

CITY OF SHADY COVE, OREGON
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013
WITH
INDEPENDENT AUDITOR'S REPORT

CITY OF SHADY COVE, OREGON

Year Ended June 30, 2013

ELECTED OFFICIALS OF THE CITY OF SHADY COVE, OREGON

Ron Holthusen, resigned effective October 8, 2013 P.O. Box 1210 Shady Cove, Oregon 97539	Mayor
Bill Kyle, resigned effective August 15, 2014 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, resigned effective September 30, 2013 P.O. Box 1210 Shady Cove, Oregon 97539	City Administrator
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CITY OF SHADY COVE, OREGON

Year Ended June 30, 2013

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CITY OF SHADY COVE, OREGON

Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

Honorable Mayor and Council
City of Shady Cove

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

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 as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 applied certain limited procedures to management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on management's discussion and analysis 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 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the major governmental funds budgetary comparison information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Supplementary Information

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

Honorable Mayor and Council
City of Shady Cove

Other Reporting Required by Government Auditing Standards and Oregon State Regulations

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014, on our consideration of the City of Shady Cove's internal control over financial reporting and on 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 results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Shady Cove's internal control over financial reporting and compliance.

In accordance with Oregon State Regulation, we have also issued our report dated February 28, 2014, on our consideration of the City of Shady Cove's compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations. The purpose of that report is to describe the scope of our testing necessary to address the required provisions of ORS, and not to provide an opinion on compliance with such provisions.

Stewart C. Parmele CPA, Partner

Stewart C. Parmele, CPA
Michael L. Piels CPAs, LLP
Medford, Oregon
February 28, 2014

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF SHADY COVE
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 131,847	\$ 394,858	\$ 526,705
Receivables	98,189	92,932	191,121
Restricted cash and investments	-	1,044,430	1,044,430
Restricted receivables	-	7,078	7,078
Capital assets, net:			
Land	34,542	58,403	92,945
Construction-in-progress	13,865	-	13,865
Buildings and improvements	124,534	-	124,534
Machinery and equipment	20,741	70,138	90,879
Infrastructure	-	6,551,165	6,551,165
TOTAL ASSETS	423,718	8,219,004	8,642,722
LIABILITIES:			
Accounts payable	68,103	-	68,103
Payroll taxes and benefits payable	2,499	436	2,935
Other current liabilities	2,150	-	2,150
Accrued Compensated Absences	26,703	-	26,703
Accrued interest payable	-	43,689	43,689
Unearned revenue	13,681	5,494	19,175
Long-term liabilities:			
Due within one year	-	158,499	158,499
Due in more than one year	-	3,513,491	3,513,491
TOTAL LIABILITIES	113,136	3,721,609	3,834,745
NET POSITION:			
Invested in capital assets, net of related debt	179,817	3,007,716	3,187,533
Restricted	-	1,051,508	1,051,508
Unrestricted	130,765	438,171	568,936
TOTAL NET POSITION	\$ 310,582	\$ 4,497,395	\$ 4,807,977

**CITY OF SHADY COVE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Position		
		Fines, Fees, and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government						
Administrative	\$ 437,614	\$ 96,136	\$ 19,209	\$ (322,269)	\$ -	\$ (322,269)
Police Department	398,111	272,052	-	(126,059)	-	(126,059)
Parks Department	6,055	-	-	(6,055)	-	(6,055)
Highways and streets	188,268	-	-	(188,268)	-	(188,268)
Total government activities	1,030,048	368,188	19,209	(642,651)	-	(642,651)
Business-type activities:						
Water/Wastewater	958,043	916,076	-	-	(41,967)	(41,967)
Total business-type activities	958,043	916,076	-	-	(41,967)	(41,967)
Total Common City	\$ 1,988,091	\$ 1,284,264	\$ 19,209	(642,651)	(41,967)	(684,618)
General revenues:						
Property taxes levied for general purposes				113,036	-	113,036
Property taxes levied for debt service				-	84,271	84,271
State subventions				69,035	-	69,035
Intergovernmental				159,458	-	159,458
Franchise taxes				215,326	-	215,326
Earnings on investments				2,901	5,107	8,008
Other				11,243	-	11,243
Transfers				7,051	(7,051)	-
Total general revenues				578,050	82,327	660,377
CHANGE IN NET POSITION				(64,601)	40,360	(24,241)
Net position - Beginning of Year				375,183	4,457,035	4,832,218
Net position- End of Year				\$ 310,582	\$ 4,497,395	\$ 4,807,977

FUND FINANCIAL STATEMENTS

**CITY OF SHADY COVE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Street Fund	Total
ASSETS			
Cash and investments	\$ 121,148	\$ 10,699	\$ 131,847
Receivables	73,689	14,020	87,709
Taxes receivable	10,480	-	10,480
TOTAL ASSETS	\$ 205,317	\$ 24,719	\$ 230,036
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 53,697	\$ 14,406	\$ 68,103
Payroll taxes and benefits payable	2,072	427	2,499
Funds held on behalf of others	2,150	-	2,150
Deferred revenue	22,233	-	22,233
TOTAL LIABILITIES	80,152	14,833	94,985
Fund Balances:			
Committed - bike path	-	6,814	6,814
Assigned	-	3,072	3,072
Unassigned	125,165	-	125,165
Total fund balances	125,165	9,886	135,051
TOTAL LIABILITIES AND FUND BALANCES	\$ 205,317	\$ 24,719	\$ 230,036

**CITY OF SHADY COVE
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2013**

TOTAL FUND BALANCES \$ 135,051

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

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

Cost	\$ 350,412	
Accumulated depreciation	<u>(156,730)</u>	193,682

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	8,552
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Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. This liability is compensated absences payable	<u>(26,703)</u>
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TOTAL NET POSITION \$ 310,582

**CITY OF SHADY COVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Total</u>
REVENUES			
Property taxes	\$ 113,545	\$ -	\$ 113,545
State subventions	69,035	-	69,035
Franchise fees	215,326	-	215,326
City fees	84,886	-	84,886
Administrative fees	69,864	-	69,864
Municipal court	21,963	-	21,963
Grants	19,209	-	19,209
Public Safety Fee	250,089	-	250,089
Floodplain Permit Fee	11,250	-	11,250
State Highway revenue	-	159,458	159,458
Miscellaneous	11,243	-	11,243
Interest	2,880	21	2,901
TOTAL REVENUES	869,290	159,479	1,028,769
EXPENDITURES			
Current:			
General government	492,547	-	492,547
Public safety	398,111	-	398,111
Parks and recreation	6,055	-	6,055
Highways and streets	-	188,268	188,268
Capital outlay	7,005	13,865	20,870
TOTAL EXPENDITURES	903,718	202,133	1,105,851
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(34,428)	(42,654)	(77,082)
OTHER FINANCING SOURCES (USES):			
Transfers to other funds	-	7,051	7,051
TOTAL OTHER FINANCING SOURCES (USES)	-	7,051	7,051
NET CHANGE IN FUND BALANCE	(34,428)	(35,603)	(70,031)
FUND BALANCE, Beginning of Year	159,593	45,489	205,082
FUND BALANCE, End of Year	\$ 125,165	\$ 9,886	\$ 135,051

**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, 2013**

NET CHANGE IN FUND BALANCE \$ (70,031)

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

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

Expenditures for capital assets	\$ 20,870	
Less current year depreciation	<u>(19,620)</u>	1,250

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		4,689
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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.		(509)
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CHANGE IN NET POSITION		<u><u>\$ (64,601)</u></u>
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**CITY OF SHADY COVE
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
JUNE 30, 2013**

	Sewer Operations Fund	Sewer Bonded Debt Fund	SDC Fund	Other Enterprise Funds	Total
ASSETS					
Current assets:					
Cash and investments	\$ 272,607	\$ -	\$ -	\$ 122,251	\$ 394,858
Receivables, net	92,932	-	-	-	92,932
Total current assets	365,539	-	-	122,251	487,790
Noncurrent assets:					
Restricted cash and investments	34,898	5,938	876,088	127,506	1,044,430
Restricted receivables	-	-	18	-	18
Restricted receivables - taxes	-	7,060	-	-	7,060
Land	58,403	-	-	-	58,403
Machinery and equipment, net	70,138	-	-	-	70,138
Infrastructure, net	5,758,231	-	550,882	242,052	6,551,165
Total noncurrent assets	5,921,670	12,998	1,426,988	369,558	7,731,214
TOTAL ASSETS	6,287,209	12,998	1,426,988	491,809	8,219,004
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accrued payroll liabilities	436	-	-	-	436
Deferred revenue	5,494	-	-	-	5,494
Accrued interest payable	43,689	-	-	-	43,689
Bonds and notes payable	97,499	61,000	-	-	158,499
Total current liabilities	147,118	61,000	-	-	208,118
Noncurrent liabilities:					
Bonds and notes payable	3,038,491	475,000	-	-	3,513,491
TOTAL LIABILITIES	3,185,609	536,000	-	-	3,721,609
Net Position:					
Invested in capital assets, net of related debt	2,750,782	(536,000)	550,882	242,052	3,007,716
Restricted	34,898	12,998	876,106	127,506	1,051,508
Unrestricted	315,920	-	-	122,251	438,171
TOTAL NET POSITION	\$ 3,101,600	\$ (523,002)	\$ 1,426,988	\$ 491,809	\$ 4,497,395

**CITY OF SHADY COVE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2013**

	Sewer Operations Fund	Sewer Bonded Debt Fund	SDC Fund	Other Enterprise Funds	Total Enterprise Funds
OPERATING REVENUES					
Charges for services	\$ 844,339	\$ -	\$ -	\$ -	\$ 844,339
TOTAL OPERATING REVENUES	<u>844,339</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>844,339</u>
OPERATING EXPENSES					
Personal services	91,132	-	-	-	91,132
Materials and services	341,712	-	-	-	341,712
Depreciation	295,716	-	40,243	10,583	346,542
TOTAL OPERATING EXPENSES	<u>728,560</u>	<u>-</u>	<u>40,243</u>	<u>10,583</u>	<u>779,386</u>
OPERATING INCOME (LOSS)	<u>115,779</u>	<u>-</u>	<u>(40,243)</u>	<u>(10,583)</u>	<u>64,953</u>
NONOPERATING REVENUES (EXPENSES)					
Taxes	-	84,271	-	-	84,271
System development charges	-	-	71,737	-	71,737
Interest on investments	1,172	66	3,069	800	5,107
Interest expense	(138,165)	(40,492)	-	-	(178,657)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(136,993)</u>	<u>43,845</u>	<u>74,806</u>	<u>800</u>	<u>(17,542)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(21,214)</u>	<u>43,845</u>	<u>34,563</u>	<u>(9,783)</u>	<u>47,411</u>
Transfers (to) from other funds	(174,350)	-	(7,051)	174,350	(7,051)
TOTAL TRANSFERS	<u>(174,350)</u>	<u>-</u>	<u>(7,051)</u>	<u>174,350</u>	<u>(7,051)</u>
CHANGES IN NET POSITION	<u>(195,564)</u>	<u>43,845</u>	<u>27,512</u>	<u>164,567</u>	<u>40,360</u>
NET POSITION, Beginning of Year	<u>3,297,164</u>	<u>(566,847)</u>	<u>1,399,476</u>	<u>327,242</u>	<u>4,457,035</u>
NET POSITION, End of Year	<u>\$ 3,101,600</u>	<u>\$ (523,002)</u>	<u>\$ 1,426,988</u>	<u>\$ 491,809</u>	<u>\$ 4,497,395</u>

**CITY OF SHADY COVE
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2013**

	Sewer Operations Fund	Sewer Bonded Debt Fund	SDC Funds	Other Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 833,173	\$ -	\$ -	\$ -	\$ 833,173
Payments to suppliers	(300,700)	-	-	-	(300,700)
Payments to employees	(90,696)	-	-	-	(90,696)
Payments for interfund services used	(41,012)	-	-	-	(41,012)
Net cash provided (used) by operating activities	400,765	-	-	-	400,765
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Receipt of system development charges	-	-	74,608	-	74,608
Taxes	-	84,505	-	-	84,505
Principal paid on capital debt	(89,646)	(576,605)	-	-	(666,251)
Interest paid on capital debt	(139,416)	(40,492)	-	-	(179,908)
Issuance of debt	-	536,000	-	-	536,000
Transfers attributable to capital assets	(174,350)	-	(7,051)	174,350	(7,051)
Purchase and construction of capital assets	-	-	-	(140,000)	(140,000)
Net cash provided (used) by capital and related financing activities	(403,412)	3,408	67,557	34,350	(298,097)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	1,172	66	3,069	800	5,107
Net increase (decrease) in cash and investments	(1,475)	3,474	70,626	35,150	107,775
Cash balances - beginning of the year includes restricted cash of \$935,432	308,980	2,464	805,462	214,607	1,331,513
Cash balances - end of the year includes restricted cash of \$1,044,430	\$ 307,505	\$ 5,938	\$ 876,088	\$ 249,757	\$ 1,439,288

Continued on next page.

**CITY OF SHADY COVE
STATEMENT OF CASH FLOWS (Continued)
ENTERPRISE FUNDS
JUNE 30, 2013**

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	Sewer Operations Fund	Sewer Debt Fund	SDC Fund	Other Enterprise Funds	Total
Operating income (loss)	\$ 115,779	\$ -	\$ (40,243)	\$ (10,583)	\$ 64,953
Adjustments to reconcile operating income to cash provided by operating activities:					
Depreciation expense	295,716	-	40,243	10,583	346,542
Change in assets and liabilities:					
Receivables, net	(16,660)	-	-	-	(16,660)
Deferred revenue	5,494	-	-	-	5,494
Accounts and other payables	436	-	-	-	436
Net cash provided (used) by operating activities	\$ 400,765	\$ -	\$ -	\$ -	\$ 400,765

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

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, 2013

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 personnel costs and services made related to street rehabilitation. Principal sources of revenue are intergovernmental revenues.

Proprietary Funds – Enterprise funds

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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

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, and SDC Fund which include Transportation System Development (SDC) charges, Storm Drain SDC charges, Wastewater SDC charges, and the Parks & Recreation SDC charges.

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

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

- *Sewer Operations Fund* – This fund accounts for the maintenance, operation and construction of the City's wastewater collection and treatment system. Principal source of revenue is user fees.
- *Sewer Bonded Debt Fund* – This fund accounts for interest and principal payments on bonds issued for improvements to the wastewater system. The principal source of revenue is property taxes.
- *SDC Fund*—This fund accounts for the System Development Charges that are to be used for various infrastructure improvements under Transportation, Storm Drain, Wastewater, and Parks and Recreation.

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.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

Note 1 – Summary of Significant Accounting Policies (continued)

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.

Uncollected property taxes are recorded on the Statement of Net Position. 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, 2013 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 Position 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, 2013

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 Position and proprietary fund financial statements. Any related bond discounts and premiums are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount in the Statement of Net Position and proprietary fund financial statements. In the governmental fund financial statements, the bond discounts, premiums and issuance costs are recognized when incurred and not deferred. The face amount of the debt issued and premiums received are reported as other financing sources while discounts are reported as other financing uses. Bond issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures in the governmental fund financial statements. The City has not incurred any amortizable costs related to the issuance of the long-term debt reported on the Statement of Net Position.

Net Position – Fund Balances

In the government-wide financial statements, equity is classified as net position 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 position* – Consists of net assets with constraints placed on the use by either (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” and are not related to capital assets.

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

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

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

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, 2013

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.

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, 2013. 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, 2013, the carrying amounts of the City's deposits in various qualifying financial institutions were \$243,921 and the bank balances were \$257,528. All deposits are held in the name of the City. At June 30, 2013 the City's deposits were not covered by federal depository insurance in the amount of \$7,528. However, this amount was deposited in an approved depository as identified by the State Treasury.

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

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, 2013

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 2013. 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, 2013 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, 2013, 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>\$ 1,327,114</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

Note 2 – Cash and Investments (continued)

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

Carrying amounts of cash and investments:

Petty Cash	\$	100
Demand Deposits		243,921
Investment - LGIP		1,327,114
		1,571,135
	\$	1,571,135

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

	Governmental Activities	Business-Type Activities	Total
Cash and Investments	\$ 131,847	\$ 394,858	\$ 526,705
Restricted Cash	-	1,044,430	1,044,430
Total Cash and Investments	\$ 131,847	\$ 1,439,288	\$ 1,571,135

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, 2013:

<u>Governmental</u>		<u>Business-Type</u>	
General Fund:		Sewer Operation:	
Intergovernmental	\$ 9,737	Accounts receivable	\$100,846
Franchise fees	18,506	Allowance	(7,914)
Other	7,458		
Public safety fee	37,988		92,932
Property taxes	10,480	SDC:	
	84,169	Accounts receivable	18
Street Fund:		Sewer Debt Service:	
Intergovernmental	14,020	Property taxes	7,060
Total	\$98,189	Total	\$100,010

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

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	\$ 87,709	\$ 92,932	\$ 180,641
Taxes receivable	10,480	7,060	17,540
Restricted receivables	-	18	18
Total Receivables	\$ 98,189	\$ 100,010	\$ 198,199

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, 2013, are as follows:

	<u>Balance 7/1/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/13</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 34,542	\$ -	\$ -	\$ 34,542
Construction in process	-	13,865	-	13,865
Total capital assets not being depreciated	\$ 34,542	13,865	-	\$ 48,407
Capital assets being depreciated:				
Buildings and improvements	\$ 267,962	7,005	-	\$ 274,967
Machinery and equipment	27,038	-	-	27,038
Total capital assets being depreciated	295,000	7,005	-	302,005
Less accumulated depreciation for:				
Buildings and improvements	(135,332)	(15,101)	-	(150,433)
Machinery and equipment	(1,778)	(4,519)	-	(6,297)
Total accumulated depreciation	(137,110)	(19,620)	-	(156,730)
Total capital assets being depreciated, net	157,890	(12,615)	-	145,275
Total capital assets, governmental activities, net	\$ 192,432	\$ 1,250	\$ -	\$ 193,682

Depreciation expense for the year, \$19,620, was charged to the Administration program.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

Note 4 – Capital Assets (continued)

	Balance 7/1/12	Additions	Disposals	Balance 6/30/13
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	\$ 301,670	-	-	\$ 301,670
Infrastructure Improvements	921,662	140,000	-	1,061,662
Infrastructure	10,682,872	-	-	10,682,872
Total capital assets being depreciated	<u>11,906,204</u>	<u>140,000</u>	<u>-</u>	<u>12,046,204</u>
Less accumulated depreciation for:				
Machinery and equipment	(215,342)	(16,190)	-	(231,532)
Infrastructure Improvements	(217,902)	(50,826)	-	(268,728)
Infrastructure	(4,645,115)	(279,526)	-	(4,924,641)
Total accumulated depreciation	<u>(5,078,359)</u>	<u>(346,542)</u>	<u>-</u>	<u>(5,424,901)</u>
Total capital assets being depreciated, net	<u>6,827,845</u>	<u>(206,542)</u>	<u>-</u>	<u>6,621,303</u>
Total capital assets, business-type activities, net	<u>\$ 6,886,248</u>	<u>\$(206,542)</u>	<u>\$ -</u>	<u>\$ 6,679,706</u>

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

<u>Program</u>	
Wastewater department	\$ 295,716
Infrastructure improvements	<u>50,826</u>
	<u>\$ 346,542</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

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, 2013, the components of deferred revenue consist of the following:

Type/Fund	Unavailable	Unearned	Total
Property taxes, General Fund	\$ 8,552	\$ -	\$ 8,552
Advanced billings, General Fund	-	13,681	13,681
Billings, Sewer Operations Fund	-	5,494	5,494
	<u>\$ 8,552</u>	<u>\$ 19,175</u>	<u>\$ 27,727</u>

Note 6 – Long-Term Debt

During the fiscal year ended June 30, 2013, the following long-term debt transactions occurred:

Business-type activities:	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Due in 1 Year
General Obligation Bond	\$ 576,605	\$ -	\$(576,605)	\$ -	\$ -
General Obligation Bond-refinance	-	536,000	-	536,000	61,000
Sewer Bond #1	2,198,660	-	(28,566)	2,170,094	29,851
OECDD Note Payable #1	272,429	-	(12,591)	259,838	17,733
Clean Water State Revolving Loan	754,547	-	(48,489)	706,058	49,915
Total long-term debt	<u>\$3,802,241</u>	<u>\$536,000</u>	<u>\$(666,251)</u>	<u>\$3,671,990</u>	<u>\$158,499</u>

The City incurred interest expense of \$121,058 for its business-type activities.

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

General Obligation Bonds

\$1,390,000 was issued June 20, 1980 for wastewater construction and improvements. Interest (5%) payments are required semi-annually on June 26th and December 18th each year with principal payments required each June 26th until 2021.

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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

Note 6 – Long-Term Debt (continued)

Interest (2.62%) payments are required semi-annually on June 26th and December 26th of each year with the principal payments required each December 26th. Principal and interest payments are made from the Sewer Bonded Debt Fund.

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 61,000	\$ 13,244	\$ 74,244
2015	63,000	11,620	74,620
2016	64,000	9,955	73,955
2017	66,000	8,253	74,253
2018	68,000	6,498	74,498
2019	70,000	4,690	74,690
2020	71,000	2,843	73,843
2021	73,000	956	73,956
	<u>\$ 536,000</u>	<u>\$ 58,059</u>	<u>\$ 594,059</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 \$127,506 at June 30, 2013.

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	35,598	91,907	127,505
2019-2023	203,512	434,016	637,528
2024-2028	253,611	383,915	637,526
2029-2033	316,047	321,482	637,529
2034-2038	393,852	243,677	637,529
2039-4043	490,810	146,716	637,526
2044-2046	348,955	31,789	380,744
	<u>\$ 2,170,094</u>	<u>\$ 2,035,814</u>	<u>\$4,205,908</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

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.

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rate</u>
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	18,386	10,498	28,884	5.500%
2019-2023	114,950	35,367	150,317	5.500%
2024-2025	54,635	4,758	59,393	5.625%
	<u>\$ 259,838</u>	<u>\$ 102,538</u>	<u>\$ 362,376</u>	

Clean Water State Revolving Fund (CWSRF) Note

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

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Interest & Fees</u>	<u>Total</u>
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	56,052	14,118	2,348	16,466	72,518
2019-2023	305,980	44,870	7,304	52,174	358,154
2024-2025	135,383	4,978	684	5,662	141,045
	<u>\$ 706,058</u>	<u>\$ 136,003</u>	<u>\$ 22,412</u>	<u>\$ 158,415</u>	<u>\$ 864,473</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

Note 7 – Operating Leases

As of June 30, 2013 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:

<u>Year ending June 30:</u>	<u>Payments</u>
2014	\$ 4,752
2015	4,752
2016	<u>4,356</u>
	<u>\$ 13,860</u>

Note 8 – Interfund Transactions

Interfund transfers

Interfund transfers during the year ended June 30, 2013 were as follows:

<u>Governmental Activities</u>	<u>In</u>	<u>Out</u>
Street Fund	\$ 7,051	\$ -
 <u>Business-Type Activities</u>		
Sewer Operations	-	174,350
Sewer Reserve	15,850	-
Sewer Operations Replacement	158,500	-
SDC	<u>-</u>	<u>7,051</u>
	<u>\$ 181,401</u>	<u>\$ 181,401</u>

The inter-fund transfer from the Sewer Operations Fund to the Sewer Operations Replacement Fund was to fund various capital improvements that were budgeted during 2013.

The transfer from the SDC Fund to the Street Fund was also to fund various capital improvements.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

Note 9 – Accrued Compensated Absences

At June 30, 2013, 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 Changes in accrued compensated absences for the year ended June 30, 2013, are as follows:

	Accrued June 30, 2012	Earned	Used	Accrued June 30, 2013
Government Activities	\$ 31,392	\$17,106	\$(21,795)	\$ 26,703

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, 2013 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, 2013 was 9.47%. The OPSRP rate in effect for the year ended June 30, 2013 was 6.13% for general 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, 2013, 2012, and 2011, were \$18,670, \$19,396, and \$32,888, respectively, equal to the required contributions for each year.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2013

Note 11 – Net Position

Deficit Net Position

At June 30, 2013, a net position deficit of \$523,002 exists in the Sewer Bonded Debt Fund. The deficit results from the recording of long-term debt for the purpose of constructing the City of Shady Cove's portion of the wastewater system. The Sewer Bonded Debt Fund is responsible for the long-term debt liability while the Sewer Operations Fund receives the benefit of the constructed asset resulting in a deficit in the Sewer Bonded Debt Fund.

Restricted Net Position

The City has approved enabling legislation that imposes legally enforceable limits on how certain system development charges (restricted resource/net position) may be used. A portion of net position is also restricted by external parties for payments of outstanding debt. Restricted net position at June 30, 2013 is comprised of the following:

Enacted by enabling legislation of the City:	
Restricted for system development	\$ 876,106
Externally imposed:	
Restricted for debt service	<u>175,402</u>
	<u>\$ 1,051,508</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, 2013

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, 2013 through the date of the financial statements were available for issuance, for recognition and/or disclosure in the financial statements.

After year-end, the City's Administrator left the employ of the City along with 2 other employees. As of the date of these financial statements, the City has not hired a new Administrator.

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, 2013**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Property taxes	\$ 118,000	\$ 118,000	\$ 113,545	\$ (4,455)
State subventions	62,000	62,000	69,035	7,035
Franchise fees	205,000	205,000	215,326	10,326
City fees	87,000	87,000	84,886	(2,114)
Administrative fees	79,255	79,255	69,864	(9,391)
Municipal court	40,000	40,000	21,963	(18,037)
Grants	15,000	15,000	19,209	4,209
Public Safety Fee	250,000	250,000	250,089	89
Floodplain Permit Fee	10,500	10,500	11,250	750
Miscellaneous	25,000	25,000	11,243	(13,757)
Earnings on investments	1,500	1,500	2,880	1,380
TOTAL REVENUES	893,255	893,255	869,290	(23,965)
EXPENDITURES				
Current:				
Administration	749,205	749,205	499,552	249,653
Public safety	425,000	425,000	398,111	26,889
Parks and recreation	164,500	164,500	6,055	158,445
TOTAL EXPENDITURES	1,338,705	1,338,705	903,718	434,987
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(445,450)	(445,450)	(34,428)	411,022
OTHER FINANCING SOURCES (USES)				
Interfund loans	102,950	102,950	-	(102,950)
Transfers in	157,500	157,500	-	(157,500)
TOTAL OTHER FINANCING SOURCES	260,450	260,450	-	(260,450)
NET CHANGE IN FUND BALANCE	(185,000)	(185,000)	(34,428)	150,572
FUND BALANCE, Beginning of Year	185,000	185,000	159,593	(25,407)
FUND BALANCE, End of Year	\$ -	\$ -	\$ 125,165	\$ 125,165

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STREET FUND
YEAR ENDED JUNE 30, 2013**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
State Highway revenue	\$ 150,000	\$ 150,000	\$ 159,458	\$ 9,458
Grants	50,000	50,000	-	(50,000)
Miscellaneous income	100	100	-	(100)
Earnings on investments	300	300	21	(279)
TOTAL REVENUES	200,400	200,400	159,479	(40,921)
EXPENDITURES				
Current				
Highways and streets				
Personal services	82,593	82,593	79,461	3,132
Materials and services	134,572	134,572	108,807	25,765
Capital outlay	492,064	492,064	13,865	478,199
Contingency	1,421	1,421	-	1,421
TOTAL EXPENDITURES	710,650	710,650	202,133	508,517
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(510,250)	(510,250)	(42,654)	467,596
OTHER FINANCING SOURCES (USES):				
Loans to other funds	62,050	62,050	-	62,050
Transfer in	373,200	373,200	7,051	366,149
TOTAL OTHER FINANCING SOURCES (USES):	435,250	435,250	7,051	428,199
NET CHANGE IN FUND BALANCE	(75,000)	(75,000)	(35,603)	39,397
FUND BALANCE, Beginning of Year	75,000	75,000	45,489	(29,511)
FUND BALANCE, End of Year	\$ -	\$ -	\$ 9,886	\$ 9,886

MAJOR ENTERPRISE FUNDS

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET POSITION - BUDGET AND ACTUAL
SEWER OPERATIONS FUND
YEAR ENDED JUNE 30, 2013**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Charges for services	\$ 815,500	\$ 815,500	\$ 844,339	\$ 28,839
Miscellaneous Income	1,500	1,500	-	(1,500)
Earnings on investments	900	900	1,172	272
TOTAL REVENUES	<u>817,900</u>	<u>817,900</u>	<u>845,511</u>	<u>27,611</u>
EXPENDITURES				
Current:				
Utility services				
Personal services	93,205	93,205	91,132	2,073
Materials and services	365,683	365,683	341,712	23,971
Capital outlay	12,500	12,500	-	12,500
Debt service	229,062	229,062	229,062	-
Operating contingency	51,450	51,450	-	51,450
TOTAL EXPENDITURES	<u>751,900</u>	<u>751,900</u>	<u>661,906</u>	<u>89,994</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>66,000</u>	<u>66,000</u>	<u>183,605</u>	<u>117,605</u>
OTHER FINANCING SOURCES (USES):				
Loans to other funds	(165,000)	(165,000)	-	165,000
Transfers in	12,500	12,500	-	(12,500)
Transfers (out)	(174,350)	(174,350)	(174,350)	-
TOTAL OTHER FINANCING SOURCES (USES):	<u>(326,850)</u>	<u>(326,850)</u>	<u>(174,350)</u>	<u>152,500</u>
NET CHANGE IN WORKING CAPITAL	<u>(260,850)</u>	<u>(260,850)</u>	<u>9,255</u>	<u>270,105</u>
NET WORKING CAPITAL, Beginning of Year	<u>320,000</u>	<u>320,000</u>	<u>340,312</u>	<u>20,312</u>
NET WORKING CAPITAL, End of Year	<u>\$ 59,150</u>	<u>\$ 59,150</u>	<u>349,567</u>	<u>\$ 290,417</u>
Add (deduct) adjustments to net working capital to reconcile ending net position:				
Capital assets, net			5,886,772	
Change in accrued interest			1,251	
Long-term debt			(3,135,990)	
ENDING NET POSITION			<u>\$ 3,101,600</u>	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET POSITION - BUDGET AND ACTUAL
SEWER BONDED DEBT FUND
YEAR ENDED JUNE 30, 2013**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Taxes	\$ 85,614	\$ 85,614	\$ 84,271	\$ (1,343)
Earnings on investments	100	100	66	(34)
TOTAL REVENUES	<u>85,714</u>	<u>85,714</u>	<u>84,337</u>	<u>(1,377)</u>
EXPENDITURES				
Debt service	<u>82,414</u>	<u>82,414</u>	<u>81,097</u>	<u>1,317</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,300</u>	<u>3,300</u>	<u>3,240</u>	<u>(60)</u>
OTHER FINANCING SOURCES (USES)				
Other financing source series 2012 GO Bonds	-	-	536,000	536,000
Other financing use current refunding	-	-	(533,300)	(533,300)
Other financing use current refunding issue costs	-	-	(2,700)	(2,700)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN WORKING CAPITAL	3,300	3,300	3,240	(60)
NET WORKING CAPITAL, Beginning of Year	<u>2,000</u>	<u>2,000</u>	<u>9,758</u>	<u>7,758</u>
NET WORKING CAPITAL, End of Year	<u>\$ 5,300</u>	<u>\$ 5,300</u>	<u>12,998</u>	<u>\$ 7,698</u>
Add (deduct) adjustments to net working capital to reconcile ending net position.				
Long-term debt			<u>(536,000)</u>	
ENDING NET POSITION (DEFICIT)			<u>\$ (523,002)</u>	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET POSITION - BUDGET AND ACTUAL
SDC FUND
YEAR ENDED JUNE 30, 2013**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
System development charges	\$ 31,212	\$ 31,212	\$ 71,737	\$ 40,525
Earnings on investments	-	-	3,069	3,069
TOTAL REVENUES	<u>31,212</u>	<u>31,212</u>	<u>74,806</u>	<u>43,594</u>
EXPENDITURES				
Capital Outlay	(543,200)	(543,200)	-	543,200
TOTAL EXPENDITURES	<u>(543,200)</u>	<u>(543,200)</u>	<u>-</u>	<u>543,200</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(511,988)	(511,988)	74,806	586,794
OTHER FINANCING SOURCES (USES):				
Transfer out	-	-	(7,051)	(7,051)
NET CHANGE IN NET WORKING CAPITAL	<u>(511,988)</u>	<u>(511,988)</u>	<u>67,755</u>	<u>579,743</u>
NET WORKING CAPITAL, Beginning of Year	<u>793,092</u>	<u>793,092</u>	<u>808,351</u>	<u>15,259</u>
NET WORKING CAPITAL, End of Year	<u>\$ 281,104</u>	<u>\$ 281,104</u>	<u>876,106</u>	<u>\$ 595,002</u>
Add (deduct) adjustments to net working capital to reconcile ending net position:				
Capital assets, net			550,882	
ENDING NET POSITION			<u>\$ 1,426,988</u>	

OTHER FINANCIAL SCHEDULES

**CITY OF SHADY COVE
 COMBINING STATEMENT OF NET POSITION
 NONMAJOR ENTERPRISE FUNDS
 JUNE 30, 2013**

	<u>Sewer Reserve Fund</u>	<u>Sewer Operations Replacement Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
ASSETS			
Current assets:			
Cash and Investments	\$ 22,478	\$ 99,773	\$ 122,251
Total current assets	<u>22,478</u>	<u>99,773</u>	<u>122,251</u>
Noncurrent assets:			
Restricted cash and investments	127,506	-	127,506
Infrastructure, net	-	242,052	242,052
Total noncurrent assets	<u>127,506</u>	<u>242,052</u>	<u>369,558</u>
TOTAL ASSETS	<u>\$ 149,984</u>	<u>\$ 341,825</u>	<u>\$ 491,809</u>
NET POSITION			
Invested in capital assets net of related debt	\$ -	\$ 242,052	\$ 242,052
Restricted	127,506	-	127,506
Unrestricted	22,478	99,773	122,251
TOTAL NET POSITION	<u>\$ 149,984</u>	<u>\$ 341,825</u>	<u>\$ 491,809</u>

**CITY OF SHADY COVE
 COMBINING STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 NONMAJOR ENTERPRISE FUNDS
 YEAR ENDED JUNE 30, 2013**

	<u>Sewer Reserve Fund</u>	<u>Sewer Operations Replacement Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
OPERATING EXPENSES			
Depreciation	\$ -	\$ 10,583	\$ 10,583
OPERATING INCOME (LOSS)	<u>-</u>	<u>(10,583)</u>	<u>(10,583)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest on investments	<u>521</u>	<u>279</u>	<u>800</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>521</u>	<u>279</u>	<u>800</u>
INCOME BEFORE TRANSFERS	521	(10,304)	(9,783)
Transfer in (out)	<u>15,850</u>	<u>158,500</u>	<u>174,350</u>
CHANGES IN NET POSITION	<u>16,371</u>	<u>148,196</u>	<u>164,567</u>
NET POSITION, Beginning of Year	<u>133,613</u>	<u>193,629</u>	<u>327,242</u>
NET POSITION, End of Year	<u>\$ 149,984</u>	<u>\$ 341,825</u>	<u>\$ 491,809</u>

**CITY OF SHADY COVE
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR ENTERPRISE FUNDS
 YEAR ENDED JUNE 30, 2013**

	Sewer Reserve Fund	Sewer Operations Replacement Fund	Total Nonmajor Enterprise Funds
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	\$ -	\$ (140,000)	\$ (140,000)
Transfer in (out)	15,850	158,500	174,350
Net cash provided (used) by capital and related financing activities	<u>15,850</u>	<u>18,500</u>	<u>34,350</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	521	279	800
Net cash provided (used) by investing activities	<u>521</u>	<u>279</u>	<u>800</u>
Net increase (decrease) in cash and investments	16,371	18,779	35,150
Balances - beginning of the year	<u>133,613</u>	<u>80,994</u>	<u>214,607</u>
Balances - end of the year	<u>\$ 149,984</u>	<u>\$ 99,773</u>	<u>\$ 249,757</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ -	\$ (10,583)	\$ (10,583)
Adjustments to reconcile operating income to cash provided by operating activities:			
Depreciation expense	-	10,583	10,583
Net cash provided (used) by operating activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET POSITION - BUDGET AND ACTUAL
SEWER RESERVE FUND
YEAR ENDED JUNE 30, 2013**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Earnings on investments	\$ 650	\$ 650	\$ 521	\$ (129)
OTHER FINANCING SOURCES (USES):				
Transfers in	15,850	15,850	15,850	-
CHANGE IN NET POSITION	16,500	16,500	16,371	(129)
NET POSITION, Beginning of Year	133,500	133,500	133,613	113
NET POSITION, End of Year	\$ 150,000	\$ 150,000	\$ 149,984	\$ (16)

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET POSITION - BUDGET AND ACTUAL
SEWER OPERATIONS REPLACEMENT FUND
YEAR ENDED JUNE 30, 2013**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Earnings on investments	\$ -	\$ -	\$ 279	\$ 279
EXPENDITURES				
Capital Outlay	238,500	238,500	140,000	98,500
TOTAL EXPENDITURES	238,500	238,500	140,000	98,500
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(238,500)	(238,500)	(139,721)	98,779
OTHER FINANCING SOURCES (USES):				
Transfers in	158,500	158,500	158,500	-
TOTAL OTHER FINANCING SOURCES (USES):	158,500	158,500	158,500	-
NET CHANGE IN WORKING CAPITAL	(80,000)	(80,000)	18,779	98,779
NET WORKING CAPITAL, Beginning of Year	80,000	80,000	80,994	994
NET WORKING CAPITAL, End of Year	\$ -	\$ -	\$ 99,773	\$ 99,773
Add (deduct) adjustments to net working capital to reconcile ending net position:				
Capital assets, net			242,052	
ENDING NET POSITION			\$ 341,825	

**CITY OF SHADY COVE
SCHEDULE OF PROPERTY TAX TRANSACTIONS
FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Tax Year</u>	<u>Uncollected July 1, 2012</u>	<u>Levy as Extended by Assessor</u>	<u>Discounts & Adjustments</u>	<u>Interest</u>	<u>Collections Per Treasurer</u>	<u>Uncollected June 30, 2013</u>
<u>GENERAL FUND</u>							
CURRENT	2012-13	\$	\$ 120,382	\$ (3,211)	\$ 50	\$ 112,268	\$ 4,953
PRIOR	2011-12	5,534		(768)	133	2,281	2,618
	2010-11	2,512		(96)	150	1,161	1,405
	2009-10	1,466		106	187	977	784
	2008-09	682		(165)	90	397	210
	2007-08	191		(23)	14	47	135
	2006-07	94		(17)	5	15	67
	2005-06	59		(7)	2	8	46
	Prior	284		(6)	17	33	262
Total Prior		10,822	-	(976)	598	4,919	5,527
TOTAL GENERAL FUND		<u>\$ 10,822</u>	<u>\$ 120,382</u>	<u>\$ (4,187)</u>	<u>\$ 648</u>	<u>\$ 117,187</u>	<u>\$ 10,480</u>
<u>SEWER DEBT FUND</u>							
CURRENT	2012-13	\$	\$ 82,470	\$ (2,200)	\$ 33	\$ 76,911	\$ 3,392
PRIOR	2011-12	3,609		(526)	91	1,563	1,611
	2010-11	1,685		(66)	103	795	927
	2009-10	998		73	128	670	527
	2008-09	475		(113)	61	272	151
	2007-08	156		(16)	9	32	117
	2006-07	76		(12)	3	11	56
	2005-06	51		(5)	2	5	43
	Prior	244		4	11	23	236
Total Prior		7,294	-	(661)	408	3,371	3,668
TOTAL SEWER DEBT FUND		<u>\$ 7,294</u>	<u>\$ 82,470</u>	<u>\$ (2,861)</u>	<u>\$ 441</u>	<u>\$ 80,282</u>	<u>\$ 7,060</u>

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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, Oregon as of and for the year ended June 30, 2013, and have issued our report thereon dated February 28, 2014. 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 The City of Shady Cove's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

Accounting Records

The financial records for the City were not prepared when the audit was originally scheduled. After the City Administrator left, the audit was rescheduled twice. The basic reconciliation process was completed for cash, but not accurately prepared. Other subsidiary accounts were not reconciled.

Budget

In reviewing the current and ensuing year's budget, it was noted the budget detail does not agree to the resolution adopting the budget. The City's detailed budget forms are presented by personal services, materials and services, capital outlay, transfers and contingencies. However, the resolution to adopt the budget is by department with no correlation to the detail.

OAR 162-10-0230 Internal Control

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

The current internal controls, while adequately designed, were not followed.

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

Stewart C. Parmele CPA, Partner

Stewart C. Parmele, CPA
Michael L. Piels CPAs, LLP
Medford, Oregon
February 28, 2014



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INDEPENDENT AUDITOR'S 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

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Shady Cove, Oregon, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Shady Cove's basic financial statements, and have issued our report dated February 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Shady Cove's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Shady Cove's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Shady Cove's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. They are listed in the Schedules of Findings and Responses

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shady Cove's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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*.

City of Shady Cove's Response to Findings

The City of Shady Cove's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Shady Cove's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stewart C Parmele CPA, Partner

Stewart C. Parmele, CPA
Michael L. Piels CPAs, LLP
Medford, Oregon
February 28, 2014

CITY OF SHADY COVE, OREGON
Schedule of Findings and Responses
June 30, 2013

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified 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. Material weaknesses 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

Material Weakness

2013-1 Segregation of Duties

Criteria: In order to have adequate internal controls over cash, the City has developed specific job responsibilities relating to the various accounting processes, to ensure that no one person has complete control over a segment of the accounting functions, ie., cash receipts, cash disbursements.

Statement of Condition: During the fiscal year personnel positions were not adequately segregated to meet the City's requirements relating to complete control over cash procedures.

Cause: During the fiscal year and shortly after fiscal year end, the City had a nearly complete turnover in accounting and management personnel. The turnover resulted in inadequate segregation of duties relating to cash receipt, disbursement, and reconciliation responsibilities.

Effect or Potential Effect: The City Council and Administration may make decisions with incorrect information which may have adverse effects on the City. Additionally, unintentional or intentional errors may happen and not be recognized in the ordinary course of business.

Management's response: A new internal controls policy has been established that ensures separation of duties so that no one City employee shall be responsible for all aspects of any given procedure. The City is in the process of training current staff on the procedures and adequate progress has been made in the segregation of duties processes within the City.

**CITY OF SHADY COVE, OREGON
Schedule of Findings and Responses
June 30, 2013**

Material Weakness

2013-2 Cash Procedures

Criteria: Timely and accurate reconciliations of the City bank accounts are essential to support the monthly reporting process of the City.

Statement of Condition: At June 30, 2013 the bank reconciliations were not accurately prepared noting the checking account was off by approx. \$5,400 and the reconciliation for the Local Government Investment Pool (LGIP) was off by approx. \$12,200.

Cause: There is a lack of understanding of the accounting system, software program, and the cash reconciliation process used by the City staff.

Effect or Potential Effect: The City Council and Administration could make decisions with incorrect information which may have adverse effects on the City.

Management's response: Beginning in early November the City contracted with a senior level financial consultant to provide financial training, specifically related to reconciliation processes within the City. All accounts were reconciled from July 1, 2013 through present.

A new internal controls policy has been established that ensures separation of duties so that no one City employee shall be responsible for all aspects of any given procedure. This new policy requires timely and accurate reconciliations.

Material Weakness

2013-3 Accounts Payable/Expenditures

Criteria: The City's reporting is on the modified accrual basis of accounting for the Governmental Funds and the full accrual basis of accounting for the Business-type Activities. The recording of accounts payable is crucial for accurate financial reporting of expenditures/expenses.

Statement of Condition: Our auditing procedures noted that approx. \$69,000 of accounts payable were not recorded in the various funds.

Cause: There appears to be a lack of understanding of the accounting system and the basis of accounting used by the City, as well as a breakdown in the internal control system over accounts payable.

Effect or Potential Effect: The City Council and Administration could make decisions with incorrect information which may have adverse effects on the City.

Management's response: In December 2013 a new internal controls policy was developed to better address accounts payable. Although this policy has only been implemented for a short time, it has better allowed staff to ensure the accuracy and integrity of the accounts payable process.

CITY OF SHADY COVE, OREGON
Schedule of Findings and Responses
June 30, 2013

Material Weakness

2013-4 Accounts Receivable/Revenue

Criteria: The City's reporting is on the modified accrual basis of accounting for the Governmental Funds and the full accrual basis of accounting for the Business-type Activities. The recording of accounts receivable is crucial for accurate financial reporting of revenue.

Statement of Conditions: Our auditing procedures noted that approx. \$201,000 were not recorded in the various funds.

Cause: There appears to be a lack of understanding of the accounting system and the basis of accounting used the City, as well as a breakdown in the internal control system over accounts receivable.

Effect or Potential Effect: The City Council and Administration may make decisions with incorrect information which may have adverse effects on the City.

Management's Response: In December 2013 a new internal controls policy was developed to better address accounts receivable. Although this policy has only been implemented for a short time, it has better allowed staff to ensure the accuracy and integrity of the accounts receivable process.