

CITY OF SHADY COVE, OREGON
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012
WITH
INDEPENDENT AUDITOR'S REPORT

CITY OF SHADY COVE, OREGON

Year Ended June 30, 2012

ELECTED OFFICIALS OF THE CITY OF SHADY COVE, OREGON

Ron Holthusen P.O. Box 1210 Shady Cove, Oregon 97539	Mayor
Bill Kyle P.O. Box 1210 Shady Cove, Oregon 97539	Councilor
Jim Ulrich P.O. Box 1210 Shady Cove, Oregon 97539	Councilor
Leith Hayes P.O. Box 1210 Shady Cove, Oregon 97539	Councilor
Gary Hughes P.O. Box 1210 Shady Cove, Oregon 97539	Councilor

ADMINISTRATION

Danise Brakeman P.O. Box 1210 Shady Cove, Oregon 97539	City Administrator
Steven E. Rich, Esq P.O. Box 375 Grants Pass, Oregon 97528	City Attorney

CITY OF SHADY COVE, OREGON

Year Ended June 30, 2012

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CITY OF SHADY COVE, OREGON

Year Ended June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shady Cove, Oregon as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2013, on our consideration of City of Shady Cove, Oregon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and major governmental funds budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on management's discussion and analysis 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shady Cove, Oregon's basic financial statements as a whole. The other supplemental information as listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Stewart C. Farnelle CPA, Partner

Michael L. Piels CPAs, LLP
January 23, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2012

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, 2012. Information in the MD&A is based on currently known facts, decisions and conditions. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- 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 \$411 thousand during the current year.
- In the **government-wide statements**, the City's assets totaled \$8.75 million at June 30, 2012 consisting of \$7.07 million in capital assets, \$1.49 million in cash and investments, and approximately \$180 thousand in receivables. Capital assets, net of accumulated depreciation decreased by approximately \$379 thousand in the current year. Cash and investment balances increased by approximately \$108 thousand from the prior year.
- In the **government-wide statements**, the City's liabilities totaled \$3.92 million at June 30, 2012 consisting of \$3.80 million in long-term debt, including the current portion, and approximately \$121 thousand in accounts payable and other current liabilities.
- **Government-wide** net assets (assets minus liabilities) totaled \$4.83 million at June 30, 2012 of which \$3.23 million was invested in capital assets net of related debt, approximately \$951 thousand was restricted, and approximately \$650 thousand was considered unrestricted. In the prior year, net assets totaled \$4.93 million, of which \$3.42 million was invested in capital assets net of related debt, approximately \$798 thousand was restricted, and approximately \$708 thousand was considered unrestricted.
- In the **government-wide statements**, the City generated program revenues of \$1.39 million from its governmental and business activities. Direct expenses of all programs totaled \$2.16 million. General revenues which include taxes, franchise fees and investment income totaled approximately \$670 thousand. In the prior year the City generated program revenues of \$1.40 million from its governmental and business activities. Direct expenses of all programs totaled \$2.12 million. General revenues which include taxes, franchise fees and investment income totaled approximately \$624 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Basic Financial Statements present financial information about the City as a whole and about its activities. Following the Basic Financial Statements are Required Supplementary Information, which consists of the major governmental funds, Other Supplementary Information, which provides budgetary comparisons, and the combining non-major enterprise fund schedules. Finally, completing the document

is a series of other financial schedules, and three reports by the independent certified public accountants, as required by statute.

1. Government-wide Financial Statements

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

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

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

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

Governmental activities of the City are categorized as follows:

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

Business-type activities include the following:

- Wastewater

2. Fund Financial Statements

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

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

Expenditures and Changes in Fund Balances to the change in net assets reported in the government-wide Statement of Activities are provided to facilitate a comparison between governmental funds and governmental activities.

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

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

3. Notes to the Basic Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

The City's assets exceeded liabilities by \$4.83 million at June 30, 2012. Net assets for governmental activities totaled approximately \$375 thousand while net assets for business-type activities totaled \$4.45 million.

	<u>June 30, 2012</u>		<u>June 30, 2011</u>	
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Capital assets, net	\$ 259,141	\$ 6,886,248	\$ 182,916	\$ 7,275,211
Current & other assets	192,432	1,417,968	359,067	1,204,120
Total assets	<u>\$ 451,573</u>	<u>\$ 8,304,216</u>	<u>\$ 541,983</u>	<u>\$ 8,479,331</u>
Long term debt	\$ -	\$ 3,802,241	\$ -	\$ 3,984,726
Other Liabilities	76,390	44,940	49,483	53,870
Total liabilities	<u>\$ 76,390</u>	<u>\$ 3,847,181</u>	<u>\$ 49,483</u>	<u>\$ 4,038,596</u>
Invested in capital assets net of related debt	\$ 192,432	\$ 3,039,067	\$ 182,916	\$ 3,243,086
Restricted	5,326	945,615	-	782,796
Unrestricted	177,425	472,353	309,584	414,853
Total net assets	<u>\$ 375,183</u>	<u>\$ 4,457,035</u>	<u>\$ 492,500</u>	<u>\$ 4,440,735</u>

As mentioned earlier, net assets may be an indicator of the City's financial position. At the end of the current year, the City has a positive net asset balance. Net assets decreased by approximately \$101 thousand from the prior year as expenses exceeded revenues. The largest portion of the City's net assets, 66.87 percent, is invested in capital assets, 16.19 percent is unrestricted, 16.93 percent is restricted for system development or debt service.

Analysis of Changes in Net Assets

The City's Statement of Activities for fiscal year ended June 30, 2012 follows:

	June 30, 2012		June 30, 2011	
	Governmental Activities	Business Type Activities	Governmental Activities	Business Type Activities
Revenues				
Program revenues:				
Charges for services	\$ 507,573	\$ 878,850	\$ 521,711	\$ 859,972
Operating grants	6,050	-	20,000	-
General revenues:				
Property taxes for General	113,948	-	114,733	-
Property taxes for Debt	-	82,783	-	83,641
State revenue sharing	66,775	-	73,974	-
Intergovernmental	158,367	-	141,066	-
Franchise fees	223,237	-	214,841	-
Earnings on investments	1,360	6,172	1,662	6,386
Other	3,170	-	17,477	-
Gain/(loss) on disposal assets	-	14,261	(31,248)	1,500
Total revenues	1,080,480	982,066	1,074,216	951,499
Expenses				
Administrative	562,365	-	534,079	-
Public Safety	434,108	-	410,765	-
Parks	4,974	-	3,078	-
Highways and streets	196,350	-	120,349	-
Interest on long-term debt	-	-	35	-
Wastewater	-	965,766	-	1,061,330
Total expenses	1,197,797	965,766	1,068,306	1,061,330
Change in net assets	(117,317)	16,300	5,910	(109,831)
Beginning net assets	492,500	4,440,735	486,590	4,550,566
Ending net assets	\$ 375,183	\$ 4,457,035	\$ 492,500	\$ 4,440,735

Governmental Activities

Governmental activities decreased the City's net assets by approximately \$117 thousand, this was partially offset by an increase in net assets of approximately \$16 thousand associated to Business-Type

activities. Governmental revenues totaled \$1.08 million and consisted primarily of property taxes of approximately \$113 thousand, charges for services of approximately \$507 thousand, intergovernmental revenue of approximately \$158 thousand, and franchise fees of approximately \$223 thousand.

As discussed earlier, the City's governmental activities are categorized into the following programs: General government; Police department; Parks department; and Highways and streets. General government activities are activities not categorized in any of the programs and include central services such as building operations, engineering, public works administration and support, and administration and financial services.

Business-Type Activities

Business-type activities increased the City's net assets by approximately \$16 thousand. Charges for services which totaled approximately \$878 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 \$965 thousand; of this, approximately \$350 thousand represented depreciation expense and approximately \$173 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 Assets.

FUND ANALYSIS

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

Governmental Funds

The focus of the governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, 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 \$205 thousand, a decrease of approximately \$95 thousand from the prior year's fund balances of approximately \$300 thousand. Revenues totaled \$1.08 million while expenditures which include current, capital outlay, and debt service expenditures totaled \$1.17 million.

The ending fund balances of approximately \$205 thousand is comprised of approximately \$5 that is restricted by Oregon Revised Statutes for foot paths or bike paths, approximately \$7 thousand in fund balance committed for future bike paths, approximately \$33 thousand assigned to future Street Fund obligations, and approximately \$160 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 \$160 thousand down nearly \$61 thousand from the previous year's calculated unassigned fund balance. Fund balance decreased by approximately \$34 thousand in the Street Fund.

Proprietary Funds

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

Total net assets of the Proprietary Funds at the end of the year amounted to nearly \$4.45 million. This was comprised of unrestricted net assets of approximately \$472 thousand, restricted net assets of approximately \$945 thousand, and \$3.03 million invested in capital assets, net of related debt. The decrease in net assets of the Sewer Operations Fund was approximately \$114 thousand. This is comparable with the prior year's decrease of approximately \$185 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, was modified once during the current fiscal year. The change was the result of unanticipated grants associated to water system planning and other capital outlay totaling approximately \$33 thousand. Only a portion of one of the grants was received and spent during fiscal 2012.

CAPITAL ASSETS

As of June 30, 2012 the City had invested \$7.07 million in capital assets, net of depreciation as reflected in the following table, which represents a net decrease (additions, deductions and depreciation) of approximately \$379 thousand.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Land	\$ 34,542	\$ 58,403	\$ 92,945
Buildings and improvements	132,630	-	132,630
Machinery and equipment	25,260	86,328	111,588
Infrastructure	-	6,741,517	6,741,517
Total	<u>\$ 192,432</u>	<u>\$ 6,886,248</u>	<u>\$ 7,078,680</u>

Major events affecting capital assets for fiscal year 2012 are as follows:

- The City purchased new financial software and upgraded its HVAC system totaling approximately \$24 thousand.
- The City performed infrastructure upgrades relating to its sewer system totaling approximately \$123 thousand.
- The City sold a combo machine (vehicle) which resulted in a gain of approximately \$23 thousand and cash received of approximately \$166 thousand.
- The City sold various other vehicles which resulted in a loss of approximately \$9 thousand and cash received of approximately \$9k.

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

DEBT ADMINISTRATION

As of year-end, the City had \$3.80 million in long-term debt outstanding compared to \$3.98 million in the previous year. Principal payments on long-term debt were approximately \$182 thousand. All outstanding debt at year-end is reported in the business-type fund section, and is comprised of the following:

General Obligation Bonds	\$ 576,604
Sewer Bond # 1	2,198,660
OECD Note Payable # 1	272,430
Clean Water State Revolving Fund Note	<u>754,547</u>
Total	<u>\$ 3,802,241</u>

On July 1, 2011, the City paid approximately \$44 thousand to retire its OECD Note Payable #2. See the notes to the financial statements for further detailed information.

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 2012 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

The housing market is improving slowly, although development is still almost non-existent. The recent bond measure for a municipal water system was voted down in the November 2012 election, which will further inhibit development. As a tourism community, fuel costs will continue to affect our seasonal economy. Fuel options have increased to include electricity and compressed natural gas, which does not currently pay into the State's gas tax and therefore has a direct impact on the revenue we receive through the State. Until the national economic situation improves significantly, growth and limited business will continue to affect our community.

The City's population is expected to increase very modestly due to the effects of the national economy, the lack of a municipal water system, foreclosures, and the burden of highly regulated floodplain properties within the City. This will continue the decline in building activity and reductions in the accumulation of System Development Charges, as well as fees for service.

Significant expenditures are expected to continue under the City's Floodplain Program. While the City has made great progress bringing all 26 properties identified in FEMA's Community Assistance Visit conducted in 2001, into full compliance, this program is expected to continue for the next several years. Depending on the expectations FEMA has for the City, the cost of this program may reduce. Nevertheless, the City will need to carefully manage the program with limited available resources from the General Fund. Fee schedules are reviewed and updated annually to allow for better cost recovery.

The City's permanent property tax rate of 54.7 cents per thousand continues to generate approximately \$110 thousand for all City Hall functions. Without the benefit of franchise fees, the Public Safety Fee, and state subventions, the City would be hard pressed to provide even a minimal level of service.

The City continues to find ways to provide cost effective services through outsourcing. Currently, the City contracts services to run the wastewater treatment and collection system, perform pavement maintenance, law enforcement, emergency management, planning, floodplain management, information technology and radio management. The level of service the City provides is impressive based on the limited budget and staff and is only possible through outsourcing.

The City has been successful in obtaining a Department of Energy Grant to upgrade the lighting and HVAC unit at City Hall and install a vapor barrier underneath the building. The City continues to work under the ODOT Transportation Enhancement grant to upgrade Hwy 62, which is scheduled for construction in 2015. Other grant applications were submitted but not selected, however we continue to pursue these opportunities.

The City continues to go through its surplus items and recycle, donate or auction them. Revenue from surplus totaled \$3,000 this year in FY 2011/2012.

It is anticipated that:

- The City will continue in good standing with the Federal Emergency Management Agency and the National Flood Insurance Program due to floodplain compliance enforcement;
- We will enjoy a high level of citizen involvement as the Transportation Enhancement project progresses;
- The cost of law enforcement will increase significantly;
- Costs for services will continue to increase at a rate higher than generated revenue.
- We will continue to offer a high level of service to the community as long as financially possible;

Highlights of Prior Fiscal Year

- ✓ A new contract for Radio Station Management was approved;
- ✓ A new contract for Emergency Management Consulting was approved;
- ✓ Updated our Water Master Plan a second time
- ✓ Continued our efforts to educate the community on the benefits of a municipal water system;

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 ASSETS
JUNE 30, 2012**

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 165,307	\$ 396,081	\$ 561,388
Receivables	93,834	76,272	170,106
Restricted cash and investments	-	935,432	935,432
Restricted receivables	-	10,183	10,183
Capital assets, net:			
Land	34,542	58,403	92,945
Buildings and improvements	132,630	-	132,630
Machinery and equipment	25,260	86,328	111,588
Infrastructure	-	6,741,517	6,741,517
TOTAL ASSETS	451,573	8,304,216	8,755,789
LIABILITIES:			
Accounts payable	23,236	-	23,236
Payroll taxes and benefits payable	6,596	-	6,596
Other current liabilities	2,150	-	2,150
Accrued Compensated Absences	31,392	-	31,392
Accrued interest payable	-	44,940	44,940
Deferred revenue	13,016	-	13,016
Long-term liabilities:			
Due within one year	-	143,231	143,231
Due in more than one year	-	3,659,010	3,659,010
TOTAL LIABILITIES	76,390	3,847,181	3,923,571
NET ASSETS:			
Invested in capital assets, net of related debt	192,432	3,039,067	3,231,499
Restricted	5,326	945,615	950,941
Unrestricted	177,425	472,353	649,778
TOTAL NET ASSETS	\$ 375,183	\$ 4,457,035	\$ 4,832,218

**CITY OF SHADY COVE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Fines, Fees, and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government						
Administrative	\$ 562,365	\$ 217,945	\$ 6,050	\$ (338,370)	\$ -	\$ (338,370)
Police Department	434,108	289,628	-	(144,480)	-	(144,480)
Parks Department	4,974	-	-	(4,974)	-	(4,974)
Highways and streets	196,350	-	-	(196,350)	-	(196,350)
Total government activities	<u>1,197,797</u>	<u>507,573</u>	<u>6,050</u>	<u>(684,174)</u>	<u>-</u>	<u>(684,174)</u>
Business-type activities:						
Water/Wastewater	965,766	878,850	-	-	(86,916)	(86,916)
Total business-type activities	<u>965,766</u>	<u>878,850</u>	<u>-</u>	<u>-</u>	<u>(86,916)</u>	<u>(86,916)</u>
Total Common City	<u>\$ 2,163,563</u>	<u>\$ 1,386,423</u>	<u>\$ 6,050</u>	<u>(684,174)</u>	<u>(86,916)</u>	<u>(771,090)</u>
General revenues:						
Property taxes levied for general purposes				113,948	-	113,948
Property taxes levied for debt service				-	82,783	82,783
State subventions				66,775	-	66,775
Intergovernmental				158,367	-	158,367
Franchise fees				223,237	-	223,237
Earnings on investments				1,360	6,172	7,532
Other				3,170	-	3,170
Gain/(Loss) on disposal of assets				-	14,261	14,261
Total general revenues				<u>566,857</u>	<u>103,216</u>	<u>670,073</u>
CHANGE IN NET ASSETS				<u>(117,317)</u>	<u>16,300</u>	<u>(101,017)</u>
Net assets - July 1, 2011				<u>492,500</u>	<u>4,440,735</u>	<u>4,933,235</u>
Net Assets - June 30, 2012				<u>\$ 375,183</u>	<u>\$ 4,457,035</u>	<u>\$ 4,832,218</u>

FUND FINANCIAL STATEMENTS

**CITY OF SHADY COVE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 132,606	\$ 32,701	\$ 165,307
Receivables	69,242	13,770	83,012
Taxes receivable	10,822	-	10,822
	<u>10,822</u>	<u>-</u>	<u>10,822</u>
TOTAL ASSETS	<u>\$ 212,670</u>	<u>\$ 46,471</u>	<u>\$ 259,141</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 22,254	\$ 982	\$ 23,236
Payroll taxes and benefits payable	6,596	-	6,596
Funds held on behalf of others	2,150	-	2,150
Deferred revenue	22,077	-	22,077
	<u>22,077</u>	<u>-</u>	<u>22,077</u>
TOTAL LIABILITIES	<u>53,077</u>	<u>982</u>	<u>54,059</u>
Fund Balances:			
Nonspendable	-	-	-
Restricted - foot/bike path	-	5,326	5,326
Committed - bike path	-	6,814	6,814
Assigned	-	33,349	33,349
Unassigned	159,593	-	159,593
	<u>159,593</u>	<u>-</u>	<u>159,593</u>
Total fund balances	<u>159,593</u>	<u>45,489</u>	<u>205,082</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 212,670</u>	<u>\$ 46,471</u>	<u>\$ 259,141</u>

**CITY OF SHADY COVE
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2012**

TOTAL FUND BALANCES		\$ 205,082
<p>Amounts reported by governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets are not financial resources and therefore are not reported in the governmental funds:</p>		
Cost	\$ 329,542	
Accumulated depreciation	<u>(137,110)</u>	192,432
<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>		
		9,061
<p>Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. This liability is compensated absences payable</p>		
		<u>(31,392)</u>
TOTAL NET ASSETS		<u><u>\$ 375,183</u></u>

**CITY OF SHADY COVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Total</u>
REVENUES			
Property taxes	\$ 113,645	\$ -	\$ 113,645
State subventions	66,775	-	66,775
Franchise fees	223,237	-	223,237
City fees	87,563	-	87,563
Administrative fees	103,500	-	103,500
Municipal court	41,818	-	41,818
Grants	6,050	-	6,050
Public Safety Fee	262,115	-	262,115
State Highway revenue	-	158,367	158,367
Miscellaneous	12,577	3,170	15,747
Interest	938	422	1,360
	<u>918,218</u>	<u>161,959</u>	<u>1,080,177</u>
TOTAL REVENUES			
EXPENDITURES			
Current:			
General government	521,982	-	521,982
Public safety	434,108	-	434,108
Parks and recreation	4,974	-	4,974
Highways and streets	-	184,539	184,539
Capital outlay	18,507	11,811	30,318
	<u>979,571</u>	<u>196,350</u>	<u>1,175,921</u>
TOTAL EXPENDITURES			
NET CHANGE IN FUND BALANCE	(61,353)	(34,391)	(95,744)
FUND BALANCE, July 1, 2011	<u>220,946</u>	<u>79,880</u>	<u>300,826</u>
FUND BALANCE, June 30, 2012	<u>\$ 159,593</u>	<u>\$ 45,489</u>	<u>\$ 205,082</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, 2012**

NET CHANGE IN FUND BALANCE		\$ (95,744)
<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 amount by which capital outlays exceeded depreciation in the current period.</p>		
Expenditures for capital assets	\$ 24,200	
Less current year depreciation	<u>(14,684)</u>	9,516
<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>		
		(31,392)
<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>303</u>
CHANGE IN NET ASSETS		<u>\$ (117,317)</u>

**CITY OF SHADY COVE
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2012**

	Sewer Operations Fund	Sewer Bonded Debt Fund	Other Enterprise Funds	Total
ASSETS				
Current assets:				
Cash and investments	\$ 308,980	\$ -	\$ 87,101	\$ 396,081
Receivables, net	76,272	-	-	76,272
Total current assets	385,252	-	87,101	472,353
Noncurrent assets:				
Restricted cash and investments	-	2,464	932,968	935,432
Restricted receivables	-	-	2,889	2,889
Restricted receivables - taxes	-	7,294	-	7,294
Land	58,403	-	-	58,403
Machinery and equipment, net	86,328	-	-	86,328
Infrastructure, net	6,037,757	-	703,760	6,741,517
Total noncurrent assets	6,182,488	9,758	1,639,617	7,831,863
TOTAL ASSETS	6,567,740	9,758	1,726,718	8,304,216
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accrued interest payable	44,940	-	-	44,940
Bonds and notes payable	89,646	53,585	-	143,231
Total current liabilities	134,586	53,585	-	188,171
Noncurrent liabilities:				
Bonds and notes payable	3,135,990	523,020	-	3,659,010
TOTAL LIABILITIES	3,270,576	576,605	-	3,847,181
Net Assets:				
Invested in capital assets, net of related debt	2,911,912	(576,605)	703,760	3,039,067
Restricted	-	9,758	935,857	945,615
Unrestricted	385,252	-	87,101	472,353
TOTAL NET ASSETS	\$ 3,297,164	\$ (566,847)	\$ 1,726,718	\$ 4,457,035

**CITY OF SHADY COVE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2012**

	Sewer Operations Fund	Sewer Bonded Debt Fund	Other Enterprise Funds	Total Enterprise Funds
OPERATING REVENUES				
Charges for services	\$ 841,037	\$ -	\$ -	\$ 841,037
TOTAL OPERATING REVENUES	841,037	-	-	841,037
OPERATING EXPENSES				
Personal services	70,089	-	-	70,089
Materials and services	371,771	-	-	371,771
Depreciation	306,775	-	43,826	350,601
TOTAL OPERATING EXPENSES	748,635	-	43,826	792,461
OPERATING INCOME (LOSS)	92,402	-	(43,826)	48,576
NONOPERATING REVENUES (EXPENSES)				
Taxes	-	82,783	-	82,783
System development charges	-	-	37,813	37,813
Interest on investments	893	196	5,083	6,172
Interest expense	(142,044)	(31,261)	-	(173,305)
Transfer in/(out)	(80,000)	-	80,000	-
Gain on sale of assets	14,261	-	-	14,261
TOTAL NONOPERATING REVENUES (EXPENSES)	(206,890)	51,718	122,896	(32,276)
CHANGES IN NET ASSETS	(114,488)	51,718	79,070	16,300
NET ASSETS, July 1, 2011	3,411,652	(618,565)	1,647,648	4,440,735
NET ASSETS, June 30, 2012	\$ 3,297,164	\$ (566,847)	\$ 1,726,718	\$ 4,457,035

**CITY OF SHADY COVE
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2012**

	Sewer Operations Fund	Sewer Bonded Debt Fund	Other Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 830,184	\$ -	\$ -	\$ 830,184
Payments to suppliers	(300,221)	-	-	(300,221)
Payments to employees	(75,077)	-	-	(75,077)
Payments for interfund services used	(72,500)	-	-	(72,500)
Net cash provided (used) by operating activities	<u>382,386</u>	<u>-</u>	<u>-</u>	<u>382,386</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Receipt of system development charges	-	-	42,420	42,420
Taxes	-	82,954	-	82,954
Principal paid on capital debt	(131,333)	(51,153)	-	(182,486)
Interest paid on capital debt	(145,037)	(31,261)	-	(176,298)
Transfers	(80,000)	-	80,000	-
Proceeds from the disposal of capital assets	175,728	-	-	175,728
Purchase and construction of capital assets	-	-	(123,104)	(123,104)
Net cash provided (used) by capital and related financing activities	<u>(180,642)</u>	<u>540</u>	<u>(684)</u>	<u>(180,786)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	893	196	5,083	6,172
Net increase (decrease) in cash and investments	202,637	736	4,399	207,772
Cash balances - beginning of the year includes restricted cash of \$767,836	<u>106,343</u>	<u>1,728</u>	<u>1,015,670</u>	<u>1,123,741</u>
Cash balances - end of the year includes restricted cash of \$807,926	<u>\$ 308,980</u>	<u>\$ 2,464</u>	<u>\$ 1,020,069</u>	<u>\$ 1,331,513</u>

Continued on next page.

**CITY OF SHADY COVE
STATEMENT OF CASH FLOWS (Continued)
ENTERPRISE FUNDS
JUNE 30, 2012**

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	Sewer Operations Fund	Sewer Debt Fund	Other Enterprise Funds	Total
Operating income (loss)	\$ 92,402	\$ -	\$ (43,826)	\$ 48,576
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation expense	306,775	-	43,826	350,601
Change in assets and liabilities:				
Receivables, net	(10,853)	-	-	(10,853)
Vacations payable	(4,988)	-	-	(4,988)
Accounts and other payables	(950)	-	-	(950)
Net cash provided (used) by operating activities	<u>\$ 382,386</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 382,386</u>

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies

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

The Financial Reporting Entity

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

Organization and Operation

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

The accompanying financial statements are the presentation of the City of Shady Cove, Oregon. The City of Shady Cove is a municipal corporation governed by a Council comprised of four members and a Mayor, who are elected at large. Council members, two of whom are chosen in alternate biennial years, serve terms of four years. The Mayor is elected to serve a term of two years. All other officers of the City are appointed by majority vote of the Council. The administration of day to day city affairs (including human resource management) is the responsibility of the City Administrator who is appointed by and serves under the supervision of the City Council. The City provides the following services as authorized by its charter: police (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 Assets and the Statement of Activities report information on all activities of the primary government. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees charged to external parties for services.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

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.

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

Fund Financial Statements

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

A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into two categories: governmental and proprietary. Each category, in turn, is divided into separate funds. Fund financial statements are provided for governmental and proprietary 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 accounted for using a current financial resources measurement focus whereby only current assets and liabilities generally are included in the Balance Sheet, and the Statement of Revenues, Expenditures and Changes in Fund Balance present increases and decreases in those current net assets. Governmental funds use the modified accrual basis of accounting where revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount can be determined and "available" means collectible within the current period or soon enough thereafter (60 days) to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due. The City considers property taxes available and susceptible to accrual if they are collected within sixty days after year-end.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

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 revenues. Property taxes, which are held at year end by the collecting agency, Jackson County, and are remitted to the City within the 60-day period, are reported as "Taxes Receivable."

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

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

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

The following are the City's major governmental funds:

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

Proprietary Funds – Enterprise funds

Proprietary funds can be separated into enterprise funds and internal service funds. All of the City's proprietary funds are enterprise funds. These funds account for the acquisition, operation and maintenance of the City facilities and services which are entirely self-supporting through service charges of customers. Services accounted for through enterprise funds are sewer operations and public facilities improvements.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (continued)

Funds included in this category are the Sewer Operations Fund, Sewer Bonded Debt Fund, Sewer Reserve Fund, Sewer Operations Replacement Fund, Transportation System Development (SDC) Fund, Storm Drain SDC Fund, Wastewater SDC Fund, and the Parks & Recreation SDC Fund.

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 Assets. 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.

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

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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (continued)

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

Accounts and Other Receivables

Sewer service revenues are recorded as revenue in the proprietary fund type as earned. An allowance for doubtful accounts is considered necessary at June, 30, 2012 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.

Capital Assets

Capital assets are stated at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the fair market value of such assets at the date of donation. As permitted by GASB Statement No. 34, the City has limited the capitalization of infrastructure to only those which were constructed or acquired after July 1, 2003, with the exception of infrastructure related directly to long-term debt. Capital assets include land, right-of-ways, buildings, improvements, infrastructure and equipment costing over \$5,000 with an estimated life greater than one year. Infrastructure assets include streets, sidewalks, streetlights, sewer pipeline, etc. Through June 30, 2012, all infrastructure additions since July 1, 2003 have been financed by the proprietary funds. Maintenance and repairs that do not add to the value of the assets or extend the assets' lives are charged to expenditures as incurred and are not capitalized.

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

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

- Buildings and improvements 20 to 50 years
- 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 Assets when vested or earned by employees. Vacation pay and sick pay are accrued as expenditures in the governmental fund financial statements when the amounts are expected to be liquidated with expendable available resources. One-half of an employees unused accrued sick leave will be converted to the Oregon Public Employees Retirement System (PERS) upon termination of employment.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (continued)

Long-term Debt and Bond Issuance Costs

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

Net Assets – Fund Balances

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

1. *Invested in capital assets, net of related debt* – Consists of net book value of all capital assets less the outstanding debt used to acquire, construct, or improve those assets.
2. *Restricted net assets* – 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 assets* – 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.
- *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 assets prior to the use of unrestricted net assets when an expenditure is incurred for purposes for which both restricted and unrestricted net assets are available.

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.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (continued)

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

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

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. Two budget appropriation transfers, as permitted by Oregon Budget Law, were authorized by the City Council during the fiscal year. During the fiscal year ended June 30, 2012, the City exceeded its appropriation authority in Street Fund, personal services category, by \$1,907.

Note 2 – Cash and Investments

Deposits. The Governmental Accounting Standards Boards has adopted accounting principles generally accepted in the United States of America (GAAP), which include standards to categorize deposits to give an indication of the level of custodial credit risk assumed by the City at June 30, 2012. 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, 2012, the carrying amounts of the City's deposits in various qualifying financial institutions were \$44,746 and the bank balances were \$89,255. All deposits are held in the name of the City. At June 30, 2012 the City's deposits were covered by federal depository insurance or deposited in an approved depository as identified by the 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.

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.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 2 – Cash and Investments (continued)

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 2012. 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, 2012 and for the year then ended, the City was in compliance with the aforementioned State of Oregon statutes.

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

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

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

As of June 30, 2012, the City had the following investments:

<u>Investment Type</u>	<u>Maturity</u>	<u>Percentage of Portfolio</u>	<u>Fair Value</u>
Local Government Investment Pool	1 day	100%	<u>\$ 1,452,021</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 2 – Cash and Investments (continued)

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

Carrying amounts of cash and investments:

Petty cash	\$	53
Demand deposits		44,746
Investments - LGIP		1,452,021
		1,496,820
		\$ 1,496,820

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

	Governmental Activities	Business-Type Activities	Total
Cash and Investments	\$ 165,307	\$ 396,081	\$ 561,388
Restricted Cash	-	935,432	935,432
Total Cash and Investments	\$ 165,307	\$ 1,331,513	\$ 1,496,820

Restricted cash represents the cash balances of the Sewer Bonded Debt Fund, Transportation SDC Fund, Storm Drain SDC Fund, Wastewater SDC Fund, and Parks & Recreation 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 Reserve Fund was established to maintain a loan reserve balance in accordance with Sewer Bond 1.

Note 3 – Receivables

Receivables are comprised of the following as of June 30, 2012:

<u>Governmental</u>		<u>Business-Type</u>	
General Fund:		Sewer Operation:	
Intergovernmental	\$ 10,139	Accounts receivable	\$ 84,574
Franchise fees	17,520	Allowance	(8,302)
Other	6,434		76,272
Public safety fee	29,099		
Grant	6,050	Transportation SDC:	
Property taxes	10,822	Accounts receivable	2,889
	80,064		
Street Fund:		Sewer Debt Service:	
Intergovernmental	13,770	Property taxes	7,294
Total	\$ 93,834	Total	\$ 86,455

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 3 – Receivables (continued)

Receivables are reflected on the basic financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Receivables	\$ 83,012	\$ 76,272	\$ 159,284
Taxes receivable	10,822	7,294	\$ 18,116
Restricted receivables	<u>-</u>	<u>2,889</u>	<u>2,889</u>
 Total Receivables	 <u>\$ 93,834</u>	 <u>\$ 86,455</u>	 <u>\$ 180,289</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.

Note 4 – Capital Assets

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

	<u>Balance 7/1/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/12</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 34,542	\$ -	\$ -	\$ 34,542
 Total capital assets not being depreciated	 <u>\$ 34,542</u>	 <u>-</u>	 <u>-</u>	 <u>\$ 34,542</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 261,912	6,050	-	\$ 267,962
Machinery and equipment	<u>8,888</u>	<u>18,150</u>	<u>-</u>	<u>27,038</u>
 Total capital assets being depreciated	 <u>270,800</u>	 <u>24,200</u>	 <u>-</u>	 <u>295,000</u>
Less accumulated depreciation for:				
Buildings and improvements	(121,537)	(13,795)	-	(135,332)
Machinery and equipment	<u>(889)</u>	<u>(889)</u>	<u>-</u>	<u>(1,778)</u>
 Total accumulated depreciation	 <u>(122,426)</u>	 <u>(14,684)</u>	 <u>-</u>	 <u>(137,110)</u>
 Total capital assets being depreciated, net	 <u>148,374</u>	 <u>9,516</u>	 <u>-</u>	 <u>157,890</u>
 Total capital assets, governmental activities, net	 <u>\$ 182,916</u>	 <u>\$ 9,516</u>	 <u>\$ -</u>	 <u>\$ 192,432</u>

Depreciation expense for the year, \$14,684, was charged to the Administration program.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 4 – Capital Assets (continued)

	<u>Balance 7/1/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/12</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 58,403	\$ -	\$ -	\$ 58,403
 Total capital assets not being depreciated	<u>\$ 58,403</u>	<u>-</u>	<u>-</u>	<u>\$ 58,403</u>
 Capital assets being depreciated:				
Machinery and equipment	\$ 616,899	-	(315,229)	\$ 301,670
Infrastructure Improvements	798,558	123,104	-	921,662
Infrastructure	<u>10,682,872</u>	<u>-</u>	<u>-</u>	<u>10,682,872</u>
 Total capital assets being depreciated	<u>12,098,329</u>	<u>123,104</u>	<u>(315,229)</u>	<u>11,906,204</u>
 Less accumulated depreciation for:				
Machinery and equipment	(341,856)	(27,249)	153,763	(215,342)
Infrastructure Improvements	(174,076)	(43,826)	-	(217,902)
Infrastructure	<u>(4,365,589)</u>	<u>(279,526)</u>	<u>-</u>	<u>(4,645,115)</u>
 Total accumulated depreciation	<u>(4,881,521)</u>	<u>(350,601)</u>	<u>153,763</u>	<u>(5,078,359)</u>
 Total capital assets being depreciated, net	<u>7,216,808</u>	<u>(227,497)</u>	<u>(161,466)</u>	<u>6,827,845</u>
 Total capital assets, business-type activities, net	<u>\$ 7,275,211</u>	<u>\$ (227,497)</u>	<u>\$ (161,466)</u>	<u>\$ 6,886,248</u>

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

<u>Program</u>	
Wastewater department	\$ 306,775
Infrastructure improvements	<u>43,826</u>
Total	<u>\$ 350,601</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 5 – Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. In addition, governmental funds and proprietary funds report deferred revenue in connection with resources that have been received but not yet earned. At June 30, 2012, the components of deferred revenue consist of the following:

<u>Type/Fund</u>	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes, General Fund	\$ 9,061	\$ -	\$ 9,061
Advance billings, General Fund	-	13,016	13,016
 Total	 <u>\$ 9,061</u>	 <u>\$ 13,016</u>	 <u>\$ 22,077</u>

Note 6 – Long-Term Debt

During the fiscal year ended June 30, 2012, the following long-term debt transactions occurred:

	<u>Balance</u> <u>7/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2012</u>	<u>Due in 1</u> <u>Year</u>
<u>Business-type activities:</u>					
General Obligation Bonds	\$ 627,757	\$ -	\$ (51,153)	\$ 576,604	\$ 53,585
Sewer Bond #1	2,225,996	-	(27,336)	2,198,660	28,566
OECDD Note Payable #1	284,887	-	(12,457)	272,430	12,591
OECDD Note Payable #2	44,437	-	(44,437)	-	-
Clean Water State Revolving Note	801,650	-	(47,103)	754,547	48,489
Total Long-term debt	<u>\$ 3,984,727</u>	<u>\$ -</u>	<u>\$ (182,486)</u>	<u>\$ 3,802,241</u>	<u>\$ 143,231</u>

The City incurred interest expense of \$173,305 for its business-type activities.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 6 – Long-Term Debt (continued)

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. Principal and interest payments are made from the Sewer Bonded Debt Fund.

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 53,585	\$ 28,830	\$ 82,415
2014	56,262	26,151	82,413
2015	59,076	23,338	82,414
2016	62,030	20,384	82,414
2017	65,131	17,283	82,414
2018-2021	<u>280,520</u>	<u>34,895</u>	<u>315,415</u>
	<u>\$ 576,604</u>	<u>\$ 150,881</u>	<u>\$ 727,485</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 \$127,506, including principal and interest of 4.5%, 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 \$133,613 at June 30, 2012.

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 28,566	\$ 98,940	\$ 127,506
2014	29,851	97,654	127,505
2015	31,195	96,311	127,506
2016	32,598	94,907	127,505
2017	34,065	93,440	127,505
2018-2022	194,748	442,779	637,527
2023-2027	242,690	394,836	637,526
2028-2032	302,437	335,092	637,529
2033-2037	376,892	260,637	637,529
2038-2042	469,675	167,852	637,527
2013-2046	<u>455,943</u>	<u>52,306</u>	<u>508,249</u>
	<u>\$ 2,198,660</u>	<u>\$ 2,134,754</u>	<u>\$ 4,333,414</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 6 – Long-Term Debt (continued)

OECD Note Payable #1

\$400,000 was issued April 12, 2000 for rehabilitation of the wastewater systems. Annual payments of between \$27,734 and \$32,233, including principal and interest of between 5.375% and 5.625%, due December 1st each year through 2024. Principal and interest payments are made from the Sewer Operations Fund.

Year Ending June 30:	Principal	Interest	Total	Interest Rate
2013	\$ 12,591	\$ 15,143	\$ 27,734	5.500%
2014	17,733	14,450	32,183	5.500%
2015	17,883	13,475	31,358	5.500%
2016	18,042	12,491	30,533	5.500%
2017	18,209	11,499	29,708	5.500%
2018-2022	108,901	41,416	150,317	5.500%
2023-2025	79,071	9,207	88,278	5.625%
	<u>\$ 272,430</u>	<u>\$ 117,681</u>	<u>\$ 390,111</u>	

OECD Note Payable #2

On July 1, 2011, the City paid off its OECD Note Payable #2.

Clean Water State Revolving Fund (CWSRF) Note

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

Year Ending June 30:	Principal	Interest	Fees	Interest & Fees	Total Payments
2013	\$ 48,489	\$ 21,681	\$ 3,652	\$ 25,333	\$ 73,822
2014	49,915	20,255	3,406	23,661	73,576
2015	51,383	18,787	3,153	21,940	73,323
2016	52,895	17,275	2,893	20,168	73,063
2017	54,450	15,720	2,624	18,344	72,794
2018-2022	297,238	53,612	8,812	62,424	359,662
2023-2025	200,177	10,354	1,524	11,878	212,055
	<u>\$ 754,547</u>	<u>\$ 157,684</u>	<u>\$ 26,064</u>	<u>\$ 183,748</u>	<u>\$ 938,295</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 7 – Operating Leases

As of June 30, 2012 the City had an operating lease commitment for two copiers. Rental fees, representing the minimum rental amount, incurred during the year on this lease were \$4,752. The future payments for the current operating lease are as follows:

Year Ending June 30:	Payments
2013	\$ 4,752
2014	4,752
2015	4,752
2016	4,356
	\$ 18,612

Note 8 – Interfund Transactions

Interfund charges

Interfund charges during the year ended June 30, 2012 were as follows:

	Allocation In	Allocation Out
Business-Type Activities:		
Sewer Operations Fund	-	80,000
Sewer Operations Replacement Fund	80,000	-
Total Administrative Charges	\$ 80,000	\$ 80,000

The inter-fund transfer from the Sewer Operations Fund to the Sewer Operations Replacement Fund was to fund various capital improvements during 2012.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 9 – Accrued Compensated Absences

At June 30, 2012, 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). On July 27, 2011, the City entered into an agreement with Rogue Valley Sewer Services (RVSS) for wastewater operations, commencing August 1, 2011. As part of the arrangement, the City no longer has Sewer Operations employees. Changes in accrued compensated absences for the year ended June 30, 2012, are as follows:

	Accrued June 30, 2011	Earned	Taken	Accrued June 30, 2012
Governmental Activities	\$ 17,916	\$ 31,125	\$ 17,649	\$ 31,392
Business-type Activities	5,521	-	5,521	-
Total	<u>\$ 23,437</u>	<u>\$ 31,125</u>	<u>\$ 23,170</u>	<u>\$ 31,392</u>

Note 10 – Defined Benefit Pension Plan

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

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

Covered employees are required by state statute to contribute 6% of their annual salary to the system, but the employer is allowed to pay any or all of the employees' contribution in addition to the required employers' contribution. The City elected to contribute the 6% "pick-up" for the year ended June 30, 2012 for all employees who began employment prior to July 1, 2011. Employees hired on or after July 1, 2011 shall not qualify for this incentive. The City is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF rate in effect for the year ended June 30, 2012 was 10.14%. The OPSRP rate in effect for the year ended June 30, 2012 was 6.80% for general

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 10 – Defined Benefit Pension Plan (continued)

service employees. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature. The City's contributions to PERS for the years ending June 30, 2012, 2011, and 2010 were \$19,396, \$32,888, and \$42,751, respectively, equal to the required contributions for each year.

Note 11 – Net Assets

Deficit Net Assets

At June 30, 2012, a net asset deficit of \$566,847 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 Assets

The City has approved enabling legislation that imposes legally enforceable limits on how certain system development charges (restricted resource/net assets) may be used. A portion of net assets are also restricted by external parties for payments of outstanding debt. Restricted net assets at June 30, 2012 are comprised of the following:

Enacted by enabling legislation of the City:	
Restricted for system development	\$ 808,351
Externally imposed:	
Restricted for debt service and bond reserve fund	137,264
Restricted for foot paths or bike paths	<u>5,326</u>
Total restrictions	<u><u>\$ 950,941</u></u>

Note 12 – Risk Management

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

Note 13 – Concentrations of Risk

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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2012

Note 14 – Current Vulnerability Due to Certain Concentrations

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

Note 15 – Subsequent Events

Management of the City has evaluated events and transactions occurring after June 30, 2012 through the date of the financial statements were available for issuance, for recognition and/or disclosure in the financial statements.

On December 26, 2012, The City issued \$536,000 in General Obligation Bonds with an interest rate of 2.62 percent to refund \$576,604 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).

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, 2012**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 114,000	\$ 114,000	\$ 113,645	\$ (355)
State subventions	60,000	60,000	66,775	6,775
Franchise fees	200,000	200,000	223,237	23,237
City fees	98,000	98,000	87,563	(10,437)
Administrative fees	103,500	103,500	103,500	-
Municipal court	40,000	40,000	41,818	1,818
Grants	-	33,672	6,050	(27,622)
Public Safety Fee	283,000	283,000	262,115	(20,885)
Miscellaneous	8,000	8,000	12,577	4,577
Earnings on investments	3,000	3,000	938	(2,062)
TOTAL REVENUES	<u>909,500</u>	<u>943,172</u>	<u>918,218</u>	<u>(24,954)</u>
EXPENDITURES				
Current:				
Administration	617,250	632,250	521,982	110,268
Public safety	435,150	435,150	434,108	1,042
Parks and recreation	5,000	5,000	4,974	26
Capital outlay	5,000	23,672	18,507	5,165
Contingency	22,100	22,100	-	22,100
TOTAL EXPENDITURES	<u>1,084,500</u>	<u>1,118,172</u>	<u>979,571</u>	<u>138,601</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(175,000)	(175,000)	(61,353)	113,647
FUND BALANCE, July 1, 2011	<u>175,000</u>	<u>175,000</u>	<u>220,946</u>	<u>45,946</u>
FUND BALANCE, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,593</u>	<u>\$ 159,593</u>

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STREET FUND
YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
State Highway revenue	\$ 152,000	\$ 152,000	\$ 158,367	\$ 6,367
Grants	25,000	25,000	-	(25,000)
Micellaneous income	500	3,640	3,170	(470)
Earnings on investments	100	100	422	322
TOTAL REVENUES	177,600	180,740	161,959	(18,781)
EXPENDITURES				
Current				
Highways and streets				
Personal services	39,750	41,291	43,198	(1,907)
Materials and services	180,500	183,129	141,341	41,788
Capital outlay	21,320	21,320	11,811	9,509
Contingency	1,030	-	-	-
TOTAL EXPENDITURES	242,600	245,740	196,350	49,390
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(65,000)	(65,000)	(34,391)	30,609
FUND BALANCE, July 1, 2011	65,000	65,000	79,880	14,880
FUND BALANCE, June 30, 2012	\$ -	\$ -	\$ 45,489	\$ 45,489

OTHER SUPPLEMENTARY INFORMATION

MAJOR ENTERPRISE FUNDS

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
SEWER OPERATIONS FUND
YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Charges for services	\$ 800,000	\$ 800,000	\$ 841,037	\$ 41,037
Earnings on investments	800	800	893	93
TOTAL REVENUES	<u>800,800</u>	<u>800,800</u>	<u>841,930</u>	<u>41,130</u>
EXPENDITURES				
Current:				
Utility services				
Personal services	41,095	76,295	70,089	6,206
Materials and services	376,500	389,500	371,771	17,729
Capital outlay	5,000	5,000	-	5,000
Debt service	275,880	275,880	275,836	44
Operating contingency	102,325	54,125	-	54,125
TOTAL EXPENDITURES	<u>800,800</u>	<u>800,800</u>	<u>717,696</u>	<u>83,104</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	124,234	124,234
OTHER FINANCING SOURCES (USES):				
Proceeds from the sale of capital assets	-	-	175,728	175,728
Transfers out	(80,000)	(80,000)	(80,000)	-
TOTAL OTHER FINANCING SOURCES (USES):	<u>(80,000)</u>	<u>(80,000)</u>	<u>95,728</u>	<u>175,728</u>
NET INCOME (LOSS)	(80,000)	(80,000)	219,962	299,962
NET WORKING CAPITAL, July 1, 2011	<u>80,000</u>	<u>80,000</u>	<u>115,708</u>	<u>35,708</u>
NET WORKING CAPITAL, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>335,670</u>	<u>\$ 335,670</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			6,182,488	
Change in accrued interest			(2,459)	
Change in compensated absenses			(7,160)	
Gain on sale of capital assets			14,261	
Long-term debt			(3,225,636)	
ENDING NET ASSETS			<u>\$ 3,297,164</u>	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
SEWER BONDED DEBT FUND
YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Taxes	\$ 82,414	\$ 82,414	\$ 82,783	\$ 369
Earnings on investments	-	-	196	196
TOTAL REVENUES	<u>82,414</u>	<u>82,414</u>	<u>82,979</u>	<u>565</u>
EXPENDITURES				
Debt service	<u>82,414</u>	<u>82,414</u>	<u>82,414</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	565	565
NET WORKING CAPITAL, July 1, 2011	<u>-</u>	<u>-</u>	<u>8,843</u>	<u>8,843</u>
NET WORKING CAPITAL, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	9,408	<u>\$ 9,408</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets.				
Change in accrued interest			350	
Long-term debt			<u>(576,605)</u>	
ENDING NET ASSETS (DEFICIT)			<u>\$ (566,847)</u>	

**CITY OF SHADY COVE
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2012**

	Sewer Reserve Fund	Sewer Operations Replacement Fund	Transportation SDC Fund	Storm Drain SDC Fund	Wastewater SDC Fund	Parks & Recreation SDC Fund	Total Nonmajor Enterprise Funds
ASSETS							
Current assets:							
Cash and investments	\$ 6,107	\$ 80,994	\$ -	\$ -	\$ -	\$ -	\$ 87,101
Total current assets	<u>6,107</u>	<u>80,994</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,101</u>
Noncurrent assets:							
Restricted cash and investments	127,506	-	228,722	199,470	185,866	191,404	932,968
Restricted receivables	-	-	2,889	-	-	-	2,889
Infrastructure, net	-	112,635	62,077	157,792	149,269	221,987	703,760
Total noncurrent assets	<u>127,506</u>	<u>112,635</u>	<u>293,688</u>	<u>357,262</u>	<u>335,135</u>	<u>413,391</u>	<u>1,639,617</u>
TOTAL ASSETS	<u>\$ 133,613</u>	<u>\$ 193,629</u>	<u>\$ 293,688</u>	<u>\$ 357,262</u>	<u>\$ 335,135</u>	<u>\$ 413,391</u>	<u>\$ 1,726,718</u>
NET ASSETS							
Invested in capital assets net of related debt	\$ -	\$ 112,635	\$ 62,077	\$ 157,792	\$ 149,269	\$ 221,987	\$ 703,760
Restricted	127,506	-	231,611	199,470	185,866	191,404	935,857
Unrestricted	6,107	80,994	-	-	-	-	87,101
Total net assets	<u>\$ 133,613</u>	<u>\$ 193,629</u>	<u>\$ 293,688</u>	<u>\$ 357,262</u>	<u>\$ 335,135</u>	<u>\$ 413,391</u>	<u>\$ 1,726,718</u>

**CITY OF SHADY COVE
 COMBINING STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 YEAR ENDED JUNE 30, 2012**

	Sewer Reserve Fund	Sewer Operations Replacement Fund	Transportation SDC Fund	Storm Drain SDC Fund	Wastewater SDC Fund	Parks & Recreation SDC Fund	Total Nonmajor Enterprise Funds
OPERATING EXPENSES							
Depreciation	\$ -	\$ 3,583	\$ 4,551	\$ 11,592	\$ 10,306	\$ 13,794	\$ 43,826
OPERATING INCOME (LOSS)	<u>-</u>	<u>(3,583)</u>	<u>(4,551)</u>	<u>(11,592)</u>	<u>(10,306)</u>	<u>(13,794)</u>	<u>(43,826)</u>
NONOPERATING REVENUES (EXPENSES)							
System development charges	-	-	12,405	5,936	14,180	5,292	37,813
Transfer in	-	80,000	-	-	-	-	80,000
Interest on investments	667	596	1,070	955	878	917	5,083
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>667</u>	<u>80,596</u>	<u>13,475</u>	<u>6,891</u>	<u>15,058</u>	<u>6,209</u>	<u>122,896</u>
CHANGES IN NET ASSETS	<u>667</u>	<u>77,013</u>	<u>8,924</u>	<u>(4,701)</u>	<u>4,752</u>	<u>(7,585)</u>	<u>79,070</u>
NET ASSETS, July 1, 2011	<u>132,946</u>	<u>116,616</u>	<u>284,764</u>	<u>361,963</u>	<u>330,383</u>	<u>420,976</u>	<u>1,647,648</u>
NET ASSETS, June 30, 2012	<u>\$ 133,613</u>	<u>\$ 193,629</u>	<u>\$ 293,688</u>	<u>\$ 357,262</u>	<u>\$ 335,135</u>	<u>\$ 413,391</u>	<u>\$ 1,726,718</u>

**CITY OF SHADY COVE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2012**

	Sewer Reserve Fund	Sewer Operations Replacement Fund	Transportation SDC Fund	Storm Drain SDC Fund	Wastewater SDC Fund	Parks & Recreation SDC Fund	Total Nonmajor Enterprise Funds
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Receipt of system development charges	\$ -	\$ -	\$ 15,668	\$ 5,936	\$ 15,524	\$ 5,292	\$ 42,420
Transfer in	-	80,000	-	-	-	-	80,000
Net cash provided (used) by capital and related financing activities	-	80,000	15,668	5,936	15,524	5,292	122,420
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of capital assets	-	(116,218)	-	-	(6,886)	-	(123,104)
Interest and dividends	667	596	1,070	955	878	917	5,083
Net increase (decrease) in cash and investments	667	(35,622)	16,738	6,891	9,516	6,209	4,399
Balances - beginning of the year	132,946	116,616	211,984	192,579	176,350	185,195	1,015,670
Balances - end of the year	<u>\$ 133,613</u>	<u>\$ 80,994</u>	<u>\$ 228,722</u>	<u>\$ 199,470</u>	<u>\$ 185,866</u>	<u>\$ 191,404</u>	<u>\$ 1,020,069</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ -	\$ (3,583)	\$ (4,551)	\$ (11,592)	\$ (10,306)	\$ (13,794)	\$ (43,826)
Adjustments to reconcile operating income to cash provided by operating activities:							
Depreciation expense	-	3,583	4,551	11,592	10,306	13,794	43,826
Net cash provided (used) by operating activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
SEWER RESERVE FUND
YEAR ENDED JUNE 30, 2012**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Earnings on investments	\$ 800	\$ 800	\$ 667	\$ (133)
CHANGE IN NET ASSETS	800	800	667	(133)
NET ASSETS, July 1, 2011	<u>132,500</u>	<u>132,500</u>	<u>132,946</u>	<u>446</u>
NET ASSETS, June 30, 2012	<u>\$ 133,300</u>	<u>\$ 133,300</u>	<u>\$ 133,613</u>	<u>\$ 313</u>

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
SEWER OPERATIONS REPLACEMENT FUND
YEAR ENDED JUNE 30, 2012**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Earnings on investments	\$ 700	\$ 700	\$ 596	\$ (104)
EXPENDITURES				
Capital Outlay	122,500	122,500	116,218	6,282
TOTAL EXPENDITURES	<u>122,500</u>	<u>122,500</u>	<u>116,218</u>	<u>6,282</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(121,800)</u>	<u>(121,800)</u>	<u>(115,622)</u>	<u>6,178</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	80,000	80,000	80,000	-
TOTAL OTHER FINANCING SOURCES (USES):	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>-</u>
CHANGE IN NET ASSETS	(41,800)	(41,800)	(35,622)	6,178
NET WORKING CAPITAL, July 1, 2011	<u>116,600</u>	<u>116,600</u>	<u>116,616</u>	<u>16</u>
NET WORKING CAPITAL, June 30, 2012	<u>\$ 74,800</u>	<u>\$ 74,800</u>	<u>\$ 80,994</u>	<u>\$ 6,194</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			<u>112,635</u>	
ENDING NET ASSETS			<u>\$ 193,629</u>	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
TRANSPORTATION SDC FUND
YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
System development charges	\$ 6,500	\$ 6,500	\$ 12,405	\$ 5,905
Earnings on investments	1,000	1,000	1,070	70
TOTAL REVENUES	<u>7,500</u>	<u>7,500</u>	<u>13,475</u>	<u>5,975</u>
EXPENDITURES				
Capital Outlay	<u>143,530</u>	<u>143,530</u>	<u>-</u>	<u>143,530</u>
TOTAL EXPENDITURES	<u>143,530</u>	<u>143,530</u>	<u>-</u>	<u>143,530</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(136,030)	(136,030)	13,475	149,505
NET WORKING CAPITAL, July 1, 2011	<u>197,000</u>	<u>197,000</u>	<u>218,136</u>	<u>21,136</u>
NET WORKING CAPITAL, June 30, 2012	<u>\$ 60,970</u>	<u>\$ 60,970</u>	<u>231,611</u>	<u>\$ 170,641</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			<u>62,077</u>	
ENDING NET ASSETS			<u>\$ 293,688</u>	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
STORM DRAIN SDC FUND
YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
System development charges	\$ 3,200	\$ 3,200	\$ 5,936	\$ 2,736
Earnings on investments	1,000	1,000	955	(45)
TOTAL REVENUES	<u>4,200</u>	<u>4,200</u>	<u>6,891</u>	<u>2,691</u>
EXPENDITURES				
Capital outlay	<u>143,530</u>	<u>143,530</u>	<u>-</u>	<u>143,530</u>
TOTAL EXPENDITURES	<u>143,530</u>	<u>143,530</u>	<u>-</u>	<u>143,530</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(139,330)	(139,330)	6,891	146,221
NET WORKING CAPITAL, July 1, 2011	<u>186,500</u>	<u>186,500</u>	<u>192,579</u>	<u>6,079</u>
NET WORKING CAPITAL, June 30, 2012	<u>\$ 47,170</u>	<u>\$ 47,170</u>	<u>199,470</u>	<u>\$ 152,300</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			<u>157,792</u>	
ENDING NET ASSETS			<u>\$ 357,262</u>	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
WASTEWATER SDC FUND
YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
System development charges	\$ 6,000	\$ 6,000	\$ 14,180	\$ 8,180
Earnings on investments	1,000	1,000	878	(122)
TOTAL REVENUES	<u>7,000</u>	<u>7,000</u>	<u>15,058</u>	<u>8,058</u>
EXPENDITURES				
Capital outlay	<u>35,000</u>	<u>35,000</u>	<u>6,886</u>	<u>28,114</u>
TOTAL EXPENDITURES	<u>35,000</u>	<u>35,000</u>	<u>6,886</u>	<u>28,114</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28,000)	(28,000)	8,172	36,172
NET WORKING CAPITAL, July 1, 2011	<u>152,000</u>	<u>152,000</u>	<u>177,694</u>	<u>25,694</u>
NET WORKING CAPITAL, June 30, 2012	<u>\$ 124,000</u>	<u>\$ 124,000</u>	<u>185,866</u>	<u>\$ 61,866</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			<u>149,269</u>	
ENDING NET ASSETS			<u>\$ 335,135</u>	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
PARKS & RECREATION SDC FUND
YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
System development charges	\$ 1,500	\$ 1,500	\$ 5,292	\$ 3,792
Earnings on investments	1,000	1,000	917	(83)
TOTAL REVENUES	<u>2,500</u>	<u>2,500</u>	<u>6,209</u>	<u>3,709</u>
EXPENDITURES				
Capital outlay	<u>31,000</u>	<u>31,000</u>	<u>-</u>	<u>31,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28,500)	(28,500)	6,209	34,709
NET WORKING CAPITAL, July 1, 2011	<u>180,400</u>	<u>180,400</u>	<u>185,195</u>	<u>4,795</u>
NET WORKING CAPITAL, June 30, 2012	<u>\$ 151,900</u>	<u>\$ 151,900</u>	<u>191,404</u>	<u>\$ 39,504</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			<u>221,987</u>	
ENDING NET ASSETS			<u>\$ 413,391</u>	

OTHER FINANCIAL SCHEDULES

**CITY OF SHADY COVE
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2012**

	Tax Year	Uncollected July 1, 2011	Levy as Extended by Assessor	Discounts and Adjustments	Interest	Collections Per Treasurer	Uncollected June 30, 2012
<u>GENERAL FUND</u>							
Current	2011-12		\$ 121,777	\$ (3,744)	\$ 74	\$ 112,573	\$ 5,534
Prior	2010-11	\$ 6,299		(264)	196	3,719	2,512
	2009-10	2,503		(36)	192	1,193	1,466
	2008-09	1,132		244	243	937	682
	2007-08	380		199	86	474	191
	2006-07	92		24	14	36	94
	2005-06	54		18	8	21	59
	Prior	308		(8)	19	35	284
Total prior		10,768	-	177	758	6,415	5,288
TOTAL GENERAL FUND		\$ 10,768	\$ 121,777	\$ (3,567)	\$ 832	\$ 118,988	\$ 10,822
<u>SEWER DEBT FUND</u>							
Current	2011-12		\$ 79,420	\$ (2,442)	\$ 48	\$ 73,417	\$ 3,609
Prior	2010-11	\$ 4,114		(66)	131	2,494	1,685
	2009-10	1,741		(61)	131	813	998
	2008-09	927		31	169	652	475
	2007-08	308		165	70	387	156
	2006-07	80		14	11	29	76
	2005-06	50		12	7	18	51
	Prior	244		14	16	30	244
Total prior		7,464	-	109	535	4,423	3,685
TOTAL SEWER DEBT FUND		\$ 7,464	\$ 79,420	\$ (2,333)	\$ 583	\$ 77,840	\$ 7,294

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**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS**

We have audited the basic financial statements of the City of Shady Cove as of and for the year ended June 30, 2012, and have issued our report thereon dated January 23, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Compliance

As part of obtaining reasonable assurance about whether 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.
- Budgets legally required under ORS Chapter 294.
- Insurance and fidelity under bonds in force or required by law.
- Programs funded from outside sources.
- Investments of surplus funds authorized under ORS Chapter 294.
- Public contracts and purchasing under ORS Chapters 279A, 279B, 279C.
- Debt limitations under ORS Chapter 328.245
- Highway revenues used for public highways, roads, and streets.

In connection with our audit, nothing came to our attention that caused us to believe City of Shady Cove's 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*

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

Accounting Systems and Internal Controls

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

We noted certain matters that we reported to the management of City of Shady Cove, Oregon, in a separate letter dated January 23, 2013.

Collateral

Based on our review of the City's records, the City was in compliance with the provisions of ORS Chapter 295 during all periods tested for the year ended June 30, 2012.

Budget Compliance

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

During the fiscal year ended June 30, 2012, the City exceeded its appropriation authority as follows:

Street Fund	
Personal Services	<u>\$ 1,907</u>

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

Insurance and Fidelity Bond Coverage

We reviewed the City's insurance policies and determined that such policies appeared to be in force at June 30, 2012. We are not competent by training to comment on the adequacy of the insurance policies covering City owned property at June 30, 2012.

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

Indebtedness

During our audit, nothing came to our attention that caused us to believe the City was not in compliance with limitation and the provision of bond indentures and other agreements and all payments were made on a timely basis.

Programs Funded From Outside Sources

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

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

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

Investments

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

Public Contracts and Purchasing

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

Highway Taxes

The expenditure of state street tax revenues received from the taxes on motor vehicle use fuel appears to comply, in all material respects, with requirements of Article IX, Section 3a, of the Oregon Constitution, as well as ORS 294, 368, and 373 for the provision that the City spend or set reserve 1% of State Highway funds for foot paths or bike paths as required by ORS 366.514. The City was in compliance with this requirement.

Accountability of Independently Elected Officials

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

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 or over compliance.

This report is intended solely for the information and use of the City Council and management of 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 specified parties.


Michael L. Piels CPAs, LLP
January 23, 2013



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Shady Cove, Oregon, as of and for the year ended June 30, 2012, which collectively comprise the City of Shady Cove, Oregon's basic financial statements and have issued our report thereon dated January 23, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Shady Cove, Oregon, in a separate letter dated January 23, 2013.

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

Stewart C. Famule CPA, Partner

Michael L. Piels CPAs, LLP
January 23, 2013

CITY OF SHADY COVE, OREGON
Schedule of Findings and Responses
June 30, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of City of Shady Cove in accordance with accounting principles generally accepted in the United States of America.
2. No material weaknesses or significant deficiencies related to the audit of the basic financial statements are reported in the report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the basic financial statements of the City of Shady Cove were disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None