

BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

The basic financial statements include interrelated sets of financial statements as required by the GASB. The sets of statements include:

- Government-Wide Financial Statements
- Fund Financial Statements
 - Governmental Funds
 - Proprietary Funds

In addition, the notes to the basic financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.



THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF COTTAGE GROVE, OREGON
STATEMENT OF NET ASSETS
June 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,303,471	\$ 2,799,597	\$ 9,103,068
Due from other governments	7,671	-	7,671
Accounts receivable, net	217,240	395,331	612,571
Property taxes receivable	193,559	-	193,559
Inventories	-	204,685	204,685
Internal balances	(312,000)	312,000	-
Other	2,923	-	2,923
Total current assets	6,412,864	3,711,613	10,124,477
Noncurrent assets:			
Assessments receivable	467,056	-	467,056
Notes receivable	18,744	-	18,744
Net pension asset	1,318,403	-	1,318,403
Bond costs and loan fees	15,716	1,920	17,636
Capital assets not being depreciated	29,436,251	2,114,088	31,550,339
Capital assets net of accumulated depreciation	10,933,310	31,392,499	42,325,809
Total noncurrent assets	42,189,480	33,508,507	75,697,987
Total assets	\$ 48,602,344	\$ 37,220,120	\$ 85,822,464
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 742,354	\$ 477,964	\$ 1,220,318
Deposits	-	33,351	33,351
Interest payable	58,447	505,888	564,335
Current portion of long-term debt	641,326	1,062,192	1,703,518
Total current liabilities	1,442,127	2,079,395	3,521,522
Noncurrent liabilities:			
Deposits	9,669	-	9,669
Noncurrent portion of long-term debt	4,533,616	19,435,783	23,969,399
Total noncurrent liabilities	4,543,285	19,435,783	23,979,068
Total liabilities	5,985,412	21,515,178	27,500,590
NET ASSETS			
Invested in capital assets, net of related debt	37,197,493	14,370,516	51,568,009
Restricted for:			
Debt service	40,260	321,394	361,654
Ed Jenks and memorial tree:			
Expendable	9,810	-	9,810
Nonexpendable	3,000	-	3,000
Unrestricted	5,366,369	1,013,032	6,379,401
Total net assets	42,616,932	15,704,942	58,321,874
Total liabilities and net assets	\$ 48,602,344	\$ 37,220,120	\$ 85,822,464

The accompanying notes are an integral part of the basic financial statements.

CITY OF COTTAGE GROVE, OREGON
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Asset		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
General government	\$ 678,782	\$ 375,914	\$ -	\$ -	\$ (302,868)	\$ -	\$ (302,868)
Public safety	3,294,236	29,589	35,000	35,666	(3,193,981)	-	(3,193,981)
Highways and streets	1,150,457	6,872	-	85,633	(1,057,952)	-	(1,057,952)
Culture and recreation	645,002	10,798	34,747	-	(599,457)	-	(599,457)
Community development	1,229,430	13,014	8,000	453,000	(755,416)	-	(755,416)
Interest on long-term debt	298,195	-	-	-	(298,195)	-	(298,195)
Total governmental activities	7,296,102	436,187	77,747	574,299	(6,207,869)	-	(6,207,869)
Business type activities:							
Water	2,101,331	2,316,801	-	-	-	215,470	215,470
Wastewater	2,283,340	2,184,918	24,784	-	-	(73,638)	(73,638)
Storm drainage	240,293	290,784	-	-	-	50,491	50,491
Total business type activities	4,624,964	4,792,503	24,784	-	-	192,323	192,323
Total governmental activities	<u>\$11,921,066</u>	<u>\$ 5,228,690</u>	<u>\$ 102,531</u>	<u>\$ 574,299</u>	<u>(6,207,869)</u>	<u>192,323</u>	<u>(6,015,546)</u>
General revenues:							
Property taxes					3,505,745	-	3,505,745
Public service taxes					1,092,117	-	1,092,117
Franchise taxes					427,472	-	427,472
Grants and contributions not restricted to specific programs					103,039	70,703	173,742
Interest and investment earnings					153,517	54,637	208,154
Other revenues					329,123	-	329,123
Transfers in (out)					146,729	(146,729)	-
Total general revenues and transfers					<u>5,757,742</u>	<u>(21,389)</u>	<u>5,736,353</u>
Change in net assets					(450,127)	170,934	(279,193)
Net assets - beginning					42,973,806	15,277,346	58,251,152
Prior period adjustment					93,253	256,662	349,915
Net assets - ending					<u>\$ 42,616,932</u>	<u>\$15,704,942</u>	<u>\$58,321,874</u>

The accompanying notes are an integral part of the basic financial statements.

FUND FINANCIAL STATEMENTS

Major Governmental Funds

General Fund

The General Fund accounts for the financial resources of the City, which are not accounted for in any other fund. Principal sources of revenue are property taxes, franchise taxes, and state shared revenues. Primary expenditures are for police protection, fire protection, maintenance of parks, operation of the library and community center, and general administration.

Street Fund

This fund was established as a requirement of ORS 366.815. Monies received from the State of Oregon (gasoline tax apportionment) and Lane County are the major sources of revenue. These monies are to be used exclusively for the construction, reconstruction, improvement, repair, maintenance, operation and use of public highways, roads, streets and roadside rest areas in this state.

Industrial Park Fund

This fund was established to provide operations, maintenance and management services for the South Hwy 99 Industrial Park. Revenues and other financing sources are expected to consist primarily of lease revenues and transfers from the Industrial Development Fund.

City Debt Service Fund

This fund is used to accumulate monies derived from monthly water surcharges, which are used for the retirement of principal and interest on the water system improvement loan. Operating transfers are used to accumulate monies for the retirement of principal and interest on the city shop remodel loan and the pension obligation bonds.

Urban Renewal Agency Debt Service Fund

This fund was established to administer the Cottage Grove Redevelopment Project. Major sources of revenue and other financing sources are bond proceeds and interest earnings. The Urban Renewal Agency is a component unit of the City of Cottage Grove.

CITY OF COTTAGE GROVE, OREGON
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2009

	<u>General Fund</u>	<u>Street Fund</u>	<u>Industrial Park Fund</u>	<u>City Debt Service Fund</u>
ASSETS				
Cash and cash equivalents	\$ 1,819,461	\$ 206,900	\$ 1,079,447	\$ 3,558
Due from other governments	7,671	-	-	-
Accounts receivable	126,565	90,365	-	-
Property taxes receivable	193,559	-	-	-
Assessments receivable	-	-	467,056	-
Notes receivable	-	-	-	-
Other	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,147,256</u>	<u>\$ 297,265</u>	<u>\$ 1,546,503</u>	<u>\$ 3,558</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 503,429	\$ 39,300	\$ 1,636	\$ -
Deposits	8,637	-	-	-
Interfund loan payable	-	-	312,000	-
Deferred revenue	193,559	-	467,056	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>705,625</u>	<u>39,300</u>	<u>780,692</u>	<u>-</u>
FUND BALANCES:				
Reserved for:				
Debt service	36,702	-	-	3,558
Public library	-	-	-	-
Unreserved, reported in:				
General fund	1,404,929	-	-	-
Special revenue fund	-	257,965	765,811	-
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund equity	<u>1,441,631</u>	<u>257,965</u>	<u>765,811</u>	<u>3,558</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund equity	<u>\$ 2,147,256</u>	<u>\$ 297,265</u>	<u>\$ 1,546,503</u>	<u>\$ 3,558</u>

Amounts reported in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.

Deferred revenue
Bond cost
Pension asset

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Interest payable
Long-term debt

Net Assets

The accompanying notes are an integral part of the basic financial statements.

Urban Renewal Agency Debt Service Fund	Other Governmental	Total Governmental
\$ 1,213,030	\$ 1,981,075	\$ 6,303,471
-	-	7,671
-	310	217,240
-	-	193,559
-	-	467,056
-	18,744	18,744
-	2,923	2,923
<u>\$ 1,213,030</u>	<u>\$ 2,003,052</u>	<u>\$ 7,210,664</u>
\$ -	\$ 197,989	\$ 742,354
-	1,032	9,669
-	-	312,000
-	18,744	679,359
<u>-</u>	<u>217,765</u>	<u>1,743,382</u>
-	-	40,260
-	3,000	3,000
-	-	1,404,929
-	984,063	2,007,839
1,213,030	788,414	2,001,444
-	9,810	9,810
<u>1,213,030</u>	<u>1,785,287</u>	<u>5,467,282</u>
<u>\$ 1,213,030</u>	<u>\$ 2,003,052</u>	
		40,369,561
	679,359	
	15,716	
	<u>1,318,403</u>	2,013,478
	(58,447)	
	<u>(5,174,942)</u>	<u>(5,233,389)</u>
		<u>\$ 42,616,932</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF COTTAGE GROVE, OREGON
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2009

	General Fund	Street Fund	Industrial Park Fund	City Debt Service Fund
REVENUES:				
Intergovernmental	\$ 326,571	\$ 358,244	\$ -	\$ -
Charges for services	27,315	-	-	-
Property taxes	3,490,164	-	-	-
Franchise taxes	427,472	-	-	-
Licenses and permits	6,459	-	-	-
Fines and forfeitures	173,747	-	-	-
Property sales	-	-	30,691	-
Special assessments	-	-	-	-
Local fuels tax	-	319,128	-	-
Interest	46,379	2,430	23,173	299
Miscellaneous	683,031	6,845	14	-
Room tax	99,540	-	-	-
Administration and engineering fees	437,590	-	-	-
Total revenues	<u>5,718,268</u>	<u>686,647</u>	<u>53,878</u>	<u>299</u>
EXPENDITURES:				
Current:				
General government	1,842,993	-	-	-
Public safety	2,062,539	-	-	-
Highways and streets	-	479,286	-	-
Culture and recreation	580,711	-	-	-
Community development	920,173	-	85,588	-
Capital outlay	741,283	31,050	-	-
Debt service:				
Principal	171,066	-	42,774	161,149
Interest	53,269	-	59,946	190,304
Total expenditures	<u>6,372,034</u>	<u>510,336</u>	<u>188,308</u>	<u>351,453</u>
Revenues over (under) expenditures	(653,766)	176,311	(134,430)	(351,154)
OTHER FINANCING SOURCES (USES):				
Issuance of debt	800,000	-	-	-
Transfers in	-	-	-	350,707
Transfers out	(490,020)	(73,075)	-	-
Total other financing sources (uses)	<u>309,980</u>	<u>(73,075)</u>	<u>-</u>	<u>350,707</u>
Net changes in fund balances	(343,786)	103,236	(134,430)	(447)
FUND BALANCES, BEGINNING	<u>1,785,417</u>	<u>154,729</u>	<u>900,241</u>	<u>4,005</u>
FUND BALANCES, ENDING	<u>\$ 1,441,631</u>	<u>\$ 257,965</u>	<u>\$ 765,811</u>	<u>\$ 3,558</u>

The accompanying notes are an integral part of the basic financial statements.

Urban Renewal Agency Debt Service Fund	Other Governmental	Total Governmental
\$ -	\$ 205,086	\$ 889,901
-	217,261	244,576
-	-	3,490,164
-	-	427,472
-	-	6,459
-	-	173,747
-	-	30,691
-	11,405	11,405
-	-	319,128
23,045	58,191	153,517
-	9,740	699,630
-	-	99,540
-	-	437,590
23,045	501,683	6,983,820
-	200	1,843,193
-	1,166,603	3,229,142
-	39,479	518,765
-	15,781	596,492
-	213,116	1,218,877
-	803,563	1,575,896
-	-	374,989
-	-	303,519
-	2,238,742	9,660,873
23,045	(1,737,059)	(2,677,053)
-	-	800,000
-	396,410	747,117
-	(37,293)	(600,388)
-	359,117	946,729
23,045	(1,377,942)	(1,730,324)
1,189,985	3,163,229	7,197,606
\$ 1,213,030	\$ 1,785,287	\$ 5,467,282

The accompanying notes are an integral part of the basic financial statements.

CITY OF COTTAGE GROVE, OREGON
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

Amounts reported in the statement of activities are different because:

Net change in fund balances \$ (1,730,324)

The statement of revenues, expenditures, and changes in fund balances report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Current year depreciation	(796,553)	
Capital asset	<u>2,700,677</u>	1,904,124

Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds. (140,113)

Contributions to pensions plans use current financial resources from governmental funds, but created a net pension asset. (69,389)

Bond issue cost are expenditures to governmental funds, but are deferred assets in the statement of net assets. (838)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	6,100	
Accrued interest expense	<u>5,324</u>	11,424

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount by which proceeds exceeded repayments.

Debt service principal payments	374,989	
Issuance of debt	<u>(800,000)</u>	<u>(425,011)</u>

Change in net assets of governmental activities \$ (450,127)

FUND FINANCIAL STATEMENTS

Proprietary Funds

These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body 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 Drain.

Water Operations

Water Fund

Financial activities of the city-owned water utility operations are recorded in this fund. Sales of water and related charges are the major revenue sources.

Water Systems Development Fund

This fund was established to accumulate monies derived from water systems development charges for facility expansion or improvement. The use of these funds is restricted by City ordinance.

Water Reserve Fund

This fund was established to accumulate monies for capital improvements to the City's water system as well as for the purchase of capital equipment. Transfers are the major source of financing.

Wastewater Operations

Wastewater Fund

Financial activities of the city-owned sewer service are accounted for in this fund. Wastewater charges are the major revenue source.

Wastewater Systems Development Charge Fund

This fund was established to accumulate monies derived from wastewater systems development charges for facility expansion or improvement. The use of these funds is restricted by City ordinance.

Wastewater Reserve Fund

This fund was established to accumulate monies for capital improvements to the City's wastewater system as well as for the purchase of capital equipment. Transfers as well as a surcharge assessed to all wastewater customers are the major sources of revenue.

Storm Drain Operations

Storm Drainage Utility Fund

Financial activities of the city-owned storm drainage system are accounted for in this fund. Revenues consist primarily of storm drainage charges.

Storm Drainage Systems Development Fund

This fund was established to accumulate monies derived from storm drainage systems development charges for facility expansion or improvement. The use of these funds is restricted by City ordinance.

Storm Drainage Reserve Fund

This fund was established to accumulate monies for capital improvements to the City's storm drainage system as well as for the purchase of capital equipment. A surcharge assessed to all utility customers is the major source of revenue.

For Generally Accepted Accounting Principles purposes, these aforementioned funds are consolidated and included as three separate Enterprises funds.

CITY OF COTTAGE GROVE, OREGON
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2009

	Business-Type Activities - Enterprise Funds			
	Water Operations	Wastewater Operations	Storm Drain Operations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,381,874	\$ 448,388	\$ 969,335	\$ 2,799,597
Accounts receivables, net	201,125	170,041	24,165	395,331
Inventories	171,062	33,623	-	204,685
Interfund loan receivable	-	-	312,000	312,000
Total current assets	1,754,061	652,052	1,305,500	3,711,613
Noncurrent assets:				
Loan fees, net of amortization	-	1,920	-	1,920
Capital assets not being depreciated	136,616	1,945,481	31,991	2,114,088
Capital assets net of accumulated depreciation	15,163,222	14,954,403	1,274,874	31,392,499
Total noncurrent asset	15,299,838	16,901,804	1,306,865	33,508,507
Total assets	\$ 17,053,899	\$ 17,553,856	\$ 2,612,365	\$ 37,220,120
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Current liabilities:				
Accounts payable	\$ 359,012	\$ 105,220	\$ 13,732	\$ 477,964
Deposits	33,351	-	-	33,351
Interest payable	392,570	113,318	-	505,888
Current portion of long-term debt	594,866	454,870	12,456	1,062,192
Total current liabilities	1,379,799	673,408	26,188	2,079,395
Noncurrent liabilities:				
Noncurrent portion of long-term debt	10,122,241	9,292,613	20,929	19,435,783
Total noncurrent liabilities	10,122,241	9,292,613	20,929	19,435,783
Total liabilities	11,502,040	9,966,021	47,117	21,515,178
NET ASSETS:				
Invested in capital assets, net of related debt	5,909,453	7,183,389	1,277,674	14,370,516
Restricted for:				
Debt Service	-	321,394	-	321,394
Unrestricted	(357,594)	83,052	1,287,574	1,013,032
Total net assets	5,551,859	7,587,835	2,565,248	15,704,942
Total liabilities and net assets	\$ 17,053,899	\$ 17,553,856	\$ 2,612,365	\$ 37,220,120

The accompanying notes are an integral part of the basic financial statements.

CITY OF COTTAGE GROVE, OREGON
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
For the Fiscal Year Ended June 30, 2009

	Business-Type Activities - Enterprise Funds			
	Water Operations	Wastewater Operations	Storm Drain Operations	Total
OPERATING REVENUES:				
Charges for services	\$ 2,256,842	\$ 2,141,496	\$ 290,030	\$ 4,688,368
Special assessments	11,089	18,685	-	29,774
Miscellaneous	48,870	24,737	754	74,361
Total operating revenues	2,316,801	2,184,918	290,784	4,792,503
OPERATING EXPENSES:				
Cost of sales and services	1,043,658	1,217,010	92,674	2,353,342
Administration	138,304	255,188	97,466	490,958
Depreciation and amortization	410,362	484,708	48,604	943,674
Total operating expenses	1,592,324	1,956,906	238,744	3,787,974
Operating income (loss)	724,477	228,012	52,040	1,004,529
NON-OPERATING INCOME (EXPENSE):				
Grants	-	24,784	-	24,784
Interest income	20,917	12,982	20,738	54,637
Interest expense	(509,007)	(326,434)	(1,549)	(836,990)
Total non-operating income (expenses)	(488,090)	(288,668)	19,189	(757,569)
Net income (loss) before contributions and transfers	236,387	(60,656)	71,229	246,960
CONTRIBUTIONS:				
Capital contributions	34,263	29,290	7,150	70,703
TRANSFERS:				
Transfers in (out)	(38,474)	(79,440)	(28,815)	(146,729)
Change in net assets	232,176	(110,806)	49,564	170,934
NET ASSETS, BEGINNING	5,219,871	7,583,291	2,474,184	15,277,346
Prior period adjustment	99,812	115,350	41,500	256,662
NET ASSETS, ENDING	<u>\$ 5,551,859</u>	<u>\$ 7,587,835</u>	<u>\$ 2,565,248</u>	<u>\$ 15,704,942</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF COTTAGE GROVE, OREGON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

	Business-Type Activities - Enterprise Funds			
	Water Operations	Wastewater Operations	Storm Drain Operations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,850,641	\$ 2,167,658	\$ 289,826	\$ 5,308,125
Cash paid to employees and others for salaries and benefits	(438,880)	(241,850)	(87,208)	(767,938)
Cash paid to suppliers and others	(1,368,609)	(1,208,364)	(98,405)	(2,675,378)
Net cash provided (used) by operating activities	1,043,152	717,444	104,213	1,864,809
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers out	(38,474)	(79,440)	(28,815)	(146,729)
Principal paid on debt	(40,814)	-	-	(40,814)
Interest paid	(68,000)	-	-	(68,000)
Net cash provided (used) by non-capital financing activities	(147,288)	(79,440)	(28,815)	(255,543)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	1,067,577	-	-	1,067,577
Purchase of capital assets	(1,811,949)	(322,222)	(228,383)	(2,362,554)
Principal paid on capital debt	(228,155)	(437,176)	(7,949)	(673,280)
Interest paid on capital debt	(47,063)	(334,140)	(1,549)	(382,752)
Capital grants	-	24,784	-	24,784
Net cash provided (used) by capital and related financing activities	(1,019,590)	(1,068,754)	(237,881)	(2,326,225)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	20,917	12,982	20,738	54,637
Net cash provided by investing activities	20,917	12,982	20,738	54,637
Net increase (decrease) in cash and cash equivalents	(102,809)	(417,768)	(141,745)	(662,322)
CASH AND CASH EQUIVALENTS, BEGINNING	1,484,683	866,156	1,111,080	3,461,919
CASH AND CASH EQUIVALENTS, ENDING	\$ 1,381,874	\$ 448,388	\$ 969,335	\$ 2,799,597
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 724,477	\$ 228,012	\$ 52,040	\$ 1,004,529
Adjustments				
Depreciation and amortization	410,362	484,708	48,604	943,674
Decrease (increase) in:				
Accounts receivable	525,658	(17,260)	(958)	507,440
Inventories	(4,024)	(1,596)	-	(5,620)
Increase (decrease) in:				
Accounts payable and accrued expenses	(622,298)	10,259	4,507	(607,532)
Deposits	8,182	-	-	8,182
Accrued compensated absences	795	13,321	20	14,136
Net cash provided by operating activities	\$ 1,043,152	\$ 717,444	\$ 104,213	\$ 1,864,809
NON-CASH CAPITAL FINANCING ACTIVITIES				
Capital asset contributions	\$ (99,812)	\$ 29,290	\$ 7,150	\$ -

The accompanying notes are an integral part of the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

(1) Summary of Significant Accounting Policies

A. Description of Reporting Entity

The City is a municipal corporation governed by an elected mayor and six-member council. As required by GAAP, these financial statements present the government and its component unit (Cottage Grove Urban Renewal Agency), entities for which the government is considered to be financially accountable.

Cottage Grove Urban Renewal Agency – The Agency was formed to plan, direct, and manage certain projects within Cottage Grove. Pursuant to ORS 457.055 and under Lane County’s order no. 86-8-27-1H, the City Council has been appointed governing body of the Agency. The Urban Renewal Agency Capital Projects Fund and Urban Renewal Agency Debt Service Fund are reported as governmental fund types.

Blended component units, although legally separate entities are, in substance, part of the government’s operations and so data from these units are combined with data of the primary government. The Cottage Grove Urban Renewal Agency has a June 30 year-end. The Cottage Grove Urban Renewal Agency is governed by the City Council of the City of Cottage Grove.

B. Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Government-wide statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include all the financial activities of the City, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. The statement of activities presents a comparison between direct expenses and program revenues for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements

These statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, and fiduciary, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column in the financial section of the basic financial statements and are detailed in the supplemental information.

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

C. Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The new GASB 34 model sets forth minimum criteria (percentage of the assets liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. Non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The City reports the following major governmental funds:

- *General Fund*
- *Street Fund*
- *Industrial Park Operations Fund*
- *City Debt Service Fund*
- *Urban Renewal Agency Capital Projects Fund*

Additionally, the City reports the following non-major governmental funds within the governmental fund type:

- *Special Revenue Funds*
These funds account for revenues derived from specific taxes or other earmarked revenue sources, including state gas tax and state revenue sharing entitlements, which are legally restricted to expenditures for specified purposes.
- *Debt Service Fund*
This fund is used to retire urban renewal bond principal and interest from property taxes.
- *Capital Project Funds*
These funds are used to account for financial resources to be used for the acquisition or construction of major capital items and facilities not financed in the Proprietary Funds.

The City reports each of its three proprietary funds as major funds. These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body 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 Drain. The City reports the following proprietary funds:

- *Water Operations*
Water Fund (budgetary basis financial statements only)
Water Systems Development Fund (budgetary basis financial statements only)
Water Reserve Fund (budgetary basis financial statements only)
- *Wastewater Operations*
Wastewater Fund (budgetary basis financial statements only)
Wastewater Systems Development Fund (budgetary basis financial statements only)
Wastewater Reserve Fund (budgetary basis financial statements only)

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

- *Storm Drain Operations*
 - Storm Drainage Utility Fund (budgetary basis financial statements only)
 - Storm Drainage Systems Development Fund (budgetary basis financial statements only)
 - Storm Drainage Reserve Fund (budgetary basis financial statements only)

D. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded with the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

The government-wide financial statements and the Proprietary Funds Financial Statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement *focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term compensated absences are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

A deferred revenue liability arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable deferred revenue consists primarily of uncollected property taxes and assessments not deemed available to financial operation of the current period. In the government-wide Statement of Net Assets, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the Governmental Fund Balance Sheet for unavailable deferred revenue is eliminated. Note that deferred revenues also arise outside the scope of measurement focus and bases of accounting, such as when the City receives resources before it has a legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as fund liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

are recorded as expenditures only to the extent that they are expended to be liquidated with expendable financial resources such as any unused reimbursable leave outstanding at the time of an employee's resignation or retirement. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's Water, Wastewater, and Storm Drain are charges to customers for sales and services. The Water, Wastewater, and Storm Drain Funds also recognize fees intended to recover the cost of connecting new customers to the City's utility systems as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and overheads, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The proprietary financial statements have incorporated all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

E. Cash and Cash Equivalents

For purposes of the statements of cash flows, the City considers cash equivalents as all highly liquid debt instruments purchased with maturity of three months or less.

Investments included in cash and cash equivalents are reported at fair value. The City invests in the State of Oregon Local Government Investment Pool, which is authorized by Oregon Revised Statutes. Interest earned from pooled investments is allocated based on a fund's portion of the total investment balance. The City maintains depository insurance under Federal depository insurance funds and state and financial institution collateral pools for its cash deposits and investments, except the Local Government Investment Pool, which is exempt from statutes requiring such insurance.

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

F. Receivables and Payables

Property taxes receivable in the Governmental Fund Types, which have been collected within sixty days following year end, are considered measurable and available and are recognized as revenues in Governmental Funds.

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Receivables of the proprietary funds are recognized as revenue when earned, including services provided but not billed. Management believes that any uncollectible accounts included in the governmental fund receivable balances are not significant, and therefore no provision for uncollectible accounts has been made. Receivables in proprietary funds are stated net of an allowance for uncollectible accounts.

G. Inventories

Inventories in the Water and Wastewater Funds consist of expendable supplies held for maintenance and improvements. Inventories are stated at cost on a first-in/first-out basis and charged to expenses as used.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, street lights, etc.) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are charged to expenditures as purchased in the governmental fund statements, and capitalized in the proprietary fund statements. Capital assets are recorded at historical cost, or estimated historical cost if actual cost is not available. Infrastructure acquired prior to fiscal years ended after June 30, 1980 is not reported in capital assets. Donated capital assets are recorded at their estimated fair market value at the time received.

Capital assets are defined by the City as assets with an initial, individual cost of \$2,500 or more, and having useful lives extending beyond a single reporting period. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets and is provided on the straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	50
Improvements	20
Utility Systems & Infrastructure	20 -50
Vehicles	5-10
Furniture & Equipment	5 - 10

Monthly depreciation is taken in the year the assets are acquired or retired. Gains or losses from sales or retirements of capital assets are included in operations of the current period.

I. Deferred Revenues

Deferred revenues represent uncollected property taxes and other revenues not deemed available to finance operations of the current period.

J. Compensated Absences

Accumulated vested vacation pay is accrued as it is earned. For governmental funds, accumulated vested vacation pay is maintained separately and represents a reconciling item between the fund-level and government-wide presentations. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Funds used to liquidate accrued compensated absences included the general fund, street fund, fire service fund, narcotics forfeiture fund, building inspection fund, water fund, ambulance fund, wastewater fund, and storm drainage fund.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are treated as period costs in the year of issue and are shown as other financial uses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financial sources while discounts on debt proceeds received are reported as debt service expenditures.

L. Net Assets and Fund Equity

In the government-wide financial statements and proprietary funds financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The nonexpendable portion of permanent funds is reported as a component of restricted net assets. The City's other restricted net assets are temporarily restricted (ultimately expendable) assets. All other net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance for amount that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

M. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

N. Interfund Services Provided and Used

Sales and purchases of goods and services between funds are reported at a price approximating their external exchange value. Engineering and administrative services are reported between functions and are included within materials and services. These services are reported as internal charges on the government-wide financial statements.

(2) Cash and Investments

At June 30, 2009 investments included in cash and cash equivalents consist of the following:

	<u>Weighted Average Maturity (Years)</u>	<u>Fair Value</u>
Investments in the State Treasurer's Local Government Investment Fund	0.00	\$ 7,705,133

A. Interest rate risk

The City does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

B. Credit risk

State statutes authorize the City to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the State Treasurer's Oregon Local Government Investment Pool, among others. The City has no investment policy that would further limit its investment choices. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations, but is not regulated by other laws, organizations or regulations. The reported value of the Pool is the same as the fair value of Pool shares. Investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

Council (ORS 294.805 to 294.895). The State Treasurer's Oregon Local Government Investment Pool is not registered with the SEC as an investment company and is unrated.

C. Concentration of credit risk

All investments of the City shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), ORS 294.145 (Prohibited conduct for custodial officer), ORS 294.805 to 294.895 (Local Government Investment Pool). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this investment policy immediately upon being enacted.

D. Custodial credit risk – deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. ORS Chapter 295 governs the collateralization of Oregon public funds and provides the statutory requirements for the Public Funds Collateralization Program. The Public Funds Collateralization Program was created by the Office of the State Treasurer to facilitate bank depository, custodian and public official compliance with ORS 295. Bank depositors, which are part of a shared liability pool, are required to pledge collateral against any public funds deposits in excess of deposit insurance amounts. ORS 295 sets the specific value of the collateral, as well as the type of collateral that are acceptable. Oregon Revised Statutes require the depository institution to pledge collateral against any public funds deposits in excess of deposit insurance amounts. Depositories are required to pledge collateral valued from 10% to 110% of their quarter-end public fund deposits.

The City's total bank balance, at June 30, 2009, shown on the bank statements was \$2,141,679. Of these deposits, \$500,000 was covered by federal depository insurance. The remaining balance of \$1,641,679 was uninsured, but collateralized with securities held by the pledging financial institution's agent, but not in the government's name. This City's deposits are in compliance with state statutes.

(3) Special Assessments Receivable

Special assessments receivable represent the uncollected amounts levied against benefited property for the cost of local improvements. Because the assessments are liens against the benefited property, an allowance for uncollectible amounts is not deemed necessary. Assessments receivable are offset by deferred revenue and, accordingly, have not been recorded as revenue.

(4) Receivables

Revenues of Water, Wastewater, and Storm Drain Funds are reported net of uncollectible amounts. Total uncollectible amounts are as follows:

Uncollectibles related to water sales	\$ 4,310
Uncollectibles related to wastewater charges	2,500
Uncollectibles related to storm drain charges	<u>1,000</u>
Total uncollectibles of the current fiscal year	<u>\$ 7,810</u>

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

(5) Property Tax Calendar

Real and personal property taxes are levied in July of each fiscal year. Property taxes attach as an enforceable lien on property as of July 1, and are payable in three installments on November 15, February 15, and May 15. All property taxes are billed and collected by Lane County and remitted to the City. Uncollected taxes, including delinquent amounts, are considered substantially collectible or recoverable through liens, and accordingly no allowance for uncollected taxes has been established.

(6) Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Prior Period Adjustment</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>					
Land	\$ 25,798,483	\$ -	\$ 640,315	\$ -	\$ 26,438,798
Construction in Progress	1,408,069	-	1,716,764	(127,380)	2,997,453
Total capital assets, not being depreciated	27,206,552	-	2,357,079	(127,380)	29,436,251
<i>Capital assets, being depreciated:</i>					
Buildings	3,507,062	-	231,333	-	3,738,395
Motor vehicles and equipment	1,103,672	-	-	(4,040)	1,099,632
Office Furniture and equipment	291,986	-	10,126	-	302,112
Infrastructure	20,132,259	93,253	319,193	-	20,544,705
Total capital assets, being depreciated	25,034,979	93,253	560,652	(4,040)	25,684,844
<i>Less accumulated depreciation for:</i>					
Buildings	(826,606)	-	(89,464)	-	(916,070)
Motor vehicles and equipment	(752,940)	-	(78,052)	4,040	(826,952)
Office Furniture and equipment	(264,269)	-	(9,070)	-	(273,339)
Infrastructure	(12,111,165)	-	(624,008)	-	(12,735,173)
Total accumulated depreciation	(13,954,980)	-	(800,594)	4,040	(14,751,534)
Total capital assets, being depreciated, net	11,079,999	93,253	(239,942)	-	10,933,310
Governmental activities capital assets, net	\$ 38,286,551	\$ 93,253	\$ 2,117,137	\$ (127,380)	\$ 40,369,561

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Prior Period Adjustment</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>					
Land	\$ 2,113,002	\$ -	\$ -	\$ -	\$ 2,113,002
Construction in Progress	8,205,788	-	1,086	(8,205,788)	1,086
Total capital assets, not being depreciated	10,318,790	-	1,086	(8,205,788)	2,114,088
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	1,558,513	-	41,509	-	1,600,022
Land improvements	1,260,000	-	-	-	1,260,000
Motor vehicles and equipment	1,527,838	-	22,550	(8,203)	1,542,185
Office furniture and equipment	13,598	-	-	-	13,598
Utility systems	25,088,757	-	9,892,171	-	34,980,928
Infrastructure	625,523	256,662	681,728	-	1,563,913
Total capital assets, being depreciated	30,074,229	256,662	10,637,958	(8,203)	40,960,646
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(187,101)	-	(36,567)	-	(223,668)
Land improvements	(126,000)	-	(84,000)	-	(210,000)
Motor vehicles and equipment	(1,172,008)	-	(103,586)	8,203	(1,267,391)
Office furniture and equipment	(13,598)	-	-	-	(13,598)
Utility systems	(7,110,011)	-	(692,212)	-	(7,802,223)
Infrastructure	(24,080)	-	(27,189)	-	(51,269)
Total accumulated depreciation	(8,632,798)	-	(943,554)	8,203	(9,568,149)
Total capital assets, being depreciated, net	21,441,431	256,662	9,694,404	-	31,392,497
Governmental activities capital assets, net	\$ 31,760,221	\$ 256,662	\$ 9,695,490	\$ (8,205,788)	\$ 33,506,585

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 91,986
Highways and streets	628,125
Public safety	37,137
Culture and recreation	<u>43,346</u>
Total depreciation expense - governmental activities	<u>\$ 800,594</u>

Business-type activities:

Water	\$ 410,362
Wastewater	484,588
Storm drain	<u>48,604</u>
Total depreciation expense - business-type activities	<u>\$ 943,554</u>

(7) Interfund Receivables, Payables, and Transfers

A. Interfund loans receivable and payable are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Storm Drain	Industrial Park	<u>\$ 312,000</u>

In June 2005, the City Council authorized an interfund loan to the industrial Park Operations Fund from the Storm Drain System Development Charges Fund, in the amount of \$252,000. The loan is to be repaid no later than fiscal year 2009-10, with interest in an amount equal to the average daily interest rates paid by the Local Government Investment Pool for the duration of the loan. An additional interfund loan from the Storm Drain System Development Charges Fund was made in June 2006 in the amount of \$60,000, with the same terms for interest, to be repaid no later than fiscal year 2010-11. Both loans were made for the purpose of debt retirement for the construction of the industrial park improvements.

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

B. Interfund transfers between governmental and business-type activities are reported as net transfers in the Statement of Activities. Details of the transfers between governmental and business-type activities are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds:		
General Fund	\$ 435,555	\$ 519,609
Street Fund	-	73,075
City Debt Service Fund	<u>1,487,035</u>	<u>-</u>
Total Major Governmental Funds	<u>1,922,590</u>	<u>592,684</u>
Non-major Governmental Funds:		
Building Inspection Program Fund	-	1,023
Police Communication Fund	318,784	8,265
General Reserve Fund	107,215	26,916
Narcotics Forfeiture Fund	-	3,706
Bicycle and Foot Path	<u>-</u>	<u>1,185</u>
Total Non-major Governmental Funds	<u>425,999</u>	<u>41,095</u>
Proprietary Funds:		
Water Fund	-	100,203
Water System Development Fund	-	8,148
Water Reserve Fund	-	501,666
Wastewater Fund	-	199,919
Wastewater System Development Fund	-	19,292
Wastewater Reserve Fund	-	769,981
Storm Drainage Utility Fund	-	10,712
Storm System Development Fund	-	18,001
Strom Drainage Reserve Fund	<u>-</u>	<u>63,825</u>
Total Proprietary Funds	<u>-</u>	<u>1,691,747</u>
Capital Project Funds:		
Street System Development Fund	-	22,788
Park System Development Fund	<u>-</u>	<u>275</u>
Total Capital Project Funds	<u>-</u>	<u>23,063</u>
Total All Funds	<u>\$ 2,348,589</u>	<u>\$ 2,348,589</u>

Interfund transfers are used to provide funds for debt service and general operations and contribute to the cost of capital projects.

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

(8) Long Term Debt

A. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, long-term liability activity was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities					
Bonds and notes payable:					
Bonds	\$ 2,451,698	\$ -	\$ 27,257	\$ 2,424,441	\$ 29,095
Loans	<u>2,075,131</u>	<u>800,000</u>	<u>347,732</u>	<u>2,527,399</u>	<u>389,129</u>
Total bonds and notes payable	4,526,829	800,000	374,989	4,951,840	418,224
Compensated absences	<u>229,202</u>	<u>223,102</u>	<u>229,202</u>	<u>223,102</u>	<u>223,102</u>
Total Governmental Activities	<u>\$ 4,756,031</u>	<u>\$ 1,023,102</u>	<u>\$ 604,191</u>	<u>\$ 5,174,942</u>	<u>\$ 641,326</u>
Business-type Activities					
Loans	\$ 19,905,767	\$ 1,203,221	\$ 685,823	\$ 20,423,165	\$ 987,382
Compensated absences	<u>88,945</u>	<u>74,810</u>	<u>88,945</u>	<u>74,810</u>	<u>74,810</u>
Total Business-type Activities	<u>\$ 19,994,712</u>	<u>\$ 1,278,031</u>	<u>\$ 774,768</u>	<u>\$ 20,497,975</u>	<u>\$ 1,062,192</u>

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

B. Bonds Payable

Governmental Activities

During 2000-2001, the City of Cottage Grove issued \$700,000 of Rural Development Revenue Bonds, to finance Industrial Park Construction. The bonds are being repaid from revenues from the Industrial Park. In accordance with the loan conditions with the United States Department of Agriculture, Rural Development Department, the city is to establish a reserve account for future loan payments in the event that the City were to become delinquent or unable to make the required loan payment from the Industrial Park Operations Fund. The reserve account is to be accumulated to a minimum of \$36,702. \$ 644,669

During 2001-02, the City issued \$1,860,891 of Limited Tax Pension Obligations, Series 2002A and Series 2002B. The Series 2002A are deferred interest obligations, while the Series 2002B are current interest obligations. The proceeds from these limited tax bonds were used to finance the estimated unfunded actuarial liability with the Oregon Public Employees Retirement System (PERS). The 2002A Obligations were issued as deferred interest obligations, with interest payable only at maturity, and compounded semiannually at June 1 and December 1. The 2002B obligations were issued as current interest obligations, with interest payable on June 1 and December 1 of each year until maturity or earlier prepayment. The bonds carry interest rates varying from 2.0 to 7.41%, with an average yield of about 7%. 1,779,772

Total bonds payable \$ 2,424,441

General obligation bonded debt requirements are summarized below:

Year Ending	Governmental Activities			
	June 30	Principal	Interest	Total
2010	\$ 29,095	\$ 147,898	\$ 176,993	
2011	33,422	153,575	186,997	
2012	34,560	157,433	191,993	
2013	35,543	161,450	196,993	
2014	38,532	168,461	206,993	
2015-2019	205,989	938,979	1,144,968	
2020-2024	742,374	640,255	1,382,629	
2025-2029	943,348	243,131	1,186,479	
2030-2034	125,522	78,458	203,980	
2035-2039	160,203	43,777	203,980	
2040-2044	75,853	5,736	81,589	
Total	<u>\$ 2,424,441</u>	<u>\$ 2,739,153</u>	<u>\$ 5,163,594</u>	

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

C. Notes and Loans Payable

Governmental Activities

In July 1996, the City entered into a loan agreement with the State of Oregon Economic Development Department for a portion of the financing for the development of an industrial park. This loan was for the principal amount of \$663,922. Under the loan agreement, the state holds and invests all amounts not required by the City of construction and is to remit to the City the entire principal amount and all accumulated interest earnings accruing on the loan principal balance. The City received loan advances totaling \$455,394 in prior years and withdrew the remaining balance of the loan in 2001-02 as construction on the industrial park concluded.	\$ 443,055
During 1998-99 the City received a \$1,585,000 loan to remodel the City Shop. The loan is repayable in semiannual installments of \$59,992 plus one installment of \$1,367,381, including interest at 4.22% per annum. The loan is secured by a City owned parcel of undeveloped land and proceeds from the sale of the old city shop.	546,239
In August of 2006, the City received a \$346,946 loan to purchase a parcel of land adjacent to Trail Head Park. The loan is repayable over a 60 month period in semiannual payments of approximately \$35,627, including interest at 4.85% per annum.	183,326
In October 2007, the City received a \$172,368, 4.57% loan from US Bank for the purchase of a 2007 Elgin Eagle Street Sweeper. This is a 5-year loan being repaid 90% from street fund revenues and 10% being paid from the Storm Reserve Fund.	128,740
In January 2008, the City received a \$529,540 equipment lease/purchase funding from Key Government Finance for optical and wireless networking equipment in conjunction with the development of the high-speed broadband services to the community for use by South Lane School District, Public Safety services, business/commercial, and other public users. The lease/purchase loan is being repaid over a 5-year period from the General Fund.	426,039
Note payable obligation for optical and wireless networking equipment, secured by the asset, payable in monthly installments of \$63,046 including interest at an effective rate of 4.8% per annum, maturing in fiscal year 2023.	800,000
Total notes and loans payable	<hr/> <u>\$ 2,527,399</u>

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

Annual debt service requirements to maturity for the above notes and loans are as follows:

Year Ending	Governmental Activities			
	June 30	Principal	Interest	Total
2010	\$	389,129	\$ 127,101	\$ 516,230
2011		408,281	106,039	514,320
2012		359,594	84,480	444,074
2013		319,035	66,208	385,243
2014		165,665	51,350	217,015
2015-2019		503,176	168,196	671,372
2020-2024		382,519	43,743	426,262
Total	\$	<u>2,527,399</u>	\$ <u>647,117</u>	\$ <u>3,174,516</u>

Business-Type Activities

In February 1991, the City received a \$2,796,282, 6.5% loan from the State of Oregon Economic Development Department for construction of improvements to the City's water system. This 20-year loan is being repaid from user assessments. \$ 487,994

During fiscal year 2006, \$887,718 was disbursed on CWSRF loan #R24573. \$123,459 of these proceeds was federal funds, and \$764,259 was state funds. The City made an interest-only payment of \$445,311 on March 1 2007 and will be required to repay the loan in semiannual installments of \$297,259, including interest at 3.60% and annual payments of fees of 0.5% beginning in fiscal year 2007. 8,546,325

In December of 2006, the City received an \$850,000 loan for the purchase of the Middlefield Golf Course. This loan is repayable over 20 years in semiannual payments of approximately \$33,964, including interest at 4.975% per annum. However, the entire balance is payable on demand at the creditor's option. Accordingly, the entire principal balance has been classified as current in the financial statements even though liquidation of the entire balance is not expected in one year. The loan is secured by the assignment of all rents from the Middlefield Golf Course. 783,333

In June of 2007, the City received a \$375,000 loan for the purchase of a property adjacent to the Middlefield Golf Course and the residence thereon. This loan is repayable over 20 years in semiannual payments of approximately \$15,007, including interest at 4.975%. The loan is unsecured. 358,224

During fiscal year 2006, \$1,515,345 was disbursed on State of Oregon Economic Development Department loan G05001; the City received additional disbursements in the amount of \$964,655 and \$135,644 during fiscal years 2008 and 2009, respectively. Note is payable in monthly installments of approximately \$180,000, including interest at an effective rate ranging between 3% - 5.25% per annum, maturing in fiscal year 2033. Funding is for construction of improvements to the City Water Treatment facilities and replacement of 7.5 miles of transmission lines from one of the City's facilities to its reservoirs 2,615,644

During fiscal year 2008, \$5,202,423 was disbursed on State of Oregon Economic Development Department Loan S05001; the City received additional disbursements in the amount of \$1,067,577 during fiscal year 2009. Note is payable in monthly installments of approximately \$462,000, including interest at an effective rate of 4.01% per annum, 6,270,000

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

maturing in fiscal year 2028. Funding is for construction of improvements to the City Water Treatment facilities and replacement of 7.5 miles of transmission lines from one of the City's facilities to its reservoirs.

In September 2007, the City received a \$1,350,000, 5.16%, Long-term Limited Obligation Revenue Note, Series 2007, from Wells Fargo Brokerage Services, LLC for the financing of payments to former, extraterritorial water customers disconnected from City water service. This is a 20-year note being re-paid from water surcharges. 1,287,094

In May 2008, the City received a \$15,900, 4.40% equipment lease/purchase funding from CitiCapital Commercial Corporation for the purchase of four 2008 Club Car golf carts to be used at Middlefield Golf Course. The lease/purchase loan is being repaid over a 4-year period from the Wastewater Fund. 11,866

In August 2007, the City received a \$99,268, 4.55% loan from US Bank for the purchase of a 2007 Caterpillar 430 E Backhoe. This is a 5-year loan being repaid equally from the Street fund, Water Reserve Fund, Wastewater Reserve Fund and Storm Reserve Funds. 62,685

Total notes and loans payable \$ 20,423,165

Year Ending June 30	Business-type Activities		
	Principal	Interest	Total
2010	\$ 987,382	\$ 879,971	\$ 1,867,353
2011	1,033,535	745,108	1,778,643
2012	808,172	700,424	1,508,596
2013	818,581	671,133	1,489,714
2014	844,421	641,260	1,485,681
2015-2019	4,707,721	2,714,785	7,422,506
2020-2024	5,657,760	1,763,520	7,421,280
2025-2029	4,784,515	662,802	5,447,317
2030-2034	781,078	114,752	895,830
Total	<u>\$ 20,423,165</u>	<u>\$ 8,893,755</u>	<u>\$ 29,316,920</u>

(9) Pension Plan

A. Plan Description

The City is a participating employer in the Oregon Public Employees Retirement System (“PERS”), an agent multiple-employer public employee retirement system established under Oregon Revised Statutes 238.600 that acts as a common investment and administrative agent for public employers in the State of Oregon. PERS is a defined benefit pension plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Benefits are established by state statute.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan (“OPSRP”) is effective for all new employees hired on or after August 29, 2003, and applies to any inactive PERS members who return to employment following a six month or greater break in service. The new plan consists of a defined benefit program (the “Pension Program”) and a defined contribution portion (the Individual Account Program or “IAP”). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service and a factor that varies based on type of service (general versus police or fire).

Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member’s IAP, not the member’s PERS account. Those employees who had established a PERS membership prior to creation of OPSRP will be members of both the PERS and OPSRP system as long as they remain in covered employment.

Both PERS and OPSRP are administered by the Oregon Public Employees Retirement Board (“OPERB”). The comprehensive annual financial report of the funds administered by the OPERB may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, OR 97281-3700, by accessing the PERS web site at www.pers.state.or.us.

B. Funding Policy

Employer contributions are required by state statute and made at actuarially determined rates as adopted by the OPERB. Covered employees are required by state statute to contribute 6.0% of their annual salary to the system, but the employer is allowed to pay any or all of the employees' contribution in addition to the required employers' contribution. The annual pension cost was \$636,581 which included the union employee’s portion for the year ended June 30, 2009. The City contributed 13.87% of covered payroll to PERS for the fiscal year ended June 30, 2009. For employees hired on or after August 29, 2003, the City’s contribution rate was 18.58% for police and fire employees and 15.31% for all other employees.

Oregon General Obligation Pension Bonds were issued to fund the States’ share of the Unfunded Actuarial Liability and \$2 billion was delivered directly to PERS. Over the next 24 years the state will be obligated to make the principal and interest payments on the pension obligation bonds. All benefiting agencies are charged the same rate to pay this debt service.

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

C. Annual Pension Cost

All participating employers are required by law to submit the contributions as adopted by OPERB. For the fiscal year ended June 30, 2009, the City's annual pension payment was \$636,581. This was comprised of \$526,160 in employer contributions and \$110,421 of employee contributions. The 6% employee contribution was paid by the City for unionized employees in accordance with collective bargaining agreements. In addition to the required contribution, the City contributed the proceeds of the Limited Tax Pension bonds Series 2002, and recognized a pension asset of \$1,318,403 at June 30, 2009. The City is amortizing the pension asset over a 26 year period. The pension assets for the year ended June 30, 2009 is as follows:

Pension asset at June 30, 2008	\$ 1,387,792
Annual amortization	<u>69,389</u>
Pension asset at June 30, 2009	<u>\$ 1,318,403</u>

The City's pension liability and the annual required contribution rate were determined using the Projected Unit Credit cost method.

The Tier 1 and Tier II regular Unfunded Accrued Liability (UAL) is currently amortized as a level percentage of combined valuation payroll over a closed 20 year period. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over 20 years from the odd-year valuation in which they are first recognized. The change in the unfunded actuarial accrued liability due to the change to the projected unit credit cost method is amortized over a rolling three-year period and is also expressed as a percentage of combined valuation payroll. For the OPSRP Unfunded Accrued Liability (UAL), gains and losses between odd-year valuations are amortized as a level percentage of combined valuation payroll over 16 years from the odd-year valuation in which they are first recognized.

The actuarial assumptions include an investment return of 8.0% per year, projected salary increase of 3.75%, health cost inflation graded from 7.0% in 2009, to 4.5% in 2029, and a consumer price inflation component of 2.75%. This information is from the most current Actuarial Valuation Report dated December 31, 2008.

The OPERB utilizes a technique called asset smoothing to determine the actuarial value of assets. The actuarial value of assets are reported at fair market value, less a reserve equal to a pro-rata portion of the investment gains (losses) over the four-year period ending on the valuation date. Investment gains (losses), effective from January 1, 2000, are recognized at the rate of 25% per year. The actuarial value of assets is limited to a 10% corridor above and below the fair market value.

The Oregon Legislative Assembly created a second level or "Tier" of OPERS benefits that modified service and disability retirement allowances payable to persons who established PERS membership on or after January 1, 1996 ("Tier Two" members). Future interest credits are assumed at 8.0% compounded annually on members' regular account balances and 8.5% compounded annually on members' variable account balances for Tier One and there is no guaranty of future interest credits for Tier Two members.

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

The following table presents three-year trend information for the City's employee pension plan:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Asset</u>
6/30/09	\$ 636,581	100%	\$ 1,318,403
6/30/08	\$ 588,063	100%	\$ 1,387,792
6/30/07	\$ 627,247	100%	\$ 1,457,181

D. Funding Status

The information presented below is the schedule of funding progress. In addition, interim valuation does not take into account investment performance since that date. In March 2002, the City issued bonds to finance its unfunded Actuarial Liability. The proceeds of \$1,810,926 were applied toward the City's UAL.

<u>December 31 Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liabilities</u>	<u>Actuarial Assets in Excess of (Less than) Accrued Liability</u>	<u>Funded Percent</u>	<u>Covered Payroll</u>	<u>Overfunded, (Underfunded) Actuarial Liability as a % of Payroll</u>
2008	\$ 25,591,390	\$ 31,631,437	\$ 6,040,047	81%	\$3,544,495	170%
2007	\$ 33,138,078	\$ 29,918,707	\$(3,219,371)	111%	\$3,349,203	(96%)
2006	\$ 31,230,442	\$ 28,056,666	\$(3,173,776)	111%	\$2,714,463	(117%)

(10) Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for risks of loss including workers' compensation, property damage, general liability, automobile liability, boiler and machinery, inland marine, public official bond, and employee dishonesty coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

(11) Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed costs may constitute a liability to the City. Such amounts, if any, cannot be determined at this time and, accordingly, no liability is reflected in these financial statements.

Management of the City believes that total amount of liability, if any, which may arise from claims and lawsuits pending against the City beyond that, which is covered by insurance, would not have a material effect on the City's financial condition.

CITY OF COTTAGE GROVE, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

(12) Commitments

The City has recognized as a liability only that portion of construction contracts representing construction completed through June 30, 2009.

The City is committed under various construction contracts at June 30, 2009. Projects in progress at June 30, 2009 are summarized as follows:

The project budget for engineering associated with a Storm Drain and Sanitary Sewer Master Plan totals \$155,985. As of June 30, 2009, \$153,485 has been expended. The project is 95% complete and expenditures total 98% of the project budget.

(13) Prior Period Adjustment

In prior years, donated assets from property developers were not properly recognized as capital assets. For the current year, these donated assets have been included as capital assets through a prior period adjustment.



THIS PAGE INTENTIONALLY LEFT BLANK