

CITY OF COTTAGE GROVE, OREGON
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
FISCAL YEAR ENDED JUNE 30, 2010
WITH
INDEPENDENT AUDITORS' REPORT

CITY OF COTTAGE GROVE, OREGON
 Financial Statements and Supplemental Information
 For the Fiscal Year Ended June 30, 2010
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INTRODUCTORY SECTION

CITY OF COTTAGE GROVE, OREGON

Principal City Officials

June 30, 2010

ELECTED OFFICIALS

Mayor

Gary Williams
443 So. 10th Street
Cottage Grove, OR 97424

Term Expiration

December 31, 2010

Council Members

Thomas Munroe
2292 W. Harrison
Cottage Grove, OR 97424

Ward 1

December 31, 2010

Jeff Gowing
337 N. 9th
Cottage Grove, OR 97424

Ward 2

December 31, 2012

Wayne Clark
819 S. 1st Street
Cottage Grove, OR 97424

Ward 3

December 31, 2010

Mike Fleck
1140 S. 10th Street
Cottage Grove, OR 97424

Ward 4

December 31, 2012

Diane Conrad
1125 E. Harrison
Cottage Grove, OR 97424

At-Large

December 31, 2010

Heather Murphy
1306 N. 19th Street
Cottage Grove, OR 97424

At-Large

December 31, 2012

ADMINISTRATIVE OFFICIALS

Name

Position

Richard Meyers

City Manager

Sean Kelly
Ackley, Melendy, & Kelly LLP

City Attorney

Roberta McClintock

Finance Director

Mike Grover

Police Chief

Howard Schesser

Community Development Director

Jan Wellman

Public Works Director

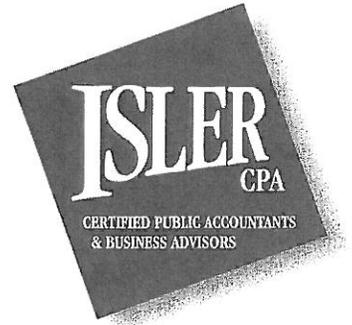
Pete Barrell

Community Service Director

Trudy Borrevik

City Recorder

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Cottage Grove, Oregon

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 Cottage Grove, Oregon ("City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2011, on our consideration of City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Isler CPA

A handwritten signature in black ink that reads "Julie Arendt". The signature is written in a cursive, flowing style.

By: Julie Arendt, CPA, a member of the firm

Eugene, Oregon
May 13, 2011

CITY OF COTTAGE GROVE, OREGON

Management's Discussion and Analysis

As management of the City of Cottage Grove, Oregon, we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the financial statements that follow.

FINANCIAL HIGHLIGHTS

Net Assets - The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$57,334,261 (net assets). Of this amount, \$7,401,332 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.

Change in Net Assets - The City's total net assets decreased this year by \$863,471, or -1.48%.

The City's governmental activities reported total net assets of \$41,896,492 which is a decrease of \$760,439 or -1.78%. The decrease of net assets is contributable to a reduction of current assets, specifically cash and cash equivalents, and a reduction in non-current assets, specifically capital assets not being depreciated and net of accumulated depreciation. The City's business-type activities reported total net assets of \$15,437,769 which is a decrease of \$103,032, or -0.7%.

The unrestricted net assets increased. Governmental Activities unrestricted net assets were increased from \$5,406,368 in fiscal year 2009 to \$5,777,021 in fiscal year 2010, approximately 6.86% of the total unrestricted net assets. Business type activities were increased from \$1,013,032 in fiscal year 2009 to \$1,624,311, approximately 60.34% of total unrestricted net assets. Unrestricted net assets are available for spending at the City's discretion.

During the fiscal year, the City's total debt decreased by \$932,055. The decrease is attributable to less debt incurred during the fiscal year (\$782,426) while reducing existing debt with scheduled loan payments (\$1,714,487).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector companies.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Cottage Grove is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave). The governmental activities of the City include general government, public safety, highways and streets, culture and recreation, and community development. The business type activities include water, wastewater (including the golf course) and storm drainage. The government-wide financial statements can be found starting on page 13.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

CITY OF COTTAGE GROVE, OREGON

Management's Discussion and Analysis

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Street, Industrial Park, City Debt Service and Urban Renewal Agency Debt Service Funds. All of these funds are considered to be major governmental funds. Financial information from the other eleven non-major governmental funds is combined into a single aggregated presentation. Combining statements and budgetary comparisons for governmental and business-type funds can be found starting on page 44.

Proprietary Funds. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that the costs of providing the services to the general public on a continuing basis be financed primarily through user charges. These funds represent three segments of operations: Water, Wastewater, and Storm Drainage. The basic proprietary fund financial statements can be found starting on page 19.

Fiduciary Funds. Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature and do not involve measurement of results of operations.

Notes to the Basic Financial Statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the financial data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 23.

Required Supplementary Information. Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board (GASB) but are not considered a part of the basic financial statements. Budgetary comparison schedules for major governmental funds are presented immediately following the notes to the basic financial statements, starting on page 41.

Other Supplementary Information. The combining statements for the non-major governmental funds and budgetary comparison schedules for both the non-major governmental funds and the proprietary funds are presented immediately following the required supplementary information, starting on page 44.

Statistical Information. We would like to direct the reader's attention to the Statistical Section, starting on page 90, for additional information including tables, graphs, and analysis of current and historical information.

CITY OF COTTAGE GROVE, OREGON

Management's Discussion and Analysis

Government-wide Financial Analysis

Net assets. The City's combined net assets were \$57,334,261 at June 30, 2010. The following table reflects a Summary of Net Assets for fiscal years 2008-09 and 2009-10:

**Table 1
Summary of Net Assets**

	Governmental Activities		Business-type Activities		Total Government	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and Other investments	\$ 7,845,234	\$ 8,725,782	\$ 3,312,376	\$ 3,713,533	\$ 11,157,610	\$ 12,439,315
Capital assets	40,027,396	40,369,561	32,659,036	33,506,587	72,686,432	73,876,148
Total assets	\$ 47,872,630	\$ 49,095,343	\$ 35,971,412	\$ 37,220,120	\$ 83,844,042	\$ 86,315,463
Current liabilities	\$ 1,144,810	\$ 1,253,801	\$ 581,820	\$ 1,017,203	\$ 1,726,630	\$ 2,271,004
Long term liabilities	4,831,328	5,184,611	19,951,823	20,497,975	24,783,151	25,682,586
Total liabilities	\$ 5,976,138	\$ 6,438,412	\$ 20,533,643	\$ 21,515,178	\$ 26,509,781	\$ 27,953,590
Net assets:						
Invested in capital assets, net of related debt	\$ 35,457,421	\$ 37,197,493	\$ 13,058,044	\$ 14,370,516	\$ 48,515,465	\$ 51,568,009
Restricted	662,050	53,070	775,414	321,394	1,437,464	374,464
Unrestricted	5,777,021	5,406,368	1,624,311	1,013,032	7,401,332	6,419,400
Total net assets	\$ 41,896,492	\$ 42,656,931	\$ 15,437,769	\$ 15,704,942	\$ 57,334,261	\$ 58,361,873

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Cottage Grove, assets exceeded liabilities by \$57,334,261 at the close of the fiscal year, a decrease of 1.48% from the previous year. The largest portion of the City's net assets (85% percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt. The unrestricted net assets in the amount of \$7,401,332 may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF COTTAGE GROVE, OREGON
Management's Discussion and Analysis

The following table summarizes revenues and expenses for fiscal years 2008-09 and 2009-10:

Table 2

Governmental and Proprietary Activities

	Governmental Activities		Business-type Activities		Total Government	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
REVENUES						
Program revenues						
Charges for services	\$ 439,636	\$ 436,187	\$ 4,942,912	\$ 4,792,503	\$ 5,382,548	\$ 5,228,690
Operating grants and contributions	29,292	77,747	15,057	24,784	44,439	102,531
Capital grants and contributions	831,834	614,298			831,834	614,298
General revenues						
Property taxes	3,900,441	3,505,745			3,900,441	3,505,745
Franchise fees	410,375	427,473			410,375	427,473
Alcoholic Beverage Taxes	106,839	113,380			106,839	113,380
Motor Fuel Taxes	340,204	319,128			340,204	319,128
Taxes and Other Revenues not restricted to specific programs	1,429,404	1,091,770		70,703	1,429,404	1,162,473
Interest	48,307	153,517	59,979	54,637	108,286	208,154
Total revenues	\$ 7,536,332	\$ 6,739,245	\$ 5,017,948	\$ 4,942,627	\$ 12,554,280	\$ 11,681,872
EXPENSES						
Governmental activities:						
General government	\$ 1,497,736	\$ 678,782			\$ 1,497,736	678,782
Public safety	2,767,500	3,294,236			2,767,500	3,294,236
Highways and streets	1,229,574	1,150,457			1,229,574	1,150,457
Culture and recreation	745,106	645,002			745,106	645,002
Community development	2,039,720	1,229,430			2,039,720	1,229,430
Interest on long-term debt	224,149	298,195			224,149	298,195
Business type activities:						
Water			2,348,922	2,101,331	2,348,922	2,101,331
Wastewater			2,301,446	2,283,340	2,301,446	2,283,340
Storm drainage			263,584	240,293	263,584	240,293
Total Expenses	8,503,785	7,296,102	4,913,966	4,624,964	\$ 13,417,751	11,921,066
Change in net assets before transfers and internal balances	(967,453)	(556,857)	103,982	317,663	(863,471)	(239,194)
Transfers	207,014	146,729	(207,014)	(146,729)		
Internal balances						
Special Items-						
Change in net assets	(760,439)	(410,128)	(103,032)	170,934	(863,471)	(239,194)
Beginning net assets	42,656,931	42,973,806	15,704,942	15,277,346	58,361,873	58,251,152
Prior Period Adjustments		93,253	(164,141)	256,662	(164,141)	349,915
Ending net assets	\$ 41,896,492	\$ 42,656,931	\$ 15,437,769	\$ 15,704,942	\$ 57,334,261	\$ 58,361,873

CITY OF COTTAGE GROVE, OREGON

Management's Discussion and Analysis

Governmental activities. Governmental activities decreased the City's net assets by \$760,439. The majority of this decrease is due to a reduction in cash and cash equivalents.

Business-type activities. Business-type activities decreased the City's net assets by \$103,032. Capital assets net of accumulated depreciation were reduced.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the City of Cottage Grove's governmental funds reported combined ending fund balances of \$4,670,507. Approximately 99% percent of this total amount (\$4,623,974) constitutes unreserved fund balance. The remainder of the fund balance (\$46,533) is reserved to indicate that it is not available for new spending because it has already been committed for debt service and Ed Jenks endowment principal.

The main operating fund for the City is the General Fund. At the end of fiscal year 2010 the unreserved balance was \$1,526,740. It may be useful to compare the fund balance to the total fund expenditures as a measure of the General Fund's liquidity. The unreserved fund balance represents approximately 27.9% of the total General Fund operating expenditures.

The general fund had an increase in total fund balance (reserved plus unreserved balance) of \$578,905 during fiscal year 2010. Key factors in this increase are:

- The beginning budgeted fund balance estimate was high, with an actual balance \$349,309 lower than anticipated.
- The City received \$264,650 as a refund of urban renewal property taxes that were not budgeted.
- Franchise Fees exceeded budget projections by more than \$38,000. This can be attributed to rate increases charged by the various utilities.
- General Fund total revenues received were at 105% of budgeted funds.

In the Street Fund, the fund balance increased by \$17,794 during fiscal year 2010. The beginning budgeted fund balance estimate was low, with an actual balance \$58,510 higher than anticipated. State highway taxes and local fuel taxes were below budget estimations by \$103,464. Overall, revenue was at 89% of the budgeted amount. Capital improvements were not made as budgeted, offsetting the revenue shortfall.

The Industrial Park Fund ending fund balance was \$565,706. A number of lots have been either foreclosed upon or returned to the City. The City will be marketing the lots for sale. Outstanding debt will continue to be addressed and paid as required.

Proprietary funds. The City's proprietary funds are comprised of the enterprise funds. An enterprise fund is used to account for activities for which a fee is charged to external users for services. These funds provide the same type of information found in the government-wide financial statements, but in more detail.

The combined water operations had a decrease in total net assets of \$5,577. The combined wastewater operations had a decrease in total net assets of \$20,900. The operating income of the water and wastewater operations increased over the prior year. Utility rates were raised, however sales were 3.2% less than expected. Operational costs for staff, fuel, materials and purchased services increased. The water operations and wastewater debt repayments increased significantly in association with the water and wastewater treatment plants. New debt was incurred for the purchase of the Vactor and Greens Roller, with a portion of the debt to be repaid from the Water and Wastewater Reserve funds.

CITY OF COTTAGE GROVE, OREGON

Management's Discussion and Analysis

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a \$90,987 difference between the original budget and final amended budget. The City Council adopted various resolutions totaling this amount to recognize special purpose grants. The Community Development Department received an unanticipated federal grant in the amount of \$59,301 from the Oregon Department of Transportation, to pass along to the sub-recipient, South Lane Wheels; a State grant was awarded in the amount of \$17,000 for painting of the Historical Society building and for a façade improvement project in the downtown historical district. The Police Department was awarded a federal grant in the amount of \$14,686 to refurbish the jail facilities.

Significant variances between budget and actual activity can be summarized as follows:

- The Community Development Department under expended its budget by approximately \$392,000. The South Lane Mental Health facility expenditures were 84.0% less than budgeted. A Transportation Growth Management grant concerning access management at Interstate 5, exit 174, in the amount of \$165,000, was not awarded, and therefore not expended.
- The Police Department under expended its budget by \$236,000. Gas prices did not remain as high for the entire fiscal year as anticipated, under expending appropriations by approximately \$40,500. Capital expenditures were not made, reducing expenditures by another \$32,000. Budgeted overtime was expended at 83.3%, with a cost savings of approximately \$18,000 plus the reduction of other associated employment costs. Health insurance costs were also not as anticipated, with 82.1% of the budgeted amount spent.
- The Parks Department budget included monies to make improvements to Bohemia Park. Only 15.8% of the budgeted amount was spent, leaving a balance of approximately \$210,500.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2010 amounts to \$72,686,432 (net of accumulated depreciation). This investment in capital assets includes land, buildings, motor vehicles and equipment, office furniture and equipment, infrastructure and construction in progress.

The following table summarizes capital assets for fiscal years 2008-09 and 2009-10:

Table 3

Capital Assets at Year-end (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 26,438,798	\$ 26,438,798	\$ 2,113,002	\$ 2,113,002	\$ 28,551,800	\$28,551,800
Buildings	2,897,590	2,822,325	1,337,019	1,376,354	4,234,609	4,198,679
Construction in Progress	411,138	2,997,453	-	1,086	411,138	2,998,539
Land improvements	-	-	966,000	1,050,000	966,000	1,050,000
Motor vehicles and equipment	310,274	272,680	461,880	274,794	772,154	547,474
Office furniture and equipment	22,275	28,773	-	-	22,275	28,773
Infrastructure	9,947,321	7,809,532	1,451,756	1,512,644	11,399,077	9,322,176
Utility Systems	-	-	26,329,379	27,178,705	26,329,379	27,178,705
Total	\$ 40,027,396	\$ 40,369,561	\$ 32,659,036	\$33,506,585	\$ 72,686,432	\$73,876,146

CITY OF COTTAGE GROVE, OREGON

Management's Discussion and Analysis

Major capital asset events during the current fiscal year included the following: The purchase of motor vehicles, including a Vactor, Greens Roller, 2001 Ford Ranger pickup, and a 2010 Crown Victoria Police vehicle; the Broadband system became active and recognized as an asset in the amount of \$2,852,049; a waterline was replaced under Highway 99 and added to the infrastructure assets. There was an error in the beginning capital asset balance for the water fund in connection with the Row River Water Treatment plant, resulting in a decrease of \$164,141 in beginning net assets.

Table 4

Change in Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 40,369,561	\$ 38,286,551	\$ 33,506,584	\$ 31,760,221	\$ 73,876,145	\$ 70,046,771
Prior Period Adjustment	-	93,253	(164,141)	256,662	(164,141)	349,915
Additions	3,423,172	2,917,731	331,612	10,639,044	3,754,784	13,556,775
Depreciation	(882,503)	(800,594)	(1,013,933)	(943,554)	(1,896,436)	(1,744,148)
Deletions	(2,882,834)	(127,380)	(1,086)	(8,205,788)	(2,883,920)	(8,333,168)
Ending balance	<u>\$ 40,027,396</u>	<u>\$ 40,369,561</u>	<u>\$ 32,659,036</u>	<u>\$ 33,506,585</u>	<u>\$ 72,686,432</u>	<u>\$ 73,876,145</u>

Additional information on the City's capital assets can be found in the notes to the basic financial statements – Note 5, pages 31-32.

Long-term debt. At the end of the fiscal year, the City of Cottage Grove had total long-term debt outstanding of \$24,442,950. \$1,759,238 was a general obligation debt to pay the City's unfunded actuarial liability in the Public Employees Retirement System. A total of \$433,540 was owed on a lease purchase agreement for improvements at the Public Works shop facility. Additional Long-term debt totaling \$308,188 was incurred. Included in the debt was funding for the purchase of a Vactor and Greens Roller.

CITY OF COTTAGE GROVE, OREGON

Management's Discussion and Analysis

The following table summarizes outstanding debt for fiscal years 2008-09 and 2009-10:

**Table 5
Outstanding Debt at Year-end**

	<u>2010</u>	<u>2009</u>
Governmental Activities		
PERS UAL refinancing	\$ 1,759,238	\$ 1,779,772
Industrial Park	1,043,687	1,087,724
City shop remodel	433,540	546,239
Trail Head Park	112,373	183,326
Street Sweeper	93,575	128,740
Optical/Wireless Equipment	1,089,076	1,226,039
Vactor and Greens Roller	38,486	-
Sub-total	<u>4,569,975</u>	<u>4,951,840</u>
Business-type Activities		
Water system improvement	10,320,566	10,660,732
Wastewater improvement	8,171,948	8,546,325
Middlefield Golf Course	754,385	783,333
Middlefield Golf Course/ Residence	346,126	358,224
Middlefield – Golf Carts	7,968	11,866
Water/wastewater Equipment	271,982	62,685
Sub-total	<u>19,872,975</u>	<u>20,423,165</u>
Total	<u>\$ 24,442,950</u>	<u>\$25,375,005</u>

State statutes limit the amount of general obligation debt an Oregon city may issue to 3% of total real market value of all taxable property within its boundary. The current debt limitation for the City is \$28,540,117. Only \$2,395,345 of the outstanding debt is counted within the statutory limitation as the remaining debt is either wholly or partially financed by revenues other than a general tax levy.

Additional information on the City's long-term debt can be found in the notes to the basic financial statements – Note 8, pages 34 through 38.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The General Fund budget reduced spending for the 2011 budget by \$439,691. This is approximately a 5.87 % decrease.

Assessed value growth for the 2011 budget preparation was projected at 2%, and anticipates there will not be any annexations of property to the City. An uncollectible allowance of 6.5% was used.

The amounts available for appropriation in the General Fund budget were estimated to be \$7,048,909 in resources and a carryover of \$1,300,437. The actual carryover for the General Fund budget is \$1,567,536.

General Fund property tax revenues are expected to be \$3,473,000, approximately \$400,900 less than actual for 2010. Franchise fees are expected to be \$28,000 more than budgeted in 2010, however franchise revenues were in excess of budgeted amounts in 2010 by 10.3%.

CITY OF COTTAGE GROVE, OREGON

Management's Discussion and Analysis

The City's water/wastewater rates are adjusted annually. The City has established a three-tiered water rate for improvements to the water treatment plant and distribution system. The rate structure is set to cover all operations and maintenance costs. Since 2008, the City has worked with FCS Group to review utility rates, including revenue needs as well as expenditures. In June 2010, the City adopted new utility rates and rate structures. A financial plan was adopted, outlining rate increases over the next five years.

The System Development Charges are adjusted annually using the construction cost index of the previous 12-month period. However, residential construction continues to be slowed due to the economy. It is difficult to predict when the residential market will return to its previous levels. A consulting firm, FCS Group, continues to assist the City in the process of updating system development charges for transportation, parks, water, wastewater, and storm drainage.

All of these factors were considered when preparing the budget for the 2010-11 fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

Requests for information. This financial report is designed to provide a general overview of the City of Cottage Grove's financial condition and to demonstrate the City's accountability for the money it receives. Questions should be directed to the Finance Department, City of Cottage Grove, 400 Main Street, Cottage Grove, OR 97424, (541) 942-3346.