reported on the government-wide Statement of Net Assets, and a reconciliation of the change in fund balances reported in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances to the change in net assets reported in the government-wide Statement of Activities are provided to facilitate a comparison between governmental funds and governmental activities.

The City has two governmental funds: General Fund, and Street Fund. The governmental funds have all been reported separately as major funds.

**Proprietary Funds.** Proprietary funds are used to account for activities supported by user charges and where the emphasis is on net income. The City uses enterprise funds to account for its sewer operations. The City does not provide water services, as residents receive their water from well systems. The Sewer Operations and Sewer Debt Funds are presented separately as the major funds in the proprietary fund financial statements. Six nonmajor funds are combined and presented in a single column as other enterprise funds.

### 3. Notes to the Basic Financial Statements

The notes provide information that is essential for a full understanding of the data presented in the government-wide and fund financial statements (the basic financial statements). Information such as significant accounting policies and detail of certain assets and liabilities are included in the notes which should be read in conjunction with the basic financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

#### Analysis of Net Assets

The City's assets exceeded liabilities by \$5.16 million at June 30, 2009. Net assets for governmental activities totaled \$446 thousand while net assets for business-type activities totaled \$4.71 million.

	June 30, 2009		June 30, 2008	
	Governmental Activities	Business Type Activities	Governmental Activities	Business Type Activities
Capital assets, net	\$ 259,530	\$ 7,932,631	\$ 294,703	\$ 8,172,819
Current & other assets	270,295	1,084,099	288,113	1,126,359
<b>Total assets</b>	<b>\$ 529,825</b>	<b>\$ 9,016,730</b>	<b>\$ 582,816</b>	<b>\$ 9,299,178</b>
Long term debt	\$ 31,869	\$ 4,245,577	\$ 57,497	\$ 4,374,658
Other Liabilities	51,614	60,268	64,243	103,462
<b>Total liabilities</b>	<b>\$ 83,483</b>	<b>\$ 4,305,845</b>	<b>\$ 121,740</b>	<b>\$ 4,478,120</b>
Invested in capital assets net of related debt	\$ 227,661	\$ 3,637,120	\$ 237,206	\$ 3,715,579
Restricted	-	727,344	-	838,224
Unrestricted	218,681	346,421	223,870	267,255
<b>Total net assets</b>	<b>\$ 446,342</b>	<b>\$ 4,710,885</b>	<b>\$ 461,076</b>	<b>\$ 4,821,058</b>

As mentioned earlier, net assets may be an indicator of the City's financial position. At the end of the current year, the City has a positive net asset balance. Net assets decreased by \$125 thousand from the prior year as expenses exceeded revenues. The largest portion of the City's net assets, 74.95 percent, is invested in capital assets, 10.96 percent is unrestricted, 14.1 percent is restricted for system development or debt service.

## Analysis of Changes in Net Assets

The City's Statement of Activities for fiscal year ended June 30, 2009 follows:

	June 30, 2009		June 30, 2008	
	Governmental Activities	Business Type Activities	Governmental Activities	Business Type Activities
<b>Revenues</b>				
Program revenues:				
Charges for services	\$ 542,027	\$ 827,134	\$ 528,096	\$ 845,544
Capital grants/contributions	-	-	-	55,000
General revenues:				
Property taxes for General	113,397	-	106,028	-
Property taxes for Debt	-	79,306	-	84,669
State revenue sharing	72,805	-	87,947	-
Intergovernmental	110,733	-	119,811	-
Franchise fees	185,604	-	183,360	-
Earnings on investments	4,348	20,841	9,788	42,990
Gain on disposal assets	-	-	-	(4,550)
Other	8,786	-	10,861	66
<b>Total revenues</b>	<b>1,037,700</b>	<b>927,281</b>	<b>1,045,891</b>	<b>1,023,719</b>
<b>Expenses</b>				
Administrative	502,343	-	544,243	-
Public Safety	434,153	-	421,848	-
Parks	-	-	4,568	-
Highways and streets	113,232	-	99,038	-
Interest on long-term debt	2,707	-	3,026	-
Wastewater	-	1,037,524	-	1,078,236
<b>Total expenses</b>	<b>1,052,435</b>	<b>1,037,524</b>	<b>1,072,723</b>	<b>1,078,236</b>
Change in net assets	(14,735)	(110,243)	(26,832)	(54,517)
Beginning net assets	461,076	4,821,058	487,908	4,875,575
Ending net assets	\$ 446,341	\$ 4,710,815	\$ 461,076	\$ 4,821,058

### **Governmental Activities**

Governmental activities decreased the City's net assets by about \$15 thousand accounting for a small percentage of the total reduction in net assets. Revenues totaled \$1,038 million and consisted primarily of property taxes of \$113 thousand, charges for services of \$542 thousand, intergovernmental revenue of \$111 thousand, and franchise fees of \$186 thousand.

As discussed earlier, the City's governmental activities are categorized into the following programs: General government; Police department; Parks department; and Highways and streets. General government activities are activities not categorized in any of the programs and include central services

such as building operations, engineering, public works administration and support, and administration and financial services.

### **Business-Type Activities**

Business-type activities decreased the City's net assets by \$110 thousand accounting for most of the total decrease in the City's net assets.

Charges for services which totaled \$827 thousand are comprised of wastewater service charges. Business-type activities are to be self supporting where revenues are expected to cover expenses.

Revenues for wastewater operations are significantly higher than the respective direct expenses because the revenues are generated not only for direct expenses but for capital assets and principal payments on long-term debt as well. Capital assets and principal payments on long-term debt are not reported as direct expenses but are reported as additions to assets and reductions to liabilities respectively on the Statement of Net Assets.

### **FUND ANALYSIS**

The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

#### Governmental Funds

The focus of the governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, and Street Fund, both of which are major funds.

At the end of the current year, the City's governmental funds had combined ending fund balances of about \$211 thousand, a decrease of around \$6 thousand from the prior year's fund balances of \$217 thousand. Revenues and other financing sources totaled \$1.037 million while expenditures which include current, capital outlay, debt service expenditures, and other financing uses totaled almost \$1.043 million.

The ending fund balances of \$211 thousand is unreserved and available for spending by the City within the purposes specified for the City's funds.

The General Fund is a primary operating fund of the City. At the end of the fiscal year, the unreserved fund balance of the General Fund was \$168 thousand down nearly \$5 thousand from the previous year. Fund balance decreased by \$2 thousand in the Street Fund.

#### Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but more in detail.

Total net assets of the Proprietary Funds at the end of the year amounted to nearly \$4.71 million. This was comprised of unrestricted net assets of almost \$346 thousand, restricted net assets of \$727 thousand, and \$3.67 million in net assets, invested in capital assets, net of related debt. The decrease in net assets of the Sewer Operations Fund was \$170 thousand. This is consistent with the prior year's decrease.

Other factors concerning the finances of the proprietary funds can be found in the previous discussion of the City's business-type activities.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The original budget of the General Fund was not modified during the current fiscal year.

**CAPITAL ASSETS**

As of June 30, 2009 the City had invested \$8.19 million in capital assets, net of depreciation as reflected in the following table, which represents a net decrease (additions, deductions and depreciation) of \$275 thousand.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Land	\$ 34,542	\$ 58,403	\$ 92,945
Buildings and Improvements	162,126	-	162,126
Machinery and equipment	62,862	340,239	403,101
Infrastructure	-	7,533,989	7,533,989
<b>Total</b>	<b><u>\$ 259,530</u></b>	<b><u>\$ 7,932,631</u></b>	<b><u>\$ 8,192,161</u></b>

Major events affecting capital assets for fiscal year 2009 are as follows:

- \$119 thousand in improvements were added to the City's Street Improvement project, and the Park Land Development project from the respective system development charge funds.

Please refer to the notes to the basic financial statements for further detailed information.

**DEBT ADMINISTRATION**

As of year-end, the City had \$4.28 million in long-term debt outstanding compared to \$4.43 million in the previous year. Principal payments on long-term debt were \$154,707. Debt outstanding by type at year-end comprised of the following.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Capital Lease Obligation	\$ 31,869	-	\$ 31,869
General Obligation Bonds	-	718,788	718,788
Sewer Bond # 1	-	2,277,187	2,277,187
OECD Note Payable # 1	-	309,431	309,431
OECD Note Payable # 2	-	48,314	48,314
Clean Water State Revolving Fund Note	-	891,857	891,857
<b>Total</b>	<b><u>\$ 31,869</u></b>	<b><u>\$ 4,245,577</u></b>	<b><u>\$ 4,277,446</u></b>

The City issued a \$1.39 million general obligation bond to GMAC commercial mortgage on June 20, 1980, for wastewater plant construction and improvements. The bonds are repaid from sewer revenues.

The City issued a \$2.35 million sewer bond to the United States Department of Agriculture (USDA) on March 17, 2006 for wastewater system improvements. The bonds are repaid from sewer revenues.

The City borrowed \$400 thousand April 12, 2000 and \$60,000 May 16, 2001 from Oregon Economic and Community Development Department for sewer system collection rehabilitation programs. The notes are actually two issues, phase I and phase II. The notes are repaid from sewer revenues.

The City entered into a \$1 million loan agreement November 15, 2004 with the Clean Water State Revolving Fund (CWSRF) for rehabilitation of the wastewater system. Only \$998 thousand of the amount was used by the City, and that amount became the finalized loan balance. The note is repaid from sewer revenues.

#### Debt Limitation and Ratings

Oregon Revised Statutes provides a limit on non-self-supporting general obligation debt of 3% of the real market value of all taxable property within the City. Based on the fiscal year 2009 value, the City's debt limitation is \$6,490,775.

Please refer to the notes to the basic financial statements for further detailed information.

#### **ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES**

While the housing market is expected to improve slowly, the impact of proposed annexations and subsequent development will most likely be delayed. As a tourism community, fuel costs will continue to affect our seasonal economy. Until the national economic situation improves significantly, growth and loss of local jobs will continue to affect our community.

The City's population is expected to increase very modestly due to the effects of the national economy and residents moving out of the area due to foreclosures. This will continue the decline in building activity and reductions in the accumulation of System Development Charges, as well as fees for service.

The predicate for a better year is a combination of timing and anticipation of improvement in the national economic situation. As in last year's report, we continue to see the potential for annexations and subsequent development delayed by 2 to 3 years at least.

The bright spot in the future is the potential acquisition and subsequent development of a communitywide water system for domestic and fire suppression purposes. The City will continue to condition subdivisions and annexations upon the developers ensuring that water is provided from the river rather than from ground water supplies (i.e. wells).

While the development of a Public Safety Fee helped to ensure the retention of one officer and a full-time Chief of Police, allowing the department to operate at a 1998 staffing level (Chief and 3 officers), it is anticipated that we will lose our Chief to retirement and at least one officer to another agency. This will mean that the City will barely meet 1996 staffing levels with the potential that the City Council will explore contracting with the Jackson County Sheriff as an option to having a local Police Department. All City staff continue to do more work with fewer resources as the general workload and unfunded mandates increase. It is anticipated the City will address such issues through the employment of seasonal or part-time employees to help fill staffing gaps.

The City's permanent property tax rate of 54.7 cents per thousand continues to generate approximately \$100,000 for all City Hall functions. The national economy and projected foreclosures may actually result in a slight increase as foreclosed upon properties pay unpaid taxes from prior years. Without the benefit of franchise fees, the Public Safety Fee, and state subventions, the City would be hard pressed to provide even a minimal level of service. It is anticipated that the proposed addition of seasonal and part-time staff will help the City be open more hours and increase accessibility and service for our community.

While significant financial impacts will result in the areas of legal fees and addition of a Certified Floodplain Manager to deal with floodplain management issues, it is anticipated that the total costs next year will decline somewhat. This is based upon the level of voluntary compliance received this year and hoped for in the future.

It is anticipated that:

- We will enjoy a significantly higher than usual level of citizen involvement as land use, water, and public safety issues become the subject of town hall meetings;
- The paving, lighting, and landscaping of the civic center parking lot will be completed;
- The City will continue in good standing with the Federal Emergency Management Agency and National Flood Insurance Plan relative floodplain compliance;
- The potential for contracting with the Sheriff's Department may bring a community service officer into the mix to help resolve code enforcement and planning condition compliance issues;
- Acquisition of two new vehicles to replace worn out Public Works vehicles;

#### Highlights of Prior Fiscal Year

- ✓ Celebration of the City's 35<sup>th</sup> anniversary.
- ✓ Initial discussions regarding Earth Advantage green building programs and future integration into City land use rules and regulations.
- ✓ Establishment of the Public Safety Surcharge Ordinance and advisory committee to review requests for discounted rates.
- ✓ Completion of a compliance plan to remedy floodplain violations and initiation of litigation as a last recourse to compel compliance. Retention of the assistance of a planner to assist in floodplain compliance.
- ✓ Ongoing success and expansion of Neighborhood Watch programs.

#### REQUEST FOR INFORMATION

The City's financial statements are designed to present users with a general overview of the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to City Hall at 22451 Highway 62, PO Box 1210, Shady Cove, Oregon 97539. The City's telephone number is 541-878-2225.

**BASIC FINANCIAL STATEMENTS**

**CITY OF SHADY COVE  
STATEMENT OF NET ASSETS  
JUNE 30, 2009**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash and investments	\$ 215,625	\$ 281,285	\$ 496,910
Receivables	51,669	82,418	134,087
Prepays	3,000	-	3,000
Restricted cash and investments	-	720,396	720,396
Capital assets, net:			
Land	34,542	58,403	92,945
Buildings and improvements	162,126	-	162,126
Machinery and equipment	62,862	340,239	403,101
Infrastructure	-	7,533,989	7,533,989
<b>TOTAL ASSETS</b>	<b>529,824</b>	<b>9,016,730</b>	<b>9,546,554</b>
<b>LIABILITIES:</b>			
Accounts payable	10,407	1,502	11,909
Payroll taxes and benefits payable	13,537	-	13,537
Vacations payable	27,670	8,832	36,502
Accrued interest payable	-	49,934	49,934
Long-term liabilities:			
Due within one year	27,181	134,049	161,230
Due in more than one year	4,688	4,111,528	4,116,216
<b>TOTAL LIABILITIES</b>	<b>83,483</b>	<b>4,305,845</b>	<b>4,389,328</b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	227,661	3,637,120	3,864,781
Restricted	-	727,344	727,344
Unrestricted	218,680	346,421	565,101
<b>TOTAL NET ASSETS</b>	<b>\$ 446,341</b>	<b>\$ 4,710,885</b>	<b>\$ 5,157,226</b>

**CITY OF SHADY COVE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fines, Fees, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government							
Administrative	\$ 502,343	\$ 230,179	\$ -	\$ -	\$ (272,164)	\$ -	\$ (272,164)
Police Department	434,153	296,816	-	-	(137,337)	-	(137,337)
Highways and streets	113,232	15,032	-	-	(98,200)	-	(98,200)
Interest on long-term debt	2,707	-	-	-	(2,707)	-	(2,707)
<b>Total government activities</b>	<b>1,052,435</b>	<b>542,027</b>	<b>-</b>	<b>-</b>	<b>(510,408)</b>	<b>-</b>	<b>(510,408)</b>
<b>Business-type activities:</b>							
Water/Wastewater	1,037,454	827,134	-	-	-	(210,320)	(210,320)
<b>Total business-type activities</b>	<b>1,037,454</b>	<b>827,134</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(210,320)</b>	<b>(210,320)</b>
<b>Total Common City</b>	<b>\$ 2,089,889</b>	<b>\$ 1,369,161</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(510,408)</b>	<b>(210,320)</b>	<b>(720,728)</b>
General revenues:							
					113,397	-	113,397
					-	79,306	79,306
					72,805	-	72,805
					110,733	-	110,733
					185,604	-	185,604
					4,348	20,841	25,189
					8,786	-	8,786
					<b>495,673</b>	<b>100,147</b>	<b>595,820</b>
<b>CHANGE IN NET ASSETS</b>					<b>(14,735)</b>	<b>(110,173)</b>	<b>(124,908)</b>
<b>Net assets - July 1, 2008</b>					<b>461,076</b>	<b>4,821,058</b>	<b>5,282,134</b>
<b>Net Assets - June 30, 2009</b>					<b>\$ 446,341</b>	<b>\$ 4,710,885</b>	<b>\$ 5,157,226</b>

**CITY OF SHADY COVE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 181,502	\$ 34,123	\$ 215,625
Receivables	32,926	9,352	42,278
Taxes receivable	9,391	-	9,391
Prepaid expenses - legal	3,000	-	3,000
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u>\$ 226,819</u>	<u>\$ 43,475</u>	<u>\$ 270,294</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 10,306	\$ 101	\$ 10,407
Payroll taxes and benefits payable	13,537	-	13,537
Vacation payable	27,066	604	27,670
Deferred revenue	7,599	-	7,599
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES</b>	<u>58,508</u>	<u>705</u>	<u>59,213</u>
Fund Balances:			
Unreserved, reported in:			
General fund	168,311	-	168,311
Special revenue funds	-	42,770	42,770
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total fund balances</b>	<u>168,311</u>	<u>42,770</u>	<u>211,081</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 226,819</u>	<u>\$ 43,475</u>	<u>\$ 270,294</u>

**CITY OF SHADY COVE  
RECONCILIATION OF GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
JUNE 30, 2009**

**TOTAL FUND BALANCES** \$ 211,081

Amounts reported by governmental activities in the Statement of Net Assets are different because:

Capital assets are not financial resources and therefore are not reported in the governmental funds:

Cost	\$ 438,935	
Accumulated depreciation	(179,405)	259,530

A portion of the City's property taxes are collected after year-end but are not available soon enough to pay for the current year's operations, and therefore are not reported as revenue in the governmental funds	7,599
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Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. Interest in long-term debt is not accrued in the governmental funds, but rather recognized as an expenditure when due.

These liabilities consist of:

Long-term debt	(31,869)
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**TOTAL NET ASSETS** \$ 446,341

**CITY OF SHADY COVE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2009**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Property taxes	\$ 112,533	\$ -	\$ 112,533
State subventions	72,805	-	72,805
Franchise fees	185,604	-	185,604
City fees	101,179	-	101,179
Administrative fees	129,000	-	129,000
Municipal court	56,628	-	56,628
Traffic Enhancement Fee	15,032	-	15,032
Public Safety Fee	240,188	-	240,188
State Highway revenue	-	110,733	110,733
Miscellaneous	8,786	-	8,786
Interest	3,633	715	4,348
<b>TOTAL REVENUES</b>	<u>925,388</u>	<u>111,448</u>	<u>1,036,836</u>
<b>EXPENDITURES</b>			
Current:			
General government	489,452	-	489,452
Public safety	406,031	-	406,031
Highways and streets	-	113,232	113,232
Debt service:			
Principal & interest	28,335	-	28,335
Capital outlay	5,840	-	5,840
<b>TOTAL EXPENDITURES</b>	<u>929,658</u>	<u>113,232</u>	<u>1,042,890</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(4,270)</u>	<u>(1,784)</u>	<u>(6,054)</u>
<b>FUND BALANCE, July 1, 2008</b>	<u>172,581</u>	<u>44,554</u>	<u>217,135</u>
<b>FUND BALANCE, June 30, 2009</b>	<u>\$ 168,311</u>	<u>\$ 42,770</u>	<u>\$ 211,081</u>

**CITY OF SHADY COVE  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2009**

NET CHANGE IN FUND BALANCE \$ (6,054)

Amounts reported for governmental activities in the Statement of Activities are different because:

Government funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditures for capital assets	\$ 5,840	
Less current year depreciation	<u>(41,013)</u>	(35,173)

Property taxes that do not meet the measurable and available criteria are not recognized as revenue in the current year in the governmental funds. In the Statement of Activities property taxes are recognized as revenue when levied.		864
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Repayment of principal is an expenditure in the governmental funds, but reduces the liability in the Statement of Net Assets. This is the principal payment.		<u>25,628</u>
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CHANGE IN NET ASSETS		<u><u>\$ (14,735)</u></u>
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**CITY OF SHADY COVE  
STATEMENT OF NET ASSETS  
ENTERPRISE FUNDS  
JUNE 30, 2009**

	Sewer Operations Fund	Sewer Debt Fund	Other Enterprise Funds	Total
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 34,841	\$ 4	\$ 246,440	\$ 281,285
Receivables, net	75,474	-	-	75,474
Taxes receivable	-	6,944	-	6,944
<b>Total current assets</b>	<b>110,315</b>	<b>6,948</b>	<b>246,440</b>	<b>363,703</b>
Noncurrent assets:				
Restricted cash and investments	-	-	720,396	720,396
Land	58,403	-	-	58,403
Machinery and equipment, net	340,239	-	-	340,239
Infrastructure, net	6,877,035	-	656,954	7,533,989
<b>Total noncurrent assets</b>	<b>7,275,677</b>	<b>-</b>	<b>1,377,350</b>	<b>8,653,027</b>
<b>TOTAL ASSETS</b>	<b>7,385,992</b>	<b>6,948</b>	<b>1,623,790</b>	<b>9,016,730</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Accounts payable	1,502	-	-	1,502
Vacation payable	8,832	-	-	8,832
Accrued interest payable	49,584	350	-	49,934
Bonds and notes payable	83,578	50,471	-	134,049
<b>Total current liabilities</b>	<b>143,496</b>	<b>50,821</b>	<b>-</b>	<b>194,317</b>
Noncurrent liabilities:				
Bonds and notes payable	3,443,211	668,317	-	4,111,528
<b>TOTAL LIABILITIES</b>	<b>3,586,707</b>	<b>719,138</b>	<b>-</b>	<b>4,305,845</b>
Net Assets:				
Invested in capital assets, net of related debt	3,699,304	(719,138)	656,954	3,637,120
Restricted	-	6,948	720,396	727,344
Unrestricted	99,981	-	246,440	346,421
<b>TOTAL NET ASSETS</b>	<b>\$ 3,799,285</b>	<b>\$ (712,190)</b>	<b>\$ 1,623,790</b>	<b>\$ 4,710,885</b>

**CITY OF SHADY COVE  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
ENTERPRISE FUNDS  
YEAR ENDED JUNE 30, 2009**

	<u>Sewer Operations Fund</u>	<u>Sewer Debt Fund</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 799,409	\$ -	\$ 27,725	\$ 827,134
<b>OPERATING EXPENSES</b>				
Personal services	208,765	-	-	208,765
Materials and services	280,397	-	-	280,397
Depreciation	327,830	-	31,464	359,294
<b>TOTAL OPERATING EXPENSES</b>	<u>816,992</u>	<u>-</u>	<u>31,464</u>	<u>848,456</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(17,583)</u>	<u>-</u>	<u>(3,739)</u>	<u>(21,322)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Taxes	-	79,306	-	79,306
Interest on investments	799	580	19,462	20,841
Interest expense	(154,722)	(34,276)	-	(188,998)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(153,923)</u>	<u>45,610</u>	<u>19,462</u>	<u>(88,851)</u>
<b>CHANGES IN NET ASSETS</b>	<u>(171,506)</u>	<u>45,610</u>	<u>15,723</u>	<u>(110,173)</u>
<b>NET ASSETS, July 1, 2008</b>	<u>3,970,791</u>	<u>(757,800)</u>	<u>1,608,067</u>	<u>4,821,058</u>
<b>NET ASSETS, June 30, 2009</b>	<u>\$ 3,799,285</u>	<u>\$ (712,190)</u>	<u>\$ 1,623,790</u>	<u>\$ 4,710,885</u>

**CITY OF SHADY COVE  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
YEAR ENDED JUNE 30, 2009**

	Sewer Operations Fund	Sewer Debt Fund	Other Enterprise Funds	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 792,956	\$ -	\$ 27,725	\$ 820,681
Payments to suppliers	(283,820)	-	-	(283,820)
Payments to employees	(215,470)	-	-	(215,470)
<b>Net cash provided (used) by operating activities</b>	<u>293,666</u>	<u>-</u>	<u>27,725</u>	<u>321,391</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Miscellaneous revenue	-	-	-	-
Repayment of interfund loan	(22,729)	-	22,729	-
Grants	-	-	-	-
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(22,729)</u>	<u>-</u>	<u>22,729</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on capital debt	(81,012)	(48,068)	-	(129,080)
Interest paid on capital debt	(155,883)	(34,346)	-	(190,229)
Taxes	-	79,201	-	79,201
Purchase and construction of capital assets	-	-	(150,943)	(150,943)
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(236,895)</u>	<u>(3,213)</u>	<u>(150,943)</u>	<u>(391,051)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends	799	580	19,462	20,841
<b>Net increase (decrease) in cash and investments</b>	34,841	(2,633)	(81,027)	(48,819)
Cash balances - beginning of the year includes restricted cash of \$829,168	-	2,637	1,047,863	1,050,500
Cash balances - end of the year includes restricted cash of \$720,396	<u>\$ 34,841</u>	<u>\$ 4</u>	<u>\$ 966,836</u>	<u>\$ 1,001,681</u>

Continued on next page.

**CITY OF SHADY COVE  
STATEMENT OF CASH FLOWS (Continued)  
ENTERPRISE FUNDS  
JUNE 30, 2008**

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	Sewer Operations Fund	Sewer Debt Fund	Other Enterprise Funds	Total
Operating income (loss)	\$ (17,583)	\$ -	\$ (3,739)	\$ (21,322)
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation expense	327,830	-	31,464	359,294
Change in assets and liabilities:				
Receivables, net	(6,453)	-	-	(6,453)
Vacations payable	(6,704)	-	-	(6,704)
Accounts and other payables	(3,424)	-	-	(3,424)
Net cash provided (used) by operating activities	<u>\$ 293,666</u>	<u>\$ -</u>	<u>\$ 27,725</u>	<u>\$ 321,391</u>

**NOTES TO BASIC FINANCIAL STATEMENTS**

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

**Note 1 - Summary of Significant Accounting Policies**

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

The Financial Reporting Entity

As required by GAAP, the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable or a legally separate organization that raises and holds economic resources for the direct benefit of the primary government. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. For financial reporting purposes the City is classified as a primary government and there are no outside organizations or governmental units that are considered to be component units under criteria set forth in GAAP.

Organization and Operation

The accounts of the City are organized on the basis of funds. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating government functions and activities. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equities, revenues and expenditures (expenses).

The accompanying financial statements are the presentation of the City of Shady Cove, Oregon. The City of Shady Cove is a municipal corporation governed by a Council comprised of four members and a Mayor, who are elected at large. Council members, two of whom are chosen in alternate biennial years, serve terms of four years. The Mayor is elected to serve a term of two years. All other officers of the City are appointed by majority vote of the Council. The administration of day to day city affairs (including human resource management) is the responsibility of the City Administrator who is appointed by and serves under the supervision of the City Council. The City provides the following services as authorized by its charter: police, parks, building and planning, public works (streets, storm drainage/facilities maintenance), and sanitary sewer collection and treatment.

Financial Statement Presentation, Measurement Focus and Basis of Accounting:

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all activities of the primary government. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees charged to external parties for services.

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

The Statement of Activities presents the direct expenses of a given function/program or business-type activity and the related program revenues categorized into charges for services, operating grants and contributions and capital grants and contributions. Direct expenses are those that are clearly identifiable with a specific function or program. Indirect expenses are those costs, usually administrative in nature, that support all City functions and enable direct services to be provided. Program revenues include 1) fees, fines and charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, investment income and other items not included among program revenues are reported as general revenues.

The government-wide financial statements are accounted for using an economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Nonexchange transactions, in which the City receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized when all eligibility requirements have been satisfied. The effect of interfund activity within governmental activities or business-type activities such as transfers, advances and loans is eliminated.

For purposes of the government-wide financial statements, the City has elected not to apply private-sector standards of accounting and financial reporting issued after November 30, 1989, unless specifically adopted by Governmental Accounting Standards Board pronouncements.

Fund Financial Statements

The City uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into two categories: governmental and proprietary. Each category, in turn, is divided into separate funds. Fund financial statements are provided for governmental and proprietary.

Governmental funds are used to account for most of the City's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

The governmental fund financial statements are accounted for using a current financial resources measurement focus whereby only current assets and liabilities generally are included in the Balance Sheet, and the Statement of Revenues, Expenditures and Changes in Fund Balance present increases and decreases in those current net assets. Governmental funds use the modified accrual basis of accounting where revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount can be determined and "available" means collectible within the current period or soon enough thereafter (60 days) to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

The City considers property taxes available and susceptible to accrual if they are collected within sixty days after year-end.

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

Intergovernmental revenues are recognized when all eligibility requirements are met. Eligibility requirements for intergovernmental revenues received on a reimbursement basis (i.e. where monies must be expended on specific projects or for a specific purpose before any amounts are paid to the City) are determined to be met when the underlying expenditures are recorded. Eligibility requirements for intergovernmental revenues which are unrestricted as to purpose of the expenditure and are usually revocable only for failure to comply with prescribed requirements are considered to be met at the time of receipt or when susceptible to accrual.

Property taxes are reflected as revenues in the fiscal period for which they were levied, provided they are due, or past due, and receivable within the current period, and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days). Otherwise, they are reported as deferred revenues. Property taxes, which are held at year end by the collecting agency, Jackson County, and are remitted to the City within the 60-day period, are reported as "Taxes Receivable."

Licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Special assessment installments that are long-term are offset by deferred revenues and, accordingly, are not recorded as revenue until collected.

Special assessments and loan repayments collected within 60 days after year end are considered measurable and available and are recognized as revenues.

The following are the City's major governmental funds:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Principal sources of revenue are property taxes, charges for services, and intergovernmental revenues. Primary expenditures of the General fund are made for general government, public safety, cultural and recreation services, and highway and streets. Effectively, all line and staff departments within the City, except those related to activity in Special Revenue Funds, are financed by the General Fund.

**Street Fund** - This fund accounts for services and, debt principal and interest payments, made related to street rehabilitation. Principal sources of revenue are intergovernmental revenues and grants.

Proprietary Funds - Enterprise funds

Proprietary funds can be separated into enterprise funds and internal service funds. All of the City's proprietary funds are enterprise funds. These funds account for the acquisition, operation and maintenance of the City facilities and services which are entirely self-supporting through service charges of customers. Services accounted for through enterprise funds are sewer operations and public facilities improvements. Funds included in this category are the Sewer Operations Fund, Sewer Debt Fund, Sewer Reserve Fund, Sewer Operation Replacement Fund, Transportation System Development (SDC) Fund, Storm Drainage SDC Fund, Sewer SDC Fund, and the Parks SDC Fund.

The principal operating revenues are charges to customers. Operating expenses include cost of sales, debt service, capital outlay, administration expenses, and depreciation.

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

All proprietary funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. The accrual basis of accounting is utilized by proprietary fund types where revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The following are the City's major enterprise funds:

**Sewer Operations Fund** - This fund accounts for the maintenance, operation and construction of the City's wastewater collection and treatment system. Principal source of revenue is user fees.

**Sewer Debt Fund** - This fund accounts for interest and principal payments on bonds issued for improvements to the wastewater system. The principal source of revenue is property taxes.

Use of Estimates

The preparation of the 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 disclosures of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Pooled Cash and Investments

The City maintains a common cash and investment pool for all City funds. All short-term, highly-liquid investments, including investments in the State Treasurer's Local Government Investment Pool (LGIP) where the remaining maturity at the time of purchase is one year or less, are stated at amortized cost, which approximates fair value. Investments with a remaining maturity at the time of purchase of more than one year are stated at fair value. Fair value is determined as the quoted market price if available otherwise the fair value is estimated based on the amount at which the investment could be exchanged in a current transaction between willing parties. Earnings on pooled cash and investments are credited to each fund monthly based on the average daily balance of each participating fund.

Pooled cash and investments has the general characteristics of a demand deposit account in that any participating fund may deposit additional cash at any time and may also withdraw cash at any time without prior notice or penalty.

For purposes of the statement of cash flows, the proprietary fund types consider all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

Property Taxes Receivable

Property taxes collected within approximately sixty days of the fiscal year end are recognized as revenue. The remaining balance of taxes receivable is recorded as deferred revenue because it is not deemed available to finance operations of the current period.

Ad valorem property taxes are levied on all taxable property as of January 1 preceding the beginning of the fiscal year. Property taxes become a lien on July 1 for personal property and real property. Property taxes are levied on July 1. Collection dates are November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

Uncollected property taxes are recorded on the Statement of Net Assets. Uncollected taxes are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established.

Accounts and Other Receivables

Sewer service revenues are recorded as revenue in the proprietary fund type as earned. An allowance for doubtful accounts is considered necessary at June, 30, 2009 for delinquent charges for services and has been recorded. Receivables for federal and state grants, and state, county and local shared revenue and interest earned, included in accounts and grants receivable, are recorded as revenue as earned.

Restricted Assets

Certain resources are set aside as the result of enabling legislation that imposes legally enforceable limits on how certain system development charges may be used.

Capital Assets

Capital assets are stated at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the fair market value of such assets at the date of donation. As permitted by GASB Statement No. 34, the City has limited the capitalization of infrastructure to only those which were constructed or acquired after July 1, 2003, with the exception of infrastructure related directly to long-term debt. Capital assets include land, right-of-ways, buildings, improvements, infrastructure and equipment costing over \$5,000 with an estimated life greater than one year. Infrastructure assets include streets, sidewalks, streetlights, sewer pipeline, etc. Through June 30, 2009, all infrastructure additions since July 1, 2003 have been financed by the proprietary funds. Maintenance and repairs that do not add to the value of the assets or extend the assets' lives are charged to expenditures as incurred and are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the related capital assets, except for land and right-of ways which are considered inexhaustible in nature and are not depreciated.

The estimated useful lives of the various categories of assets are as follows:

Buildings and improvements	20 to 50 years
Machinery and equipment	5 to 10 years
Infrastructure	5 to 50 years

Upon disposal of capital assets, the accounts are relieved of the related historical costs and accumulated depreciation and, if appropriate, resulting gains or losses are recognized.

Compensated Absences

Liabilities for vacation pay and compensated absences are recorded in the Statement of Net Assets and proprietary fund financial statements when vested or earned by employees. Vacation pay and compensated absences are accrued as expenditures in the governmental fund financial statements when the amounts are expected to be liquidated with expendable available resources. Sick pay, which does not vest, is recorded when leave is taken.

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

Long-term Debt and Bond Issuance Costs

Long-term debt is reported as a liability in the Statement of Net Assets and proprietary fund financial statements. The related bond discounts, premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method in the Statement of Net Assets and proprietary fund financial statements. In the governmental fund financial statements, the bond discounts, premiums and issuance costs are recognized when incurred and not deferred. The face amount of the debt issued and premiums received are reported as other financing sources while discounts are reported as other financing uses. Bond issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures in the governmental fund financial statements. The City has not incurred any amortizable costs related to the issuance of the long-term debt reported on the Statement of Net Assets.

Net Assets - Fund Balances

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Restrictions on the use of fund balances, if any, for debt service or specific purposes are recorded as reservations. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Appropriation and Budgetary Controls

The City is subject to provisions of the Oregon Revised Statutes which set forth local budget procedures. A resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Appropriations are established by department in the General Fund, and by function (personal services, materials and services, capital outlay, debt service, transfers to other funds and contingency) in other funds.

The City Council may, however, approve additional appropriations for unexpected additional resources or necessary expenditures which could not be reasonably estimated at the time the budget was adopted. Additionally, budgets may be modified during the fiscal year by the use of appropriation transfers between legal categories or appropriation transfers from one fund to another. Such transfers must be authorized by official resolution or ordinance of the City Council. The resolution or ordinance must state the need for the transfer, the purpose of the authorized expenditures and the amount of the appropriation transferred.

Transfers of contingency appropriations which in aggregate during a fiscal year exceed 15% of the total appropriations of the fund may only be made after adoption of a supplemental budget prepared for that purpose. A supplemental budget less than 10% of the fund's original budget may be adopted at a regular meeting of the governing body. A supplemental budget greater than 10% of the fund's original budget requires public hearings, publication in newspapers and approval by the Council. Budget amounts shown in the financial statements include the original budget, supplemental budgets, and budget transfers. All appropriations terminate on June 30.

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

All budget amendments are subject to the limitations put forth in the Oregon Revised Statutes Chapters 294.305 through 394.565 (Oregon Budget Law). Budget amounts are as originally budgeted, or as amended by the City Council.

**Note 2 - Cash and Investments**

**Deposits.** The Governmental Accounting Standards Boards has adopted accounting principles generally accepted in the United States of America (GAAP), which include standards to categorize deposits to give an indication of the level of custodial credit risk assumed by the City at June 30, 2009. If bank deposits at year end are not entirely insured or collateralized with securities held by the City or by its agent in the City's name, the City must disclose the custodial credit risk that exists. Deposits with financial institutions are comprised of bank demand deposits. For deposits in excess of federal depository insurance, Oregon Revised Statutes require depository institutions to be in compliance with ORS 295. For the fiscal year ended June 30, 2009, the carrying amounts of the City's deposits in various qualifying financial institutions were \$87,439 and the bank balances were \$100,898. All deposits are held in the name of the City. At June 30, 2009 the City's deposits were covered by federal depository insurance and certificates of participation.

Effective July 1, 2008, House Bill 2901 created a shared liability structure for participating bank depositories in Oregon. Barring any exceptions, a qualifying bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of the quarter-end public fund deposits if they are adequately capitalized, or 110% of the quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public bank depositories is available to repay the deposits of public funds of governmental entities.

*Custodial Credit Risk.* Custodial credit risk for deposits is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk.

*Investments.* The City of Shady Cove has invested funds in the State Treasurer's Oregon Short-term Fund Local Government Investment Pool during fiscal year 2009. The Oregon Short-term Fund is the local government investment pool for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORD 294.805 to 294.895). Local Government Investment Pool (LGIP) is an external investment pool managed by the State Treasurer's office, which allow governments within the state to pool their funds for investment purposes. The amounts invested in the pool are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB statement No. 40.

In addition, the Oregon State Treasury LGIP distributes investment income on an amortized cost basis and participants' equity in the pool is determined by the amount of participant deposits, adjusted for withdrawals and distributed income. Accordingly, the adjustment to fair value would not represent an expendable increase in the City's cash position.

Investments in the Oregon State Treasury LGIP are made under the provisions of ORS 194.180. These funds are held in the City's name and are not subject to collateralization requirements or ORS 295.015. Investments are stated at amortized cost, which approximated fair value.

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

State of Oregon statutes restrict the types of investments in which the City may invest. Authorized investments include obligations of the United States Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, time certificates of deposit, certain commercial paper, and the State of Oregon Treasurer's Local Government Investment Pool. As of June 30, 2009 and for the year then ended, the City was in compliance with the aforementioned State of Oregon statutes.

*Credit Risk.* State Statutes authorize the City to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, banker's acceptances, certain commercial papers, and the State Treasurer's Investment Pool, among others. The City has no formal investment policy that further restricts its investment choices.

*Concentration of Credit Risk.* The City is required to provide information about the concentration of credit risk associated with its investments in one issuer that represents 5 percent or more of the total investments, excluding investments in external investment pools or those issued and explicitly guaranteed by the U.S. Government. The City has no such investments.

*Interest Rate Risk.* The City has no formal investment policy that explicitly limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

As of June 30, 2009, the City had the following investments:

<u>Investment Type</u>	<u>Maturity</u>	<u>Percentage of Portfolio</u>	<u>Fair Value</u>
Local Government Investment Pool	1 day	100%	<u>\$ 1,129,667</u>

A reconciliation of cash and investments as shown on the Statement of Net Assets is as follows:

Carrying amounts of cash and investments:

Petty cash	\$ 200
Demand deposits	87,439
Investments - LGIP	<u>1,129,667</u>
	<u>\$ 1,217,306</u>

Cash and investments are reflected on the basic financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and Investments	\$ 215,625	\$ 281,285	\$ 496,910
Restricted Cash	<u>-</u>	<u>720,396</u>	<u>720,396</u>
Total Cash and Investments	<u>\$ 215,625</u>	<u>\$ 1,001,681</u>	<u>\$ 1,217,306</u>

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

**Note 3 - Receivables**

Receivables are comprised of the following as of June 30, 2009:

<u>Governmental</u>		<u>Business-Type</u>	
General Fund:		Sewer Operation:	
Intergovernmental	\$ 8,739	Accounts receivable	\$ 79,717
Franchise Fees	14,265	Allowance	<u>(4,243)</u>
Other	9,922		
Property Taxes	9,391		<u>75,474</u>
	<u>42,317</u>		
Street Fund:		Sewer Debt Service:	
Intergovernmental	<u>9,352</u>	Property Taxes	<u>6,944</u>
Total	<u>\$ 51,669</u>	Total	<u>\$ 82,418</u>

**Note 4 - Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. In addition, governmental funds and proprietary funds report deferred revenue in connection with resources that have been received but not yet earned. At June 30, 2009, the components of deferred revenue consist of the following:

<u>Type/Fund</u>	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable:			
General Fund	<u>\$ 7,599</u>	<u>\$ -</u>	<u>\$ 7,599</u>
Total	<u>\$ 7,599</u>	<u>\$ -</u>	<u>\$ 7,599</u>

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

**Note 5 - Capital Assets**

The changes in capital assets for the year ended June 30, 2009, are as follows:

	Balance 7/1/08	Additions	Disposals	Balance 6/30/09
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 34,542	\$ -	\$ -	\$ 34,542
Total capital assets not being depreciated	<u>\$ 34,542</u>	<u>-</u>	<u>-</u>	<u>\$ 34,542</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 250,257	5,840	-	\$ 256,097
Machinery and equipment	148,296	-	-	148,296
Total capital assets being depreciated	<u>398,553</u>	<u>5,840</u>	<u>-</u>	<u>404,393</u>
Less accumulated depreciation for:				
Buildings and improvements	(81,080)	(12,891)	-	(93,971)
Machinery and equipment	(57,312)	(28,122)	-	(85,434)
Total accumulated depreciation	<u>(138,392)</u>	<u>(41,013)</u>	<u>-</u>	<u>(179,405)</u>
Total capital assets being depreciated, net	<u>260,161</u>	<u>(35,173)</u>	<u>-</u>	<u>224,988</u>
Total capital assets, governmental activities, net	<u>\$ 294,703</u>	<u>\$ (35,173)</u>	<u>\$ -</u>	<u>\$ 259,530</u>

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

	Balance 7/1/08	Additions	Disposals	Balance 6/30/09
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 58,403	\$ -	\$ -	\$ 58,403
 Total capital assets not being depreciated	<u>\$ 58,403</u>	<u>-</u>	<u>-</u>	<u>\$ 58,403</u>
 Capital assets being depreciated:				
Machinery and equipment	\$ 602,419	-	-	\$ 602,419
SDC Improvements	632,071	119,106	-	751,177
Infrastructure	10,682,872	-	-	10,682,872
 Total capital assets being depreciated	<u>11,917,362</u>	<u>119,106</u>	<u>-</u>	<u>12,036,468</u>
 Less accumulated depreciation for:				
Machinery and equipment	(214,226)	(47,954)	-	(262,180)
SDC Improvements	(62,758)	(31,464)	-	(94,222)
Infrastructure	(3,525,962)	(279,876)	-	(3,805,838)
 Total accumulated depreciation	<u>(3,802,946)</u>	<u>(359,294)</u>	<u>-</u>	<u>(4,162,240)</u>
 Total capital assets being depreciated, net	<u>8,114,416</u>	<u>(240,188)</u>	<u>-</u>	<u>7,874,228</u>
 Total capital assets, business-type activities, net	<u>\$ 8,172,819</u>	<u>\$ (240,188)</u>	<u>\$ -</u>	<u>\$ 7,932,631</u>

Depreciation expense for the year was charged to the following programs:

**Governmental activities:**

<u>Program</u>	
Administrative	\$ 12,067
Police department	<u>28,946</u>
Total	<u>\$ 41,013</u>

**Business-type activities:**

Wastewater department	\$ 327,830
SDC	<u>31,464</u>
Total	<u>\$ 359,294</u>

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

**Note 6 - Long-Term Debt**

During the fiscal year ended June 30, 2009, the following long-term debt transactions occurred:

	<u>Balance 7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/09</u>	<u>Due in 1 Year</u>
<b><u>Governmental Activities:</u></b>					
Capital Lease Obligation	\$ 57,497	\$ -	\$ (25,628)	\$ 31,869	\$ 27,181
<b><u>Business-type activities:</u></b>					
General Obligation Bonds	766,856	-	(48,068)	718,788	50,471
Sewer Bond # 1	2,301,141	-	(23,954)	2,277,187	25,032
OECD Note Payable # 1	321,535	-	(12,104)	309,431	12,214
OECD Note Payable # 2	50,090	-	(1,776)	48,314	1,882
Clean Water State Revolving Fund Note	935,036	-	(43,179)	891,857	44,450
<b>Total Long-term debt</b>	<b><u>\$ 4,432,155</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (154,709)</u></b>	<b><u>\$ 4,277,446</u></b>	<b><u>\$ 161,230</u></b>

The City's long-term debt consists of the following:

**General Obligation Bonds**

\$1,390,000 was issued June 20, 1980 for wastewater construction and improvements. Interest (5%) payments are required semi-annually on June 26<sup>th</sup> and December 18<sup>th</sup> each year with principal payments required each June 26<sup>th</sup> until 2020. Principal and interest payments are made from the Sewer Debt Fund.

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 50,471	\$ 31,943	\$ 82,414
2011	52,994	29,420	82,414
2012	55,644	26,770	82,414
2013	58,426	23,988	82,414
2014	61,348	21,066	82,414
2005	64,415	17,999	82,414
2016	67,636	14,778	82,414
2017	71,018	11,396	82,414
2018	74,568	7,846	82,414
2019	79,355	3,059	82,414
2020	82,913	2,073	84,986
	<b><u>\$ 718,788</u></b>	<b><u>\$ 190,338</u></b>	<b><u>\$ 909,126</u></b>

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

Sewer Bond No. #1

\$2,346,000 was issued March 17, 2006 for wastewater construction and improvements. This bond was used to pay off previous interim financing. Annual payments of \$127,506, including principal and interest of 4.5%, due March 17<sup>th</sup> each year through 2046. Principal and interest payments are made from the Sewer Operations Fund.

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 25,032	\$ 102,473	\$ 127,505
2011	26,159	101,347	127,506
2012	27,336	100,170	127,506
2013	28,566	98,940	127,506
2014	29,851	97,654	127,505
2015-2019	170,656	466,870	637,526
2020-2024	212,670	424,858	637,528
2025-2029	265,024	372,503	637,527
2030-2034	330,269	307,260	637,529
2035-2039	411,575	225,953	637,528
2040-2044	512,897	124,630	637,527
2045-2046	237,152	16,086	253,238
	<u>\$ 2,277,187</u>	<u>\$ 2,438,744</u>	<u>\$ 4,715,931</u>

OECD Note Payable #1

\$400,000 was issued April 12, 2000 for rehabilitation of the wastewater systems. Annual payments of between \$27,734 and \$32,497, including principal and interest of between 5.25% and 5.625%, due December 1<sup>st</sup> each year through 2024. Principal payments are made from the Sewer Operations Fund, and interest payments are made from the Sewer Operations Fund.

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 12,214	\$ 17,132	\$ 29,346
2011	12,331	16,491	28,822
2012	12,457	15,828	28,285
2013	12,591	15,143	27,734
2014	17,733	14,450	32,183
2015-2019	91,091	57,449	148,540
2020-2024	121,265	28,953	150,218
2025	29,749	1,685	31,434
	<u>\$ 309,431</u>	<u>\$ 167,131</u>	<u>\$ 476,562</u>

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

OECD Note Payable #2

\$60,000 was issued May 16, 2001 for rehabilitation of the wastewater systems. Annual payments of \$4,781, including principal and interest of 6%, due December 1<sup>st</sup> each year through 2024. Principal payments are made from the Sewer Operations Fund, and interest payments are made from the Sewer Operations Fund.

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,882	\$ 2,899	\$ 4,781
2011	1,995	2,786	4,781
2012	2,115	2,666	4,781
2013	2,241	2,540	4,781
2014	2,377	2,405	4,782
2014-2018	14,196	9,706	23,902
2019-2023	19,000	4,906	23,906
2024-2025	4,509	270	4,779
	<u>\$ 48,314</u>	<u>\$ 28,178</u>	<u>\$ 76,492</u>

Clean Water State Revolving Fund (CWSRF) Note

\$1,000,000 loan agreement issued November 15, 2004 for rehabilitation of the wastewater systems. As of June 30, 2007, draws on this note were \$976,982, with no further draws expected to occur. Annual payments of \$61,692 in fiscal year 2006-07, and \$70,170 thereafter until fully paid, including principal and interest of 2.92%, due semi-annually September and March 1<sup>st</sup> each year through March 1, 2025. Principal and interest payments are made from the Sewer Operations Fund. The City is required to maintain a loan reserve in accordance with the loan agreement. The current reserve balance is \$128,604.

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Interest &amp; Fees</u>	<u>Total Payments</u>
2010	\$ 44,450	\$ 25,720	\$ 4,349	\$ 30,069	\$ 74,519
2011	45,757	24,413	4,123	28,536	74,293
2012	47,103	23,067	3,891	26,958	74,061
2013	48,489	21,681	3,652	25,333	73,822
2014	49,915	20,255	3,406	23,661	73,576
2014-2018	272,480	78,370	13,082	91,452	363,932
2019-2023	314,980	35,870	5,751	41,621	356,601
2024-2025	68,683	1,508	173	1,681	70,364
	<u>\$ 891,857</u>	<u>\$ 230,884</u>	<u>\$ 38,427</u>	<u>\$ 269,311</u>	<u>\$ 1,161,168</u>

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

Capital Lease Obligation

\$78,113 was issued June 19, 2007 for the acquisition of two 2008 Dodge Chargers, which are reported with the Governmental Activities capital assets at June 30, 2008. Monthly payments of \$2,361.21, including interest of 5.70% will be made through July 16, 2011. Payments were made from the General Fund.

Year Ending June 30:	Principal	Interest	Total
2010	\$ 27,181	\$ 1,153	\$ 28,334
2011	4,688	35	4,723
	<u>\$ 31,869</u>	<u>\$ 1,188</u>	<u>\$ 33,057</u>

The net book value of these assets at June 30, 2009 is \$46,870.

Note 7 - Operating Leases

As of June 30, 2009 the City had an operating lease commitment for a copier. The future payments for this operating lease are as follows:

Year Ending June 30:	Payments
2010	\$ 3,120
2011	3,120
2012	2,600
	<u>\$ 8,840</u>

Note 8 - Interfund Transactions

**Interfund charges**

Interfund charges during the year ended June 30, 2009 were as follows:

	Administration Allocation In	Administration Allocation Out
Governmental-Type Activities:		
General Fund	\$ 129,000	\$ -
Street Fund		31,000
Business-Type Activities:		
Sewer Fund	-	98,000
Total Administrative Charges	<u>\$ 129,000</u>	<u>\$ 129,000</u>

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

Payroll costs for finance personnel are initially recorded in the general fund. A portion of these costs are allocated to other City funds at a predetermined percentage to approximate time spent by the finance staff performing duties for these other funds.

**Note 9 - Accrued Compensated Absences**

At June 30, 2009, the outstanding balance is comprised of accrued vacation and accrued compensatory time of \$36,502. The accrued compensated absences liability is liquidated by the fund which reports the liability. The changes in accrued compensated absences for the year ended June 30, 2009, are as follows:

<u>Accrued July 1, 2008</u>	<u>Earned</u>	<u>Taken</u>	<u>Accrued June 30, 2009</u>
<u>\$ 40,732</u>	<u>\$ 42,120</u>	<u>\$ (46,350)</u>	<u>\$ 36,502</u>

**Note 10 - Defined Benefit Pension Plan**

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

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

Covered employees are required by state statute to contribute 6.00% of their annual salary to the system, but the employer is allowed to pay any or all of the employees' contribution in addition to the required employers' contribution. The City elected to contribute the 6.00% "pick-up" or \$24,000 for the year ended June 30, 2009. The City is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF rate in effect for the year ended June 30, 2009 was 7.30%. The OPSRP rates in effect for the year ended June 30, 2009 were 8.40% for general service employees and 11.67% for police employees. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature. The City's contributions to PERS for the years ending June 30, 2009, 2008, and 2007 were \$72,406 \$71,478, and \$68,216, respectively, equal to the required contributions for each year.

**CITY OF SHADY COVE, OREGON**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

**Note 11 - Net Assets**

*Deficit Net Assets -*

At June 30, 2009, a net asset deficit of \$712,190 exists in the sewer debt fund. The deficit results from the recording of long-term debt for the purpose of constructing the City of Shady Cove's portion of the wastewater system. The sewer debt fund is responsible for the long-term debt liability while the sewer operations fund receives the benefit of the constructed asset resulting in a deficit in the sewer debt fund.

*Restricted Net Assets -*

The City has approved enabling legislation that imposes legally enforceable limits on how certain system development charges (restricted resource/net assets) may be used. A portion of net assets are also restricted by external parties for payments of outstanding debt. Restricted net assets at June 30, 2009 are comprised of the following:

Enacted by enabling legislation of the City:	
Restricted for system development	\$ 720,396
Externally imposed:	
Restricted for debt service	<u>6,948</u>
Total restrictions	<u>\$ 727,344</u>

**Note 12 - Risk Management**

The City of Shady Cove is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. Worker's compensation insurance is also provided through a commercial carrier. There has been no significant reduction in insurance coverage from the prior year and the City has not been required to pay any settlements in excess of insurance coverage during the past three fiscal years.

**Note 13 - Concentrations of Risk**

In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**Note 14 - Current Vulnerability Due to Certain Concentrations**

The City's operations are concentrated within Jackson County. In addition, substantially all the City's revenues, other than charges for services, for continuing operations are from federal, state, and local government agencies.

SUPPLEMENTAL INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF SHADY COVE  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2009

	Budget		Actual	Variance with
	Adopted	Final		Final Budget
				Positive
				(Negative)
<b>REVENUES</b>				
Property taxes	\$ 111,000	\$ 111,000	\$ 112,533	\$ 1,533
State subventions	56,000	56,000	72,805	16,805
Franchise fees	175,000	175,000	185,604	10,604
City fees	115,000	115,000	101,179	(13,821)
Administrative fees	129,000	129,000	129,000	-
Municipal court	70,000	70,000	56,628	(13,372)
Grants	500	500	-	(500)
Traffic Enhancement Fee	16,000	16,000	15,032	(968)
Public Safety Fee	210,000	210,000	240,188	30,188
Miscellaneous	1,500	1,500	8,786	7,286
Earnings on investments	5,100	5,100	3,633	(1,467)
<b>TOTAL REVENUES</b>	<b>889,100</b>	<b>889,100</b>	<b>925,388</b>	<b>36,288</b>
<b>EXPENDITURES</b>				
Current:				
Administration	497,900	497,900	489,452	8,448
Public safety	494,700	494,700	406,031	88,669
Parks and recreation	5,000	5,000	-	5,000
Capital outlay	10,100	10,100	5,840	4,260
Debt service	28,500	28,500	28,335	165
Contingency	22,900	22,900	-	22,900
<b>TOTAL EXPENDITURES</b>	<b>1,059,100</b>	<b>1,059,100</b>	<b>929,658</b>	<b>129,442</b>
<b>EXCESS (DEFICIENCY) OF</b>				
<b>REVENUES OVER EXPENDITURES</b>	<b>(170,000)</b>	<b>(170,000)</b>	<b>(4,270)</b>	<b>165,730</b>
<b>FUND BALANCE, July 1, 2008</b>	<b>170,000</b>	<b>170,000</b>	<b>172,581</b>	<b>2,581</b>
<b>FUND BALANCE, June 30, 2009</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 168,311</b>	<b>\$ 168,311</b>

**CITY OF SHADY COVE  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
STREET FUND  
YEAR ENDED JUNE 30, 2009**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
<b>REVENUES</b>				
State Highway revenue	\$ 104,600	\$ 122,600	\$ 110,733	\$ (11,867)
Earnings on investments	-	-	715	715
<b>TOTAL REVENUES</b>	<b>104,600</b>	<b>122,600</b>	<b>111,448</b>	<b>(11,152)</b>
<b>EXPENDITURES</b>				
Current				
Highways and streets				
Personal services	17,700	17,700	14,091	3,609
Materials and services	84,100	107,100	99,141	7,959
Capital outlay	17,800	17,800	-	17,800
Contingency	5,000	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>124,600</b>	<b>142,600</b>	<b>113,232</b>	<b>29,368</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(20,000)</b>	<b>(20,000)</b>	<b>(1,784)</b>	<b>18,216</b>
<b>FUND BALANCE, July 1, 2008</b>	<b>20,000</b>	<b>20,000</b>	<b>44,554</b>	<b>24,554</b>
<b>FUND BALANCE, June 30, 2009</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 42,770</b>	<b>\$ 42,770</b>

**OTHER SUPPLEMENTAL INFORMATION**

CITY OF SHADY COVE  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN NET ASSETS - BUDGET AND ACTUAL  
SEWER OPERATIONS FUND  
YEAR ENDED JUNE 30, 2009

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
<b>REVENUES</b>				
Charges for services	\$ 790,000	\$ 790,000	\$ 799,409	\$ 9,409
Earnings on investments	-	-	799	799
<b>TOTAL REVENUES</b>	<u>790,000</u>	<u>790,000</u>	<u>800,208</u>	<u>10,208</u>
<b>EXPENDITURES</b>				
Current:				
Utility services				
Personal services	250,300	250,300	208,765	41,535
Materials and services	281,200	302,400	280,397	22,003
Debt service	234,500	237,300	235,735	1,565
Operating contingency	24,000	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>790,000</u>	<u>790,000</u>	<u>724,897</u>	<u>65,103</u>
<b>NET INCOME (LOSS)</b>	-	-	75,311	75,311
<b>NET WORKING CAPITAL, July 1, 2008</b>	-	-	(24,913)	(24,913)
<b>NET WORKING CAPITAL, June 30, 2009</b>	<u>\$ -</u>	<u>\$ -</u>	50,398	<u>\$ 50,398</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			7,275,676	
Long-term debt			(3,526,789)	
<b>ENDING NET ASSETS</b>			<u>\$ 3,799,285</u>	

**CITY OF SHADY COVE  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN NET ASSETS - BUDGET AND ACTUAL  
SEWER DEBT FUND  
YEAR ENDED JUNE 30, 2009**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
<b>REVENUES</b>				
Taxes	\$ 81,414	\$ 81,414	\$ 79,306	\$ (2,108)
Earnings on investments	1,000	1,000	580	(420)
<b>TOTAL REVENUES</b>	<u>82,414</u>	<u>82,414</u>	<u>79,886</u>	<u>(2,528)</u>
<b>EXPENDITURES</b>				
Debt service	<u>82,414</u>	<u>82,414</u>	<u>82,344</u>	<u>70</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	-	-	(2,458)	(2,458)
<b>NET WORKING CAPITAL, July 1, 2008</b>	<u>-</u>	<u>-</u>	<u>9,056</u>	<u>9,056</u>
<b>NET WORKING CAPITAL, June 30, 2009</b>	<u>\$ -</u>	<u>\$ -</u>	6,598	<u>\$ 6,598</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets.				
Long-term debt			<u>(718,788)</u>	
<b>ENDING NET ASSETS (DEFICIT)</b>			<u>\$ (712,190)</u>	

CITY OF SHADY COVE  
 COMBINING STATEMENT OF NET ASSETS  
 NONMAJOR ENTERPRISE FUNDS  
 JUNE 30, 2009

	Sewer Reserve Fund	Sewer Operations Replacement Fund	Transportation SDC Fund	Storm Drainage SDC Fund	Sewer SDC Fund	Parks SDC Fund	Total Nonmajor Enterprise Funds
<b>ASSETS</b>							
Current assets:							
Cash and investments	\$ 131,276	\$ 115,164	\$ -	\$ -	\$ -	\$ -	\$ 246,440
<b>Total current assets</b>	<b>131,276</b>	<b>115,164</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>246,440</b>
Noncurrent assets:							
Restricted cash and investments	-	-	169,302	169,637	172,934	208,523	720,396
Infrastructure, net	-	-	75,730	192,568	151,480	237,176	656,954
<b>Total noncurrent assets</b>	<b>-</b>	<b>-</b>	<b>245,032</b>	<b>362,205</b>	<b>324,414</b>	<b>445,699</b>	<b>1,377,350</b>
<b>TOTAL ASSETS</b>	<b>\$ 131,276</b>	<b>\$ 115,164</b>	<b>\$ 245,032</b>	<b>\$ 362,205</b>	<b>\$ 324,414</b>	<b>\$ 445,699</b>	<b>\$ 1,623,790</b>
<b>NET ASSETS</b>							
Invested in capital assets net of related debt	\$ -	\$ -	\$ 75,730	\$ 192,568	\$ 151,480	\$ 237,176	\$ 656,954
Restricted	-	-	169,302	169,637	172,934	208,523	720,396
Unrestricted	131,276	115,164	-	-	-	-	246,440
<b>Total net assets</b>	<b>\$ 131,276</b>	<b>\$ 115,164</b>	<b>\$ 245,032</b>	<b>\$ 362,205</b>	<b>\$ 324,414</b>	<b>\$ 445,699</b>	<b>\$ 1,623,790</b>

CITY OF SHADY COVE  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN NET ASSETS  
 NONMAJOR ENTERPRISE FUNDS  
 YEAR ENDED JUNE 30, 2009

	Sewer Reserve Fund	Sewer Operations Replacement Fund	Transportation SDC Fund	Storm Drainage SDC Fund	Sewer SDC Fund	Parks SDC Fund	Total Nonmajor Enterprise Funds
<b>OPERATING REVENUES</b>							
Charges for services	\$ -	\$ -	\$ 5,382	\$ 5,800	\$ 11,881	\$ 4,662	\$ 27,725
<b>OPERATING EXPENSES</b>							
Depreciation	-	-	4,551	11,592	8,931	6,390	31,464
<b>OPERATING INCOME (LOSS)</b>	-	-	831	(5,792)	2,950	(1,728)	(3,739)
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Interest on investments	2,672	2,344	3,220	3,221	3,204	4,801	19,462
<b>INCOME (LOSS)</b>	2,672	2,344	4,051	(2,571)	6,154	3,073	15,723
<b>NET ASSETS, July 1, 2008</b>	128,604	112,820	240,981	364,776	318,260	442,626	1,608,067
<b>NET ASSETS, June 30, 2009</b>	\$ 131,276	\$ 115,164	\$ 245,032	\$ 362,205	\$ 324,414	\$ 445,699	\$ 1,623,790

CITY OF SHADY COVE  
 COMBINING STATEMENT OF CASH FLOWS  
 NONMAJOR ENTERPRISE FUNDS  
 YEAR ENDED JUNE 30, 2009

	Sewer Reserve Fund	Sewer Operations Replacement Fund	Transportation SDC Fund	Storm Drainage SDC Fund	Sewer SDC Fund	Parks SDC Fund	Total Nonmajor Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Receipts from customers	\$ -	\$ -	\$ 5,382	\$ 5,800	\$ 11,881	\$ 4,662	\$ 27,725
<b>Net cash provided (used) by operating activities</b>	<u>-</u>	<u>-</u>	<u>5,382</u>	<u>5,800</u>	<u>11,881</u>	<u>4,662</u>	<u>27,725</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Payment/(repayment) of interfund loan	22,729	-	-	-	-	-	22,729
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Purchase and construction of capital assets	-	-	-	-	-	(150,943)	(150,943)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Interest and dividends	2,672	2,344	3,220	3,221	3,204	4,801	19,462
<b>Net Increase (decrease) in cash and investments</b>	25,401	2,344	8,602	9,021	15,085	(141,480)	(81,027)
Balances - beginning of the year	105,875	112,820	160,700	160,616	157,849	350,003	1,047,863
Balances - end of the year	<u>\$ 131,276</u>	<u>\$ 115,164</u>	<u>\$ 169,302</u>	<u>\$ 169,637</u>	<u>\$ 172,934</u>	<u>\$ 208,523</u>	<u>\$ 966,836</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>							
Operating Income (loss)	\$ -	\$ -	\$ 831	\$ (5,792)	\$ 2,950	\$ (1,728)	\$ (3,739)
Adjustments to reconcile operating income to cash provided by operating activities:							
Depreciation expense	-	-	4,551	11,592	8,931	6,390	31,464
<b>Net cash provided (used) by operating activities</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,382</u>	<u>\$ 5,800</u>	<u>\$ 11,881</u>	<u>\$ 4,662</u>	<u>\$ 27,725</u>

CITY OF SHADY COVE  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
 IN NET ASSETS - BUDGET AND ACTUAL  
 SEWER RESERVE FUND  
 YEAR ENDED JUNE 30, 2009

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Earnings on investments	\$ 3,600	\$ 3,600	\$ 2,672	\$ (928)
CHANGE IN NET ASSETS	3,600	3,600	2,672	(928)
NET ASSETS, July 1, 2008	124,500	124,500	128,604	4,104
NET ASSETS, June 30, 2009	\$ 128,100	\$ 128,100	\$ 131,276	\$ 3,176

CITY OF SHADY COVE  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
 IN NET ASSETS - BUDGET AND ACTUAL  
 SEWER OPERATIONS REPLACEMENT FUND  
 YEAR ENDED JUNE 30, 2009

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Earnings on investments	\$ 3,000	\$ 3,000	\$ 2,344	\$ (656)
CHANGE IN NET ASSETS	3,000	3,000	2,344	(656)
NET ASSETS, July 1, 2008	105,000	105,000	112,820	7,820
NET ASSETS, June 30, 2009	\$ 108,000	\$ 108,000	\$ 115,164	\$ 7,164

CITY OF SHADY COVE  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
 IN NET ASSETS - BUDGET AND ACTUAL  
 TRANSPORTATION SDC FUND  
 YEAR ENDED JUNE 30, 2009

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
System development charges	\$ 16,000	\$ 16,000	\$ 5,382	\$ (10,618)
Earnings on investments	1,800	1,800	3,220	1,420
TOTAL REVENUES	17,800	17,800	8,602	(9,198)
NET INCOME (LOSS)	17,800	17,800	8,602	(9,198)
NET WORKING CAPITAL, July 1, 2008	130,000	130,000	160,700	30,700
NET WORKING CAPITAL, June 30, 2009	\$ 147,800	\$ 147,800	169,302	\$ 21,502
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			75,730	
ENDING NET ASSETS			\$ 245,032	

CITY OF SHADY COVE  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
 IN NET ASSETS - BUDGET AND ACTUAL  
 STORM DRAINAGE SDC FUND  
 YEAR ENDED JUNE 30, 2009

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
<b>REVENUES</b>				
System development charges	\$ 16,000	\$ 16,000	\$ 5,800	\$ (10,200)
Earnings on investments	5,000	5,000	3,221	(1,779)
<b>TOTAL REVENUES</b>	<u>21,000</u>	<u>21,000</u>	<u>9,021</u>	<u>(11,979)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	21,000	21,000	9,021	(11,979)
<b>NET WORKING CAPITAL, July 1, 2008</b>	<u>175,000</u>	<u>175,000</u>	<u>160,616</u>	<u>(14,384)</u>
<b>NET WORKING CAPITAL, June 30, 2009</b>	<u>\$ 196,000</u>	<u>\$ 196,000</u>	169,637	<u>\$ (26,363)</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			<u>192,568</u>	
<b>ENDING NET ASSETS</b>			<u>\$ 362,205</u>	

**CITY OF SHADY COVE  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN NET ASSETS - BUDGET AND ACTUAL  
SEWER SDC FUND  
YEAR ENDED JUNE 30, 2009**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
<b>REVENUES</b>				
System development charges	\$ 35,000	\$ 35,000	\$ 11,881	\$ (23,119)
Earnings on investments	3,300	3,300	3,204	(96)
<b>TOTAL REVENUES</b>	<u>38,300</u>	<u>38,300</u>	<u>15,085</u>	<u>(23,215)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	38,300	38,300	15,085	(23,215)
<b>NET WORKING CAPITAL, July 1, 2008</b>	<u>87,500</u>	<u>87,500</u>	<u>157,849</u>	<u>70,349</u>
<b>NET WORKING CAPITAL, June 30, 2009</b>	<u>\$ 125,800</u>	<u>\$ 125,800</u>	<u>172,934</u>	<u>\$ 47,134</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			<u>151,480</u>	
<b>ENDING NET ASSETS</b>			<u>\$ 324,414</u>	

CITY OF SHADY COVE  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
 IN NET ASSETS - BUDGET AND ACTUAL  
 PARKS SDC FUND  
 YEAR ENDED JUNE 30, 2009

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
<b>REVENUES</b>				
System development charges	\$ 11,000	\$ 11,000	\$ 4,662	\$ (6,338)
Earnings on investments	7,200	7,200	4,801	(2,399)
<b>TOTAL REVENUES</b>	<b>18,200</b>	<b>18,200</b>	<b>9,463</b>	<b>(8,737)</b>
<b>EXPENDITURES</b>				
Capital Outlay	155,000	155,000	119,106	35,894
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(136,800)</b>	<b>(136,800)</b>	<b>(109,643)</b>	<b>27,157</b>
<b>NET WORKING CAPITAL, July 1, 2008</b>	<b>205,000</b>	<b>205,000</b>	<b>318,166</b>	<b>113,166</b>
<b>NET WORKING CAPITAL, June 30, 2009</b>	<b>\$ 68,200</b>	<b>\$ 68,200</b>	<b>208,523</b>	<b>\$ 140,323</b>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			237,176	
<b>ENDING NET ASSETS</b>			<b>\$ 445,699</b>	

**OTHER FINANCIAL SCHEDULES**

CITY OF SHADY COVE  
SCHEDULE OF PROPERTY TAX TRANSACTIONS  
YEAR ENDED JUNE 30, 2009

	Tax Year	Uncollected July 1, 2008	Levy as Extended by Assessor	Discounts and Adjustments	Interest	Collections Per Treasurer	Uncollected June 30, 2009
<b><u>GENERAL FUND</u></b>							
Current	2008-09		\$ 118,562	\$ (3,635)	\$ 54	\$ 109,045	\$ 5,936
Prior	2007-08	\$ 5,567		(857)	134	2,886	1,958
	2006-07	1,525		(163)	82	657	787
	2005-06	630		(74)	86	364	278
	2004-05	241		(17)	30	185	69
	2003-04	72		56	10	28	110
	2002-03	85		22	15	41	81
	Prior	213		(24)	9	26	172
Total prior		8,333	-	(1,057)	366	4,187	3,455
<b>TOTAL GENERAL FUND</b>		<b>\$ 8,333</b>	<b>\$ 118,562</b>	<b>\$ (4,692)</b>	<b>\$ 420</b>	<b>\$ 113,232</b>	<b>\$ 9,391</b>
<b><u>SEWER DEBT FUND</u></b>							
Current	2008-09		\$ 82,500	\$ (2,529)	\$ 37	\$ 75,878	\$ 4,130
Prior	2007-08	\$ 4,555		(702)	110	2,361	1,602
	2006-07	1,235		(133)	67	532	637
	2005-06	546		(64)	75	316	241
	2004-05	224		(17)	28	171	64
	2003-04	40		32	5	16	61
	2002-03	48		13	8	23	46
	Prior	201		(21)	8	25	163
Total prior		6,849	-	(892)	301	3,444	2,814
<b>TOTAL SEWER DEBT FUND</b>		<b>\$ 6,849</b>	<b>\$ 82,500</b>	<b>\$ (3,421)</b>	<b>\$ 338</b>	<b>\$ 79,322</b>	<b>\$ 6,944</b>

**CITY OF SHADY COVE  
AUDIT COMMENTS AND DISCLOSURES  
YEAR ENDED JUNE 30, 2009**

Oregon Administrative Rules 162-10-050 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required statements and schedules are set forth in the Financial Section of this report. Required Comments and disclosures related to our audit of such statements and schedules are set forth as follows:

**Accounting Systems and Internal Controls**

The City's accounting and internal controls systems are adequate and the accounting records are properly maintained. The internal controls for the City are operating as designed and no material weaknesses were noted.

**Collateral**

Based on our review of the City's records, the City was in compliance with the provisions of ORS Chapter 295. The banks used by the City were considered qualified financial institutions for the year ended June 30, 2009.

**Budget Compliance**

We reviewed the preparation, adopting, and execution of the budget for the current year and the preparation and adoption of the ensuing year's budget. Based on our procedures, the City appears to have complied with statutory requirements for the current year and the ensuing year's budget.

A resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Appropriations are established by department in the General Fund, and by function (personal services, materials and services, capital outlay, debt service, transfers to other funds and operating contingency) in other funds.

**Insurance and Fidelity Bond Coverage**

We reviewed the City's insurance policies and determined that such policies appeared to be in force at June 30, 2009. We are not competent by training to comment on the adequacy of the insurance policies covering City owned property at June 30, 2009.

Based on the results of our tests, the City has complied with the provisions of ORS 332.525 regarding the bonding of City personnel.

**CITY OF SHADY COVE  
AUDIT COMMENTS AND DISCLOSURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**Programs Funded From Outside Sources**

We selected and tested, to the extent deemed appropriate, transactions, records, and reports relative to programs funded wholly or partially by other governmental agencies.

The results of our tests indicate, for the items tested, the City complied with the laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies, and for the items tested, financial reports and related data were in agreement with and supported by the accounting records.

Based on the results of our audit procedures, the City expended less than \$500,000 in Federal Awards. Therefore, they were not subject to the requirements of OMB Circular A-133 Single Audit Requirements.

**Investments**

Based on our procedures, it appears that the City was in compliance with the legal requirements of ORS Chapter 294 pertaining to the investment of public funds.

**Public Contracts and Purchasing**

Based on our procedures and our review of the minutes, the City appears to have complied with the legal requirements pertaining to the awarding of public contracts and the construction of public improvements as contained in ORS Chapter 279.

**Highway Taxes**

The expenditure of state street tax revenues received from the taxes on motor vehicle use fuel appears to comply, in all material respects, with requirements of Article IX, Section 3a, of the Oregon Constitution, as well as ORS 294, 368, and 373.

**Accountability of Independently Elected Officials**

Oregon Administrative Rules section 162-10-140 requires a statement of accountability for each independently elected official collecting or receiving money in the municipal corporation. The statement is a presentation of the beginning balances, receipts, disbursements, refunds, and turnovers to the appropriate governmental official, reconciled to cash on hand at the beginning and end of the audit period.

In compliance with OAR 162-10-140, there are no independently elected officials that collect or receive money on behalf of the City.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and City Council  
City of Shady Cove, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Shady Cove, Oregon, as of and for the year ended June 30, 2009, which collectively comprise the City of Shady Cove, Oregon's basic financial statements and have issued our report thereon dated October 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Shady Cove, Oregon'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Shady Cove, Oregon's internal control over financial reporting.

A control deficiency exists when the design of 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 combination of control deficiencies, that adversely affects the City of Shady Cove, Oregon'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 City of Shady Cove, Oregon's financial statements that is more than inconsequential will not be prevented or detected by the City of Shady Cove, Oregon's internal control.

A material weakness is a significant deficiency, or 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 City of Shady Cove, Oregon's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Shady Cove, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Shady Cove, Oregon, in a separate letter dated October 28, 2009.

This report is intended solely for the information and use of management, the Mayor and City Council, the State of Oregon, Division of Audits, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Michael L. Piels CPAs, LLP  
October 28, 2009