

CITY OF SHADY COVE, OREGON
**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**
YEAR ENDED JUNE 30, 2018
WITH
INDEPENDENT AUDITOR'S REPORTS



CITY OF SHADY COVE, OREGON

Year Ended June 30, 2018

ELECTED OFFICIALS OF THE CITY OF SHADY COVE, OREGON

Tom Sanderson P.O. Box 1210 Shady Cove, Oregon 97539	Mayor
Steve Mitchell P.O. Box 1210 Shady Cove, Oregon 97539	Councilor
Linda Kristich P.O. Box 1210 Shady Cove, Oregon 97539	Councilor
Dick McGregor P.O. Box 1210 Shady Cove, Oregon 97539	Councilor
Shari Tarvin P.O. Box 1210 Shady Cove, Oregon 97539	Councilor

ADMINISTRATION

Aaron Prunty – Resigned 6/30/2018 Thomas Corrigan – As of 7/9/2018 P.O. Box 1210 Shady Cove, OR 97539	City Administrator
Shelly Dent P.O. Box 1210 Shady Cove, OR 97539	Finance Accounting Technician

ADDRESS

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

**CITY OF SHADY COVE, OREGON
YEAR ENDED JUNE 30, 2018
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shady Cove, Oregon, (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shady Cove, Oregon, as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, major governmental funds budgetary comparison schedules, and the schedules of the City's Proportionate Share of the Net Pension and OPEB Liability/(Asset) as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to management's discussion and analysis and the schedules of the City's Proportionate Share of the Net Pension and OPEB Liability/(Asset) in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on management's discussion and analysis and the schedules of the City's Proportionate Share of the Net Pension and OPEB Liability/(Asset) because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The required major governmental funds budgetary comparison schedules, as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the major governmental funds budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not required as part of the basic financial statements.

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

Other Reporting Required by Oregon State Regulations

In accordance with Oregon State Regulations, we have also issued our report dated November 27, 2018, on our consideration of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules 162-10-0000 through 162-10-0320 of the Minimum Standards for Audits of Oregon Municipal Corporations. The purpose of that report is to describe the scope of our testing necessary to address the required provisions of ORS, and not to provide an opinion on compliance with such provisions.



Stewart C. Parmele CPA, Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
November 27, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2018

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, 2018. Information in the MD&A is based on currently known facts, decisions and conditions. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements. It should also be noted that all amounts included in text below are rounded for ease of reading.

FINANCIAL HIGHLIGHTS

- The City continued its contract with the Jackson County Sheriff's Office during the year. The City reported expenditures of approximately \$430 thousand during the current year.
- In the **government-wide statements**, the City's assets totaled \$8.8 million at June 30, 2018 consisting of \$5.61 million in capital assets, \$2.76 million in cash and investments, and approximately \$435 thousand in receivables, and deposits. Capital assets, net of accumulated depreciation decreased by approximately \$317 thousand in the current year. Cash and investment balances increased by approximately \$324 thousand from the prior year.
- In the **government-wide statements**, the City's liabilities totaled \$3.12 million at June 30, 2018 consisting of \$2.71 million in long-term debt, the current portion, net pension liability of approximately \$152 thousand, an interfund loan of approximately \$160 thousand, and approximately \$98 thousand in accounts payable and other current liabilities.
- **Government-wide** net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) totaled \$5.80 million at June 30, 2018 of which \$2.9 million was the net investment in capital assets, approximately \$1.32 million was restricted, and approximately \$1.57 million was considered unrestricted. In the prior year, net assets totaled \$5.61, of which \$3.11 million was invested in capital assets net of related debt, approximately \$999 thousand was restricted, and approximately \$1.5 million was considered unrestricted.
- In the **government-wide statements**, the City generated program revenues of \$1.41 million from its governmental and business activities. Direct expenses of all programs totaled \$2.11 million. General revenues which include taxes, franchise taxes and investment income totaled approximately \$886 thousand. In the prior year the City generated program revenues of \$1.4 million from its governmental and business activities. Direct expenses of all programs totaled \$1.99 million. General revenues which include taxes, franchise fees and investment income totaled approximately \$739 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

1. Government-wide Financial Statements

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

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

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

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

Governmental activities of the City are categorized as follows:

- General government - includes centralized services such as public works administration and support, information technology, community development, building and planning functions, administration and financial services and other general functions not separately identified as a program.
- Public safety - includes contracted services with Jackson County Sheriff's Office.
- Highways and streets - includes the City's street maintenance operations, street and local improvement construction and the City's engineering activities.

Business-type activities include the following:

- Wastewater

2. Fund Financial Statements

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

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

The City has two major governmental funds: General Fund and Street Fund. The major governmental funds have all been reported separately. The City also has two nonmajor governmental funds: Capital Improvement Fund and Capital Purchase Reserve Fund.

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 private water systems and wells. The Sewer Operations, Sewer Bonded Debt Fund, SDC Fund, Sewer Reserve Fund, and Sewer Operations Replacement Fund are presented separately as the major funds in the proprietary fund financial statements.

3. Notes to the Basic Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

The City's assets/deferred outflows exceeded liabilities/deferred inflows by \$5.8 million at June 30, 2018. Net position for governmental activities totaled approximately \$800 thousand while net position for business-type activities totaled \$4.99 million.

	June 30, 2018		June 30, 2017	
	Governmental Activities	Business Type Activities	Governmental Activities	Business Type Activities
Capital assets, net	\$ 212,110	\$ 5,402,031	\$ 211,502	\$ 5,719,779
Current & other assets	875,497	2,318,142	886,142	1,947,954
Total assets	<u>1,087,607</u>	<u>7,720,173</u>	<u>1,097,644</u>	<u>7,667,733</u>
Deferred outflows of resources	<u>127,473</u>	<u>-</u>	<u>53,926</u>	<u>-</u>
Total assets and deferred outflows	<u>1,215,080</u>	<u>7,720,173</u>	<u>1,151,570</u>	<u>7,667,733</u>
Long term debt	-	2,710,234	-	2,821,799
Other liabilities	<u>394,971</u>	<u>14,940</u>	<u>331,710</u>	<u>38,801</u>
Total liabilities	<u>394,971</u>	<u>2,725,174</u>	<u>331,710</u>	<u>2,860,600</u>
Deferred inflows of resources	<u>19,430</u>	<u>-</u>	<u>17,322</u>	<u>-</u>
Total liabilities and deferred inflows	<u>414,401</u>	<u>2,725,174</u>	<u>349,032</u>	<u>2,860,600</u>
Net investment in capital assets	212,110	2,691,797	211,502	2,897,980
Restricted	172,725	1,146,670	1,700	997,391
Unrestricted	<u>415,844</u>	<u>1,156,532</u>	<u>589,336</u>	<u>911,762</u>
Total net position	<u>\$ 800,679</u>	<u>\$ 4,994,999</u>	<u>\$ 802,538</u>	<u>\$ 4,807,133</u>

As mentioned earlier, net position may be an indicator of the City's financial position. At the end of the current year, the City has a positive net position balance. Net position increased by approximately \$186 thousand from the prior year as revenues exceeded expenditures/expenses. The largest portion of the City's net position, 50.1 percent, is invested in capital assets, 22.77 percent is unrestricted, and 27.13 percent is restricted for system development or debt service.

Analysis of Changes in Net Position

The City's Statement of Activities for fiscal year ended June 30, 2018 follows:

	June 30, 2018		June 30, 2017	
	Governmental Activities	Business Type Activities	Governmental Activities	Business Type Activities
Revenues				
Program revenues:				
Charges for services	\$ 406,169	\$ 1,005,619	\$ 381,350	\$ 1,020,567
General revenues:				
Property taxes for General	144,524	-	135,968	-
Property taxes for Debt	-	68,493	-	64,054
State revenue sharing	85,373	-	81,329	-
Intergovernmental	198,578	-	181,475	-
Franchise fees	247,545	-	243,986	-
Earnings on investments	4,073	37,445	2,983	22,500
Other	19,469	80,000	6,679	-
Total revenues	<u>1,105,731</u>	<u>1,191,557</u>	<u>1,033,770</u>	<u>1,107,121</u>
Expenses				
Administrative	508,634	-	396,935	-
Public Safety	429,215	-	421,877	-
Highways and streets	169,741	-	163,852	-
Wastewater	-	1,003,691	-	1,003,997
Total expenses	<u>1,107,590</u>	<u>1,003,691</u>	<u>982,664</u>	<u>1,003,997</u>
Change in net position	(1,859)	187,866	51,106	103,124
Beginning net position	<u>802,538</u>	<u>4,807,133</u>	<u>751,432</u>	<u>4,704,009</u>
Ending net position	<u>\$ 800,679</u>	<u>\$ 4,994,999</u>	<u>\$ 802,538</u>	<u>\$ 4,807,133</u>

Governmental Activities

Governmental activities decreased the City's net position by approximately \$2 thousand. Governmental revenues totaled \$1.11 million and consisted primarily of property taxes of approximately \$145 thousand, charges for services of approximately \$406 thousand, intergovernmental revenue of approximately \$198 thousand, and franchise fees of approximately \$248 thousand.

As discussed earlier, the City's governmental activities are categorized into the following programs: General government; Public Safety; 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, parks, and administration and financial services.

Business-Type Activities

Business-type activities increased the City's net position by approximately \$188 thousand. Charges for services which totaled approximately \$963 thousand are comprised of wastewater service and system development charges. Business-type activities are to be self-supporting where revenues are expected to cover expenses.

Total expenses for wastewater operations were approximately \$1 million; of this, approximately \$281 thousand represented depreciation expense and approximately \$94 thousand represented interest expense. Revenues for wastewater operations must be generated not only for expenses but for capital assets and principal payments on long-term debt as well. Capital assets and principal payments on long-term debt are not reported as direct expenses but are reported as additions to assets and reductions to liabilities, respectively, on the Statement of Net Position.

FUND ANALYSIS

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

Governmental Funds

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

At the end of the current year, the City's governmental funds had combined ending fund balances of approximately \$630 thousand, an increase of approximately \$10 thousand from the prior year's fund balances of approximately \$620 thousand. Revenues totaled \$1.28 million while expenditures which include current, capital outlay and debt service expenditures totaled \$1.27 million.

The ending fund balances of approximately \$630 thousand is comprised of approximately \$173 thousand restricted to Street Fund obligations, \$121 thousand is committed to future capital improvements, and approximately \$336 thousand unassigned and available for spending by the City within the purposes specified for the City's General Fund.

The General Fund is a primary operating fund of the City. At the end of the fiscal year, the unassigned fund balance of the General Fund was approximately \$336 thousand, up approximately \$57 thousand from the previous year's calculated unassigned fund balance. Fund balance increased by approximately \$29 thousand in the Street Fund.

Proprietary Funds

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

Total net position of the Proprietary Funds at the end of the year amounted to \$4.99 million. This was comprised of unrestricted net position of approximately \$1.16 million, restricted net position of approximately \$1.15 million, and \$2.69 million net investment in capital assets. The decrease in net

position of the Sewer Operations Fund was approximately \$121 thousand. The Sewer Bonded Debt Fund reported an increase in net position of approximately \$62 thousand. The SDC Fund reported an increase in net position of approximately \$143 thousand. The Sewer Reserve Fund reported an increase in net position of approximately \$5 thousand. The Sewer Operations Replacement Fund reported a increase in net position of approximately \$100 thousand.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The adopted budget of the General Fund has capital outlay expenses which include a public works truck, lawn mower, and a new generator for City Hall for back up for Emergency Management Services. The 2017-2018 budget also reflects promotions of current City staff with continued employee development which increases community confidence. The contract with the Jackson County Sheriff's Office for Public Safety for the City is also included in the General Fund's budget.

CAPITAL ASSETS

As of June 30, 2018, the City had invested \$5.61 million in capital assets, net of depreciation as reflected in the following table, which represents a net decrease (additions, deductions, adjustments and depreciation) of approximately \$317 thousand.

	Governmental Activities	Business Type Activities	Total
Land	\$ 59,717	\$ 124,253	\$ 183,970
Construction in Progress	-	-	-
Buildings and improvements	116,554	-	116,554
Machinery and equipment	35,839	43,812	79,651
Infrastructure	-	5,233,966	5,233,966
Total	\$ 212,110	\$ 5,402,031	\$ 5,614,141

Major events affecting capital assets for fiscal year 2018 are as follows:

- The City purchased a new lawnmower and installed a new generator in City Hall.
- The City completed the construction on Erickson Cleveland Storm Drain System, which was Construction in Progress during the prior year.
- The City received a donated truck from Avista with a value of \$9,000.

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

DEBT ADMINISTRATION

As of year-end, the City had \$2.71 million in long-term debt outstanding compared to \$2.82 million in the previous year. Principal payments on long-term debt were approximately \$160 thousand. During the year the City refinanced the Sewer Bond by issuing bonds with a premium. The city recognized related debt issuance costs of approximately \$44 thousand in fiscal year 2018. The outstanding balance of approximately \$109 thousand of the original bond was paid in July 2018.

All outstanding debt at year-end is reported in the business-type fund section, and is comprised of the following:

General Obligation Bonds	\$ 214,000
Sewer Bond #1	109,202
Sewer Bond - Refinanced	1,930,000
Clean Water State Revolving Fund Note	441,363
	<hr/>
Total principal	2,694,565
	<hr/>
Unamortized Premium	15,669
	<hr/>
Total long-term debt	<u>\$ 2,710,234</u>

Debt Limitation and Ratings

Oregon Revised Statutes provides a limit on non-self-supporting general obligation debt of 3% of the real market value of all taxable property within the City. Based on the fiscal year 2018 value, the City is within its debt limitation.

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

ECONOMIC FACTORS, NEXT YEAR’S BUDGET AND RATES

The City’s permanent property tax rate of 54.7 cents per thousand is the lowest in the region, and one of the lowest in the state, accounting for approximately \$136,000.00 in revenue for the year. Our property tax rate falls far short of providing enough revenue to fully fund City services. Without the benefit of franchise fees, public safety fees, other City fees, and state subventions, the City could not provide even a minimal level of service.

Development continues to exceed expectations, both single-family dwellings on single lots as well as small subdivisions. A lack of undeveloped commercial property limits that number of new commercial developments; however, the number of business licenses remains relatively consistent.

The City council has been committed to providing financial support for increased water system infrastructure improvements where they make a community-wide impact. Namely, this is an increase in fire hydrants and cost sharing when it provides increased fire suppression capacity. In the past this has had an overall impact on fire insurance rating in the City, and it is expected as the system builds out, the City will continue to recognize savings.

Gravel road improvements continue. Each year, through the close relationship with Jackson County Roads, the City identifies two or three gravel roads that can be improved to at least a double-chip seal. This is a capacity increasing measure that helps minimize the impact of increased traffic to the road surface. This is in addition to routine paved and gravel road maintenance that the county provides to the City through an inter-governmental agreement.

As stated previously, the City of Shady Cove relies heavily on fees and state subventions. Some of these fees are include raft taxes (fees charges per raft rental) and transient occupancy taxes (a percentage of rental rate). Due to the increase in transient occupancies and online booking, the City has recognized additional transient income; however, the City expects raft rental revenue to drop slightly over the course of the next fiscal year. This is in part due to road projects that may have a negative impact on tourism, as well as the recent closure of one of the raft rental companies in Shady Cove.

State subventions include tax revenue received from the state. Each year it is anticipated that gas tax revenue will decrease with more fuel efficient vehicles and alternative fuels. The state continues to struggle with ways to increase revenue for road infrastructure, and we anticipate little impact to the City.

Although electric and compressed natural gas sales have not paid into state gas tax, which has a direct impact on the revenue we receive, the state is looking at alternative taxing methods.

As part of the state subventions, the City also receives revenue related to cigarette and alcohol taxes. State forecasts show a decline in both cigarette and alcohol sales, and therefore tax revenue that the City may receive. It appears to be a relationship between increased marijuana sales versus cigarette and alcohol sales, which will likely impact the City, at least slightly. The City has chosen to prohibit sales, distribution, and other means by which the state taxes marijuana related businesses. This means the City is not eligible to receive marijuana related revenue from the state.

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

The citizens of Shady Cove voted on Ballot Measure 15-177 in November 2018 which involves the annexation of the City of Shady Cove's sewer system to Rogue Valley Sewer Services (RVSS) District. The City is in the process of determining the financial impact of this ballot measure.

It is anticipated that:

- The City will continue in good standing with the Oregon Department of Environmental Quality through the Total Maximum Daily Load (TMDL) program, and enforcement of the new riparian protection ordinance;
- The City will continue in good standing with the Federal Emergency Management Agency (FEMA) and the National Flood Insurance Program (NFIP) due to floodplain compliance, enforcement and additional staff training;
- The cost of law enforcement may increase slightly, or the City council may consider additional enforcement services at an additional cost;
- Property tax revenue will continue to fall far short of covering basic City costs for service.

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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SHADY COVE, OREGON
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS:			
Cash and investments	\$ 752,092	\$ 904,852	\$ 1,656,944
Receivables, net	113,095	146,312	259,407
Taxes receivables	9,603	4,520	14,123
Restricted cash and investments	-	1,102,150	1,102,150
Interfund loan receivable	-	160,308	160,308
Capital assets, net:			
Land	59,717	124,253	183,970
Buildings and improvements	116,554	-	116,554
Machinery and equipment	35,839	43,812	79,651
Infrastructure	-	5,233,966	5,233,966
OPEB asset	707	-	707
TOTAL ASSETS	<u>1,087,607</u>	<u>7,720,173</u>	<u>8,807,780</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred amounts related to OPEB	958	-	958
Deferred amounts related to pensions	126,515	-	126,515
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>127,473</u>	<u>-</u>	<u>127,473</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>1,215,080</u>	<u>7,720,173</u>	<u>8,935,253</u>
LIABILITIES:			
Accounts payable	45,139	-	45,139
Payroll taxes and benefits payable	11,390	-	11,390
Accrued compensated absences	6,366	-	6,366
Accrued interest payable	-	10,554	10,554
Unearned revenue	19,720	4,386	24,106
Interfund loan payable	160,308	-	160,308
Net pension liability	152,048	-	152,048
Long-term liabilities:			
Due within one year	-	293,098	293,098
Due in more than one year	-	2,417,136	2,417,136
TOTAL LIABILITIES	<u>394,971</u>	<u>2,725,174</u>	<u>3,120,145</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to OPEB	378	-	378
Deferred amounts related to pensions	19,052	-	19,052
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>19,430</u>	<u>-</u>	<u>19,430</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>414,401</u>	<u>2,725,174</u>	<u>3,139,575</u>
NET POSITION:			
Net investment in capital assets	212,110	2,691,797	2,903,907
Restricted	172,725	1,146,670	1,319,395
Unrestricted	415,844	1,156,532	1,572,376
TOTAL NET POSITION	<u>\$ 800,679</u>	<u>\$ 4,994,999</u>	<u>\$ 5,795,678</u>

**CITY OF SHADY COVE, OREGON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Fines, Fees, and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government						
Administrative	\$ 511,274	\$ 114,444	\$ -	\$ (396,830)	\$ -	\$ (396,830)
Police department	429,215	291,725	-	(137,490)	-	(137,490)
Highways and streets	167,101	-	-	(167,101)	-	(167,101)
Total government activities	1,107,590	406,169	-	(701,421)	-	(701,421)
Business-type activities:						
Wastewater	1,003,691	1,005,619	-	-	1,928	1,928
Total business-type activities	1,003,691	1,005,619	-	-	1,928	1,928
Total Common City	\$ 2,111,281	\$ 1,411,788	\$ -	(701,421)	1,928	(699,493)
General revenues:						
Property taxes levied for general purposes				144,524	-	144,524
Property taxes levied for debt service				-	68,493	68,493
State subventions				85,373	-	85,373
Intergovernmental				198,578	-	198,578
Franchise taxes				247,545	-	247,545
Earnings on investments				4,073	37,445	41,518
Other				19,469	80,000	99,469
Total general revenues				699,562	185,938	885,500
CHANGE IN NET POSITION				(1,859)	187,866	186,007
Net position - Beginning of Year				802,538	4,807,133	5,609,671
Net position - End of Year				\$ 800,679	\$ 4,994,999	\$ 5,795,678

FUND FINANCIAL STATEMENTS

**CITY OF SHADY COVE, OREGON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Street Fund	Nonmajor Funds	Total
ASSETS				
Cash and investments	\$ 463,684	\$ 167,408	\$ 121,000	\$ 752,092
Receivables - net	93,954	19,141	-	113,095
Taxes receivable	9,603	-	-	9,603
TOTAL ASSETS	\$ 567,241	\$ 186,549	\$ 121,000	\$ 874,790
LIABILITIES				
Liabilities:				
Accounts payable	\$ 31,315	\$ 13,824	\$ -	\$ 45,139
Payroll taxes and benefits payable	11,390	-	-	11,390
Unearned revenue	19,720	-	-	19,720
Interfund payable	160,308	-	-	160,308
TOTAL LIABILITIES	222,733	13,824	-	236,557
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	8,626	-	-	8,626
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	231,359	13,824	-	245,183
Fund Balances:				
Restricted	-	172,725	-	172,725
Committed	-	-	121,000	121,000
Unassigned	335,882	-	-	335,882
TOTAL FUND BALANCES	335,882	172,725	121,000	629,607
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ 567,241	\$ 186,549	\$ 121,000	\$ 874,790

**CITY OF SHADY COVE, OREGON
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2018**

TOTAL FUND BALANCES		\$ 629,607
<p>Amounts reported by governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets are not financial resources and therefore are not reported in the governmental funds:</p>		
Cost	\$ 482,794	
Accumulated depreciation	<u>(270,684)</u>	212,110
Net pension liability		(152,048)
Deferred outflows of resources related to pensions		126,515
Net OPEB asset		707
Deferred outflows of resources related to OPEB		958
<p>A portion of the City's property taxes are collected after year-end but are not available soon enough to pay for the current year's operations, and therefore are not reported as revenue in the governmental funds.</p>		
		8,626
<p>Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather recognized as an expenditure when due. These liabilities consist of:</p>		
Deferred inflows of resources related to pensions	(19,052)	
Deferred inflows of resources related to OPEB	(378)	
Accrued vacation payable	<u>(6,366)</u>	(25,796)
TOTAL NET POSITION		<u>\$ 800,679</u>

CITY OF SHADY COVE, OREGON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Street Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
REVENUES				
Property taxes	\$ 142,210	\$ -	\$ -	\$ 142,210
State subventions	85,373	-	-	85,373
Franchise taxes	247,545	-	-	247,545
City fees	110,469	-	-	110,469
Administrative fees	179,000	-	-	179,000
Municipal court	14,329	-	-	14,329
Public safety fee	277,396	-	-	277,396
Floodplain permit fee	3,975	-	-	3,975
State highway revenue	-	198,578	-	198,578
Miscellaneous	19,469	-	-	19,469
Interest	4,073	-	-	4,073
TOTAL REVENUES	<u>1,083,839</u>	<u>198,578</u>	<u>-</u>	<u>1,282,417</u>
EXPENDITURES				
Current:				
Administrative	561,955	-	-	561,955
Public safety	429,215	-	-	429,215
Highways and streets	-	169,741	-	169,741
Capital Outlay	25,689	-	86,000	111,689
Interest	414	-	-	414
TOTAL EXPENDITURES	<u>1,017,273</u>	<u>169,741</u>	<u>86,000</u>	<u>1,273,014</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>66,566</u>	<u>28,837</u>	<u>(86,000)</u>	<u>9,403</u>
OTHER FINANCING SOURCES (USES):				
Transfers to other funds	(10,000)	-	10,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(10,000)</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	56,566	28,837	(76,000)	9,403
FUND BALANCE, Beginning of Year	<u>279,316</u>	<u>143,888</u>	<u>197,000</u>	<u>620,204</u>
FUND BALANCE, End of Year	<u>\$ 335,882</u>	<u>\$ 172,725</u>	<u>\$ 121,000</u>	<u>\$ 629,607</u>

**CITY OF SHADY COVE, OREGON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

NET CHANGE IN FUND BALANCE	\$	9,403
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Government funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the net amount by which capital outlays exceeded depreciation in the current period.</p>		
Expenditures for capital assets	\$ 25,689	
Less current year depreciation	<u>(25,081)</u>	608
<p>Government funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expenses.</p>		
		(16,371)
<p>Compensated absences are recognized as an expenditure in the governmental funds when they are paid. In the Statement of Activities compensated absences are recognized as an expenditure when earned.</p>		
		2,187
<p>Property taxes that do not meet the measurable and available criteria are not recognized as revenue in the current year in the governmental funds. In the Statement of Activities property taxes are recognized as revenue when levied.</p>		
		<u>2,314</u>
CHANGE IN NET POSITION	\$	<u>(1,859)</u>

CITY OF SHADY COVE, OREGON
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
JUNE 30, 2018

	Sewer Operations Fund	Sewer Bonded Debt Fund	SDC Fund	Sewer Reserve Fund	Sewer Operations Replacement Fund	Total
ASSETS						
Current assets:						
Cash and investments	\$ 311,724	\$ -	\$ -	\$ 45,311	\$ 547,817	\$ 904,852
Receivables, net	106,312	-	40,000	-	-	146,312
Total current assets	418,036	-	40,000	45,311	547,817	1,051,164
Noncurrent assets:						
Restricted cash and investments	34,614	19,049	920,981	127,506	-	1,102,150
Restricted receivables - taxes	-	4,520	-	-	-	4,520
Interfund loan receivable	-	-	-	-	160,308	160,308
Land	58,403	-	65,850	-	-	124,253
Machinery and equipment, net	43,812	-	-	-	-	43,812
Infrastructure, net	4,395,621	-	597,525	-	240,820	5,233,966
Total noncurrent assets	4,532,450	23,569	1,584,356	127,506	401,128	6,669,009
TOTAL ASSETS	4,950,486	23,569	1,624,356	172,817	948,945	7,720,173
LIABILITIES AND NET POSITION						
Current liabilities:						
Unearned revenue	4,386	-	-	-	-	4,386
Accrued interest payable	10,554	-	-	-	-	10,554
Bonds and notes payable	223,098	70,000	-	-	-	293,098
Total current liabilities	238,038	70,000	-	-	-	308,038
Noncurrent liabilities:						
Bonds and notes payable	2,273,136	144,000	-	-	-	2,417,136
Total noncurrent liabilities	2,273,136	144,000	-	-	-	2,417,136
TOTAL LIABILITIES	2,511,174	214,000	-	-	-	2,725,174
Net Position:						
Net investment in capital assets	2,001,602	(214,000)	663,375	-	240,820	2,691,797
Restricted	34,614	23,569	960,981	127,506	-	1,146,670
Unrestricted	403,096	-	-	45,311	708,125	1,156,532
TOTAL NET POSITION	\$ 2,439,312	\$ (190,431)	\$ 1,624,356	\$ 172,817	\$ 948,945	\$ 4,994,999

**CITY OF SHADY COVE, OREGON
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2018**

	Sewer Operations Fund	Sewer Bonded Debt Fund	SDC Fund	Sewer Reserve Fund	Sewer Operations Replacement Fund	Total Enterprise Funds
OPERATING REVENUES						
Charges for services	\$ 884,393	\$ -	\$ 121,226	\$ -	\$ -	\$ 1,005,619
TOTAL OPERATING REVENUES	<u>884,393</u>	<u>-</u>	<u>121,226</u>	<u>-</u>	<u>-</u>	<u>1,005,619</u>
OPERATING EXPENSES						
Materials and services	497,022	-	9,800	-	-	506,822
Depreciation	281,837	-	53,830	-	23,380	359,047
TOTAL OPERATING EXPENSES	<u>778,859</u>	<u>-</u>	<u>63,630</u>	<u>-</u>	<u>23,380</u>	<u>865,869</u>
OPERATING INCOME (LOSS)	<u>105,534</u>	<u>-</u>	<u>57,596</u>	<u>-</u>	<u>(23,380)</u>	<u>139,750</u>
NONOPERATING REVENUES (EXPENSES)						
Taxes	-	68,493	-	-	-	68,493
Interest on investments	4,312	-	5,158	4,794	23,181	37,445
Miscellaneous revenue	-	-	80,000	-	-	80,000
Interest and fees	(87,280)	(6,499)	-	-	-	(93,779)
Debt issuance cost	(44,043)	-	-	-	-	(44,043)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(127,011)</u>	<u>61,994</u>	<u>85,158</u>	<u>4,794</u>	<u>23,181</u>	<u>48,116</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(21,477)</u>	<u>61,994</u>	<u>142,754</u>	<u>4,794</u>	<u>(199)</u>	<u>187,866</u>
OTHER FINANCING SOURCES						
Transfers (to) from other funds	(100,000)	-	-	-	100,000	-
TOTAL TRANSFERS	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
CHANGES IN NET POSITION	<u>(121,477)</u>	<u>61,994</u>	<u>142,754</u>	<u>4,794</u>	<u>99,801</u>	<u>187,866</u>
NET POSITION, Beginning of Year	<u>2,560,789</u>	<u>(252,425)</u>	<u>1,481,602</u>	<u>168,023</u>	<u>849,144</u>	<u>4,807,133</u>
NET POSITION, End of Year	<u>\$ 2,439,312</u>	<u>\$ (190,431)</u>	<u>\$ 1,624,356</u>	<u>\$ 172,817</u>	<u>\$ 948,945</u>	<u>\$ 4,994,999</u>

CITY OF SHADY COVE, OREGON
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2018

	Sewer Operations Fund	Sewer Bonded Debt Fund	SDC Funds	Sewer Reserve Fund	Sewer Operations Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 875,726	\$ -	\$ 121,226	\$ -	\$ -	\$ 996,952
Payments to suppliers	(497,054)	-	(9,800)	-	-	(506,854)
Net cash provided (used) by operating activities	<u>378,672</u>	<u>-</u>	<u>111,426</u>	<u>-</u>	<u>-</u>	<u>490,098</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Interfund transfers from/(to) other funds	(100,000)	-	-	-	100,000	-
Repayment of interfund loan	-	-	-	-	20,486	20,486
Interest on interfund loan	-	-	-	-	414	414
Net cash provided (used) by noncapital financing activities	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120,900</u>	<u>20,900</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Taxes	-	69,592	-	-	-	69,592
Accounts Receivable	-	-	40,000	-	-	40,000
Principal paid on capital debt	(91,651)	(68,000)	-	-	-	(159,651)
Interest paid on capital debt	(108,373)	(6,499)	-	-	-	(114,872)
Proceeds from bond refinance	1,930,000	-	-	-	-	1,930,000
Proceeds from premium (bond refinance)	15,669	-	-	-	-	15,669
Debt issuance costs	(44,043)	-	-	-	-	(44,043)
Debt refunding	(1,897,583)	-	-	-	-	(1,897,583)
Purchase and construction of capital assets	-	-	(41,299)	-	-	(41,299)
Net cash provided (used) by capital and related financing activities	<u>(195,981)</u>	<u>(4,907)</u>	<u>(1,299)</u>	<u>-</u>	<u>-</u>	<u>(202,187)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends	4,312	-	5,158	4,794	22,767	37,031
Net increase (decrease) in cash and investments	<u>87,003</u>	<u>(4,907)</u>	<u>115,285</u>	<u>4,794</u>	<u>143,667</u>	<u>345,842</u>
Cash balances - beginning of the year includes restricted cash of \$991,772	259,335	23,956	805,696	168,023	404,150	1,661,160
Cash balances - end of the year includes restricted cash of \$1,102,150	<u>\$ 346,338</u>	<u>\$ 19,049</u>	<u>\$ 920,981</u>	<u>\$ 172,817</u>	<u>\$ 547,817</u>	<u>\$ 2,007,002</u>

continued on next page

CITY OF SHADY COVE, OREGON
STATEMENT OF CASH FLOWS (Continued)
ENTERPRISE FUNDS
JUNE 30, 2018

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	Sewer Operations Fund	Sewer Debt Fund	SDC Fund	Sewer Reserve Fund	Sewer Operations Replacement Fund	Total
Operating income (loss)	\$ 105,534	\$ -	\$ 57,596	\$ -	\$ (23,380)	\$ 139,750
Adjustments to reconcile operating income to cash provided by operating activities:						
Depreciation expense	281,837	-	53,830	-	23,380	359,047
Change in assets and liabilities:						
Receivables, net	(5,931)	-	-	-	-	(5,931)
Deferred revenue	(2,736)	-	-	-	-	(2,736)
Accounts and other payables	(32)	-	-	-	-	(32)
Net cash provided (used) by operating activities	<u>\$ 378,672</u>	<u>\$ -</u>	<u>\$ 111,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 490,098</u>

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies

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

The Financial Reporting Entity

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

Operations

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

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

Financial Statement Presentation, Measurement Focus and Basis of Accounting:

Government-Wide Financial Statements

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

CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide Financial Statements (continued)

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

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

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

Fund Financial Statements

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

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

Governmental Funds

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

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

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

CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds (continued)

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

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

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

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

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

The following are the City's major governmental funds:

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

The following are the City's nonmajor governmental funds:

- *Capital Project Funds* - These funds account for costs associated with capital purchases and capital improvements to the City's infrastructure.

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, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Proprietary Funds – Enterprise funds (continued)

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

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

The principal operating revenues are charges to customers. Operating expenses include materials and services and depreciation.

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

- *Sewer Operations Fund* – This fund accounts for the maintenance, operation and construction of the City's wastewater collection and treatment system. Principal source of revenue is user fees.
- *Sewer Bonded Debt Fund* – This fund accounts for interest and principal payments on bonds issued for improvements to the wastewater system. The principal source of revenue is property taxes.
- *SDC Fund* – This fund accounts for the System Development Charges that are to be used for various infrastructure improvements under Transportation, Storm Drain, Wastewater, and Parks and Recreation.
- *Sewer Reserve Fund* – This fund accounts for reserve funds for sewer operations. The principal source of revenue is earning on investments.
- *Sewer Operations Replacement Fund* – This fund accounts for a replacement reserve for major improvements or disaster relief with protection from other expenditures. The principal source of revenue is earnings on investments.

Deferred Outflows/Inflows of Resources

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

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

CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources (continued)

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

Use of Estimates

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

Pooled Cash and Investments

The City's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less. Short-term investments are stated at cost which approximates fair value.

The City's investments, authorized under state statute, consist of the State of Oregon Treasurer's Local Government Investment Pool (LGIP). The LGIP is stated at cost which approximates fair value. Fair value of the LGIP is the same as the City's value in the pool shares.

The Oregon State Treasury administers the LGIP. It is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the State that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon legislature established the Oregon Short-Term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment options of the LGIP. The investments are regulated by the Oregon Short Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). Earnings on pooled cash and investments are credited to each fund monthly based on the average daily balance of each participating fund.

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

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

Property Taxes Receivable

Recorded property taxes receivable that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as a deferred inflow of resource because it is not deemed available to finance operations of the current period. An allowance for doubtful accounts is not deemed necessary, as uncollectible taxes become a lien on the property.

Ad valorem property taxes are levied on all taxable property as of January 1 preceding the beginning of the fiscal year. Property taxes become a lien on July 1 for personal property and real property. Collection dates are November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 17 are considered delinquent. Uncollected property taxes are recorded on the Statement of Net Position.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 1 – Summary of Significant Accounting Policies (continued)

Accounts and Other Receivables

Receivables for federal and state grants, and state, county and local shared revenue and interest earned, included in accounts and grants receivable, are recorded as revenue as earned. An allowance for doubtful accounts is considered necessary at June 30, 2018 for delinquent Public Safety Fees receivable and has been recorded within the General Fund in the amount of \$12,183.

Sewer service revenues are recorded as revenue in the proprietary fund type when earned, including services provided but not billed. An allowance for doubtful accounts is considered necessary at June 30, 2018 for delinquent charges for services and has been recorded in the amount of \$1,491.

Restricted Assets

Certain resources have been required to be set aside for repayment of debt and for SDC projects, and for foot/bike path improvements and are classified as restricted assets on the Statement of Net Position because their use is restricted by external groups. The amount of \$1,319,395 has been required to be set aside for repairs and replacement to the foot/bike paths, to the sewer system, and, when necessary, for the purpose of making principal and interest payments on the bonds payable and for SDC projects not yet in progress.

Capital Assets

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

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

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

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

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

Compensated Absences

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

CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Long-term Debt and Bond Issuance Costs

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

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 incurred \$15,669 in premium costs related to the issuance of the long-term debt reported on the Statement of Net Position, which will be amortized using the effective interest method over the life of the bond.

Pensions

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

Post-Employment Health Care Benefits

Substantially all of the City's employees are participants in the State of Oregon Public Employees Retirement System (OPERS) – Retirement Health Insurance Account (RHIA). Contributions to OPERS RHIA are made on a current basis as required by the plan and are charged as expenses.

Operating Revenues and Expenses, Non-Operating Revenues and Expenses

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

Net Position – Fund Balances

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

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

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 1 – Summary of Significant Accounting Policies (continued)

Net Position – Fund Balances (continued)

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

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

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

Adoption of New GASB Pronouncements

During the fiscal year ended June 30, 2018, the City implemented the following GASB Pronouncements:

GASB Statement No. 75, supersedes GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions; and GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The principal objective of GASB 75 is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports of governments whose employees (both active and inactive) are provided with postemployment benefits other than pensions (i.e. Medical Benefit).

GASB Statement No. 85, Omnibus 2017. Issued March 2017, this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, good will fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as good will and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contract at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Adoption of New GASB Pronouncements (continued)

GASB Statement No. 86, Certain Debt Extinguishment Issues. Issued May 2017, the purpose of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

GASB Statement No. 80, Blending Requirements for Certain Component Units. Issued January 2016, this statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

GASB Statement No. 81, Irrevocable Split-Interest Agreements. Issued March 2016, this statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Future Adoption of GASB Pronouncements

The following GASB pronouncements have been issued, but are not effective as of June 30, 2018:

GASB Statement No. 83, Certain Asset Retirement Obligations. Issued November 2016, this statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). GASB 83 will be effective for the City, fiscal year ending June 30, 2019.

GASB Statement No. 84, Fiduciary Activities. Issued January 2017, this statement establishes criteria for identifying fiduciary activities of all state and local governments. GASB 84 will be effective for the City, fiscal year ending June 30, 2020.

GASB Statement No. 87, Leases. This Statement was Issued June 2017 to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. and increases the usefulness of governments' financial statements. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB Statement No. 87 will be effective for the City for fiscal year ending June 30, 2021.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements, issued March 2018 to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB Statement No. 88 will be effective for the District for fiscal year ending June 30, 2019.

GASB Statement No. 89, Accounting for Interest Costs Incurred Before the End of a Construction Period. This statement was issued June 2018 to establish accounting requirements for interest cost incurred before the end of a construction period. The objectives of the Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB Statement No. 89 will be effective for the District for fiscal year ending June 30, 2021.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 1 – Summary of Significant Accounting Policies (continued)

Future Adoption of GASB Pronouncements (continued)

GASB Statement No. 90, Majority Equity Interests. Issued August 2018, the primary objective of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization; and to improve the relevance of financial statement information for certain component units. GASB Statement No. 90 will be effective for the District for fiscal year ending June 30, 2020.

The City will implement new GASB pronouncements no later than the required effective date. The City is currently evaluating whether or not the above listed new GASB pronouncements will have a significant impact to the City's financial statements.

Note 2 – 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 30th.

Unexpected additional resources or appropriations may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers and approval by the City Council. Original and supplemental budgets may be modified by the use of appropriation transfers between levels of control. Such transfers require approval by passing a Council resolution authorizing the transfer. All budget amendments are subject to the limitations put forth in the Oregon Revised Statutes Chapters 294.305 through 394.565 (Oregon Budget Law). Budget amounts are as originally budgeted, or as amended by the City Council. During the fiscal year ended June 30, 2018, the City was in compliance with Local Budget Law.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 3 – 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, 2018. If bank deposits at year end are not entirely insured or collateralized with securities held by the City or by its agent in the City's name, the City must disclose the custodial credit risk that exists. Deposits with financial institutions are comprised of bank demand deposits. For deposits in excess of federal depository insurance, Oregon Revised Statutes require depository institutions to be in compliance with ORS 295.

For the fiscal year ended June 30, 2018, the carrying amount of the City's deposits in a qualifying financial institution bank balance was \$317,847. All deposits are held in the name of the City. At June 30, 2018 the City's deposits were covered by federal depository insurance and were deposited in an approved depository as identified by the State Treasury.

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

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

State of Oregon statutes restrict the types of investments in which the City may invest. Authorized investments include obligations of the United States Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, time certificates of deposit, certain commercial paper, and the State of Oregon Treasurer's Local Government Investment Pool.

The City has invested funds in the State Treasurer's Oregon Short-term Fund Local Government Investment Pool during fiscal year 2017-2018. Investments in the Local Government Investment Pool (LGIP) are included in the Oregon Short-Term Fund, which is an external investment pool that is not a 2a-7-like external investment pool, and is not registered with the U.S. Securities and Exchange Commission as an investment company. Fair value of the LGIP is calculated at the same value as the number of pool shares owned. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board. Investment in the LGIP is neither insured nor guaranteed by the FDIC or any other government agency. Although the LGIP seeks to maintain the value of share investments at \$1.00 per share, it is possible to lose money by investing in the pool.

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.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 3 – Cash and Investments (continued)

Investments (continued)

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 of ORS 295.015. Investments are stated at amortized cost, which approximated fair value.

As of June 30, 2018 and for the year then ended, the City was in compliance with the aforementioned State of Oregon statutes.

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

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

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

Disclosures about Fair Value of Assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 - Unadjusted inputs using quoted prices in active markets for identical investments.

Level 2 - Other significant observable inputs other than level 1 prices, including, but are not limited to, quoted prices for similar investments, inputs other than quoted prices that are observable for investments (such as interest rates, prepayment speeds, credit risk, etc.) or other market corroborated inputs.

Level 3 - Significant inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

Investments Measured at Fair Value:	Totals as of 6/30/2018	Level One	Level Two	Level Three	Amortized Cost Measurement Not Measured at Fair Value
Local Government Investment Pool	\$ 2,448,449	\$ -	\$ -	\$ -	\$ 2,448,449
	<u>\$ 2,448,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,448,449</u>

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 3 – Cash and Investments (continued)

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

Carrying amounts of cash and investments:

Petty Cash	\$	1,100
Demand Deposits		309,545
Investment - LGIP		2,448,449
		2,759,094
	\$	2,759,094

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

	Governmental Activities	Business-Type Activities	Total
Cash and Investments	\$ 752,092	\$ 904,852	\$ 1,656,944
Restricted Cash	-	1,102,150	1,102,150
Total Cash and Investments	\$ 752,092	\$ 2,007,002	\$ 2,759,094

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

Note 4 – Receivables

Receivables are comprised of the following as of June 30, 2018:

<u>Governmental</u>		<u>Business-Type</u>	
General Fund:		Sewer Operation:	
Intergovernmental	\$ 26,935	Accounts receivable	\$ 107,803
Franchise fees	19,844	Allowance	(1,491)
Property taxes	9,603		106,312
Public safety fee	59,358		
Allowance	(12,183)	SDC:	
	103,557	Accounts receivable	40,000
Street Fund:		Sewer Bonded Debt:	
Intergovernmental	19,141	Property taxes - restricted	4,520
Total	\$ 122,698	Total	\$ 150,832

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, 2018**

Note 5 – Capital Assets

The changes in capital assets for the year ended June 30, 2018, are as follows:

Governmental Activities	<u>Balance 7/1/2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/2018</u>
Capital assets not being depreciated:				
Land	\$ 59,717	\$ -	\$ -	\$ 59,717
Total capital assets not being depreciated	<u>59,717</u>	<u>-</u>	<u>-</u>	<u>59,717</u>
Capital assets being depreciated:				
Buildings and improvements	332,954	10,324	-	343,278
Machinery and equipment	<u>64,434</u>	<u>15,365</u>	<u>-</u>	<u>79,799</u>
Total capital assets being depreciated	<u>397,388</u>	<u>25,689</u>	<u>-</u>	<u>423,077</u>
Less accumulated depreciation for:				
Buildings and improvements	(210,011)	(16,713)	-	(226,724)
Machinery and equipment	<u>(35,592)</u>	<u>(8,368)</u>	<u>-</u>	<u>(43,960)</u>
Total accumulated depreciation	<u>(245,603)</u>	<u>(25,081)</u>	<u>-</u>	<u>(270,684)</u>
Total capital assets being depreciated, net	<u>151,785</u>	<u>608</u>	<u>-</u>	<u>152,393</u>
Total capital assets, governmental activities, net	<u>\$ 211,502</u>	<u>\$ 608</u>	<u>\$ -</u>	<u>\$ 212,110</u>

Depreciation expense for the year of \$25,081 was charged to administration.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 5 – Capital Assets (continued)

Business-type activities:	Balance 7/1/2017	Additions	Adjustments/ Disposals	Transfers	Balance 6/30/2018
Capital assets not being depreciated:					
Land	\$ 124,253	\$ -	\$ -	\$ -	\$ 124,253
Construction-in-progress	135,784	41,299	-	(177,083)	-
Total capital assets not being depreciated	260,037	41,299	-	(177,083)	124,253
Capital assets being depreciated:					
Machinery and equipment	301,670	-	-	-	301,670
Infrastructure Improvements	11,981,063	-	-	177,083	12,158,146
Total capital assets being depreciated	12,282,733	-	-	177,083	12,459,816
Less accumulated depreciation for:					
Machinery and equipment	(256,441)	(1,417)	-	-	(257,858)
Infrastructure Improvements	(6,566,550)	(357,630)	-	-	(6,924,180)
Total accumulated depreciation	(6,822,991)	(359,047)	-	-	(7,182,038)
Total capital assets being depreciated, net	5,459,742	(359,047)	-	177,083	5,277,778
Total capital assets, Business-type activities, net	<u>\$5,719,779</u>	<u>\$ (317,748)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,402,031</u>

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

<u>Program</u>	
Wastewater Department	\$ 281,837
Infrastructure Improvements	77,210
	<u>\$ 359,047</u>

Note 6 – Deferred Inflows of Resources and Unearned Resources

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. In addition, governmental funds and proprietary funds report unearned revenues in connection with resources that have been received but not yet earned. At June 30, 2018, the components of deferred inflows of resources and unearned revenues included in the City's financial statements consist of the following:

Type/Fund	Unavailable	Unearned	Total
Property taxes, General Fund	\$ 8,626	\$ -	\$ 8,626
Advanced billings, General Fund	-	19,720	19,720
Billings, Sewer Operations Fund	-	4,386	4,386
	<u>\$ 8,626</u>	<u>\$ 24,106</u>	<u>\$ 32,732</u>

CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 7 – Long-Term Debt

During the fiscal year ended June 30, 2018, the following long-term debt transactions occurred:

Business-type activities:	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018	Due in 1 Year
General Obligation Bond-refinanced	\$ 282,000	\$ -	\$ (68,000)	\$ 214,000	\$ 70,000
Sewer Bond #1	2,042,384	-	(1,933,182)	109,202	109,202
Sewer Bond - Refinanced	-	1,930,000	-	1,930,000	55,000
Clean Water State Revolving Loan	497,415	-	(56,052)	441,363	57,700
	<u>2,821,799</u>	<u>1,930,000</u>	<u>(2,057,234)</u>	<u>2,694,565</u>	<u>291,902</u>
Unamortized Premium	-	15,669	-	15,669	1,196
Total long-term debt	<u>\$ 2,821,799</u>	<u>\$ 1,945,669</u>	<u>\$ (2,057,234)</u>	<u>\$ 2,710,234</u>	<u>\$ 293,098</u>

The City incurred interest expense of \$91,431 for its business-type activities.

General Obligation Bonds

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

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

Interest (2.62%) payments are required semi-annually on June 26th and December 26th of each year with the principal payments required each December 26th. Principal and interest payments are made from the Sewer Bonded Debt Fund. Interest expense for 2017-2018 was \$6,499.

Annual debt service requirements associated with the General Obligation Bonds are as follows:

Year Ending June 30:	Principal	Interest	Total
2019	\$ 70,000	\$ 4,690	\$ 74,690
2020	71,000	2,843	73,843
2021	73,000	956	73,956
	<u>\$ 214,000</u>	<u>\$ 8,489</u>	<u>\$ 222,489</u>

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 7 – Long-Term Debt (continued)

Sewer Bond No. #1

\$2,346,000 was issued March 17, 2006 for wastewater construction and improvements. This bond was used to pay off previous interim financing. Annual payments of \$127,505, including principal and interest of 4.5%, are due March 17th each year through 2046. Principal and interest payments are made from the Sewer Operations Fund. The City is required to maintain a loan reserve in accordance with the loan agreement. The reserve account is to be accumulated at a minimum rate of \$12,751 per year until there is a minimum of \$127,506 in the account. The reserve balance in the Sewer Reserve Fund was \$127,506 at June 30, 2018. On May 30, 2018 the city refinanced this bond. There was an outstanding balance of \$109,202 at June 30, 2018 which was paid in full on July 2, 2018. Interest expense for 2017-2018 was \$66,535.

Sewer Bond - Refinanced

\$1,930,000 was issued March 30, 2018 to refinance Sewer Bond No. 1 for wastewater construction and improvements. Annual payments range between \$124,044 and \$129,138 (except first and last payment), including principal and interest, are due semi-annually on January and July 1st each year through January 1, 2041. The coupon rate for the bond ranges between 3.00% and 4.00%. Principal and interest payments are made from the Sewer Operations Fund. Interest expense for 2017-2018 was \$4,825.

The bond was issued at a premium of \$15,669. The premium represents interest paid in advance to the City by the bond holders who then receive a return of this premium in the form of larger periodic interest payments. The bond premium will be amortized using the effective interest method.

Annual debt service requirements associated with the Sewer Bond are as follows:

Year Ending June 30:	Principal	Premium	Interest	Total
2019	\$ 55,000	\$ 1,196	\$ 39,559	\$ 95,755
2020	60,000	1,161	65,844	127,005
2021	60,000	1,124	64,044	125,168
2022	65,000	1,087	62,244	128,331
2023	65,000	1,047	60,294	126,341
2024-2028	375,000	4,587	259,669	639,256
2029-2033	445,000	3,336	186,844	635,180
2034-3038	530,000	1,861	107,487	639,348
2039-2041	275,000	270	17,218	292,488
	<u>\$ 1,930,000</u>	<u>\$ 15,669</u>	<u>\$ 863,203</u>	<u>\$ 2,808,872</u>

Clean Water State Revolving Fund (CWSRF) Note

\$1,000,000 loan agreement issued November 15, 2004 for rehabilitation of the wastewater systems. As of June 30, 2007, draws on this note were \$997,503, with no further draws expected to occur. Annual payments range between \$72,578 and \$70,364, including principal, fees, and interest of 2.92%, due semi-annually September and March 1st each year through March 1, 2025. Principal and interest payments are made from the Sewer Operations Fund. The City is required to maintain a loan reserve in accordance with the loan agreement of \$34,614. Interest expense for 2017-2018 was \$13,572 and related fees were \$2,348.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 7 – Long-Term Debt (continued)

Clean Water State Revolving Fund (CWSRF) Note (continued)

Annual debt service requirements associated with the CWSRF are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Interest & Fees</u>	<u>Total</u>
2019	\$ 57,700	\$ 12,470	\$ 2,064	\$ 14,534	\$ 72,234
2020	59,398	10,772	1,771	12,543	71,941
2021	61,145	9,025	1,470	10,495	71,640
2022	62,943	7,227	1,159	8,386	71,329
2023	64,794	5,376	840	6,216	71,010
2024-2025	135,383	4,978	684	5,662	141,045
	<u>\$ 441,363</u>	<u>\$ 49,848</u>	<u>\$ 7,988</u>	<u>\$ 57,836</u>	<u>\$ 499,199</u>

Note 8 – Operating Leases

On September 22, 2015 the City traded-in their two previously leased copiers to OCE Financial Services, terminating the previous agreement, and entered into a new operating lease agreement with Canon Financial Services, Inc. for one new copy machine. Total rental fees incurred on operating leases during the year ended June 30, 2018 were \$3,033. The future payments for the current Canon operating lease are as follows:

<u>Year ending June 30:</u>	<u>Canon Financial Lease Payments</u>
2019	\$ 3,033
2020	3,033
2021	758
	<u>\$ 6,824</u>

Note 9 – Interfund Transactions

Interfund Transfers

Interfund transfers during the year ended June 30, 2018 were as follows:

<u>Government Activities</u>	<u>In</u>	<u>Out</u>
General Fund	\$ -	\$ 10,000
Capital Purchase Reserve Fund	10,000	-
	<u>\$ 10,000</u>	<u>\$ 10,000</u>

The interfund transfer from the General Fund to the Capital Purchase Reserve Fund was to build a capital reserve for the purchase of vehicles or equipment. All transfers were included within the original budget document.

CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 9 – Interfund Transactions (continued)

Interfund Transfers (continued)

<u>Business-Type Activities</u>	<u>In</u>	<u>Out</u>
Sewer Operations Fund	\$ -	\$ 100,000
Sewer Operations Replacement Fund	100,000	-
	<u>\$ 100,000</u>	<u>\$ 100,000</u>

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

Administrative Charges

Administrative charges were as follows:

	<u>Charge From</u>	<u>Charge To</u>
General Fund	\$ 179,000	\$ -
Streets Fund	-	82,000
Sewer Fund	-	97,000
	<u>\$ 179,000</u>	<u>\$ 179,000</u>

Payroll costs for all personnel are initially recorded in the General Fund. A portion of these costs are allocated to other City funds at a predetermined percentage to approximate time spent performing duties for the Street and Sewer funds. Payroll costs for finance, administrative, sewer and maintenance personnel are recorded in the sewer and street funds based on a predetermined percentage to approximate time spent by the City's personnel.

Interfund Loan

During fiscal year 2017, the General Fund received a loan of \$200,000 from the Sewer Operations Fund. This loan was authorized by Council Resolution. The loan was used to fund the new Capital Improvement Fund and Capital Purchase Reserve Fund. Annual payments between \$20,100 and \$20,800, including principal and interest of 0.456%, are due January 1st each year through 2026. Interest expense for 2017-2018 was \$414.

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 20,068	\$ 732	\$ 20,800
2020	20,060	640	20,700
2021	20,051	549	20,600
2022	20,043	457	20,500
2023	20,034	366	20,400
2024-2026	60,052	548	60,600
	<u>\$ 160,308</u>	<u>\$ 3,292</u>	<u>\$ 163,600</u>

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 10 – Accrued Compensated Absences

At June 30, 2018, the outstanding balance is comprised of accrued vacation and certain accrued sick time. On termination from employment, one-half of an employee’s unused accrued sick leave will be converted to the Oregon Public Employees Retirement System (PERS), if eligible. At fiscal year end, the City had no employees eligible for this sick-leave benefit. Changes in accrued compensated absences for the year ended June 30, 2018, are as follows:

	Accrued June 30, 2017	Earned	Used	Accrued June 30, 2018
Government Activities	\$ 8,553	\$ 10,812	\$ (12,999)	\$ 6,366

Note 11 - Post-Employment Benefits Other Than Pensions (OPEB)

Retirement Health Insurance Account (RHIA) –

Plan Description - As a member of Oregon Public Employees Retirement System (OPERS), the City contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other post-employment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004.

OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO box 23700, Tigard, OR 97281-3700.

Funding Policy - Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 dollars or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of \$60 dollars shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating employers are contractually required to contribute to RHIA at a rate assessed each year by OPERS. The contribution rates in effect for the fiscal year ended June 30, 2018 for the OPEB program were: Tier1/Tier 2 – 0.50%, and OPSRP general service – 0.43%. The City contributed \$958 for the year ended June 30, 2018.

Pension Plan Comprehensive Annual Financial Report (CAFR) –

Oregon PERS produces an independently audited CAFR which can be found at:

<http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 11 - Post-Employment Benefits Other Than Pensions (OPEB) (continued)

Actuarial Valuation -

The actuarial valuation used for RHIA is identical to the actuarial valuation details related to the OPERS Plan disclosed in *Note 12 Pension Plan* (excluding the Actuarial Methods and Assumptions cost of living adjustment assumption, which has been removed, and a retiree healthcare participation assumption of 38% for healthy retirees and 20% for disabled retirees has been used). The actuarial valuation details are the Actuarial Methods and Assumptions, Discount Rate, Assumed Asset Allocation, and the Investment Rate of Return.

OPEB Liabilities/Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB –

At June 30, 2018, the City reported \$707 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2015. The City's proportion of the net OPEB asset was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the City's proportion was 0.00169439 percent.

For the year ended June 30, 2018, the City recognized a reduction of OPEB expense of \$1,287. The reduction of OPEB expense was generated during the measurement period primarily as a result of more than anticipated investment returns at the OPERS level.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on investments	-	328
Change in proportionate share	-	50
Differences between employer contributions and employer's proportionate share of system contribution:		
City's contributions subsequent to the measurement date	958	-
	<u>\$ 958</u>	<u>\$ 378</u>

\$958 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase to the net OPEB asset in the year ended June 30, 2018.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 11 - Post-Employment Benefits Other Than Pensions (OPEB) (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ended June 30	Deferred Outflow/ (Inflow) of Resources (prior to post - measurement date contributions)
2019	\$ (100)
2020	(100)
2021	(96)
2022	(82)
2023	-
Total	\$ (378)

Sensitivity for the City's Proportionate Share of the Net OPEB Asset to Changes in Discount Rate –

The following presents the City's proportionate share of the net OPEB asset calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.50 percent) or 1-percentage point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability/(asset)	\$ 99	\$ (707)	\$ (1,392)

The RHIA OPEB is unaffected by healthcare cost trends due to the benefit being limited to \$60 monthly payments toward Medicare companion insurance premiums.

Note 12 – Pension Plan

Plan Description

Employees are provided pensions as participants under one or more plans currently available through Oregon Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit plan in accordance with Oregon Revised Statutes Chapter 238, Chapter 23A, and Internal Revenue Service Code Section 401(a).

There are currently two programs within OPERS, with eligibility determined by the date of employment. Those employed prior to August 29, 2003 are OPERS Program members, and benefits are provided based on whether a member qualifies for Tier One or Tier Two described below. Those employed on or after August 29, 2003 are Oregon Public Service Retirement Plan (OPSRP) Program members. OPSRP is a hybrid retirement plan with two components: 1) the Pension Program (defined benefit; established and maintained as a tax-qualified governmental defined benefit plan), and 2) the Individual Account Program (IAP) (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan).

The ORS Chapter 238 Defined Benefit Plan was closed to new members hired on or after August 29, 2003. In 1995, the Oregon Legislature created a second tier of benefits for those who became OPERS Program members after 1995 but before August 29, 2003. The second tier does not have the Tier One assumed earnings rate guarantee.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 12 – Pension Plan (continued)

Plan Description (continued)

Beginning January 1, 2004, all employees who were active members of OPERS became members of the OPSRP IAP Program. OPERS plan member contributions (the employee contribution, whether made by the employee or "picked-up" by the employer) go into the IAP portion of OPSRP. OPERS plan members retain their existing OPERS accounts; however, member contributions after January 1, 2004 are deposited in the member's IAP, not into the member's OPERS account.

Plan Benefits

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

Tier One/Tier Two Retirement Benefit (Chapter 238)

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

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

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

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

A member's beneficiary may choose a monthly payment for life instead of a lump-sum or a combination of lump-sum and monthly payments, if eligible. The monthly payment must be a minimum of \$30 per month for deaths that occurred July 30, 2003, and earlier; \$200 per month for deaths that occur after July 30, 2003.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 12 – Pension Plan (continued)

Tier One/Tier Two Retirement Benefit (Chapter 238) (continued)

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

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

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA is 2.0%.

OPSRP Pension Program (Chapter 238A)

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

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

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

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

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

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

Benefit Changes After Retirement - Under ORS 238A.210, monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA is 2.0%.

Contributions

PERS' funding policy provides for periodic member and employer contributions at rates established by the Public Employees Retirement Board, subject to limits set in statute. The rates established for member and employer contributions were approved based on the recommendations of the System's third-party actuary.

The City's employer contributions for the year ended June 30, 2018 were \$24,663, excluding amounts to fund employer specific liabilities. The contribution rates in effect for the fiscal year ended June 30, 2018 for each pension program were: Tier1/Tier 2 – 7.22%, OPSRP general service - 0.43%.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 12 – Pension Plan (continued)

Pension Plan Comprehensive Annual Financial Report (CAFR)

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

Actuarial Valuation

The employer contribution rates effective July 1, 2015, through June 30, 2017, were set using the entry age normal actuarial cost method. Under this cost method, each active member's entry age present value of projected benefits is allocated over the member's service from their date of entry until their assumed date of exit, taking into consideration expected future compensation increases.

Actuarial Methods and Assumptions Used in Developing Total Pension Liability

Valuation date	December 31, 2015
Measurement date	June 30, 2017
Experience study	2014, published September 2015
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Inflation rate	2.50 percent
Long-term expected rate of return	7.50 percent
Discount rate	7.50 percent
Projected salary increases	3.50 percent
Cost of living adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blend based on service.
Mortality	<p>Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p>Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.</p>

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

CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 12 – Pension Plan (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent for the Defined Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Assumed Asset Allocation

<u>Asset Class</u>	<u>Target Allocation</u>
Cash	0.00%
Debt securities	20.00%
Public equity	37.50%
Private equity	17.50%
Real estate	12.50%
Alternative equity	12.50%
Opportunity portfolio	0.00%
Total	<u>100.00%</u>

Investment Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at the time based on the OIC long-term target asset allocation. The OIC's description of each asset was used to map the target allocation to the asset classes shown below.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 12 – Pension Plan (continued)

Investment Rate of Return (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compounded Annual Return</u>
Core fixed income	8.00%	4.00%
Short-term bonds	8.00%	3.61%
Intermediate-term bonds	3.00%	5.42%
High yield bonds	1.00%	6.20%
Large/Mid cap US equities	15.75%	6.70%
Small Cap US equities	1.31%	6.99%
Micro Cap US equities	1.31%	7.01%
Developed foreign equities	13.13%	6.73%
Emerging market equities	4.12%	7.25%
Non-US small Cap equities	1.88%	7.22%
Private equities	17.50%	7.97%
Real estate (property)	10.00%	5.84%
Real estate (REITS)	2.50%	6.69%
Hedge fund of funds - diversified	2.50%	4.64%
Hedge fund - event-driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.86%	4.58%
Total	<u>100.00%</u>	
Assumed inflation - mean		2.50%

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

At June 30, 2018, the City reported a net pension liability of \$152,048 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the City's proportion was approximately 0.00112795 percent.

For the year ended June 30, 2018, the City recognized pension expense of \$17,568. Pension income was generated during the measurement period primarily as a result of greater than anticipated investment returns at the OPERS level.

**CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

Note 12 – Pension Plan (continued)

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

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ 7,353	\$ -
Changes of assumptions	27,716	-
Net difference between projected and actual earnings on investments	1,566	-
Change in proportionate share	65,217	7,451
Differences between employer contributions and employer's proportionate share of system contribution:	-	11,601
City's contributions subsequent to the measurement date	24,663	-
	\$ 126,515	\$ 19,052

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

Year Ended June 30	Deferred Outflow/ (Inflow) of Resources (prior to post - measurement date contributions)
2019	\$ 16,814
2020	29,670
2021	25,987
2022	7,260
2023	3,069
Total	\$ 82,800

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

The following presents the Reporting entity's proportionate share of the net pension liability calculated using the discount rate of (7.50%), as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability (asset)	\$ 259,118	\$ 152,048	\$ 62,518

CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 12 – Pension Plan (continued)

Defined Contribution Plan - Individual Account Program (IAP)

Pension Benefits. Participants in OPERS defined benefit pension plans also participate in their defined contribution plan. An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. All covered employees are required by State statute to contribute 6% of their salary to the plan. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5, 10, 15, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits. Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Note 13 – Net Position

Deficit Net Position

At June 30, 2018, a net position deficit of \$190,431 exists in the Sewer Bonded Debt Fund. The deficit results from the recording of long-term debt for the purpose of constructing the City of Shady Cove's portion of the wastewater system. The Sewer Bonded Debt Fund is responsible for the long-term debt liability while the Sewer Operations Fund receives the benefit of the constructed asset resulting in a deficit in the Sewer Bonded Debt Fund.

Restricted Net Position

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

Restricted net position at June 30, 2018 is comprised of the following:

Enacted by enabling legislation of the City:	
Restricted for system development	\$ 960,981
Externally imposed:	
Restricted for debt service	185,689
Restricted for street maintenance	170,725
Restricted for foot/bike path	2,000
	<hr/>
	\$ 1,319,395
	<hr/>

CITY OF SHADY COVE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Note 14 – 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 15 – 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 16 – Current Vulnerability Due to Certain Concentrations

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

Note 17 – Tax Abatements

As of June 30, 2018, Jackson county provides tax abatements through five programs: Non-Profit Low Income Rental Housing, Enterprise Zone, Homebuyer Opportunity Limited Tax Exemption, Multiple-Unit Housing in Core Areas, and Residential Rehab Property.

For the fiscal year ended June 30, 2018, the City of Shady Cove's did not provide for any tax abatements under these programs.

Note 18 – Subsequent Events

Management of the City has evaluated events and transactions occurring after June 30, 2018 through the date the financial statements were available for issuance, for recognition and/or disclosure in the financial statements. The following events occurred after June 30, 2018 through the date the financial statements were available for issuance.

Annexation into Rogue Valley Sewer Services –

On November 6, 2018 the citizens of Shady Cove voted to approve Measure 15-177 to join Shady Cove Sewer System and Rogue Valley Sewer Services District via annexation by the end of the current ten-year contract, which expires on June 30, 2026.

New City Administrator –

The City accepted the resignation of Aaron Prunty effective June 30, 2018. The City hired Thomas Corrigan as City Administrator effective July 9, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHADY COVE, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Property taxes	\$ 131,000	\$ 131,000	\$ 142,210	\$ 11,210
State subventions	70,500	70,500	85,373	14,873
Franchise taxes	218,500	218,500	247,545	29,045
City fees	89,500	89,500	110,469	20,969
Administrative fees	179,000	179,000	179,000	-
Municipal court	7,500	7,500	14,329	6,829
Public safety fee	245,000	245,000	277,396	32,396
Floodplain permit fee	1,200	1,200	3,975	2,775
Miscellaneous	1,200	1,200	19,469	18,269
Earnings on investments	1,700	1,700	4,073	2,373
TOTAL REVENUES	<u>945,100</u>	<u>945,100</u>	<u>1,083,839</u>	<u>138,739</u>
EXPENDITURES				
Current:				
Administrative				
Personal Services	333,900	333,900	336,771	(2,871)
Materials & Services	257,200	257,200	225,184	32,016
Public Safety				
Materials & Services	450,000	450,000	429,215	20,785
Capital outlay	18,000	18,000	25,689	(7,689)
Debt service	20,900	20,900	20,900	-
Contingency	150,000	150,000	-	150,000
TOTAL EXPENDITURES	<u>1,230,000</u>	<u>1,230,000</u>	<u>1,037,759</u>	<u>192,241</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(284,900)</u>	<u>(284,900)</u>	<u>46,080</u>	<u>330,980</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(10,000)	(10,000)	(10,000)	-
TOTAL OTHER FINANCING SOURCES	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(294,900)	(294,900)	36,080	330,980
NET WORKING CAPITAL, Beginning of Year	<u>348,500</u>	<u>348,500</u>	<u>460,110</u>	<u>111,610</u>
NET WORKING CAPITAL, End of Year	<u>\$ 53,600</u>	<u>\$ 53,600</u>	496,190	<u>\$ 442,590</u>
Add (deduct) adjustments to net working capital to reconcile ending fund balance:				
Interfund payable			<u>(160,308)</u>	
ENDING FUND BALANCE			<u>\$ 335,882</u>	

CITY OF SHADY COVE, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STREET FUND
YEAR ENDED JUNE 30, 2018

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
State Highway revenue	\$ 162,000	\$ 162,000	\$ 198,578	\$ 36,578
TOTAL REVENUES	<u>162,000</u>	<u>162,000</u>	<u>198,578</u>	<u>36,578</u>
EXPENDITURES				
Current				
Highways and streets				
Materials and services	236,400	236,400	169,741	66,659
Capital outlay	1,800	1,800	-	1,800
Contingency	7,300	7,300	-	7,300
TOTAL EXPENDITURES	<u>245,500</u>	<u>245,500</u>	<u>169,741</u>	<u>75,759</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(83,500)	(83,500)	28,837	112,337
FUND BALANCE, Beginning of Year	<u>83,500</u>	<u>83,500</u>	<u>143,888</u>	<u>60,388</u>
FUND BALANCE, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 172,725</u>	<u>\$ 172,725</u>

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension asset/(liability)	0.00112795%	0.0004232%	0.0000000%	0.0007955%	0.0007955%
City's proportion of the net pension asset/(liability)	\$ (152,048)	\$ (63,531)	\$ -	\$ 18,032	\$ (40,597)
City's covered-employee payroll	\$ 226,466	\$ 205,008	\$ 294,646	\$ 262,751	\$ 291,363
City's proportionate share of the net pension asset/(liability) as a percentage of its covered-employee payroll	-67.14%	-30.99%	0.00%	6.86%	13.93%
Plan fiduciary net position as a percentage of the total pension liability	83.12%	80.53%	91.88%	103.59%	91.97%

City of Shady Cove Contributions

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 24,663	\$ 2,941	\$ (26,067)	\$ 925	\$ -
Contribution in relation to the contractually required	\$ (24,663)	\$ (2,941)	\$ 26,067	\$ (925)	\$ -
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered - employee payroll	\$ 226,466	\$ 205,008	\$ 294,646	\$ 262,751	\$ 291,363
Contributions as a percentage of covered-employee payroll	10.89%	1.43%	-8.85%	0.35%	0.00%

Note 1 - Changes of Benefit Terms and Assumptions -

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

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

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

	2018
City's proportion of the net OPEB asset/(liability)	0.00169439%
City's proportion of the net OPEB asset/(liability)	\$ 707
City's covered-employee payroll	\$ 226,466
City's proportionate share of the net OPEB asset/(liability) as a percentage of its covered-employee payroll	0.31%
Plan fiduciary net position as a percentage of the total pension liability	83.12%

City of Shady Cove Contributions

	2018
Contractually required contributions	\$ 958
Contribution in relation to the contractually required	\$ (958)
Contributions deficiency (excess)	\$ -
City's covered - employee payroll	\$ 226,466
Contributions as a percentage of covered-employee payroll	0.42%

Note 1 - Changes of Benefit Terms and Assumptions -

A summary of assumption changes implemented since the December 31, 2016 valuation are outlined briefly below. A comprehensive list of changes in methods and assumptions can be found in the 2014 Experience Study for the system, which was published on September 23, 2015, and can be found at:
<http://www.oregon.gov/PERS/Documents/Financials/Actuarial/2015/Experience-Study.pdf>

Changes in Actuarial Method and Allocation Procedures:

General Service member weighting changed from 30% to 25% of proportional liability.

Changes in Economic Assumptions:

Inflation was lowered to 2.5%, and payroll growth was reduced from 3.75% to 3.5%. Investment return and interest crediting was reduced from 7.75% to 7.5%. With the implementation of GASB No. 67 and 68 this necessitated an explicit Tier 1/Tier 2 administrative expense assumption of \$33 million per year for December 31, 2014 and December 31, 2015. Health care cost inflation and implementation of the excise tax in 2018 was considered. Disability mortality tables were updated using the RP2000 generational tables, whereas RP2000 static tables were previously used. Rates for disability, retirement from active status, and termination were adjusted.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF SHADY COVE, OREGON
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2018**

	<u>Capital Purchase Reserve Fund</u>	<u>Capital Improvement Fund</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 20,000	\$ 101,000	\$ 121,000
TOTAL ASSETS	<u>\$ 20,000</u>	<u>\$ 101,000</u>	<u>\$ 121,000</u>
Fund Balances:			
Committed	\$ 20,000	\$ 101,000	\$ 121,000
TOTAL FUND BALANCES	<u>20,000</u>	<u>101,000</u>	<u>121,000</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 20,000</u>	<u>\$ 101,000</u>	<u>\$ 121,000</u>

**CITY OF SHADY COVE, OREGON
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>Capital Purchase Reserve Fund</u>	<u>Capital Improvement Fund</u>	<u>Total</u>
EXPENDITURES			
Current:			
Capital Outlay	\$ -	\$ 86,000	\$ 86,000
TOTAL EXPENDITURES	<u>-</u>	<u>86,000</u>	<u>86,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>86,000</u>	<u>86,000</u>
OTHER FINANCING SOURCES (USES):			
Transfers from other funds	<u>10,000</u>	<u>-</u>	<u>10,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>10,000</u>	<u>-</u>	<u>10,000</u>
NET CHANGE IN FUND BALANCE	10,000	(86,000)	(76,000)
FUND BALANCE, Beginning of Year	<u>10,000</u>	<u>187,000</u>	<u>197,000</u>
FUND BALANCE, End of Year	<u>\$ 20,000</u>	<u>\$ 101,000</u>	<u>\$ 121,000</u>

**CITY OF SHADY COVE, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
CAPITAL PURCHASE RESERVE FUND
YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
OTHER FINANCING SOURCES (USES):				
Transfers in	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
TOTAL OTHER FINANCING SOURCES (USES):	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
NET POSITION, Beginning of Year	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
NET POSITION, End of Year	<u><u>\$ 20,000</u></u>	<u><u>\$ 20,000</u></u>	<u><u>\$ 20,000</u></u>	<u><u>\$ -</u></u>

**CITY OF SHADY COVE, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
CAPITAL IMPROVEMENT FUND
YEAR ENDED JUNE 30, 2018**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
EXPENDITURES				
Capital outlay	\$ 86,000	\$ 86,000	\$ 86,000	\$ -
Operating contingency	24,000	24,000	-	24,000
TOTAL EXPENDITURES	<u>110,000</u>	<u>110,000</u>	<u>86,000</u>	<u>24,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(110,000)	(110,000)	(86,000)	24,000
NET POSITION, Beginning of Year	<u>187,000</u>	<u>187,000</u>	<u>187,000</u>	<u>-</u>
NET POSITION, End of Year	<u>\$ 77,000</u>	<u>\$ 77,000</u>	<u>\$ 101,000</u>	<u>\$ 24,000</u>

CITY OF SHADY COVE, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
SEWER OPERATIONS FUND
YEAR ENDED JUNE 30, 2018

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ 850,400	\$ 850,400	\$ 884,393	\$ 33,993
Earnings on investments	1,800	1,800	4,312	2,512
TOTAL REVENUES	<u>852,200</u>	<u>852,200</u>	<u>888,705</u>	<u>36,505</u>
EXPENDITURES				
Current:				
Utility services				
Materials and services	561,000	561,000	497,022	63,978
Debt service				
Principal	91,700	91,700	91,651	49
Interest	108,600	108,600	108,373	227
Operating contingency	100,000	100,000	-	100,000
TOTAL EXPENDITURES	<u>861,300</u>	<u>861,300</u>	<u>697,046</u>	<u>164,254</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(9,100)</u>	<u>(9,100)</u>	<u>191,659</u>	<u>200,759</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from issuance of debt	-	-	1,930,000	(1,930,000)
Debt premium	-	-	15,669	(15,669)
Debt issuance cost	-	-	(44,043)	44,043
Payment of refunded bond	-	-	(1,897,583)	1,897,583
Transfers (out)	(100,000)	(100,000)	(100,000)	-
TOTAL OTHER FINANCING SOURCES (USES):	<u>(100,000)</u>	<u>(100,000)</u>	<u>(95,957)</u>	<u>4,043</u>
NET CHANGE IN WORKING CAPITAL	(109,100)	(109,100)	95,702	204,802
NET WORKING CAPITAL, Beginning of Year	<u>153,500</u>	<u>153,500</u>	<u>320,915</u>	<u>167,415</u>
NET WORKING CAPITAL, End of Year	<u>\$ 44,400</u>	<u>\$ 44,400</u>	<u>416,617</u>	<u>\$ 372,217</u>
Add (deduct) adjustments to net working capital to reconcile ending net position:				
Capital assets, net			4,497,836	
Change in accrued interest			21,093	
Long-term debt			<u>(2,496,234)</u>	
ENDING NET POSITION			<u>\$ 2,439,312</u>	

**CITY OF SHADY COVE, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
SEWER BONDED DEBT FUND
YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Taxes	\$ 68,800	\$ 68,800	\$ 68,493	\$ (307)
TOTAL REVENUES	<u>68,800</u>	<u>68,800</u>	<u>68,493</u>	<u>(307)</u>
EXPENDITURES				
Debt service	74,500	74,500	74,499	1
TOTAL EXPENDITURES	<u>74,500</u>	<u>74,500</u>	<u>74,499</u>	<u>1</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,700)	(5,700)	(6,006)	(306)
NET WORKING CAPITAL, Beginning of Year	<u>27,500</u>	<u>27,500</u>	<u>29,575</u>	<u>2,075</u>
NET WORKING CAPITAL, End of Year	<u>\$ 21,800</u>	<u>\$ 21,800</u>	23,569	<u>\$ 2,075</u>
Add (deduct) adjustments to net working capital to reconcile ending net position.				
Long-term debt			<u>(214,000)</u>	
ENDING NET POSITION (DEFICIT)			<u>\$ (190,431)</u>	

CITY OF SHADY COVE, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
SDC FUND
YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
System development charges	\$ 56,800	\$ 56,800	\$ 121,226	\$ 64,426
Miscellaneous Income	-	-	80,000	80,000
Earnings on investments	2,150	2,150	5,158	3,008
TOTAL REVENUES	<u>58,950</u>	<u>58,950</u>	<u>206,384</u>	<u>147,434</u>
EXPENDITURES				
Transportation SDC				
Capital Outlay	120,000	120,000	494	119,506
Stormwater SDC				
Capital Outlay	25,000	25,000	49,516	(24,516)
Wastewater SDC				
Capital Outlay	125,000	125,000	-	125,000
Parks SDC				
Capital Outlay	25,000	25,000	1,089	23,911
Operating Contingency	109,900	109,900	-	109,900
TOTAL CAPITAL OUTLAY	<u>404,900</u>	<u>404,900</u>	<u>51,099</u>	<u>353,801</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(345,950)	(345,950)	155,285	501,235
NET WORKING CAPITAL, Beginning of Year	<u>678,300</u>	<u>678,300</u>	<u>805,696</u>	<u>127,396</u>
NET WORKING CAPITAL, End of Year	<u>\$ 332,350</u>	<u>\$ 332,350</u>	<u>960,981</u>	<u>\$ 628,631</u>
Add (deduct) adjustments to net working capital to reconcile ending net position:				
Capital assets, net			<u>663,375</u>	
ENDING NET POSITION			<u>\$ 1,624,356</u>	

**CITY OF SHADY COVE, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
SEWER RESERVE FUND
YEAR ENDED JUNE 30, 2018**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Adopted</u>	<u>Final</u>		
REVENUES				
Earnings on investments	\$ 2,000	\$ 2,000	\$ 4,794	\$ 2,794
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,000	2,000	4,794	2,794
NET POSITION, Beginning of Year	<u>167,300</u>	<u>167,300</u>	<u>168,023</u>	<u>723</u>
NET POSITION, End of Year	<u>\$ 169,300</u>	<u>\$ 169,300</u>	<u>\$ 172,817</u>	<u>\$ 3,517</u>

**CITY OF SHADY COVE, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
SEWER OPERATIONS REPLACEMENT FUND
YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES				
Earnings on investments	\$ 9,500	\$ 9,500	\$ 23,181	\$ 13,681
EXPENDITURES				
Operating Contingency	125,000	125,000	-	125,000
TOTAL EXPENDITURES	125,000	125,000	-	125,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(115,500)	(115,500)	23,181	138,681
OTHER FINANCING SOURCES (USES):				
Payments received from interfund loan	20,900	20,900	20,486	(414)
Transfers in	100,000	100,000	100,000	-
TOTAL OTHER FINANCING SOURCES (USES):	120,900	120,900	120,486	(414)
NET CHANGE IN WORKING CAPITAL	5,400	5,400	143,667	138,267
NET WORKING CAPITAL, Beginning of Year	405,000	405,000	404,150	(850)
NET WORKING CAPITAL, End of Year	<u>\$ 410,400</u>	<u>\$ 410,400</u>	547,817	<u>\$ 137,417</u>
Add (deduct) adjustments to net working capital to reconcile ending net position:				
Interfund loan receivable			160,308	
Capital assets, net			240,820	
ENDING NET POSITION			<u>\$ 948,945</u>	

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

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

We have audited the basic financial statements of the City of Shady Cove, Oregon, (the City) as of and for the year ended June 30, 2018, and have issued our report thereon dated November 27, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-0000 through 162-10-0320 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 an objective of our audit, and accordingly, we do not express such an opinion.

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

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

In connection with our audit, nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administration Rules 162-10-0000 through 162-10-0320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

OAR 162-10-0230 Internal Control

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

Restrictions on Use

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

Stewart C. Parmele CPA, Partner

Stewart C. Parmele CPA, Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
November 27, 2018