

CITY OF SHADY COVE, OREGON
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2011
WITH
INDEPENDENT AUDITOR'S REPORT

CITY OF SHADY COVE, OREGON

Year Ended June 30, 2011

ELECTIVE OFFICIALS OF THE CITY OF SHADY COVE, OREGON

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Shady Cove, Oregon 97539

Mayor

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

Councilor

Jim Ulrich
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Leith Hayes
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Councilor

ADMINISTRATION

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CITY OF SHADY COVE, OREGON

Year Ended June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shady Cove, Oregon, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Shady Cove, Oregon's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shady Cove, Oregon as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2011, on our consideration of City of Shady Cove, Oregon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

Stewart C. Parnelle CPA, Partner

Michael L. Piels CPAs, LLP
Medford, Oregon
December 20, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2011

This Management Discussion and Analysis (MD&A) is presented to facilitate financial analysis and provide an overview of the financial activities of the City of Shady Cove (the City) for the fiscal year ended June 30, 2011. Information in the MD&A is based on currently known facts, decisions and conditions. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The City continued its contract with the Jackson County Sheriff's department during the year. Under the terms of the contract, the City reported expenditures of \$393 thousand during the current year.
- In the **government-wide statements**, the City's assets totaled \$9.02 million at June 30, 2011 consisting of \$7.46 million in capital assets, \$1.39 million in cash and investments, and \$174 thousand in receivables and other assets. Capital assets, net of accumulated depreciation decreased by \$387 thousand in the current year. Cash and investment balances increased by \$98 thousand from the prior year.
- In the **government-wide statements**, the City's liabilities totaled \$4.09 million at June 30, 2011 consisting of \$3.98 million in long-term debt, including the current portion, and \$103 thousand in accounts payable and other current liabilities.
- **Government-wide** net assets (assets minus liabilities) totaled \$4.93 million at June 30, 2011 of which \$3.42 million was invested in capital assets net of related debt, \$9 thousand was restricted for debt service, \$774 thousand was restricted for system development, and \$724 thousand was considered unrestricted. In the prior year, net assets totaled \$5.04 million, of which \$3.67 million was invested in capital assets net of related debt, \$718 thousand was restricted for debt service and system development and \$644 thousand was considered unrestricted.
- In the **government-wide statements**, the City generated program revenues of \$1.40 million from its governmental and business activities. Direct expenses of all programs totaled \$2.13 million. General revenues which include taxes, franchise fees and investment income totaled \$624 thousand. In the prior year the City generated program revenues of \$1.41 million from its governmental and business activities. Direct expenses of all programs totaled \$2.13 million. General revenues which include taxes, franchise fees and investment income totaled \$600 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

1. Government-wide Financial Statements

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

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

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

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

Governmental activities of the City are categorized as follows:

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

Business-type activities include the following:

- Wastewater

2. Fund Financial Statements

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

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

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

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

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

3. Notes to the Basic Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

The City's assets exceeded liabilities by \$4.93 million at June 30, 2011. Net assets for governmental activities totaled \$493 thousand while net assets for business-type activities totaled \$4.44 million.

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Capital assets, net	\$ 182,916	\$ 7,275,211	\$ 219,960	\$ 7,625,226
Current & other assets	359,067	1,204,120	346,910	1,103,299
Total assets	<u>\$ 541,983</u>	<u>\$ 8,479,331</u>	<u>\$ 566,870</u>	<u>\$ 8,728,525</u>
Long term debt	\$ -	\$ 3,984,726	\$ 4,828	\$ 4,119,124
Other Liabilities	49,483	53,870	75,452	58,835
Total liabilities	<u>\$ 49,483</u>	<u>\$ 4,038,596</u>	<u>\$ 80,280</u>	<u>\$ 4,177,959</u>
Invested in capital assets net of related debt	\$ 182,916	\$ 3,243,086	\$ 215,132	\$ 3,459,511
Restricted	-	782,796	-	718,014
Unrestricted	309,584	414,853	271,458	373,041
Total net assets	<u>\$ 492,500</u>	<u>\$ 4,440,735</u>	<u>\$ 486,590</u>	<u>\$ 4,550,566</u>

As mentioned earlier, net assets may be an indicator of the City's financial position. At the end of the current year, the City has a positive net asset balance. Net assets decreased by \$104 thousand from the prior year as expenses exceeded revenues. The largest portion of the City's net assets, 69.45 percent, is invested in capital assets, 14.68 percent is unrestricted, 15.87 percent is restricted for system development or debt service.

Analysis of Changes in Net Assets

The City's Statement of Activities for fiscal year ended June 30, 2011 follows:

	June 30, 2011		June 30, 2010	
	Governmental Activities	Business Type Activities	Governmental Activities	Business Type Activities
Revenues				
Program revenues:				
Charges for services	\$ 521,711	\$ 859,972	\$ 568,198	\$ 843,223
Operating grants	20,000	-	-	-
General revenues:				
Property taxes for General	114,733	-	113,517	-
Property taxes for Debt	-	83,641	-	81,514
State revenue sharing	73,974	-	72,195	-
Intergovernmental	141,066	-	118,733	-
Franchise fees	214,841	-	195,177	-
Earnings on investments	1,662	6,386	2,923	9,062
Other	17,477	-	8,005	14,473
Loss on disposal assets	(31,248)	1,500	(16,088)	-
Total revenues	<u>1,074,216</u>	<u>951,499</u>	<u>1,062,660</u>	<u>948,272</u>
Expenses				
Administrative	534,079	-	541,066	-
Public Safety	410,765	-	377,086	-
Parks	3,078	-	9,032	-
Highways and streets	120,349	-	93,933	-
Interest on long-term debt	35	-	1,294	-
Wastewater	-	1,061,330	-	1,108,591
Total expenses	<u>1,068,306</u>	<u>1,061,330</u>	<u>1,022,411</u>	<u>1,108,591</u>
Change in net assets	5,910	(109,831)	40,249	(160,319)
Beginning net assets	<u>486,590</u>	<u>4,550,566</u>	<u>446,341</u>	<u>4,710,885</u>
Ending net assets	<u>\$ 492,500</u>	<u>\$ 4,440,735</u>	<u>\$ 486,590</u>	<u>\$ 4,550,566</u>

Governmental Activities

Governmental activities increased the City's net assets by about \$6 thousand, reducing the impact of the loss sustained by the Business-Type activities. Revenues totaled \$1.07 million and consisted primarily of property taxes of \$115 thousand, charges for services of \$522 thousand, intergovernmental revenue of \$141 thousand, and franchise fees of \$215 thousand.

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

Business-Type Activities

Business-type activities decreased the City's net assets by \$110 thousand. Charges for services which totaled \$860 thousand are comprised of wastewater service and system development charges. Business-type activities are to be self supporting where revenues are expected to cover expenses.

Total expenses for wastewater operations were \$1.06 million; of this, \$328 thousand represented depreciation expense and \$150 thousand represented interest expense. Excluding depreciation and interest expenses, produces expenses of \$583 thousand. Revenues for wastewater operations must be generated not only for expenses but for capital assets and principal payments on long-term debt as well. Capital assets and principal payments on long-term debt are not reported as direct expenses but are reported as additions to assets and reductions to liabilities, respectively, on the Statement of Net Assets.

FUND ANALYSIS

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

Governmental Funds

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

At the end of the current year, the City's governmental funds had combined ending fund balances of about \$301 thousand, an increase of about \$38 thousand from the prior year's fund balances of \$263 thousand. Revenues totaled \$1.10 million while expenditures which include current, capital outlay, and debt service expenditures totaled almost \$1.07 million.

The ending fund balances of \$301 thousand is comprised \$10 thousand in nonspendable fund balance, \$16 thousand in fund balance is restricted by Oregon Revised Statutes for foot paths or bike paths, \$21 thousand in fund balance committed for future bike paths, \$43 thousand assigned to future Street Fund obligations, and \$211 thousand unassigned and available for spending by the City within the purposes specified for the City's General Fund.

The General Fund is a primary operating fund of the City. At the end of the fiscal year, the unassigned fund balance of the General Fund was \$211 thousand up nearly \$18 thousand from the previous year's calculated unassigned fund balance. Fund balance increased about \$12 thousand in the Street Fund.

Proprietary Funds

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

Total net assets of the Proprietary Funds at the end of the year amounted to nearly \$4.44 million. This was comprised of unrestricted net assets of almost \$415 thousand, restricted net assets of \$783 thousand, and \$3.24 million in net assets, invested in capital assets, net of related debt. The decrease in

net assets of the Sewer Operations Fund was \$185 thousand. This is comparable with the prior year's decrease of \$203 thousand.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget of the General Fund was modified twice during the current fiscal year. One of the changes was the result of an additional \$10,000 in grant funds received for the City's Water Master Plan Update, while the other change was an underestimation of personal services expenditures necessary in the General Fund - Administration department.

CAPITAL ASSETS

As of June 30, 2011 the City had invested \$7.46 million in capital assets, net of depreciation as reflected in the following table, which represents a net decrease (additions, deductions and depreciation) of \$387 thousand.

	Governmental Activities	Business Type Activities	Total
Land	\$ 34,542	\$ 58,403	\$ 92,945
Buildings and Improvements	140,375	-	140,375
Machinery and equipment	7,999	275,043	283,042
Infrastructure	-	6,941,765	6,941,765
Total	\$ 182,916	\$ 7,275,211	\$ 7,458,127

Major events affecting capital assets for fiscal year 2011 are as follows:

- A Ford F150 was purchased by the Sewer Fund for \$18 thousand.
- A GMC Sierra was purchased by the Street Fund for \$9 thousand.
- The City transferred two police vehicles to the Jackson County Sheriff's Department as part of its contract. The vehicles were leased by the City until August 2005. The City recognized a loss of \$31 thousand in the transfer as the result of not fully depreciating the vehicles.
- The City sold a sludge spreader to the City of Cottage Grove for \$1,500. The City has depreciated the sludge spreader fully in prior years.

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

DEBT ADMINISTRATION

As of year-end, the City had \$3.98 million in long-term debt outstanding compared to \$4.12 million in the previous year. Principal payments on long-term debt were \$139 thousand. All outstanding debt at year-end is reported in the business-type fund section, and is comprised of the following:

General Obligation Bonds	\$ 627,757
Sewer Bond # 1	2,225,996
OECD Note Payable # 1	284,886
OECD Note Payable # 2	44,437
Clean Water State Revolving Fund Note	<u>801,650</u>
Total	<u>\$ 3,984,726</u>

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

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

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

The City entered into a \$1 million loan agreement November 15, 2004 with the Clean Water State Revolving Fund (CWSRF) for rehabilitation of the wastewater system. Only \$977 thousand of the amount was drawn and used by the City, and that amount became the finalized loan balance. The note is repaid from sewer revenues.

Debt Limitation and Ratings

Oregon Revised Statutes provides a limit on non-self-supporting general obligation debt of 3% of the real market value of all taxable property within the City. Based on the fiscal year 2011 value, the City's debt limitation is \$6,693,828.

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

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES

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

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

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

The bright spot in the future is the potential acquisition and subsequent development of a communitywide water system for domestic and fire suppression purposes.

Significant expenditures are expected to continue under the City's Floodplain Program. This program is expected to continue for the next several years. The City will need to carefully manage it with limited available resources from the General Fund. A new fee schedule was adopted in an attempt to recover costs associated with the floodplain program.

The City's permanent property tax rate of 54.7 cents per thousand continues to generate approximately \$110 thousand for all City Hall functions. The national economy and projected foreclosures may actually result in a slight increase as foreclosed upon properties pay unpaid taxes from prior years. Without the benefit of franchise fees, the Public Safety Fee, and state subventions, the City would be hard pressed to provide even a minimal level of service.

With the recent retirement of the Public Works Director, George Bostic, the City contracted out its wastewater treatment and collection system to Rogue Valley Sewer Service (RVSS). The City was able to transfer two employees to RVSS and leave the director position vacant, saving nearly \$200 thousand in personnel costs. Capital Improvements were difficult to fund in the past, however with the RVSS contract, \$123 thousand is dedicated each year towards capital improvement. In addition, the City has established a \$1.00 increase in sewer rates for the next two years designated toward capital improvement. As a result, our sewer plant has been modernized with up to date equipment and is functioning at a much higher level than was previous.

In addition, the City has contracted with Jackson County for road maintenance. This allows us to better maintain our streets without the expense of purchasing and maintaining equipment.

The City has received a Transportation Enhancement grant to upgrade Hwy 62. In addition, grant applications for Flex Funding and Scenic Byway Funds have been applied for. We can expect more applications in the future as the desire to improve our City increases.

The City has been able to go through its surplus items and recycle, donate or auction them. Revenue from four surplus vehicles totaled \$170 thousand.

We were able to save roughly \$35 thousand by going through all of our contracts and services and customizing them to suit our needs. This, along with the additional surplus revenue, will end our fiscal year in good standing.

It is anticipated that:

- We will enjoy a significantly higher than usual level of citizen involvement as the Transportation Enhancement project and a municipal water system progresses;
- The City will continue in good standing with the Federal Emergency Management Agency and National Flood Insurance Plan relative floodplain compliance;
- Police services and code enforcement efforts continue at a satisfactory level of service under the new contract with the Jackson County Sheriff approved early in 2010;

Highlights of Prior Fiscal Year

- ✓ A new contract for wastewater treatment and collections was approved.
- ✓ A new contract for road maintenance was approved.
- ✓ Hired a new City Engineer.
- ✓ Formed a Water Master Plan Task Force to answer questions on the best way to build a municipal water system.
- ✓ Formed a Park Management Committee to determine the feasibility of taking control of the Jackson County Regional Park.
- ✓ Hired a Floodplain Manager/Planner to work “in house” two days per week in an effort to increase the level of service to the community.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**CITY OF SHADY COVE
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Governmental Activities	Business-type Activities	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash and investments	\$ 265,247	\$ 355,905	\$ 621,152
Receivables	83,395	65,419	148,814
Prepays	10,425	-	10,425
Restricted cash and investments	-	767,836	767,836
Restricted receivables	-	14,960	14,960
Capital assets, net:			
Land	34,542	58,403	92,945
Buildings and improvements	140,375	-	140,375
Machinery and equipment	7,999	275,043	283,042
Infrastructure	-	6,941,765	6,941,765
	<u>541,983</u>	<u>8,479,331</u>	<u>9,021,314</u>
TOTAL ASSETS			
LIABILITIES:			
Accounts payable	19,963	950	20,913
Payroll taxes and benefits payable	9,454	-	9,454
Other current liabilities	2,150	-	2,150
Vacations payable	17,916	5,521	23,437
Accrued interest payable	-	47,399	47,399
Long-term liabilities:			
Due within one year	-	182,359	182,359
Due in more than one year	-	3,802,367	3,802,367
	<u>49,483</u>	<u>4,038,596</u>	<u>4,088,079</u>
TOTAL LIABILITIES			
NET ASSETS:			
Invested in capital assets, net of related debt	182,916	3,243,086	3,426,002
Restricted	15,553	782,796	798,349
Unrestricted	294,031	414,853	708,884
	<u>\$ 492,500</u>	<u>\$ 4,440,735</u>	<u>\$ 4,933,235</u>
TOTAL NET ASSETS			

**CITY OF SHADY COVE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Fines, Fees, and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government						
Administrative	\$ 534,079	\$ 229,513	\$ 20,000	\$ (284,566)	\$ -	\$ (284,566)
Police Department	410,765	292,198	-	(118,567)	-	(118,567)
Parks Department	3,078	-	-	(3,078)	-	(3,078)
Highways and streets	120,349	-	-	(120,349)	-	(120,349)
Interest on long-term debt	35	-	-	(35)	-	(35)
Total government activities	<u>1,068,306</u>	<u>521,711</u>	<u>20,000</u>	<u>(526,595)</u>	<u>-</u>	<u>(526,595)</u>
Business-type activities:						
Water/Wastewater	<u>1,061,330</u>	<u>859,972</u>	<u>-</u>	<u>-</u>	<u>(201,358)</u>	<u>(201,358)</u>
Total business-type activities	<u>1,061,330</u>	<u>859,972</u>	<u>-</u>	<u>-</u>	<u>(201,358)</u>	<u>(201,358)</u>
Total Common City	<u>\$ 2,129,636</u>	<u>\$ 1,381,683</u>	<u>\$ 20,000</u>	<u>(526,595)</u>	<u>(201,358)</u>	<u>(727,953)</u>
General revenues:						
Property taxes levied for general purposes				114,733	-	114,733
Property taxes levied for debt service				-	83,641	83,641
State subventions				73,974	-	73,974
Intergovernmental				141,066	-	141,066
Franchise fees				214,841	-	214,841
Earnings on investments				1,662	6,386	8,048
Other				17,477	-	17,477
Loss on disposal of assets				(31,248)	1,500	(29,748)
Total general revenues				<u>532,505</u>	<u>91,527</u>	<u>624,032</u>
CHANGE IN NET ASSETS				<u>5,910</u>	<u>(109,831)</u>	<u>(103,921)</u>
Net assets - July 1, 2010				<u>486,590</u>	<u>4,550,566</u>	<u>5,037,156</u>
Net Assets - June 30, 2011				<u>\$ 492,500</u>	<u>\$ 4,440,735</u>	<u>\$ 4,933,235</u>

**CITY OF SHADY COVE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 195,022	\$ 70,225	\$ 265,247
Receivables	58,868	13,759	72,627
Taxes receivable	10,768	-	10,768
Prepaid expenses	10,425	-	10,425
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 275,083	\$ 83,984	\$ 359,067
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 16,226	\$ 3,737	\$ 19,963
Payroll taxes and benefits payable	9,454	-	9,454
Funds held on behalf of others	2,150	-	2,150
Vacation payable	17,549	367	17,916
Deferred revenue	8,758	-	8,758
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	54,137	4,104	58,241
	<hr/>	<hr/>	<hr/>
Fund Balances:			
Nonspendable	10,425	-	10,425
Restricted	-	15,553	15,553
Committed	-	21,320	21,320
Assigned	-	43,007	43,007
Unassigned	210,521	-	210,521
	<hr/>	<hr/>	<hr/>
Total fund balances	220,946	79,880	300,826
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	\$ 275,083	\$ 83,984	\$ 359,067
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**CITY OF SHADY COVE
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2011**

TOTAL FUND BALANCES \$ 300,826

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

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

Cost	\$ 305,342	
Accumulated depreciation	<u>(122,426)</u>	182,916

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

8,758

TOTAL NET ASSETS \$ 492,500

**CITY OF SHADY COVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Total</u>
REVENUES			
Property taxes	\$ 114,178	\$ -	\$ 114,178
State subventions	73,974	-	73,974
Franchise fees	214,841	-	214,841
City fees	100,513	-	100,513
Administrative fees	129,000	-	129,000
Municipal court	46,481	-	46,481
Grants	20,000	-	20,000
Public Safety Fee	245,717	-	245,717
State Highway revenue	-	141,066	141,066
Miscellaneous	17,477	-	17,477
Interest	1,181	481	1,662
	<u>963,362</u>	<u>141,547</u>	<u>1,104,909</u>
TOTAL REVENUES			
EXPENDITURES			
Current:			
General government	519,395	-	519,395
Public safety	410,765	-	410,765
Parks and recreation	3,078	-	3,078
Highways and streets	-	120,349	120,349
Debt service:			
Principal & interest	4,863	-	4,863
Capital outlay	-	8,888	8,888
	<u>938,101</u>	<u>129,237</u>	<u>1,067,338</u>
TOTAL EXPENDITURES			
NET CHANGE IN FUND BALANCE	25,261	12,310	37,571
FUND BALANCE, July 1, 2010	<u>195,685</u>	<u>67,570</u>	<u>263,255</u>
FUND BALANCE, June 30, 2011	<u>\$ 220,946</u>	<u>\$ 79,880</u>	<u>\$ 300,826</u>

**CITY OF SHADY COVE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

NET CHANGE IN FUND BALANCE		\$	37,571
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>			
<p>Government funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>			
Expenditures for capital assets	\$	8,888	
Less current year depreciation		<u>(14,684)</u>	(5,796)
<p>Governmental funds do not report disposals of fixed assets when no funds are received for the disposals. However, the net loss is reported on the Statement of Activities.</p>			
Cost basis of assets disposed		(78,114)	
Accumulated depreciation		<u>46,866</u>	(31,248)
<p>Property taxes that do not meet the measurable and available criteria are not recognized as revenue in the current year in the governmental funds. In the Statement of Activities property taxes are recognized as revenue when levied.</p>			
			555
<p>Repayment of principal is an expenditure in the governmental funds, but reduces the liability in the Statement of Net Assets. This is the principal payment.</p>			
			<u>4,828</u>
CHANGE IN NET ASSETS		\$	<u>5,910</u>

**CITY OF SHADY COVE
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2011**

	Sewer Operations Fund	Sewer Bonded Debt Fund	Other Enterprise Funds	Total
ASSETS				
Current assets:				
Cash and investments	\$ 106,343	\$ -	\$ 249,562	\$ 355,905
Receivables, net	65,419	-	-	65,419
Total current assets	171,762	-	249,562	421,324
Noncurrent assets:				
Restricted cash and investments	-	1,728	766,108	767,836
Restricted receivables	-	-	7,496	7,496
Restricted receivables - taxes	-	7,464	-	7,464
Land	58,403	-	-	58,403
Machinery and equipment, net	275,043	-	-	275,043
Infrastructure, net	6,317,283	-	624,482	6,941,765
Total noncurrent assets	6,650,729	9,192	1,398,086	8,058,007
TOTAL ASSETS	6,822,491	9,192	1,647,648	8,479,331
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	950	-	-	950
Vacation payable	5,521	-	-	5,521
Accrued interest payable	47,399	-	-	47,399
Bonds and notes payable	131,333	51,026	-	182,359
Total current liabilities	185,203	51,026	-	236,229
Noncurrent liabilities:				
Bonds and notes payable	3,225,636	576,731	-	3,802,367
TOTAL LIABILITIES	3,410,839	627,757	-	4,038,596
Net Assets:				
Invested in capital assets, net of related debt	3,246,361	(627,757)	624,482	3,243,086
Restricted	-	9,192	773,604	782,796
Unrestricted	165,291	-	249,562	414,853
TOTAL NET ASSETS	\$ 3,411,652	\$ (618,565)	\$ 1,647,648	\$ 4,440,735

**CITY OF SHADY COVE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2011**

	Sewer Operations Fund	Sewer Bonded Debt Fund	Other Enterprise Funds	Total Enterprise Funds
OPERATING REVENUES				
Charges for services	\$ 800,809	\$ -	\$ -	\$ 800,809
TOTAL OPERATING REVENUES	800,809	-	-	800,809
OPERATING EXPENSES				
Personal services	241,491	-	-	241,491
Materials and services	268,086	-	-	268,086
Depreciation	327,588	-	39,927	367,515
TOTAL OPERATING EXPENSES	837,165	-	39,927	877,092
OPERATING INCOME (LOSS)	(36,356)	-	(39,927)	(76,283)
NONOPERATING REVENUES (EXPENSES)				
Taxes	-	83,641	-	83,641
System development charges	-	-	59,163	59,163
Interest on investments	531	198	5,657	6,386
Interest expense	(150,364)	(33,874)	-	(184,238)
Gain on sale of assets	1,500	-	-	1,500
TOTAL NONOPERATING REVENUES (EXPENSES)	(148,333)	49,965	64,820	(33,548)
CHANGES IN NET ASSETS	(184,689)	49,965	24,893	(109,831)
NET ASSETS, July 1, 2010	3,596,341	(668,530)	1,622,755	4,550,566
NET ASSETS, June 30, 2011	\$ 3,411,652	\$ (618,565)	\$ 1,647,648	\$ 4,440,735

**CITY OF SHADY COVE
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2011**

	Sewer Operations Fund	Sewer Bonded Debt Fund	Other Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 798,961	\$ -	\$ -	\$ 798,961
Payments to suppliers	(171,343)	-	-	(171,343)
Payments for interfund services used	(98,000)	-	-	(98,000)
Payments to employees	(246,009)	-	-	(246,009)
Net cash provided (used) by operating activities	<u>283,609</u>	<u>-</u>	<u>-</u>	<u>283,609</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Receipt of system development charges	-	-	59,162	59,162
Taxes	-	83,641	-	83,641
Principal paid on capital debt	(86,242)	(48,156)	-	(134,398)
Interest paid on capital debt	(149,169)	(34,258)	-	(183,427)
Proceeds from the disposal of capital assets	1,500	-	-	1,500
Purchase and construction of capital assets	(17,500)	-	-	(17,500)
Net cash provided (used) by capital and related financing activities	<u>(251,411)</u>	<u>1,227</u>	<u>59,162</u>	<u>(192,522)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	531	197	5,658	6,386
Net increase (decrease) in cash and investments	32,729	1,424	64,820	97,473
Cash balances - beginning of the year includes restricted cash of \$703,054	<u>73,614</u>	<u>304</u>	<u>950,850</u>	<u>1,024,768</u>
Cash balances - end of the year includes restricted cash of \$767,836	<u>\$ 106,343</u>	<u>\$ 1,728</u>	<u>\$ 1,015,670</u>	<u>\$ 1,122,241</u>

Continued on next page.

**CITY OF SHADY COVE
STATEMENT OF CASH FLOWS (Continued)
ENTERPRISE FUNDS
JUNE 30, 2011**

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	Sewer Operations Fund	Sewer Debt Fund	Other Enterprise Funds	Total
Operating income (loss)	\$ (36,356)	\$ -	\$ (39,927)	\$ (76,283)
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation expense	327,588	-	39,927	367,515
Change in assets and liabilities:				
Receivables, net	(1,848)	-	-	(1,848)
Vacations payable	(4,518)	-	-	(4,518)
Accounts and other payables	(1,257)	-	-	(1,257)
Net cash provided (used) by operating activities	<u>\$ 283,609</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 283,609</u>

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

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 (thru Jackson County Sheriff's Department), parks, building and planning, public works (streets, storm drainage/facilities maintenance), and sanitary sewer collection and treatment.

Financial Statement Presentation, Measurement Focus and Basis of Accounting:

Government-wide Financial Statements

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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

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, 2011

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

The following are the City's major governmental funds:

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

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

Proprietary Funds - Enterprise funds

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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Use of Estimates

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

Pooled Cash and Investments

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

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

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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

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 Assets. Uncollected taxes are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established.

Accounts and Other Receivables

Sewer service revenues are recorded as revenue in the proprietary fund type as earned. An allowance for doubtful accounts is considered necessary at June, 30, 2011 for delinquent charges for services and has been recorded. Receivables for federal and state grants, and state, county and local shared revenue and interest earned, included in accounts and grants receivable, are recorded as revenue as earned.

Restricted Assets

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

Capital Assets

Capital assets are stated at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the fair market value of such assets at the date of donation. As permitted by GASB Statement No. 34, the City has limited the capitalization of infrastructure to only those which were constructed or acquired after July 1, 2003, with the exception of infrastructure related directly to long-term debt. Capital assets include land, right-of-ways, buildings, improvements, infrastructure and equipment costing over \$5,000 with an estimated life greater than one year. Infrastructure assets include streets, sidewalks, streetlights, sewer pipeline, etc. Through June 30, 2011, 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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 1 - Summary of Significant Accounting Policies (continued)

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

Compensated Absences

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

Long-term Debt and Bond Issuance Costs

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

Net Assets - Fund Balances

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

- a. 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.
- b. Restricted net assets – Consists of net assets with constraints placed on the use by either (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” and are not related to capital assets.

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

Non-Spendable – Includes items not immediately converted to cash, such as prepaid items.

Restricted – Includes items that are restricted by external creditors, grantors, or contributors, or restricted by legal constitutional provisions.

Committed – Includes items committed by the City Council through resolution or ordinance. Similarly, a resolution or ordinance is required to modify or rescind the commitment.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 1 - Summary of Significant Accounting Policies (continued)

Assigned – Includes items assigned for specific purposes, authorized by the City Administrator.

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

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

Appropriation and Budgetary Controls

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

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. Three budget appropriation transfers, as permitted by Oregon Budget Law, were authorized by the City Council during the fiscal year. During the fiscal year ended June 30, 2011, the City exceeded its appropriation authority in the Sewer Operations Fund, debt service category, by \$9.

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, 2011. 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.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 2 - Cash and Investments (continued)

For the fiscal year ended June 30, 2011, the carrying amounts of the City's deposits in various qualifying financial institutions were \$233,863 and the bank balances were \$101,436. All deposits are held in the name of the City. At June 30, 2011 the City's deposits were covered by federal depository insurance or deposited in an approved depository as identified by the Treasury.

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

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

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 2011. 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, 2011 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.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 2 - Cash and Investments (continued)

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, 2011, 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>\$ 1,155,050</u>

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

Carrying amounts of cash and investments:

Petty cash	\$ 75
Demand deposits	233,863
Investments - LGIP	<u>1,155,050</u>
	<u>\$ 1,388,988</u>

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and Investments	\$ 265,247	\$ 355,905	\$ 621,152
Restricted Cash	<u>-</u>	<u>767,836</u>	<u>767,836</u>
Total Cash and Investments	<u>\$ 265,247</u>	<u>\$ 1,123,741</u>	<u>\$ 1,388,988</u>

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.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 3 - Receivables

Receivables are comprised of the following as of June 30, 2011:

<u>Governmental</u>		<u>Business-Type</u>	
General Fund:		Sewer Operation:	
Intergovernmental	\$ 8,003	Accounts receivable	\$ 81,155
Franchise Fees	17,865	Allowance	<u>(15,736)</u>
Other	7,695		65,419
Public Safety Fee	25,305		
Property Taxes	<u>10,768</u>		
	<u>69,636</u>	Transportation SDC:	
		Accounts receivable	6,152
Street Fund:		Wastewater SDC:	
Intergovernmental	<u>13,759</u>	Accounts receivable	1,344
Total	<u>\$ 83,395</u>	Sewer Debt Service:	
		Property Taxes	<u>7,464</u>
		Total	<u>\$ 80,379</u>

Receivables are reflected on the basic financial statements as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Receivables	\$ 83,395	\$ 65,419	\$ 148,814
Restricted Receivables	<u>-</u>	<u>14,960</u>	<u>14,960</u>
Total Receivables	<u>\$ 83,395</u>	<u>\$ 80,379</u>	<u>\$ 163,774</u>

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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 4 - Capital Assets

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

Governmental Activities	<u>Balance 7/1/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/11</u>
Capital assets not being depreciated:				
Land	\$ 34,542	\$ -	\$ -	\$ 34,542
 Total capital assets not being depreciated	<u>\$ 34,542</u>	<u>-</u>	<u>-</u>	<u>\$ 34,542</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 261,912	-	-	\$ 261,912
Machinery and equipment	78,114	8,888	(78,114)	8,888
 Total capital assets being depreciated	<u>340,026</u>	<u>8,888</u>	<u>(78,114)</u>	<u>270,800</u>
Less accumulated depreciation for:				
Buildings and improvements	(107,742)	(13,795)	-	(121,537)
Machinery and equipment	(46,866)	(889)	46,866	(889)
 Total accumulated depreciation	<u>(154,608)</u>	<u>(14,684)</u>	<u>46,866</u>	<u>(122,426)</u>
 Total capital assets being depreciated, net	<u>185,418</u>	<u>(5,796)</u>	<u>(31,248)</u>	<u>148,374</u>
 Total capital assets, governmental activities, net	<u>\$ 219,960</u>	<u>\$ (5,796)</u>	<u>\$ (31,248)</u>	<u>\$ 182,916</u>

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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 4 - Capital Assets (continued)

	Balance 7/1/10	Additions	Disposals	Balance 6/30/11
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	\$ 613,399	17,500	(14,000)	\$ 616,899
SDC Improvements	798,558	-	-	798,558
Infrastructure	<u>10,682,872</u>	<u>-</u>	<u>-</u>	<u>10,682,872</u>
 Total capital assets being depreciated	<u>12,094,829</u>	<u>17,500</u>	<u>(14,000)</u>	<u>12,098,329</u>
 Less accumulated depreciation for:				
Machinery and equipment	(308,143)	(47,713)	14,000	(341,856)
SDC Improvements	(134,149)	(39,927)	-	(174,076)
Infrastructure	<u>(4,085,714)</u>	<u>(279,875)</u>	<u>-</u>	<u>(4,365,589)</u>
 Total accumulated depreciation	<u>(4,528,006)</u>	<u>(367,515)</u>	<u>14,000</u>	<u>(4,881,521)</u>
 Total capital assets being depreciated, net	<u>7,566,823</u>	<u>(350,015)</u>	<u>-</u>	<u>7,216,808</u>
 Total capital assets, business-type activities, net	<u>\$ 7,625,226</u>	<u>\$ (350,015)</u>	<u>\$ -</u>	<u>\$ 7,275,211</u>

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

<u>Program</u>	
Wastewater department	\$ 327,588
SDC	<u>39,927</u>
Total	<u>\$ 367,515</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

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, 2011, the components of deferred revenue consist of the following:

<u>Type/Fund</u>	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes:			
General Fund	\$ 8,758	\$ -	\$ 8,758
Total	<u>\$ 8,758</u>	<u>\$ -</u>	<u>\$ 8,758</u>

Note 6 - Long-Term Debt

During the fiscal year ended June 30, 2011, the following long-term debt transactions occurred:

	<u>Balance 7/1/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/11</u>	<u>Due in 1 Year</u>
<u>Governmental Activities:</u>					
Capital Lease Obligation	\$ 4,828	\$ -	\$ (4,828)	\$ -	\$ -
<u>Business-type activities:</u>					
General Obligation Bonds	675,913	-	(48,156)	627,757	51,026
Sewer Bond # 1	2,252,155	-	(26,159)	2,225,996	27,336
OECD Note Payable # 1	297,217	-	(12,331)	284,886	12,457
OECD Note Payable # 2	46,432	-	(1,995)	44,437	44,437
Clean Water State Revolving Fund Note	<u>847,407</u>	<u>-</u>	<u>(45,757)</u>	<u>801,650</u>	<u>47,103</u>
Total Long-term debt	<u>\$ 4,123,952</u>	<u>\$ -</u>	<u>\$ (139,226)</u>	<u>\$ 3,984,726</u>	<u>\$ 182,359</u>

The City incurred interest expense of \$35 and \$184,238 for its governmental and business-type activities, respectively.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 6 - Long-Term Debt (continued)

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

General Obligation Bonds

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

Year Ending <u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 51,026	\$ 31,388	\$ 82,414
2013	53,577	28,837	82,414
2014	56,256	26,158	82,414
2015	59,069	23,345	82,414
2016	62,023	20,391	82,414
2017-2021	<u>345,806</u>	<u>52,220</u>	<u>398,026</u>
	<u>\$ 627,757</u>	<u>\$ 182,339</u>	<u>\$ 810,096</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 current reserve balance is \$132,946.

Year Ending <u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 27,336	\$ 100,170	\$ 127,506
2013	28,566	98,940	127,506
2014	29,851	97,655	127,506
2015	31,195	96,311	127,506
2016	32,598	94,908	127,506
2017-2021	186,360	451,170	637,530
2022-2026	232,240	405,290	637,530
2027-2031	289,413	348,117	637,530
2032-2036	360,662	276,868	637,530
2037-2041	449,450	188,080	637,530
2042-2046	<u>558,325</u>	<u>79,205</u>	<u>637,530</u>
	<u>\$ 2,225,996</u>	<u>\$ 2,236,714</u>	<u>\$ 4,462,710</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 6 - Long-Term Debt (continued)

OECD Note Payable #1

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

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rate</u>
2012	\$ 12,457	\$ 15,828	\$ 28,285	5.375%
2013	12,591	15,143	27,734	5.500%
2014	17,733	14,450	32,183	5.500%
2015	17,883	13,475	31,358	5.500%
2016	18,042	12,491	30,533	5.500%
2017-2021	102,910	47,106	150,016	5.500%
2022-2025	103,270	15,016	118,286	5.625%
	<u>\$ 284,886</u>	<u>\$ 133,509</u>	<u>\$ 418,395</u>	

OECD Note Payable #2

\$60,000 was issued May 16, 2001 for rehabilitation of the wastewater systems. Annual payments of \$4,781, including principal and interest of 6%, due December 1st each year through 2024. Principal and interest payments are made from the Sewer Operations Fund. On July 1, 2011, the City paid off the remaining balance due on the OECD Note Payable #2, \$44,437, plus \$1,548 in accrued interest.

Clean Water State Revolving Fund (CWSRF) Note

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

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Interest & Fees</u>	<u>Total Payments</u>
2012	\$ 47,103	\$ 23,067	\$ 3,891	\$ 26,958	\$ 74,061
2013	48,489	21,681	3,652	25,333	73,822
2014	49,915	20,255	3,406	23,661	73,576
2015	51,383	18,787	3,153	21,940	73,323
2016	52,895	17,275	2,893	20,168	73,063
2017-2021	288,745	62,105	10,277	72,382	361,127
2022-2025	263,120	17,581	2,683	20,264	283,384
	<u>\$ 801,650</u>	<u>\$ 180,751</u>	<u>\$ 29,955</u>	<u>\$ 210,706</u>	<u>\$ 1,012,356</u>

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 7 - Operating Leases

As of June 30, 2011 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 \$396. Under the previous operating lease agreement, the City incurred rental fees of \$3,133, representing the minimum rental amount. The future payments for the current operating lease are as follows:

Year Ending June 30:	<u>Payments</u>
2012	\$ 4,752
2013	4,752
2014	4,752
2015	4,752
2016	<u>4,356</u>
	<u>\$ 23,364</u>

Note 8 - Interfund Transactions

Interfund charges

Interfund charges during the year ended June 30, 2011 were as follows:

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

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

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 9 - Accrued Compensated Absences

At June 30, 2011, the outstanding balance is comprised of accrued vacation and accrued compensatory time. The accrued compensated absences liability is liquidated by the fund which reports the liability. The changes in accrued compensated absences for the year ended June 30, 2011, are as follows:

	<u>Accrued June 30, 2010</u>	<u>Earned</u>	<u>Taken</u>	<u>Accrued June 30, 2011</u>
Governmental Activities	\$ 16,668	\$ 8,940	\$ 7,692	\$ 17,916
Business-type Activities	<u>10,038</u>	<u>11,606</u>	<u>16,123</u>	<u>5,521</u>
Total	<u>\$ 26,706</u>	<u>\$ 20,546</u>	<u>\$ 23,815</u>	<u>\$ 23,437</u>

Note 10 - Defined Benefit Pension Plan

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

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

Covered employees are required by state statute to contribute 6.00% of their annual salary to the system, but the employer is allowed to pay any or all of the employees' contribution in addition to the required employers' contribution. The City elected to contribute the 6.00% "pick-up" for the year ended June 30, 2011. 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, 2011 was 7.32%. The OPSRP rates in effect for the year ended June 30, 2011 were 5.94% for general service employees and 8.65% for police employees. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature. The City's contributions to PERS for the years ending June 30, 2011, 2010, and 2009 were \$32,888, \$42,751, and \$72,406, respectively, equal to the required contributions for each year.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 11 - Net Assets

Deficit Net Assets -

At June 30, 2011, a net asset deficit of \$618,565 exists in the Sewer Bonded Debt Fund. The deficit results from the recording of long-term debt for the purpose of constructing the City of Shady Cove's portion of the wastewater system. The Sewer Bonded Debt Fund is responsible for the long-term debt liability while the Sewer Operations Fund receives the benefit of the constructed asset resulting in a deficit in the Sewer Bonded Debt Fund.

Restricted Net Assets -

The City has approved enabling legislation that imposes legally enforceable limits on how certain system development charges (restricted resource/net assets) may be used. A portion of net assets are also restricted by external parties for payments of outstanding debt. Restricted net assets at June 30, 2011 are comprised of the following:

Enacted by enabling legislation of the City:	
Restricted for system development	\$ 773,604
Externally imposed:	
Restricted for debt service	<u>9,192</u>
Total restrictions	<u>\$ 782,796</u>

Note 13 - 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 14 - Concentrations of Risk

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

Note 15 - 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.

CITY OF SHADY COVE, OREGON
Notes to Basic Financial Statements
June 30, 2011

Note 16 - Implementation of GASB Statement No 54 - New Fund Balance

During the fiscal year, the City implemented GASB Statement No. 54. GASB Statement No. 54 requires analysis and presentation of fund balance in five categories. The new fund balance categories are:

Nonspendable -- Includes items not immediately converted to cash, such as prepaid items. At June 30, 2011, the City has \$10,425 in prepaid items in the General Fund, which are considered to be a non-spendable fund balance.

Restricted -- Includes items that are restricted by external creditors, grantors or contributors, or restricted by legal constitutional provisions. At June 30, 2011, the City has \$15,553 of restricted net assets in the Street Fund for foot paths or bike paths. Oregon Revised Statutes requires 1 percent of state highway funds received to be spent or reserved for these purposes.

Committed -- Includes items committed by the City Council through resolution or ordinance. At June 30, 2011, the City has committed \$21,320 in the Street Fund toward a future bike path.

Assigned -- Includes items assigned for specific uses, authorized by the City Administrator. The residual fund balance in the Street Fund, \$58,560, is considered to be an assigned fund balance.

Unassigned -- This is the residual classification used for those balances not assigned to another category.

Fund	<u>Non Spendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>
General	\$ 10,425	\$ -	\$ -	\$ -	\$ 210,521
Street	-	15,553	21,320	43,007	-
	<u>\$ 10,425</u>	<u>\$ 15,553</u>	<u>\$ 21,320</u>	<u>43,007</u>	<u>\$ 210,521</u>

Note 17 - Subsequent Events

Management of the City has evaluated events and transactions occurring after June 30, 2011 through the date of the financial statements were available for issuance, for recognition and/or disclosure in the financial statements.

- On July 27, 2011, the City entered into an agreement with Rogue Valley Sewer Services (RVSS) for wastewater operations, commencing August 1, 2011. The City will pay RVSS a total of \$392,000 per year, of this, \$270,000 is for operations and maintenance expense, and \$122,500 is to be exclusively dedicated to capital improvements. The agreement is in effect until June 30, 2016. RVSS may increase the operations and maintenance expense portion of the contract no more than 3% per year. As part of the arrangement, RVSS hired two of the City's sewer operations employees.
- On July 1, 2011, the City paid \$45,985, including \$1,548 in accrued interest, to pay off the OECD #2 loan, described in Note 6.
- Effective July 1, 2011, the City's actuarially determined OPERF and OPSRP rates (as described at Note 10) increased from 7.32% and 5.94% to 10.14% and 6.80%, respectively.

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, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Property taxes	\$ 114,700	\$ 114,700	\$ 114,178	\$ (522)
State subventions	70,000	70,000	73,974	3,974
Franchise fees	190,000	190,000	214,841	24,841
City fees	94,000	94,000	100,513	6,513
Administrative fees	129,000	129,000	129,000	-
Municipal court	55,000	55,000	46,481	(8,519)
Grants	10,000	20,000	20,000	-
Public Safety Fee	240,000	240,000	245,717	5,717
Miscellaneous	1,500	1,500	17,477	15,977
Earnings on investments	4,000	4,000	1,181	(2,819)
TOTAL REVENUES	908,200	918,200	963,362	45,162
EXPENDITURES				
Current:				
Administration	559,400	589,400	519,395	70,005
Public safety	420,744	420,744	415,628	5,116
Parks and recreation	8,100	8,100	3,078	5,022
Contingency	41,756	21,756	-	21,756
TOTAL EXPENDITURES	1,030,000	1,040,000	938,101	101,899
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(121,800)	(121,800)	25,261	147,061
FUND BALANCE, July 1, 2010	221,800	221,800	195,685	(26,115)
FUND BALANCE, June 30, 2011	\$ 100,000	\$ 100,000	\$ 220,946	\$ 120,946

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STREET FUND
YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with
	Adopted	Final		Final Budget Positive (Negative)
REVENUES				
State Highway revenue	\$ 143,000	\$ 143,000	\$ 141,066	\$ (1,934)
Grants	25,000	25,000	-	(25,000)
Earnings on investments	500	500	481	(19)
TOTAL REVENUES	168,500	168,500	141,547	(26,953)
EXPENDITURES				
Current				
Highways and streets				
Personal services	13,249	16,649	15,320	1,329
Materials and services	105,350	142,051	105,029	37,022
Capital outlay	64,800	39,800	8,888	30,912
Contingency	15,101	-	-	-
TOTAL EXPENDITURES	198,500	198,500	129,237	69,263
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(30,000)	(30,000)	12,310	42,310
FUND BALANCE, July 1, 2010	30,000	30,000	67,570	37,570
FUND BALANCE, June 30, 2011	\$ -	\$ -	\$ 79,880	\$ 79,880

OTHER SUPPLEMENTAL INFORMATION

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
SEWER OPERATIONS FUND
YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Charges for services	\$ 777,000	\$ 777,000	\$ 800,809	\$ 23,809
Earnings on investments	500	500	531	31
TOTAL REVENUES	777,500	777,500	801,340	23,840
EXPENDITURES				
Current:				
Utility services				
Personal services	241,363	253,203	241,491	11,712
Materials and services	301,895	301,895	268,086	33,809
Capital outlay	20,000	20,000	17,500	2,500
Debt service	235,402	235,402	235,411	(9)
Operating contingency	11,840	-	-	-
TOTAL EXPENDITURES	810,500	810,500	762,488	48,012
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(33,000)	(33,000)	38,852	71,852
OTHER FINANCING SOURCES (USES):				
Proceeds from the disposal of capital assets	-	-	1,500	1,500
TOTAL OTHER FINANCING SOURCES (USES):	-	-	1,500	1,500
NET INCOME (LOSS)	(33,000)	(33,000)	40,352	73,352
NET WORKING CAPITAL, July 1, 2010	33,000	33,000	75,356	42,356
NET WORKING CAPITAL, June 30, 2011	\$ -	\$ -	115,708	\$ 115,708
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			6,650,729	
Change in accrued interest			2,184	
Long-term debt			(3,356,969)	
ENDING NET ASSETS			\$ 3,411,652	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
SEWER BONDED DEBT FUND
YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Taxes	\$ 81,914	\$ 81,914	\$ 83,641	\$ 1,727
Earnings on investments	500	500	198	(302)
TOTAL REVENUES	<u>82,414</u>	<u>82,414</u>	<u>83,839</u>	<u>1,425</u>
EXPENDITURES				
Debt service	<u>82,414</u>	<u>82,414</u>	<u>82,414</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	1,425	1,425
NET WORKING CAPITAL, July 1, 2010	<u>-</u>	<u>-</u>	<u>7,418</u>	<u>7,418</u>
NET WORKING CAPITAL, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	8,843	<u>\$ 8,843</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets.				
Change in accrued interest			349	
Long-term debt			<u>(627,757)</u>	
ENDING NET ASSETS (DEFICIT)			<u>\$ (618,565)</u>	

**CITY OF SHADY COVE
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2011**

	Sewer Reserve Fund	Sewer Operations Replacement Fund	Transportation SDC Fund	Storm Drain SDC Fund	Wastewater SDC Fund	Parks & Recreation SDC Fund	Total Nonmajor Enterprise Funds
ASSETS							
Current assets:							
Cash and investments	\$ 132,946	\$ 116,616	\$ -	\$ -	\$ -	\$ -	\$ 249,562
Total current assets	<u>132,946</u>	<u>116,616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>249,562</u>
Noncurrent assets:							
Restricted cash and investments	-	-	211,984	192,579	176,350	185,195	766,108
Restricted receivables	-	-	6,152	-	1,344	-	7,496
Infrastructure, net	-	-	66,628	169,384	152,689	235,781	624,482
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>284,764</u>	<u>361,963</u>	<u>330,383</u>	<u>420,976</u>	<u>1,398,086</u>
TOTAL ASSETS	<u>\$ 132,946</u>	<u>\$ 116,616</u>	<u>\$ 284,764</u>	<u>\$ 361,963</u>	<u>\$ 330,383</u>	<u>\$ 420,976</u>	<u>\$ 1,647,648</u>
NET ASSETS							
Invested in capital assets net of related debt	\$ -	\$ -	\$ 66,628	\$ 169,384	\$ 152,689	\$ 235,781	\$ 624,482
Restricted	-	-	218,136	192,579	177,694	185,195	773,604
Unrestricted	132,946	116,616	-	-	-	-	249,562
Total net assets	<u>\$ 132,946</u>	<u>\$ 116,616</u>	<u>\$ 284,764</u>	<u>\$ 361,963</u>	<u>\$ 330,383</u>	<u>\$ 420,976</u>	<u>\$ 1,647,648</u>

**CITY OF SHADY COVE
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2011**

	Sewer Reserve Fund	Sewer Operations Replacement Fund	Transportation SDC Fund	Storm Drain SDC Fund	Wastewater SDC Fund	Parks & Recreation SDC Fund	Total Nonmajor Enterprise Funds
OPERATING EXPENSES							
Depreciation	\$ -	\$ -	\$ 4,551	\$ 11,592	\$ 9,990	\$ 13,794	\$ 39,927
OPERATING INCOME (LOSS)	-	-	(4,551)	(11,592)	(9,990)	(13,794)	(39,927)
NONOPERATING REVENUES (EXPENSES)							
System development charges	-	-	21,947	8,904	21,270	7,042	59,163
Interest on investments	785	677	1,128	1,090	919	1,058	5,657
TOTAL NONOPERATING REVENUES (EXPENSES)	785	677	23,075	9,994	22,189	8,100	64,820
CHANGES IN NET ASSETS	785	677	18,524	(1,598)	12,199	(5,694)	24,893
NET ASSETS, July 1, 2010	132,161	115,939	266,240	363,561	318,184	426,670	1,622,755
NET ASSETS, June 30, 2011	<u>\$ 132,946</u>	<u>\$ 116,616</u>	<u>\$ 284,764</u>	<u>\$ 361,963</u>	<u>\$ 330,383</u>	<u>\$ 420,976</u>	<u>\$ 1,647,648</u>

**CITY OF SHADY COVE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2011**

	Sewer Reserve Fund	Sewer Operations Replacement Fund	Transportation SDC Fund	Storm Drain SDC Fund	Wastewater SDC Fund	Parks & Recreation SDC Fund	Total Nonmajor Enterprise Funds
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Receipt of system development charges	\$ -	\$ -	\$ 21,947	\$ 8,904	\$ 21,269	\$ 7,042	\$ 59,162
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>21,947</u>	<u>8,904</u>	<u>21,269</u>	<u>7,042</u>	<u>59,162</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest and dividends	785	677	1,128	1,090	920	1,058	5,658
Net increase (decrease) in cash and investments	785	677	23,075	9,994	22,189	8,100	64,820
Balances - beginning of the year	132,161	115,939	188,909	182,585	154,161	177,095	950,850
Balances - end of the year	<u>\$ 132,946</u>	<u>\$ 116,616</u>	<u>\$ 211,984</u>	<u>\$ 192,579</u>	<u>\$ 176,350</u>	<u>\$ 185,195</u>	<u>\$ 1,015,670</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ -	\$ -	\$ (4,551)	\$ (11,592)	\$ (9,990)	\$ (13,794)	\$ (39,927)
Adjustments to reconcile operating income to cash provided by operating activities:							
Depreciation expense	-	-	4,551	11,592	9,990	13,794	39,927
Net cash provided (used) by operating activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
SEWER RESERVE FUND
YEAR ENDED JUNE 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Earnings on investments	\$ 2,700	\$ 2,700	\$ 785	\$ (1,915)
CHANGE IN NET ASSETS	2,700	2,700	785	(1,915)
NET ASSETS, July 1, 2010	<u>136,000</u>	<u>136,000</u>	<u>132,161</u>	<u>(3,839)</u>
NET ASSETS, June 30, 2011	<u>\$ 138,700</u>	<u>\$ 138,700</u>	<u>\$ 132,946</u>	<u>\$ (5,754)</u>

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
SEWER OPERATIONS REPLACEMENT FUND
YEAR ENDED JUNE 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Earnings on investments	\$ 2,300	\$ 2,300	\$ 677	\$ (1,623)
CHANGE IN NET ASSETS	2,300	2,300	677	(1,623)
NET ASSETS, July 1, 2010	<u>117,400</u>	<u>117,400</u>	<u>115,939</u>	<u>(1,461)</u>
NET ASSETS, June 30, 2011	<u>\$ 119,700</u>	<u>\$ 119,700</u>	<u>\$ 116,616</u>	<u>\$ (3,084)</u>

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
TRANSPORTATION SDC FUND
YEAR ENDED JUNE 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
System development charges	\$ -	\$ -	\$ 21,947	\$ 21,947
Earnings on investments	4,000	4,000	1,128	(2,872)
TOTAL REVENUES	<u>4,000</u>	<u>4,000</u>	<u>23,075</u>	<u>19,075</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,000	4,000	23,075	19,075
NET WORKING CAPITAL, July 1, 2010	<u>171,325</u>	<u>171,325</u>	<u>195,061</u>	<u>23,736</u>
NET WORKING CAPITAL, June 30, 2011	<u>\$ 175,325</u>	<u>\$ 175,325</u>	218,136	<u>\$ 42,811</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			<u>66,628</u>	
ENDING NET ASSETS			<u>\$ 284,764</u>	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
STORM DRAIN SDC FUND
YEAR ENDED JUNE 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
System development charges	\$ -	\$ -	\$ 8,904	\$ 8,904
Earnings on investments	3,285	3,285	1,090	(2,195)
TOTAL REVENUES	<u>3,285</u>	<u>3,285</u>	<u>9,994</u>	<u>6,709</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,285	3,285	9,994	6,709
NET WORKING CAPITAL, July 1, 2010	<u>173,191</u>	<u>173,191</u>	<u>182,585</u>	<u>9,394</u>
NET WORKING CAPITAL, June 30, 2011	<u>\$ 176,476</u>	<u>\$ 176,476</u>	192,579	<u>\$ 16,103</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			<u>169,384</u>	
ENDING NET ASSETS			<u>\$ 361,963</u>	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
WASTEWATER SDC FUND
YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
System development charges	\$ -	\$ -	\$ 21,270	\$ 21,270
Earnings on investments	3,268	3,268	920	(2,348)
TOTAL REVENUES	3,268	3,268	22,190	18,922
EXPENDITURES				
Capital outlay	90,000	90,000	-	90,000
TOTAL EXPENDITURES	90,000	90,000	-	90,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(86,732)	(86,732)	22,190	108,922
NET WORKING CAPITAL, July 1, 2010	174,153	174,153	155,505	(18,648)
NET WORKING CAPITAL, June 30, 2011	\$ 87,421	\$ 87,421	177,695	\$ 90,274
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			152,688	
ENDING NET ASSETS			\$ 330,383	

**CITY OF SHADY COVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - BUDGET AND ACTUAL
PARKS & RECREATION SDC FUND
YEAR ENDED JUNE 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
System development charges	\$ -	\$ -	\$ 7,042	\$ 7,042
Earnings on investments	4,897	4,897	1,058	(3,839)
TOTAL REVENUES	<u>4,897</u>	<u>4,897</u>	<u>8,100</u>	<u>3,203</u>
EXPENDITURES				
Capital outlay	<u>24,000</u>	<u>24,000</u>	<u>-</u>	<u>24,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(19,103)	(19,103)	8,100	27,203
NET WORKING CAPITAL, July 1, 2010	<u>178,885</u>	<u>178,885</u>	<u>177,095</u>	<u>(1,790)</u>
NET WORKING CAPITAL, June 30, 2011	<u>\$ 159,782</u>	<u>\$ 159,782</u>	185,195	<u>\$ 25,413</u>
Add (deduct) adjustments to net working capital to reconcile ending net assets:				
Capital assets, net			<u>235,781</u>	
ENDING NET ASSETS			<u>\$ 420,976</u>	

OTHER FINANCIAL SCHEDULES

**CITY OF SHADY COVE
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2011**

	Tax Year	Uncollected July 1, 2010	Levy as Extended by Assessor	Discounts and Adjustments	Interest	Collections Per Treasurer	Uncollected June 30, 2011
<u>GENERAL FUND</u>							
Current	2010-11		\$ 122,187	\$ (3,273)	\$ 77	\$ 112,693	\$ 6,299
Prior	2009-10	\$ 6,041		(146)	194	3,586	2,503
	2008-09	2,503		(357)	175	1,189	1,132
	2007-08	1,132		(270)	164	646	380
	2006-07	380		(45)	55	298	92
	2005-06	92		(35)	6	9	54
	2004-05	54		42	2	5	93
	Prior	308		(79)	20	34	215
Total prior		10,510	-	(890)	616	5,767	4,469
TOTAL GENERAL FUND		\$ 10,510	\$ 122,187	\$ (4,163)	\$ 693	\$ 118,460	\$ 10,768
<u>SEWER DEBT FUND</u>							
Current	2010-11		\$ 81,942	\$ (2,305)	\$ 52	\$ 75,575	\$ 4,114
Prior	2009-10	\$ 4,114		(63)	132	2,442	1,741
	2008-09	1,741		(109)	122	827	927
	2007-08	927		(224)	134	529	308
	2006-07	308		(32)	45	241	80
	2005-06	80		(28)	6	8	50
	2004-05	50		4	2	5	51
	Prior	244		(39)	17	29	193
Total prior		7,464	-	(491)	458	4,081	3,350
TOTAL SEWER DEBT FUND		\$ 7,464	\$ 81,942	\$ (2,796)	\$ 510	\$ 79,656	\$ 7,464

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

We have audited the basic financial statements of the City of Shady Cove as of and for the year ended June 30, 2011, and have issued our report thereon dated December 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller of the United States.

Compliance

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

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

- Deposit of public funds with financial institutions under ORS Chapter 295.
- Budgets legally required under ORS Chapter 294.
- Insurance and fidelity under bonds in force or required by law.
- Programs funded from outside sources.
- Investments of surplus funds authorized under ORS Chapter 294.
- Public contracts and purchasing under ORS Chapters 279A, 279B, 279C.
- Debt limitations under ORS Chapter 328.245
- Highway revenues used for public highways, roads, and streets.

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

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

Accounting Systems and Internal Controls

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

We noted certain matters that we reported to the management of City of Shady Cove, Oregon, in a separate letter dated December 20, 2011.

Collateral

Based on our review of the City's records, the City was in compliance with the provisions of ORS Chapter 295 during all periods tested for the year ended June 30, 2011.

Budget Compliance

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

- During the fiscal year ended June 30, 2011, the City exceeded its appropriation authority as follows:

Sewer Fund	
Debt service	<u>\$ 9</u>

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

Insurance and Fidelity Bond Coverage

We reviewed the City's insurance policies and determined that such policies appeared to be in force at June 30, 2011. We are not competent by training to comment on the adequacy of the insurance policies covering City owned property at June 30, 2011.

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

Indebtedness

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

Programs Funded From Outside Sources

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

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

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

Investments

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

Public Contracts and Purchasing

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

Highway Taxes

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

Accountability of Independently Elected Officials

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

Internal Control

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

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

Stewart C. Armule CPA, Partner

Michael L. Piels CPAs, LLP
Medford, Oregon
December 20, 2011

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Shady Cove, Oregon, as of and for the year ended June 30, 2011, which collectively comprise the City of Shady Cove, Oregon's basic financial statements and have issued our report thereon dated December 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Shady Cove, Oregon, in a separate letter dated December 20, 2011.

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

Stewart C. Farnelle CPA, Partner

Michael L. Piels CPAs, LLP
Medford, Oregon
December 20, 2011

CITY OF SHADY COVE, OREGON
Schedule of Findings and Responses
June 30, 2011

A. SUMMARY OF AUDIT RESULTS

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

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None