

CITY OF SHADY COVE, OREGON
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016
WITH
INDEPENDENT AUDITOR'S REPORTS



City of Shady Cove, Oregon



**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2016

WITH

INDEPENDENT AUDITOR'S REPORTS



CITY OF SHADY COVE, OREGON

Year Ended June 30, 2016

ELECTED OFFICIALS OF THE CITY OF SHADY COVE, OREGON

Tom Anderson P.O. Box 1210 Shady Cove, Oregon 97539	Mayor
Tom Sanderson P.O. Box 1210 Shady Cove, Oregon 97539	Councilor
Jim Ulrich P.O. Box 1210 Shady Cove, Oregon 97539	Councilor
John Burgess P.O. Box 1210 Shady Cove, Oregon 97539	Councilor
Steve Mitchell P.O. Box 1210 Shady Cove, Oregon 97539	Councilor

ADMINISTRATION

Aaron Prunty P.O. Box 1210 Shady Cove, OR 97539	City Administrator
Shelly Dent P.O. Box 1210 Shady Cove, OR 97539	Finance Administrative Assistant

ADDRESS

City of Shady Cove
22451 Hwy 62
P.O. Box 1210
Shady Cove, OR 97539

CITY OF SHADY COVE, OREGON

Year Ended June 30, 2016

Table of Contents

	<u>Page</u>
Independent Auditor's Report	A-1 – A-3
Management's Discussion and Analysis	B-1 – B-8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet - Governmental Funds	3
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position	4
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Statement of Net Position - Enterprise Funds	7
Statement of Revenues, Expenses and Changes in Net Position - Enterprise Funds	8
Statement of Cash Flows - Enterprise Funds	9 – 10
Notes to the Basic Financial Statements	11 – 36
Required Supplementary Information:	
Major Governmental Funds:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund	37
Street Fund	38
Schedule of the City's Proportionate Share of the Net Pension Liability/Asset and Schedule of the City's Contributions	39
Other Supplementary Information:	
Major Enterprise Funds:	
Schedules of Revenues, Expenditures and Changes in Net Position – Budget and Actual:	
Sewer Operations Fund	40
Sewer Bonded Debt Fund	41
SDC Fund	42
Sewer Reserve Fund	43
Sewer Operation Replacement Fund	44
Other Financial Schedules:	
Schedule of Property Tax Transactions	45
Independent Auditor's Report Required by Oregon State Regulations	46 – 47

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council
City of Shady Cove
Shady Cove, OR 97539

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Shady Cove, Oregon, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 and each major fund of the City of Shady Cove as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Honorable Mayor and Council
City of Shady Cove

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, major governmental funds budgetary comparison information, and the schedule of the City's Proportionate Share of the Net Pension Liability/(Asset) as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to management's discussion and analysis and the schedule of the City's Proportionate Share of the Net Pension Liability/(Asset) in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on management's discussion and analysis and the schedule of the City's Proportionate Share of the Net Pension Liability/(Asset) because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The major governmental funds budgetary comparison information and the City's Proportionate Share of the Net Pension Liability/(Asset) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the major governmental funds budgetary comparison information, and City's Proportionate Share of the Net Pension Liability/(Asset) are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Supplementary Information

Our audit was conducted 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 information and other financial schedules listed in the Table of Contents are presented for purposes of additional analysis and are not required as part of the basic financial statements.

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

Honorable Mayor and Council
City of Shady Cove

Other Reporting Required by Oregon State Regulations

In accordance with Oregon State Regulation, we have also issued our report dated November 4, 2016, on our consideration of the City of Shady Cove's compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations. The purpose of that report is to describe the scope of our testing necessary to address the required provisions of ORS, and not to provide an opinion on compliance with such provisions.

Stewart C. Parmele, CPA, Partner

Stewart C. Parmele CPA, Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
December 12, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2016

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, 2016. 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. It should also be noted that all amounts included in text below are rounded for ease of reading.

FINANCIAL HIGHLIGHTS

- The City continued its contract with the Jackson County Sheriff's department during the year. Under the terms of the contract, the City reported expenditures of approximately \$420 thousand during the current year.
- In the **government-wide statements**, the City's assets totaled \$8.68 million at June 30, 2016 consisting of \$6.15 million in capital assets, \$2.36 million in cash and investments, and approximately \$168 thousand in receivables and deposits. Capital assets, net of accumulated depreciation decreased by approximately \$349 thousand in the current year. Cash and investment balances increased by approximately \$262 thousand from the prior year.
- In the **government-wide statements**, the City's liabilities totaled \$3.28 million at June 30, 2016 consisting of \$3.18 million in long-term debt, including the current portion, and approximately \$97 thousand in accounts payable and other current liabilities.
- **Government-wide** net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) totaled \$5.41 million at June 30, 2016 of which \$2.97 million was the net investment in capital assets, approximately \$1.06 million was restricted, and approximately \$1.37 million was considered unrestricted. In the prior year, net assets totaled \$5.28 million, of which \$3.15 million was invested in capital assets net of related debt, approximately \$973 thousand was restricted, and approximately \$1.16 million was considered unrestricted.
- In the **government-wide statements**, the City generated program revenues of \$1.45 million from its governmental and business activities. Direct expenses of all programs totaled \$2.03 million. General revenues which include taxes, franchise taxes and investment income totaled approximately \$735 thousand. In the prior year the City generated program revenues of \$1.47 million from its governmental and business activities. Direct expenses of all programs totaled \$1.94 million. General revenues which include taxes, franchise fees and investment income totaled approximately \$709 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 is the Required and Other Supplementary Information

which provides budgetary comparisons for the governmental and proprietary funds, and other combining fund schedules. Finally, completing the document is a series of other financial schedules, and 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 Position includes all assets and deferred outflows of resources of the City (including infrastructure) as well as all liabilities (including long-term debt) and deferred inflows of resources. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position 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.
- 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 Position, 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 position 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, Sewer Bonded Debt Fund, SDC Fund, Sewer Reserve Fund, and Sewer Operations Replacement Fund are presented separately as the major funds in the proprietary fund financial statements.

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 Position

The City's assets/deferred outflows exceeded liabilities/deferred inflows by \$5.41 million at June 30, 2016. Net position for governmental activities totaled approximately \$751 thousand while net position for business-type activities totaled \$4.65 million.

	June 30, 2016		June 30, 2015	
	Governmental Activities	Business Type Activities	Governmental Activities	Business Type Activities
Capital assets, net	\$ 240,372	\$ 5,910,066	\$ 209,880	\$ 6,289,537
Current & other assets	558,507	1,969,089	610,456	1,758,960
Total assets	<u>798,879</u>	<u>7,879,155</u>	<u>820,336</u>	<u>8,048,497</u>
Deferred outflows of resources	26,067	-	925	-
Total assets and deferred outflows	<u>824,946</u>	<u>7,879,155</u>	<u>821,261</u>	<u>8,048,497</u>
Long term debt	-	3,182,495	-	3,350,031
Other liabilities	55,133	42,173	145,591	49,774
Total liabilities	<u>55,133</u>	<u>3,224,668</u>	<u>145,591</u>	<u>3,399,805</u>
Deferred inflows of resources	18,381	-	40,828	-
Total liabilities and deferred inflows	<u>73,514</u>	<u>3,224,668</u>	<u>186,419</u>	<u>3,399,805</u>
Net investment in capital assets	240,372	2,727,571	209,880	2,939,506
Restricted	-	1,063,162	-	973,264
Unrestricted	<u>511,060</u>	<u>863,754</u>	<u>424,962</u>	<u>735,922</u>
Total net position	<u>\$ 751,432</u>	<u>\$ 4,654,487</u>	<u>\$ 634,842</u>	<u>\$ 4,648,692</u>

As mentioned earlier, net position may be an indicator of the City's financial position. At the end of the current year, the City has a positive net position balance. Net position increased by approximately \$122 thousand from the prior year as revenues exceeded expenditures/expenses. The largest portion of the City's net position, 54.90 percent, is invested in capital assets, 25.43 percent is unrestricted, and 19.67 percent is restricted for system development or debt service.

Analysis of Changes in Net Position

The City's Statement of Activities for fiscal year ended June 30, 2016 follows:

	June 30, 2016		June 30, 2015	
	Governmental Activities	Business Type Activities	Governmental Activities	Business Type Activities
Revenues				
Program revenues:				
Charges for services	\$ 560,648	\$ 893,661	\$ 553,919	\$ 913,961
Operating Grants	500	-	39,760	-
General revenues:				
Property taxes for General	142,951	-	146,722	-
Property taxes for Debt	-	86,616	-	83,527
State revenue sharing	76,372	-	75,731	-
Intergovernmental	178,701	-	171,815	-
Franchise fees	233,321	-	233,902	-
Earnings on investments	2,148	11,713	768	8,826
Other	3,376	-	31,745	(33,561)
Total revenues	1,198,017	991,990	1,254,362	972,753
Expenses				
Administrative	497,350	-	458,924	-
Public Safety	420,193	-	408,058	-
Highways and streets	163,885	-	129,612	-
Wastewater	-	946,195	-	945,692
Total expenses	1,081,428	946,195	996,594	945,692
Change in net position	116,589	45,795	257,768	27,061
Beginning net position, as restated	634,843	4,608,692	387,074	4,621,631
Ending net position	\$ 751,432	\$ 4,654,487	\$ 644,842	\$ 4,648,692

Governmental Activities

Governmental activities increased the City's net position by approximately \$117 thousand. Governmental revenues totaled \$1.20 million and consisted primarily of property taxes of approximately \$143 thousand, charges for services of approximately \$561 thousand, intergovernmental revenue of approximately \$179 thousand, and franchise fees of approximately \$233 thousand.

As discussed earlier, the City's governmental activities are categorized into the following programs: General government; Police 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 increased the City's net position by approximately \$46 thousand. Charges for services which totaled approximately \$894 thousand are comprised of wastewater service and system development charges. Business-type activities are to be self-supporting where revenues are expected to cover expenses.

Total expenses for wastewater operations were approximately \$946 thousand; of this, approximately \$352 thousand represented depreciation expense and approximately \$134 thousand represented interest expense. Revenues for wastewater operations must be generated not only for 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 Position.

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, unassigned 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 approximately \$503 thousand, an increase of approximately \$59 thousand from the prior year's fund balances of approximately \$444 thousand. Revenues totaled \$1.20 million while expenditures which include current, capital outlay and debt service expenditures totaled \$1.14 million.

The ending fund balances of approximately \$503 thousand is comprised of approximately \$127 thousand assigned to future Street Fund obligations, and approximately \$374 thousand unassigned and available for spending by the City within the purposes specified for the City's General Fund.

The General Fund is a primary operating fund of the City. At the end of the fiscal year, the unassigned fund balance of the General Fund was approximately \$374 thousand up approximately \$43 thousand from the previous year's calculated unassigned fund balance. Fund balance increased by approximately \$15 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 position of the Proprietary Funds at the end of the year amounted to \$4.65 million. This was comprised of unrestricted net position of approximately \$864 thousand, restricted net position of approximately \$1.06 million, and \$2.73 million net investment in capital assets. The decrease in net position of the Sewer Operations Fund was approximately \$102 thousand. The Sewer Bonded Debt Fund reported an increase in net position of approximately \$77 thousand. The SDC Fund reported an increase in net position of approximately \$44 thousand. The Sewer Reserve Fund reported an increase in net position of approximately \$1 thousand. The Sewer Operations Replacement Fund reported an increase in net position of approximately \$85 thousand.

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 adopted budget of the General Fund included significant capital outlay over prior years. The City purchased a new truck and trailer combination that allows the sole public works employee to complete road maintenance and storm water projects that he previously did not have the proper equipment to complete. In addition, a landscaping and irrigation project was budgeted for Aunt Caroline's Park.

CAPITAL ASSETS

As of June 30, 2016 the City had invested \$6.50 million in capital assets, net of depreciation as reflected in the following table, which represents a net decrease (additions, deductions, adjustments and depreciation) of approximately \$166 thousand.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Land	\$ 59,717	\$ 124,253	\$ 183,970
Construction in Progress	-	26,443	26,443
Buildings and improvements	139,815	-	139,815
Machinery and equipment	40,840	48,226	89,066
Infrastructure	-	5,711,144	5,711,144
Total	<u>\$ 240,372</u>	<u>\$ 5,910,066</u>	<u>\$ 6,150,438</u>

Major events affecting capital assets for fiscal year 2016 are as follows:

- The City completed construction of a landscape project for Aunt Caroline's park for approximately \$18 thousand.
- The City continued construction on the Ericson Cleveland Storm Drain System, which is Construction in Progress.
- The City purchased a new Big Tex trailer and a Ford F350 truck for approximately \$37 thousand.

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

DEBT ADMINISTRATION

As of year-end, the City had \$3.18 million in long-term debt outstanding compared to \$3.35 million in the previous year. Principal payments on long-term debt were approximately \$168 thousand. All outstanding debt at year-end is reported in the business-type fund section, and is comprised of the following:

General Obligation Bonds	\$	348,000
Sewer Bond #1		2,076,450
OECCD Note Payable #1		206,180
Clean Water State Revolving Fund Note		<u>551,865</u>
Total	\$	<u><u>3,182,495</u></u>

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 2016 value, the City is within its debt limitation.

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

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES

Development is continuing to increase and there has been a rise in development and building permits over the fiscal year. Hiland Water, the largest private water system in Shady Cove has been very active with public outreach and expansion. Due to the expansion of lines, and a significant increase in the number of fire hydrants in Shady Cove, the Insurance Services Office (ISO) has lowered the fire insurance risk for much of Shady Cove. In addition, the city council has authorized a double chip seal program, upgrading several local gravel roads each year. It is expected the combination of private water, higher quality roads and lower fire insurance rates will provide for continued residential and commercial growth in Shady Cove.

The City's permanent property tax rate of 54.7 cents per thousand is the lowest in the region, and one of the lowest in the state. Our property tax rate fails to generate enough revenue to fully fund City services. Without the benefit of franchise fees, public safety fees, other City fees, and state subventions, the City could not provide even a minimal level of service.

As stated previously, the City of Shady Cove relies heavily on fees and state subventions. Some of these fees are tourism related, including raft taxes and transient occupancy taxes. The City has worked closely with the local Chamber of Commerce and community groups to increase the visibility of the City to tourists who may pass through or choose Shady Cove as a destination. The City has a number of vacation rentals, which have increased transient occupancy taxes slightly. Due to recent legislation regarding online booking agencies, transient occupancy taxes have increased; however, the City expects raft and transient occupancy revenue to remain more consistent going forward.

We anticipate gas tax revenue, which we receive from the state, will decrease slightly due to more fuel-efficient vehicles and alternative fuels. Electric and compressed natural gas sales do not pay into state gas tax and has a direct impact on the revenue we receive. This may have a negative impact on overall gas tax revenue collected, yet remains to be seen if this will be a continuing trend.

Cigarette taxes continue to decline, as alcohol related taxes remain relatively steady. State forecasts show a decline in both cigarette and alcohol sales, and therefore tax revenue that the City may receive. There appears to be a relationship between increased marijuana sales versus cigarette and alcohol sales. The state has not yet released any marijuana tax revenue to cities, so the City has not collected any revenue that might offset lower cigarette or alcohol revenue. Based on recent election results, the City is no longer eligible to receive marijuana related taxes, which may mean a more significant decrease in overall shared revenues.

The City's population has and is expected to continue to increase slightly due to in part to the effects of the local and national economy. Also, the city council reviewed administrative fees and completed a system development charge study. The result was a number of lowered fees, including those related to building. Development of new residential properties has increased slowly, but steadily, and the City expects this to continue.

The city council has also reviewed and passed a riparian protection ordinance, which should have a minimal impact on already developed floodplain properties in the city limits. This was a contentious issue; however, the council was able to make some changes to the ordinance that addressed property-owner concerns while still complying with state agency requirements. The City contracts with Rogue Valley Council of Governments (RVCOG) for professional services (contract planning and floodplain management services). There was a significant amount of staff time and expenditure in order to bring this ordinance through the planning commission and city council.

The City continues to provide cost-effective services through outsourcing and inter-governmental agreements. Currently, the City contracts services to manage the wastewater treatment plant and collection system, perform road maintenance, law enforcement services, building, planning, floodplain management, information technology and radio management.

Although the City contracts with other agencies for a number of services, we have been able to bring some planning duties in-house as we have trained and promoted an administrative assistant to a newly created planning technician position. Our planning technician now takes a more active role in all of the planning and floodplain management functions which are currently contracted to RVCOG. We have and continue to budget a significant amount for training for all of our staff so that the City can continue to raise the level of service provided to the community.

The City has engineered a large multi-phased storm water project that captures water near Hudspeth and Kinworthy, addressing storm runoff and storm drainage issues from there to Cleveland Street. The project should alleviate some of the water that floods and destabilizes backyards in that area. It includes another phase, a large detention pond and swale that will address storm drain flooding between and along Cleveland Street, Schoolhouse Lane and Flower Street, where we have had significant storm water related damage. The project engineering has been completed and construction will continue through the first part of 2017. Much of this project has been part of the City's storm water master plan since the late 1990s.

The City continues to work with Oregon Department of Transportation (ODOT) toward completion of the Transportation Enhancement project to upgrade Hwy 62 with sidewalks and bike and pedestrian paths. There have been a number of scheduling challenges and the City and ODOT have recently amended the agreement to reflect completion of the project 2018.

It is anticipated that:

- The City will continue in good standing with the Oregon Department of Environmental Quality through the Total Maximum Daily Load (TMDL) program, and enforcement of the new riparian protection ordinance;
- The City will continue in good standing with the Federal Emergency Management Agency (FEMA) and the National Flood Insurance Program (NFIP) due to floodplain compliance enforcement and additional staff training;

- Cigarette and alcohol revenue to the City will decline slightly as marijuana sales increase;
- The cost of law enforcement may increase slightly;
- Property tax revenue will continue to fall far short of covering basic City costs for service.

Highlights of prior fiscal year:

- The City adopted new SDC methodology and subsequently lowered fees associated with development;
- The city council passed an ordinance allowing vacation rental businesses in certain residential zones, increasing capacity for tourism;
- Purchase of capital equipment, increasing the City's capability to complete certain public works and road maintenance projects;
- The City purchased additional property for use as park, as well as completed landscaping and irrigation improvements at Aunt Caroline's Park.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF SHADY COVE
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 443,500	\$ 858,704	\$ 1,302,204
Receivables, net	106,821	47,223	154,044
Taxes receivables	8,187	5,612	13,799
Restricted cash and investments	-	1,057,550	1,057,550
Capital assets, net:			
Land	59,717	124,253	183,970
Construction-in-progress	-	26,443	26,443
Buildings and improvements	139,815	-	139,815
Machinery and equipment	40,840	48,226	89,066
Infrastructure	-	5,711,144	5,711,144
TOTAL ASSETS	798,880	7,879,155	8,678,035
Deferred outflows of resources			
Deferred amounts related to pensions	26,067	-	26,067
TOTAL ASSETS AND DEFERRED OUTFLOWS	824,947	7,879,155	8,704,102
LIABILITIES:			
Accounts payable	34,134	-	34,134
Payroll taxes and benefits payable	2,357	-	2,357
Accrued compensated absences	5,997	-	5,997
Accrued interest payable	-	37,683	37,683
Unearned revenue	12,646	4,490	17,136
Long-term liabilities:			
Due within one year	-	172,724	172,724
Due in more than one year	-	3,009,771	3,009,771
TOTAL LIABILITIES	55,134	3,224,668	3,279,802
Deferred inflows of resources			
Deferred amounts related to pensions	18,381	-	18,381
TOTAL LIABILITIES AND DEFERRED INFLOWS	73,515	3,224,668	3,298,183
NET POSITION:			
Net investment in capital assets	240,372	2,727,571	2,967,943
Restricted	-	1,063,162	1,063,162
Unrestricted	511,060	863,754	1,374,814
TOTAL NET POSITION	\$ 751,432	\$ 4,654,487	\$ 5,405,919

**CITY OF SHADY COVE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Fines, Fees, and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government						
Administrative	\$ 497,350	\$ 288,007	\$ 500	\$ (208,843)	\$ -	\$ (208,843)
Police department	420,193	272,641	-	(147,552)	-	(147,552)
Highways and streets	163,885	-	-	(163,885)	-	(163,885)
Total government activities	1,081,428	560,648	500	(520,280)	-	(520,280)
Business-type activities:						
Wastewater	946,195	893,661	-	-	(52,534)	(52,534)
Total business-type activities	946,195	893,661	-	-	(52,534)	(52,534)
Total Common City	\$ 2,027,623	\$ 1,454,309	\$ 500	(520,280)	(52,534)	(572,814)
General revenues:						
Property taxes levied for general purposes				142,951	-	142,951
Property taxes levied for debt service				-	86,616	86,616
State subventions				76,372	-	76,372
Intergovernmental				178,701	-	178,701
Franchise taxes				233,321	-	233,321
Earnings on investments				2,148	11,713	13,861
Other				3,376	-	3,376
Total general revenues				636,869	98,329	735,198
CHANGE IN NET POSITION				116,589	45,795	162,384
Net position - Beginning of Year, as restated				634,843	4,608,692	5,243,535
Net position - End of Year				\$ 751,432	\$ 4,654,487	\$ 5,405,919

FUND FINANCIAL STATEMENTS

**CITY OF SHADY COVE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 330,922	\$ 112,578	\$ 443,500
Receivables - net	90,962	15,859	106,821
Taxes receivable	8,187	-	8,187
TOTAL ASSETS	<u>\$ 430,071</u>	<u>\$ 128,437</u>	<u>\$ 558,508</u>
LIABILITIES			
Liabilities:			
Accounts payable	\$ 34,094	\$ 40	\$ 34,134
Payroll taxes and benefits payable	2,357	-	2,357
Unearned revenue	12,646	-	12,646
TOTAL LIABILITIES	<u>49,097</u>	<u>40</u>	<u>49,137</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	6,600	-	6,600
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 55,697</u>	<u>\$ 40</u>	<u>\$ 55,737</u>
Fund Balances:			
Committed - Bike Path	-	1,600	1,600
Assigned	-	126,797	126,797
Unassigned	374,374	-	374,374
TOTAL FUND BALANCES	<u>374,374</u>	<u>128,397</u>	<u>502,771</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 430,071</u>	<u>\$ 128,437</u>	<u>\$ 558,508</u>

**CITY OF SHADY COVE
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2016**

TOTAL FUND BALANCES		\$ 502,771
<p>Amounts reported by governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets are not financial resources and therefore are not reported in the governmental funds:</p>		
Cost	\$ 457,105	
Accumulated depreciation	<u>(216,733)</u>	240,372
Deferred outflows of resources related to pensions		26,067
<p>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.</p>		
		6,600
<p>Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather recognized as an expenditure when due. These liabilities consist of:</p>		
Deferred inflows of resources related to pensions	(18,381)	
Accrued vacation payable	<u>(5,997)</u>	
		<u>(24,378)</u>
TOTAL NET POSITION		\$ <u>751,432</u>

**CITY OF SHADY COVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Total</u>
REVENUES			
Property taxes	\$ 144,798	\$ -	\$ 144,798
State subventions	76,372	-	76,372
Franchise taxes	233,321	-	233,321
City fees	104,582	-	104,582
Administrative fees	176,825	-	176,825
Municipal court	13,365	-	13,365
Grants	500	-	500
Public safety fee	259,276	-	259,276
Floodplain permit fee	6,600	-	6,600
State highway revenue	-	178,701	178,701
Miscellaneous	3,376	-	3,376
Interest	1,562	586	2,148
	<u>1,020,577</u>	<u>179,287</u>	<u>1,199,864</u>
TOTAL REVENUES			
EXPENDITURES			
Current:			
Administrative	500,681	-	500,681
Public safety	420,193	-	420,193
Highways and streets	-	163,885	163,885
Capital Outlay	56,447	-	56,447
	<u>977,321</u>	<u>163,885</u>	<u>1,141,206</u>
TOTAL EXPENDITURES			
NET CHANGE IN FUND BALANCE	43,256	15,402	58,658
FUND BALANCE, Beginning of Year	<u>331,118</u>	<u>112,995</u>	<u>444,113</u>
FUND BALANCE, End of Year	<u>\$ 374,374</u>	<u>\$ 128,397</u>	<u>\$ 502,771</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, 2016**

NET CHANGE IN FUND BALANCE		\$ 58,658
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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 net amount by which capital outlays exceeded depreciation in the current period.</p>		
Expenditures for capital assets	\$ 55,561	
Less current year depreciation	<u>(25,131)</u>	30,430
<p>Government funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expenses.</p>		
		29,557
<p>Compensated absences are recognized as an expenditure in the governmental funds when they are paid. In the Statement of Activities compensated absences are recognized as an expenditure when earned.</p>		
		(272)
<p>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.</p>		
		<u>(1,784)</u>
CHANGE IN NET POSITION		<u>\$ 116,589</u>

**CITY OF SHADY COVE
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
JUNE 30, 2016**

	Sewer Operations Fund	Sewer Bonded Debt Fund	SDC Fund	Sewer Reserve Fund	Sewer Operations Replacement Fund	Total
ASSETS						
Current assets:						
Cash and investments	\$ 178,175	\$ -	\$ -	\$ -	\$ 680,529	\$ 858,704
Receivables, net	47,223	-	-	-	-	47,223
Total current assets	<u>225,398</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>680,529</u>	<u>905,927</u>
Noncurrent assets:						
Restricted cash and investments	34,898	34,161	824,196	164,295	-	1,057,550
Restricted receivables - taxes	-	5,612	-	-	-	5,612
Land	58,403	-	65,850	-	-	124,253
CIP	-	-	12,524	-	13,919	26,443
Machinery and equipment, net	48,226	-	-	-	-	48,226
Infrastructure, net	4,919,654	-	503,910	-	287,580	5,711,144
Total noncurrent assets	<u>5,061,181</u>	<u>39,773</u>	<u>1,406,480</u>	<u>164,295</u>	<u>301,499</u>	<u>6,973,228</u>
TOTAL ASSETS	<u>5,286,579</u>	<u>39,773</u>	<u>1,406,480</u>	<u>164,295</u>	<u>982,028</u>	<u>7,879,155</u>
LIABILITIES AND NET ASSETS						
Current liabilities:						
Unearned revenue	4,490	-	-	-	-	4,490
Accrued interest payable	37,683	-	-	-	-	37,683
Bonds and notes payable	106,724	66,000	-	-	-	172,724
Total current liabilities	<u>148,897</u>	<u>66,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>214,897</u>
Noncurrent liabilities:						
Bonds and notes payable	2,727,771	282,000	-	-	-	3,009,771
TOTAL LIABILITIES	<u>2,876,668</u>	<u>348,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,224,668</u>
Net Position:						
Net investment in capital assets	2,191,788	(348,000)	582,284	-	301,499	2,727,571
Restricted	34,898	39,773	824,196	164,295	-	1,063,162
Unrestricted	301,931	-	-	-	680,529	982,460
TOTAL NET POSITION	<u>\$ 2,409,911</u>	<u>\$ (308,227)</u>	<u>\$ 1,406,480</u>	<u>\$ 164,295</u>	<u>\$ 982,028</u>	<u>\$ 4,654,487</u>

**CITY OF SHADY COVE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2016**

	Sewer Operations Fund	Sewer Bonded Debt Fund	SDC Fund	Sewer Reserve Fund	Sewer Operations Replacement Fund	Total Enterprise Funds
OPERATING REVENUES						
Charges for services	\$ 810,343	\$ -	\$ -	\$ -	\$ -	\$ 810,343
TOTAL OPERATING REVENUES	<u>810,343</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>810,343</u>
OPERATING EXPENSES						
Materials and services	459,755	-	-	-	-	459,755
Depreciation	284,387	-	44,228	-	23,380	351,995
TOTAL OPERATING EXPENSES	<u>744,142</u>	<u>-</u>	<u>44,228</u>	<u>-</u>	<u>23,380</u>	<u>811,750</u>
OPERATING INCOME (LOSS)	<u>66,201</u>	<u>-</u>	<u>(44,228)</u>	<u>-</u>	<u>(23,380)</u>	<u>(1,407)</u>
NONOPERATING REVENUES (EXPENSES)						
Taxes	-	86,616	-	-	-	86,616
System development charges	-	-	83,318	-	-	83,318
Interest on investments	780	-	5,273	1,171	4,489	11,713
Interest expense	(124,489)	(9,956)	-	-	-	(134,445)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(123,709)</u>	<u>76,660</u>	<u>88,591</u>	<u>1,171</u>	<u>4,489</u>	<u>47,202</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(57,508)</u>	<u>76,660</u>	<u>44,363</u>	<u>1,171</u>	<u>(18,891)</u>	<u>45,795</u>
Transfers (to) from other funds	(104,000)	-	-	-	104,000	-
TOTAL TRANSFERS	<u>(104,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,000</u>	<u>-</u>
CHANGES IN NET POSITION	<u>(161,508)</u>	<u>76,660</u>	<u>44,363</u>	<u>1,171</u>	<u>85,109</u>	<u>45,795</u>
NET POSITION, Beginning of Year, as restated	<u>2,571,419</u>	<u>(384,887)</u>	<u>1,362,117</u>	<u>163,124</u>	<u>896,919</u>	<u>4,608,692</u>
NET POSITION, End of Year	<u>\$ 2,409,911</u>	<u>\$ (308,227)</u>	<u>\$ 1,406,480</u>	<u>\$ 164,295</u>	<u>\$ 982,028</u>	<u>\$ 4,654,487</u>

**CITY OF SHADY COVE
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2016**

	Sewer Operations Fund	Sewer Bonded Debt Fund	SDC Funds	Sewer Reserve Fund	Sewer Operations Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 853,166	\$ -	\$ -	\$ -	\$ -	\$ 853,166
Payments to suppliers	(459,755)	-	(129)	-	-	(459,884)
Net cash provided (used) by operating activities	<u>393,411</u>	<u>-</u>	<u>(129)</u>	<u>-</u>	<u>-</u>	<u>393,282</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Receipt of system development charges	-	-	83,318	-	-	83,318
Taxes	-	87,875	-	-	-	87,875
Principal paid on capital debt	(103,536)	(64,000)	-	-	-	(167,536)
Interest paid on capital debt	(127,571)	(9,956)	-	-	-	(137,527)
Transfers attributable to capital assets	(104,000)	-	-	-	104,000	-
Purchase and construction of capital assets	-	-	(12,524)	-	-	(12,524)
Net cash provided (used) by capital and related financing activities	<u>(335,107)</u>	<u>13,919</u>	<u>70,794</u>	<u>-</u>	<u>104,000</u>	<u>(146,394)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends	780	-	5,273	1,171	4,489	11,713
Net increase (decrease) in cash and investments	59,084	13,919	75,938	1,171	108,489	258,601
Cash balances - beginning of the year includes restricted cash of \$966,522	153,989	20,242	748,258	163,124	572,040	1,657,653
Cash balances - end of the year includes restricted cash of \$1,057,550	<u>\$ 213,073</u>	<u>\$ 34,161</u>	<u>\$ 824,196</u>	<u>\$ 164,295</u>	<u>\$ 680,529</u>	<u>\$ 1,916,254</u>

continued on next page

**CITY OF SHADY COVE
STATEMENT OF CASH FLOWS (Continued)
ENTERPRISE FUNDS
JUNE 30, 2016**

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	Sewer Operations Fund	Sewer Debt Fund	SDC Fund	Sewer Reserve Fund	Sewer Operations Replacement Fund	Total
Operating income (loss)	\$ 66,201	\$ -	\$ (44,228)	\$ -	\$ (23,380)	\$ (1,407)
Adjustments to reconcile operating income to cash provided by operating activities:						
Depreciation expense	284,387	-	44,228	-	23,380	351,995
Change in assets and liabilities:						
Receivables, net	47,218	-	-	-	-	47,218
Deferred revenue	(4,395)	-	-	-	-	(4,395)
Accounts and other payables	-	-	(129)	-	-	(129)
Net cash provided (used) by operating activities	<u>\$ 393,411</u>	<u>\$ -</u>	<u>\$ (129)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 393,282</u>

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

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.

Operations

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 (contract with Jackson County Sheriff's Department), parks, building and planning, public works (streets, storm drainage/facilities maintenance), and sanitary sewer collection and treatment (contract with Rogue Valley Sewer Services).

Financial Statement Presentation, Measurement Focus and Basis of Accounting:

Government-wide Financial Statements

The Statement of Net Position 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, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

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.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

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 fund types.

Governmental Funds

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 presented on a modified accrual basis of accounting with a current financial resources measurement focus whereby only current assets (deferred outflows) and current liabilities (deferred inflows) 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 fund balances. 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, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

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 inflow of resources (unavailable revenue). 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. 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 personnel costs and services made related to street rehabilitation. Principal sources of revenue are intergovernmental revenues.

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 Bonded Debt Fund, Sewer Reserve Fund, Sewer Operations Replacement Fund, and SDC Fund which includes Transportation System Development (SDC) charges, Storm Drain SDC charges, Wastewater SDC charges, and the Parks & Recreation SDC charges.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

The District's proprietary fund distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the District's internal service fund consist of charges for services and the cost of providing those services. All other revenues and expenses are reported as nonoperating.

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

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 Statement of Net Position. 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 Bonded 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.
- *SDC Fund* – This fund accounts for the System Development Charges that are to be used for various infrastructure improvements under Transportation, Storm Drain, Wastewater, and Parks and Recreation.
- *Sewer Reserve Fund* – This fund accounts for reserve funds for sewer operations. The principal source of revenue is earning on investments.
- *Sewer Operations Replacement Fund* – This fund accounts for a replacement reserve for major improvements or disaster relief with protection from other expenditures. The principal source of revenue is earnings on investments.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one type of deferred outflow, which arises only under the full accrual basis of accounting that qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition on net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of deferred inflows, deferred amounts related to pension and unavailable revenue related to property taxes. Unavailable revenue related to property taxes arises only under the modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

The governmental funds report unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

Recorded property taxes receivable that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as a deferred inflow of resource because it is not deemed available to finance operations of the current period. An allowance for doubtful accounts is not deemed necessary, as uncollectible taxes become a lien on the property. 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. Collection dates are November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent. Uncollected property taxes are recorded on the Statement of Net Position.

Accounts and Other Receivables

Sewer service revenues are recorded as revenue in the proprietary fund type when earned, including services provided but not billed. An allowance for doubtful accounts is considered necessary at June 30, 2016 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. An allowance for doubtful accounts is considered necessary at June 30, 2016 for delinquent Public Safety Fees receivable and has been recorded within the General Fund.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

Restricted Assets

Certain resources have been required to be set aside for repayment of debt and for SDC projects and are classified as restricted assets on the Statement of Net Position because their use is restricted by external groups. The amount of \$1,063,162 reported in total in the Business-type funds has been required to be set aside for repairs and replacement to the sewer system, and, when necessary, for the purpose of making principal and interest payments on the bonds payable and for SDC projects not yet in progress.

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. 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, construction in progress 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
- SDC Improvements 20 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 sick pay are recorded in the Statement of Net Position when vested or earned by employees. Vacation pay is accrued as an expenditure in the governmental fund financial statements when the amounts are expected to be liquidated with expendable available resources. Sick leave pay does not vest and is recorded as leave when taken.

Long-term Debt and Bond Issuance Costs

Long-term debt is reported as a liability in the Statement of Net Position and proprietary fund financial statements. Any related bond discounts and premiums are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount in the Statement of Net Position and proprietary fund financial statements. Bond issuance costs are recognized as an expense in the period incurred.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

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 Position.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oregon Public Employees Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payment (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Operating Revenues and Expenses, Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for sewer services. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Non-operating revenues and expenses of the City are those revenues and expenses not directly related to the service provided by the fund. Non-operating revenues and expenses include interest, grants, SDC charges and gain or loss on disposition of capital assets.

Net Position – Fund Balances

In the government-wide financial statements, equity is classified as net position and displayed in three components:

1. *Net investment in capital assets* – Consists of net book value of all capital assets less the outstanding debt used to acquire, construct, or improve those assets.
2. *Restricted net position* – Consists of net assets with constraints placed on the use by either (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” and are not related to capital assets.

In the fund financial statements, governmental fund equity is classified in the following categories:

- *Non-Spendable* – Includes items not immediately converted to cash, such as prepaid items.
- *Restricted* – Includes items that are restricted by external creditors, grantors, or contributors, or restricted by legal constitutional provisions.
- *Committed* – Includes items committed by the City Council through resolution or ordinance. Similarly, a resolution or ordinance is required to modify or rescind the commitment.
- *Assigned* – Includes items assigned for specific purposes, authorized by the City Administrator.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

- *Unassigned* – This is the residual classification used for those balances not included in another category.

It is the City's policy to first use restricted net position prior to the use of unrestricted net position when an expenditure is incurred for purposes for which both restricted and unrestricted net position is available.

Note 2 – Restatement of Beginning Net Position

During the fiscal year ended June 30, 2016 the City identified an error within SDC Fund capital assets. During the prior year a \$40,000 payment made to the Capital Fund at Rogue Valley Sewer Services for Turbo Blowers was considered a capital asset addition in error (Machinery and Equipment). The asset had been previously included within Sewer Operations Replacement Fund capital assets (Infrastructure).

The result of the restatement was a \$40,000 reduction in the beginning net position of the SDC Fund, from \$1,402,117 to \$1,362,117, and a reduction in the beginning net position of the total Enterprise Funds from \$4,648,692 to \$4,608,692.

Total Enterprise Funds Net Position	
Beginning Net Position	\$ 4,648,692
Correction of Error	<u>(40,000)</u>
Total Enterprise Funds Net Position	
Beginning Net Position, as restated	<u>\$ 4,608,692</u>
SDC Fund	
Beginning Net Position	\$ 1,402,117
Capital assets	<u>(40,000)</u>
SDC Fund	
Beginning Net Position, as restated	<u>\$ 1,362,117</u>

Note 3 – 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.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 3 – Appropriation and Budgetary Controls (continued)

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 30th.

Unexpected additional resources or appropriations may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers and approval by the City Council. Original and supplemental budgets may be modified by the use of appropriation transfers between levels of control. Such transfers require approval by passing a Council resolution authorizing the transfer. 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.

During the fiscal year ended June 30, 2016, the City was in compliance with Local Budget Law, except as follows:

The City adopted the budget with expenditures budgeted within the General Fund by object classification, rather than by organizational unit or program, as required by ORS 294.388 (2). A supplemental budget was adopted to correct the error.

As noted in the financial statements, the City over-expended its appropriation authority in the General Fund in Administrative Personal Services (\$1,347).

Note 4 – 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, 2016. 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, 2016, the carrying amount of the City's deposits in a qualifying financial institution bank balance was \$230,173. All deposits are held in the name of the City. At June 30, 2016 the City's deposits were covered by federal depository and were deposited in an approved depository as identified by the State Treasury.

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.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 4 – Cash and Investments (continued)

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 2016. 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 (ORS 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. The LGIP is unrated.

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.

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, certain commercial paper, and the State of Oregon Treasurer's Local Government Investment Pool. As of June 30, 2016 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.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 4 – Cash and Investments (continued)

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, 2016, 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>\$ 2,189,339</u>

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

Carrying amounts of cash and investments:

Petty Cash	\$ 1,100
Demand Deposits	169,315
Investment - LGIP	<u>\$2,189,339</u>
	<u>\$ 2,359,754</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	\$ 443,500	\$ 858,704	\$ 1,302,204
Restricted Cash	<u>-</u>	<u>1,057,550</u>	<u>1,057,550</u>
Total Cash and Investments	<u>\$ 443,500</u>	<u>\$ 1,916,254</u>	<u>\$ 2,359,754</u>

Restricted cash represents the cash balances of the Sewer Bonded Debt Fund and SDC Fund. These restricted cash balances are the result of enabling legislation that imposes legally enforceable limits on how property taxes and certain system development charges may be used. In addition, the Sewer Operations and Reserve Fund maintain loan reserve balances in accordance with debt agreements for Sewer Bond #1 and the Clean Water State Revolving Loan.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 5 – Receivables

Receivables are comprised of the following as of June 30, 2016:

<u>Governmental</u>		<u>Business-Type</u>	
General Fund:		Sewer Operation:	
Intergovernmental	\$ 27,486	Accounts receivable	\$ 57,972
Franchise fees	20,160	Allowance	(10,749)
Public safety fee	45,611		<u>47,223</u>
Property taxes	8,187		
Allowance	(2,295)		
	<u>99,149</u>		
Street Fund:		Sewer Debt Service:	
Intergovernmental	<u>15,859</u>	Property taxes - restricted	<u>5,612</u>
Total	<u>\$ 115,008</u>	Total	<u>\$ 52,835</u>

Restricted receivables, like restricted cash, are the result of enabling legislation that imposes legally enforceable limits on how property taxes and certain system development charges may be used.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 6 – Capital Assets

The changes in capital assets for the year ended June 30, 2016, are as follows:

Governmental Activities	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/2016</u>
Capital assets not being depreciated:				
Land	\$ 59,717	\$ -	\$ -	\$ 59,717
Total capital assets not being depreciated	<u>59,717</u>	<u>-</u>	<u>-</u>	<u>59,717</u>
Capital assets being depreciated:				
Buildings and improvements	314,727	18,227	-	332,954
Machinery and equipment	27,038	37,396	-	64,434
Total capital assets being depreciated	<u>341,765</u>	<u>55,623</u>	<u>-</u>	<u>397,388</u>
Less accumulated depreciation for:				
Buildings and improvements	(176,267)	(16,872)	-	(193,139)
Machinery and equipment	(15,335)	(8,259)	-	(23,594)
Total accumulated depreciation	<u>(191,602)</u>	<u>(25,131)</u>	<u>-</u>	<u>(216,733)</u>
Total capital assets being depreciated, net	<u>150,163</u>	<u>30,492</u>	<u>-</u>	<u>180,655</u>
Total capital assets, governmental activities, net	<u>\$ 209,880</u>	<u>\$ 30,492</u>	<u>\$ -</u>	<u>\$ 240,372</u>

Depreciation expense for the year of \$25,131 was charged to administration.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 6 – Capital Assets (continued)

	Balance 7/1/2015	Transfers	Additions	Adjustments/ Disposals	Balance 6/30/2016
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 124,253	\$ -	\$ -	\$ -	\$ 124,253
Construction-in-progress	13,919	-	12,524	-	26,443
Total capital assets not being depreciated	<u>138,172</u>	<u>-</u>	<u>12,524</u>	<u>-</u>	<u>150,696</u>
Capital assets being depreciated:					
Machinery and equipment	341,670	-	-	(40,000)	301,670
Infrastructure Improvements	11,930,183	-	-	-	11,930,183
Total capital assets being depreciated	<u>12,271,853</u>	<u>-</u>	<u>-</u>	<u>(40,000)</u>	<u>12,231,853</u>
Less accumulated depreciation for:					
Machinery and equipment	(248,583)	-	(4,861)	-	(253,444)
Infrastructure Improvements	(5,871,905)	-	(347,134)	-	(6,219,039)
Total accumulated depreciation	<u>(6,120,488)</u>	<u>-</u>	<u>(351,995)</u>	<u>-</u>	<u>(6,472,483)</u>
Total capital assets being depreciated, net	<u>6,151,365</u>	<u>-</u>	<u>(351,995)</u>	<u>(40,000)</u>	<u>5,759,370</u>
Total capital assets, Business-type activities, net	<u>\$6,289,537</u>	<u>\$ -</u>	<u>\$ (339,471)</u>	<u>\$ (40,000)</u>	<u>\$5,910,066</u>

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

<u>Program</u>	
Wastewater Department	\$ 284,387
Infrastructure Improvements	<u>67,608</u>
	<u>\$ 351,995</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 7 – Deferred Inflows of Resources and Unearned Resources

Governmental funds report deferred inflows of resources 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 unearned revenues in connection with resources that have been received but not yet earned. At June 30, 2016, the components of deferred inflows of resources and unearned revenues included in the City's financial statements consist of the following:

Type/Fund	Unavailable	Unearned	Total
Property taxes, General Fund	\$ 6,600	\$ -	\$ 6,600
Advanced billings, General Fund	-	12,646	12,646
Billings, Sewer Operations Fund	-	4,490	4,490
	<u>\$ 6,600</u>	<u>\$ 17,136</u>	<u>\$ 23,736</u>

Note 8 – Long-Term Debt

During the fiscal year ended June 30, 2016, the following long-term debt transactions occurred:

Business-type activities:	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due in 1 Year
General Obligation Bond-refinance	\$ 412,000	\$ -	\$ (64,000)	\$ 348,000	\$ 66,000
Sewer Bond #1	2,109,049	-	(32,599)	2,076,450	34,065
OECD Note Payable #1	224,222	-	(18,042)	206,180	18,209
Clean Water State Revolving Loan	604,760	-	(52,895)	551,865	54,450
Total long-term debt	<u>\$ 3,350,031</u>	<u>\$ -</u>	<u>\$(167,536)</u>	<u>\$ 3,182,495</u>	<u>\$ 172,724</u>

The City incurred interest expense of \$134,445 for its business-type activities.

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 26th and December 18th each year with principal payments required each June 26th until 2021.

On December 26, 2012, The City issued \$536,000 in General Obligation Bonds with an interest rate of 2.62 percent to refund \$576,605 of outstanding 1980 Series General Obligation Bond with an interest rate of 5 percent. The net proceeds of \$533,300 (after payment of \$2,700 in origination fees and other issuance costs) plus \$43,304 of the proceeds of the 2012-2013 property tax levy were used to refund the 1980 Series General Obligation Bond. The City completed the refunding to reduce its total debt service payments over the next 8 years by approximately \$63,049 (after factoring in cost of issuance). There were no premiums or discounts issued related to this current refunding.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 8 – Long-Term Debt (continued)

Interest (2.62%) payments are required semi-annually on June 26th and December 26th of each year with the principal payments required each December 26th. Principal and interest payments are made from the Sewer Bonded Debt Fund. Interest expense for 2015-16 was \$9,956.

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 66,000	\$ 8,253	\$ 74,253
2018	68,000	6,498	74,498
2019	70,000	4,690	74,690
2020	71,000	2,843	73,843
2021	73,000	956	73,956
	<u>\$ 348,000</u>	<u>\$ 23,240</u>	<u>\$ 371,240</u>

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 \$127,505, including principal and interest of 4.5%, are due March 17th each year through 2046. 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 reserve account is to be accumulated at a minimum rate of \$12,751 per year until there is a minimum of \$127,506 in the account. The reserve balance in the Sewer Reserve Fund was \$164,295 at June 30, 2016. Interest expense for 2015-16 was \$94,037.

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 34,065	\$ 93,440	\$ 127,505
2018	35,598	91,907	127,505
2019	37,200	90,305	127,505
2020	38,874	88,631	127,505
2021	40,624	86,882	127,506
2022-2026	232,240	405,287	637,527
2027-2031	289,413	348,115	637,528
2032-2036	360,662	276,867	637,529
2037-2041	449,450	188,077	637,527
2042-2046	558,324	77,431	635,755
	<u>\$ 2,076,450</u>	<u>\$ 1,746,942</u>	<u>\$ 3,823,392</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 8 – Long-Term Debt (continued)

OECCD Note Payable #1

\$400,000 was issued April 12, 2000 for rehabilitation of the wastewater systems. Annual payments of between \$27,734 and \$32,233, including principal and interest of between 5.250% and 5.625%, due December 1st each year through 2024. Principal and interest payments are made from the Sewer Operations Fund. Interest expense for 2015-16 was \$11,328.

Year Ending June 30:	Principal	Interest	Total
2017	\$ 18,209	\$ 11,499	\$ 29,708
2018	18,386	10,498	28,884
2019	18,571	9,486	28,057
2020	23,768	8,465	32,233
2021	23,976	7,858	31,834
Thereafter	103,270	15,016	118,286
	<u>\$ 206,180</u>	<u>\$ 62,822</u>	<u>\$ 269,002</u>

On July 15, 2016, the City paid off the outstanding loan balance in full, consisting of the principal balance of \$206,180 and interest of \$7,635.

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 \$997,503, 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 1st 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 of \$34,898. Interest expense for 2015-16 was \$19,124.

Year Ending June 30:	Principal	Interest	Fees	Interest & Fees	Total
2017	\$ 54,450	\$ 15,720	\$ 2,624	\$ 18,344	\$ 72,794
2018	56,052	14,118	2,348	16,466	72,518
2019	57,700	12,470	2,064	14,534	72,234
2020	59,398	10,772	1,771	12,543	71,941
2021	61,145	9,025	1,470	10,495	71,640
2022-2025	263,120	17,581	2,683	20,264	283,384
	<u>\$ 551,865</u>	<u>\$ 79,686</u>	<u>\$ 12,960</u>	<u>\$ 92,646</u>	<u>\$ 644,511</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 9 – Operating Leases

On September 22, 2015 the City traded-in their two previously leased copiers to OCE Financial Services, terminating the previous agreement, and entered into a new operating lease agreement with Cannon Financial Services, Inc. for two new copy machines. Rental fees, representing the minimum rental amount, incurred during the year on this lease were \$2,275. Total rental fees incurred on operating leases during the year ended June 30, 2016 were \$3,463.

The future payments for the current Canon operating lease are as follows:

<u>Year ending June 30:</u>	<u>Canon Financial Lease Payments</u>
2017	\$ 3,033
2018	3,033
2019	3,033
2020	3,033
2021	758
	<u>\$ 12,890</u>

Note 10 – Interfund Transactions

Interfund transfers

Interfund transfers during the year ended June 30, 2016 were as follows:

<u>Business-Type Activities</u>	<u>In</u>	<u>Out</u>
Sewer Operations Fund	\$ -	\$ 104,000
Sewer Operations Replacement Fund	104,000	-
	<u>\$ 104,000</u>	<u>\$ 104,000</u>

The inter-fund transfer from the Sewer Operations Fund to the Sewer Operations Replacement Fund was to fund a replacement reserve for major improvements or disaster relief. All transfers were included within the original budget document.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 10 – Interfund Transactions (continued)

Administrative Charges

Administrative charges were as follows:

	Charge From	Charge To
General Fund	\$ 165,000	\$ -
Streets Fund	-	75,900
Sewer Fund	-	89,100
	<u>\$ 165,000</u>	<u>\$ 165,000</u>

Payroll costs for all 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 performing duties for the Street and Sewer funds. Payroll costs for finance, administrative, sewer and maintenance personnel are recorded in the sewer and street funds based on a predetermined percentage to approximate time spent by the City's personnel.

Note 11 – Accrued Compensated Absences

At June 30, 2016, the outstanding balance is comprised of accrued vacation and certain accrued sick time. On termination from employment, one-half of an employee's unused accrued sick leave will be converted to the Oregon Public Employees Retirement System (PERS), if eligible. At fiscal year end, the City had no employees eligible for this sick-leave benefit. Changes in accrued compensated absences for the year ended June 30, 2016, are as follows:

	Accrued June 30, 2015	Earned	Used	Accrued June 30, 2016
Government Activities	<u>\$ 5,725</u>	<u>\$ 12,251</u>	<u>\$ (11,979)</u>	<u>\$ 5,997</u>

Note 12 – Pension Plan

The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple-employer defined benefit plan.

Plan Benefits

All benefits of the System are established by the legislature pursuant to Oregon Revised Statute (ORS) Chapter 238 and 238A.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 12 – Pension Plan – Plan Benefits (continued)

Tier One/Tier Two Retirement Benefit (Chapter 238)

The ORS Chapter 238 Defined Benefit Plan is closed to new members hired on or after August 29, 2003. *Pension Benefits* - The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General Service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

Death Benefits - Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- Member was employed by a PERS employer at the time of death,
- Member died within 120 days after termination of PERS-covered employment,
- Member died as a result of injury sustained while employed in a PERS-covered job, or
- Member was on an official leave of absence from a PERS-covered job at the time of death.

Disability Benefits - A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

Benefit Changes After Retirement – Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. The COLA for fiscal year 2015 was capped at 1.5 percent for all benefit recipients. As a result of the *Moro Decision* (*Everice Moro et al v. State of Oregon et al*), the cap on the COLA will be restored to 2.0 percent for fiscal year 2016 and beyond.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 12 – Pension Plan – Plan Benefits (continued)

OPSRP Pension Program (Chapter 238A)

The ORS Chapter 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.

Pension Benefits - This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

Police and Fire - 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

General Service - 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Death Benefits - Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

Disability Benefits - A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement - Under ORS 238A.210, monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation, which became effective July, 2013. The State of Oregon and certain schools, community colleges, and political subdivisions have made unfunded actuarial liability payments, and their rates have been reduced. Employer contributions for the year ended June 30, 2015 were \$26,067, excluding amounts to fund employer specific liabilities.

A 10 year schedule of Defined Benefit Pension Plan Contributions can be found beginning on page 62 of the June 30, 2015 PERS CAFR.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 12 – Pension Plan – Plan Benefits (continued)

Pension Plan Comprehensive Annual Financial Report (CAFR)

Oregon PERS produces an independently audited CAFR which can be found at: http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

Actuarial Valuation

The employer contribution rates effective July 1, 2013, through June 30, 2015 and July 1, 2015, through June 30, 2017, were set using the entry age normal actuarial cost method. For the Tire One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years.

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

Actuarial Methods and Assumptions Used in Developing Total Pension Liability

Valuation date	December 31, 2013
Measurement date	June 30, 2015
Experience Study	2014, published September 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Inflation rate	2.75 percent
Long-term expected rate of return	7.75 percent
Discount rate	7.75 percent
Projected salary increases	3.75 percent
Cost of living adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blend based on service.
Mortality	<i>Healthy retirees and beneficiaries:</i> RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. <i>Active members:</i> Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. <i>Disabled retirees:</i> Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 12 – Pension Plan – Plan Benefits (continued)

Actuarial Methods and Assumptions Used in Developing Total Pension Liability (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

Proportionate Share Allocation Methodology -

The basis for the employer's proportion is actuarially determined by comparing the employer's projected long-term contribution effort to the Plan with the total projected long-term contribution effort of all employers. The contribution rate for every employer has at least two major components; Normal Cost Rate and Unfunded Actuarial Liability (UAL) Rate.

Since the December 31, 2013 actuarial valuation, the system-side actuarial accrued liability has increased primarily due to the *Moro* Decision and assumption changes, along with interest on the liability as current active members get closer to retirement. The Oregon Supreme Court decision in *Moro v. State of Oregon*, issued on April 30, 2015, reversed a significant portion of the reductions the 2013 Oregon Legislature made to future system Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the benefits projected to be paid by employers compared to those developed in the prior actuarial valuation, and consequently increased plan liabilities. The employers' projected long-term contributions effort has been adjusted for the estimated impact of the *Moro* Decision. In accordance with statute, a biennial review of actuarial methods and assumptions was completed in 2015 to be used for the December 31, 2014 actuarial valuation. After completion of this review and subsequent to the measurement date, the PERS Board adopted several assumption changes, including lowering the investment return assumption to 7.50%, which was effective January 1, 2016.

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent for the Defined Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Investment Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model. For more information on the Plan's portfolio, assumed asset allocation, and the

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 12 – Pension Plan – Plan Benefits (continued)

Investment Rate of Return (continued)

long-term expected rate of return for each major asset class, calculated using both arithmetic and geometric means; see PERS' audited financial statements at:

http://www.oregon.gov/pers/docs/financial_reports/2015_cafr.pdf.

Pension Liabilities/Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a net pension asset of \$18,032 for its proportionate share of the net pension asset. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the City's proportion was approximately 0.0 percent.

For the year ended June 30, 2016, the City recognized pension income (offset to expense) of \$29,557. Pension income was generated during the measurement period primarily as a result of greater than anticipated investment returns at the OPERS level.

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Change in proportion and differences between employer contributions and proportionate share of contributions:	\$ -	\$ 18,381
City's contributions subsequent to the measurement date:	26,067	-
	\$ 26,067	\$ 18,381

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (income) as follows:

Year Ended		Deferred Outflow/ (Inflow) of Resources (prior to post - measurement date contributions)
June 30		
2017	\$	(4,415)
2018		(4,415)
2019		(4,415)
2020		(3,893)
2021		(1,243)
Thereafter		-
Total	\$	(18,381)

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 12 – Pension Plan – Plan Benefits (continued)

Sensitivity for the City’s Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The City’s proportionate share of the net pension asset/(liability) at the measurement date, June 30, 2015 was 0.0 percent. As such, an increase or decrease in the discount rate does not impact the City’s proportionate share of the net pension liability.

Note 13 – Other Post-Employment Benefits

The City of Shady Cove completed a valuation on its post-employment benefit liability as required by GASB for financial statements purposes. Based on this valuation, the actuary concluded the City has no OPEB liability to be reported under GASB 45.

Note 14 – Net Position

Deficit Net Position

At June 30, 2016, a net position deficit of \$308,227 exists in the Sewer Bonded 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 Bonded 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 Bonded Debt Fund.

Restricted Net Position

The City has approved enabling legislation that imposes legally enforceable limits on how certain system development charges (restricted resource/net position) may be used. A portion of net position is also restricted by external parties for payments of outstanding debt. Restricted net position at June 30, 2016 is comprised of the following:

Enacted by enabling legislation of the City:	
Restricted for system development	\$ 824,196
Externally imposed:	
Restricted for debt service	<u>238,966</u>
	<u>\$ 1,063,162</u>

Note 15 – 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.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2016

Note 16 – 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 17 – 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.

Note 18 – Subsequent Events

Management of the City has evaluated events and transactions occurring after June 30, 2016 through the date of the financial statements were available for issuance, for recognition and/or disclosure in the financial statements, except as follows:

On July 15, 2016, the City paid off the outstanding principal balance of the OECD Term Loan #1 in full, \$206,181, with interest due of \$7,635.

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, 2016**

	Budget		Actual	Variance with
	Adopted	Final		Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 120,000	\$ 120,000	\$ 144,798	\$ 24,798
State subventions	74,000	74,000	76,372	2,372
Franchise taxes	209,000	209,000	233,321	24,321
City fees	87,500	87,500	104,582	17,082
Administrative fees	165,000	165,000	176,825	11,825
Municipal court	5,000	5,000	13,365	8,365
Grants	-	-	500	500
Public safety fee	245,000	245,000	259,276	14,276
Floodplain permit fee	1,500	1,500	6,600	5,100
Miscellaneous	27,000	27,000	3,376	(23,624)
Earnings on investments	800	800	1,562	762
TOTAL REVENUES	934,800	934,800	1,020,577	85,777
EXPENDITURES				
Current:				
Administrative				
Personal Services	293,300	293,300	294,647	(1,347)
Materials & Services	691,000	241,000	206,034	34,966
Public Safety				
Materials & Services	-	450,000	420,193	29,807
Capital outlay	101,000	101,000	56,447	44,553
Contingency	49,700	49,700	-	49,700
TOTAL EXPENDITURES	1,135,000	1,135,000	977,321	157,679
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(200,200)	(200,200)	43,256	243,456
FUND BALANCE, Beginning of Year	200,200	200,200	331,118	130,918
FUND BALANCE, End of Year	\$ -	\$ -	\$ 374,374	\$ 374,374

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STREET FUND
YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
State Highway revenue	\$ 165,000	\$ 165,000	\$ 178,701	\$ 13,701
Earnings on investments	300	300	586	286
TOTAL REVENUES	165,300	165,300	179,287	13,987
EXPENDITURES				
Current				
Highways and streets				
Materials and services	197,900	197,900	163,885	34,015
Capital outlay	1,600	1,600	-	1,600
Contingency	59,300	59,300	-	59,300
TOTAL EXPENDITURES	258,800	258,800	163,885	94,915
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(93,500)	(93,500)	15,402	108,902
FUND BALANCE, Beginning of Year	93,500	93,500	112,995	19,495
FUND BALANCE, End of Year	\$ -	\$ -	\$ 128,397	\$ 128,397

**CITY OF SHADY COVE
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY/(ASSET) AND SCHEDULE OF THE CITY'S CONTRIBUTIONS
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)
LAST 10 FISCAL YEARS ENDING JUNE 30 (For Years Information is Available)**

City of Shady Cove Proportionate Share of Net Pension Liability / (Asset)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension asset/(liability)	0.0000000%	0.0007955%	0.0007955%
City's proportion of the net pension asset/(liability)	\$ -	\$ 18,032	\$ (40,597)
City's covered-employee payroll	\$ 262,751	\$ 291,363	\$ 374,780
City's proportionate share of the net pension asset/(liability) as a percentage of its covered-employee payroll	0.00%	6.19%	10.83%
Plan fiduciary net position as a percentage of the total pension liability	91.88%	103.59%	91.97%

City of Shady Cove Contributions

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 26,067	\$ 925	\$ -
Contribution in relation to the contractually required	\$ (26,067)	\$ (925)	\$ -
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered - employee payroll	\$ 294,646	\$ 262,751	\$ 291,363
Contributions as a percentage of covered-employee payroll	8.85%	0.35%	0.00%

Note 1 - Changes of Benefit Terms and Assumptions -

Since the December 31, 2013 actuarial valuation, the system-side actuarial accrued liability has increased primarily due to the Moro Decision and assumption changes, along with interest on the liability as current active members get closer to retirement. The Oregon Supreme Court decision in Moro v. State of Oregon, issued on April 30, 2015, reversed a significant portion of the reductions the 2013 Oregon Legislature made to future system Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the benefits projected to be paid by employers compared to those developed in the prior actuarial valuation, and consequently increased plan liabilities. The employers' projected long-term contributions effort has been adjusted for the estimated impact of the Moro Decision. In accordance with statute, a biennial review of actuarial methods and assumptions was completed in 2015 to be used for the December 31, 2014 actuarial valuation. After completion of this review and subsequent to the measurement date, the PERS Board adopted several assumption changes, including lowering the investment return assumption to 7.50%, which was effective January 1, 2016.

OTHER SUPPLEMENTARY INFORMATION

MAJOR ENTERPRISE FUNDS

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
SEWER OPERATIONS FUND
YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Charges for services	\$ 860,700	\$ 860,700	\$ 810,343	\$ (50,357)
Earnings on investments	400	400	780	380
TOTAL REVENUES	<u>861,100</u>	<u>861,100</u>	<u>811,123</u>	<u>(49,977)</u>
EXPENDITURES				
Current:				
Utility services				
Materials and services	401,600	401,600	400,402	1,198
Capital outlay	122,500	122,500	59,353	63,147
Debt service	231,300	231,300	231,102	198
Operating contingency	50,000	50,000	-	50,000
TOTAL EXPENDITURES	<u>805,400</u>	<u>805,400</u>	<u>690,857</u>	<u>114,543</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>55,700</u>	<u>55,700</u>	<u>120,266</u>	<u>64,566</u>
OTHER FINANCING SOURCES (USES):				
Transfers (out)	(104,000)	(104,000)	(104,000)	-
TOTAL OTHER FINANCING SOURCES (USES):	<u>(104,000)</u>	<u>(104,000)</u>	<u>(104,000)</u>	<u>-</u>
NET CHANGE IN WORKING CAPITAL	(48,300)	(48,300)	16,266	64,566
NET WORKING CAPITAL, Beginning of Year	100,000	100,000	194,600	94,600
NET WORKING CAPITAL, End of Year	<u>\$ 51,700</u>	<u>\$ 51,700</u>	210,866	<u>\$ 159,166</u>
Add (deduct) adjustments to net working capital to reconcile ending net position:				
Capital assets, net			5,026,283	
Change in accrued interest			3,082	
Change in other non-current assets/liabilities			4,175	
Long-term debt			(2,834,495)	
ENDING NET POSITION			<u>\$ 2,409,911</u>	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
SEWER BONDED DEBT FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 72,000	\$ 72,000	\$ 86,616	\$ 14,616
TOTAL REVENUES	<u>72,000</u>	<u>72,000</u>	<u>86,616</u>	<u>14,616</u>
EXPENDITURES				
Debt service	74,000	74,000	73,956	44
TOTAL EXPENDITURES	<u>74,000</u>	<u>74,000</u>	<u>-</u>	<u>74,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,000)</u>	<u>(2,000)</u>	<u>12,660</u>	<u>14,660</u>
NET WORKING CAPITAL, Beginning of Year	<u>18,500</u>	<u>18,500</u>	<u>27,113</u>	<u>8,613</u>
NET WORKING CAPITAL, End of Year	<u>\$ 16,500</u>	<u>\$ 16,500</u>	39,773	<u>\$ 23,273</u>
Add (deduct) adjustments to net working capital to reconcile ending net position.				
Change in accrued interest			-	
Long-term debt			<u>(348,000)</u>	
ENDING NET POSITION (DEFICIT)			<u>\$ (308,227)</u>	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
SDC FUND
YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
System development charges	\$ 29,300	\$ 29,300	\$ 83,318	\$ 54,018
Earnings on investments	2,700	2,700	5,273	2,573
TOTAL REVENUES	32,000	32,000	88,591	56,591
EXPENDITURES				
Transportation SDC				
Capital Outlay	124,400	124,400	-	124,400
Stormwater SDC				
Capital Outlay	30,000	30,000	12,524	17,476
Parks SDC				
Capital Outlay	86,500	86,500	-	86,500
TOTAL CAPITAL OUTLAY	240,900	240,900	12,524	228,376
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(208,900)	(208,900)	76,067	284,967
NET WORKING CAPITAL, Beginning of Year	711,800	711,800	748,129	36,329
NET WORKING CAPITAL, End of Year	\$ 502,900	\$ 502,900	824,196	\$ 321,296
Add (deduct) adjustments to net working capital to reconcile ending net position:				
Capital assets, net			582,284	
ENDING NET POSITION			\$ 1,406,480	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
SEWER RESERVE FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Earnings on investments	\$ 600	\$ 600	\$ 1,171	\$ 571
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>600</u>	<u>600</u>	<u>1,171</u>	<u>571</u>
NET POSITION, Beginning of Year	<u>163,600</u>	<u>163,600</u>	<u>163,124</u>	<u>(476)</u>
NET POSITION, End of Year	<u>\$ 164,200</u>	<u>\$ 164,200</u>	<u>\$ 164,295</u>	<u>\$ 95</u>

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
SEWER OPERATIONS REPLACEMENT FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Earnings on investments	\$ 2,300	\$ 2,300	\$ 4,489	\$ 2,189
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,300</u>	<u>2,300</u>	<u>4,489</u>	<u>2,189</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>104,000</u>	<u>104,000</u>	<u>104,000</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>104,000</u>	<u>104,000</u>	<u>104,000</u>	<u>-</u>
NET CHANGE IN WORKING CAPITAL	106,300	106,300	108,489	2,189
NET WORKING CAPITAL, Beginning of Year	<u>571,000</u>	<u>571,000</u>	<u>572,040</u>	<u>1,040</u>
NET WORKING CAPITAL, End of Year	<u>\$ 677,300</u>	<u>\$ 677,300</u>	680,529	<u>\$ 3,229</u>
Add (deduct) adjustments to net working capital to reconcile ending net position:				
Capital assets, net			<u>301,499</u>	
ENDING NET POSITION			<u>\$ 982,028</u>	

OTHER FINANCIAL SCHEDULES

**CITY OF SHADY COVE
SCHEDULE OF PROPERTY TAX TRANSACTIONS
FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Tax Year</u>	<u>Uncollected July 1, 2015</u>	<u>Levy as Extended by Assessor</u>	<u>Discounts & Adjustments</u>	<u>Interest</u>	<u>Collections Per Treasurer</u>	<u>Uncollected June 30, 2016</u>
<u>GENERAL FUND</u>							
CURRENT	2015-16	\$	\$ 146,637	\$ (4,045)	\$ 51	\$ 139,159	\$ 3,484
PRIOR	2014-15	5,133		(1,282)	107	1,918	2,040
	2013-14	2,199		(374)	102	791	1,136
	2012-13	1,428		(211)	140	733	624
	2011-12	901		(162)	66	296	509
	2010-11	168		(18)	22	75	97
	2009-10	121		(10)	15	45	81
	2008-09	82		(8)	9	24	59
	Prior	247		(64)	25	51	157
Total Prior		<u>10,279</u>	<u>-</u>	<u>(2,129)</u>	<u>486</u>	<u>3,933</u>	<u>4,703</u>
TOTAL GENERAL FUND		<u>\$ 10,279</u>	<u>\$ 146,637</u>	<u>\$ (6,174)</u>	<u>\$ 537</u>	<u>\$ 143,092</u>	<u>\$ 8,187</u>
<u>SEWER DEBT FUND</u>							
CURRENT	2015-16	\$	\$ 88,221	\$ (2,433)	\$ 31	\$ 83,722	\$ 2,097
PRIOR	2014-15	3,088		(771)	64	1,154	1,227
	2013-14	1,710		(225)	61	476	1,070
	2012-13	1,043		(127)	84	441	559
	2011-12	483		(98)	40	178	247
	2010-11	117		(11)	13	45	74
	2009-10	78		(6)	9	27	54
	2008-09	68		(5)	5	15	53
	Prior	284		(38)	15	30	231
Total Prior		<u>6,871</u>	<u>-</u>	<u>(1,281)</u>	<u>291</u>	<u>2,366</u>	<u>3,515</u>
TOTAL SEWER DEBT FUND		<u>\$ 6,871</u>	<u>\$ 88,221</u>	<u>\$ (3,714)</u>	<u>\$ 322</u>	<u>\$ 86,088</u>	<u>\$ 5,612</u>

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Honorable Mayor and Council
City of Shady Cove
Shady Cove, OR 97539

We have audited the basic financial statements of the City of Shady Cove, Oregon as of and for the year ended June 30, 2016, and have issued our report thereon dated December 12, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

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

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

- Deposit of public funds with financial institutions under ORS Chapter 295.
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required under ORS Chapter 294.
- Insurance and fidelity under bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing under ORS Chapters 279A, 279B, 279C.

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

Budget

The City adopted the budget with expenditures budgeted within the General Fund by object classification, rather than by organizational unit or program, as required by ORS 294.388 (2). A supplemental budget was adopted to correct the error.

Honorable Mayor and Council
City of Shady Cove

Budget (continued)

As noted in the financial statements, the City over-expended its appropriation authority in the General Fund in Administrative Personal Services (\$1,347).

OAR 162-10-0230 Internal Control

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

Restrictions on Use

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

Stewart C. Parmele, CPA, Partner

Stewart C. Parmele CPA, Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
December 12, 2016