

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 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 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 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.

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.

GASB 34 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.

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 1. - Summary of Significant Accounting Policies continued

C. Basis of Presentation, continued

The City reports the following major governmental funds:

- *General Fund.* This is the government's primary operating fund. It accounts for all of the financial operations of the City except those required to be accounted for in another fund. Principal sources of revenue are property taxes, franchise taxes, 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 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 Operations 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 is used to retire urban renewal bond principal and interest from property taxes.

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.
- *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.
- *Permanent Fund.* This fund is used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

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. This fund accounts for the financial activities of the city-owned water utility operations. Sales of water and related charges are the major revenue sources.

Water Systems Development Fund. This fund accounts for monies accumulated 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 accounts for monies accumulated 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. This fund accounts for the financial activities of the city-owned sewer service. Wastewater charges are the major revenue sources.

Wastewater Systems Development Fund. This fund accounts for monies accumulated 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 accounts for monies accumulated for capital improvements to the City's wastewater system as well as for the purchase of capital equipment. Transfers as well as surcharges assessed to all wastewater customers are the major source of financing.

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 1. - Summary of Significant Accounting Policies continued

C. Basis of Presentation, continued

- *Storm Drain Operations*

Storm Drainage Utility Fund. This fund accounts for the financial activities of the city-owned storm drainage system. Revenues consist primarily of storm drain charges.

Storm Drainage Systems Development Fund. This fund accounts for monies accumulated 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 accounts for monies accumulated 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 financing.

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. 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 the 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. These amounts are reported as deferred revenue on the statement of net assets.

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 1. - Summary of Significant Accounting Policies continued

D. Measurement Focus and Basis of Accounting, continued

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 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. The City has elected not to follow subsequent private-sector guidance.

E. Use of Estimates

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

F. 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 Financial Statements

June 30, 2010

Note 1.- Summary of Significant Accounting Policy, continued

G. 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. Receivables in proprietary funds are stated net of an allowance for uncollectible accounts.

H. 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.

I. 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 governmental-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 July 1, 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.

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>
Building	50
Improvements	20
Utility Systems & Infrastructure	20 - 50
Vehicles	5 - 10
Furniture & Equipment	5 - 10

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

J. Deferred Revenue

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

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 1.- Summary of Significant Accounting Policy, continued

K. 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.

L. 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.

M. Nets 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 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.

N. Use of Restricted Assets

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.

O. 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.

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 1.- Summary of Significant Accounting Policy, continued

P. Budgetary information

Budgets are prepared and adopted, and expenditures are appropriated, in accordance with Oregon Local Budget Law. The budgetary level of control is appropriated by fund, and object (i.e. personal services, materials and services, capital outlay, debt service, interfund transfers, and contingency). Appropriations lapse as of the year end. The City does not use encumbrance accounting.

The City Council may change the budget throughout the year by transferring appropriations between levels of control and by adopting supplemental budgets as authorized by Oregon Revised Statutes. Unexpected additional resources may be added to the budget through the use of a supplemental budget. Some supplemental budgets require hearings before the public, publication in newspapers, and adoption by the City Council. Expenditure appropriations may not be legally over-expended except in the case of grant receipts which could not be reasonably estimated at the time the budget was adopted, and for debt service on new debt issued during the budget year. Management may transfer budget amounts between individual line items within the object group, but cannot make changes to the object groups themselves, which is the legal level of control. During the year, the City modified its adopted budget with a number of transfer resolutions and supplemental budgets.

Note 2. - Cash and cash equivalents

At June 30, 2010 investments included in cash and cash equivalents consist of the following:

	<u>Fair Value</u>
Investments in the State Treasurer's Local Government Investment Fund	\$ 7,155,709
Deposits in financial institutions	1,105,757
Cash on hand	1,815
Total cash and cash equivalents	<u>\$ 8,263,281</u>

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. In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investments portfolio in accordance with ORS 294.035. As of June 30, 2010, 76.78% of the investments in the LGIP mature within 93 days, 7.3% mature from 94 days to one year, 15.5% mature from one year to three years, and 0.4% are in defaulted securities.

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.

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 2. - Cash and cash equivalents, continued

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.

The Oregon State Treasurer maintains the Oregon Short Term Fund (OSTF), of which the Local Government Investment Pool (LGIP) is a part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. LGIP was created to offer a short-term investment alternative to Oregon local governments and it is not registered with the U.S. Securities and Exchange Commission. The investments are regulated by the OSTF and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2010, the fair value of the City's deposits with the LGIP approximates cost. The OSTF financial statements are available at <http://www.ost.state.or.us/>.

The LGIP's portfolio concentration of credit risk at June 30, 2010 included: U.S. Agency Bonds (21%), Corporate Notes (26.6%), Commercial Paper (20.9%), U.S. Agency Discount Notes (19.2%), Government Guaranteed Corporate Securities (9.5%), U.S. Treasury Bills (2.3%), and Certificates of Deposits (.5%). The credit risk associated with the investments was: AAA rating (48.7%), AA rating (15%), A rating (34.9%), BBB rating (0.5%), ratings withdrawn (0.4%), and not rated (.5%).

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 ("PFCP"). 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, 2010, shown on the bank statements was \$1,338,458. Of these deposits, \$501,393 was covered by federal depository insurance. The remaining balance of \$837,065 was covered by the PFCP.

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 3. -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><u>\$ 7,810</u></u>

Note 4. - 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.

Note 5.- Capital Assets

A. Capital asset activity for the year ended June 30, 2010 was as follows:

<u>Governmental Activities:</u>	<u>2009</u>	<u>Additions and Reclassifications</u>	<u>Deletions and Reclassifications</u>	<u>2010</u>
Capital assets, not being depreciated:				
Land	\$ 26,438,798	\$ -	\$ -	\$ 26,438,798
Construction in progress	<u>2,997,453</u>	<u>296,519</u>	<u>(2,882,834)</u>	<u>411,138</u>
Total capital assets, not being depreciated	<u>29,436,251</u>	<u>296,519</u>	<u>(2,882,834)</u>	<u>26,849,936</u>
Capital assets being depreciated:				
Buildings and improvements	3,738,395	168,743	-	3,907,138
Motor vehicles and equipment	1,099,632	103,584	-	1,203,216
Office furniture and equipment	302,112	2,277	(13,737)	290,652
Infrastructure	<u>20,544,705</u>	<u>2,852,049</u>	<u>-</u>	<u>23,396,754</u>
Total capital assets being depreciated	<u>25,684,844</u>	<u>3,126,653</u>	<u>(13,737)</u>	<u>28,797,760</u>
Less accumulated depreciation for:				
Buildings and improvements	(916,070)	(93,478)	-	(1,009,548)
Motor vehicles and equipment	(826,952)	(65,990)	-	(892,942)
Office furniture and equipment	(273,339)	(8,775)	13,737	(268,377)
Infrastructure	<u>(12,735,173)</u>	<u>(714,260)</u>	<u>-</u>	<u>(13,449,433)</u>
Total accumulated depreciation	<u>(14,751,534)</u>	<u>(882,503)</u>	<u>13,737</u>	<u>(15,620,300)</u>
Total capital assets, being depreciated, net	<u>10,933,310</u>	<u>2,244,150</u>	<u>-</u>	<u>13,177,460</u>
Governmental activities capital assets, net	<u><u>\$ 40,369,561</u></u>	<u><u>\$ 2,540,669</u></u>	<u><u>\$ (2,882,834)</u></u>	<u><u>\$ 40,027,396</u></u>

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 5.- Capital Assets, continued

<u>Business-type Activities:</u>	<u>2009</u>	<u>Additions and Reclassifications</u>	<u>Deletions and Reclassifications</u>	<u>2010</u>
Capital assets, not being depreciated:				
Land	\$ 2,113,002	\$ -	\$ -	\$ 2,113,002
Construction in progress	1,086	-	(1,086)	-
Total capital assets, not being depreciated	<u>2,114,088</u>	<u>-</u>	<u>(1,086)</u>	<u>2,113,002</u>
Capital assets being depreciated:				
Land improvements	1,260,000	-	-	1,260,000
Infrastructure	1,563,912	51,024	-	1,614,936
Utility systems *	34,816,787	12,138	-	34,828,925
Buildings and improvements	1,600,022	-	-	1,600,022
Equipment	928,697	264,160	-	1,192,857
Motor vehicles	613,489	4,290	(12,906)	604,873
Office furniture	13,598	-	(4,731)	8,867
Total capital assets being depreciated	<u>40,796,505</u>	<u>331,612</u>	<u>(17,637)</u>	<u>41,110,480</u>
Less accumulated depreciation for:				
Land improvements	(210,000)	(84,000)	-	(294,000)
Infrastructure	(51,270)	(111,910)	-	(163,180)
Utility systems	(7,802,221)	(697,325)	-	(8,499,546)
Buildings and improvements	(223,668)	(39,335)	-	(263,003)
Equipment	(705,186)	(65,974)	-	(771,160)
Motor vehicles	(562,207)	(15,509)	13,026	(564,690)
Office furniture	(13,598)	-	4,731	(8,867)
Total accumulated depreciation	<u>(9,568,150)</u>	<u>(1,014,053)</u>	<u>17,757</u>	<u>(10,564,446)</u>
Total capital assets, being depreciated, net	<u>31,228,355</u>	<u>(682,441)</u>	<u>120</u>	<u>30,546,034</u>
Business-type activities capital assets, net	<u>\$ 33,342,443</u>	<u>\$ (682,441)</u>	<u>\$ (966)</u>	<u>\$ 32,659,036</u>

* The 2009 balance for utility systems was restated by \$164,141. See Note 13 for details.

B. Depreciation expense was charged to governmental activities as follows:

General government	\$ 145,857
Highways and streets	664,787
Public safety	29,909
Culture and recreation	41,950
Total depreciation expense -governmental activities	<u>\$ 882,503</u>

C. Depreciation expense was charged to business-type activities as follows:

Water	\$ 435,248
Wastewater	502,916
Storm Drain	75,889
Total depreciation expense -business-type activities	<u>\$ 1,014,053</u>

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 6. - Interfund Receivables, Payables, and Transfers

A. Interfund loans receivable

Interfund loans receivable and payable are as follows:

Receivable Fund	Payable Fund	Amount
Storm Drain	Industrial Park	<u>\$ 60,000</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 was repaid in 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.

B. Interfund transfers

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>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ -	\$ 483,758
Street Fund	-	80,661
City Debt Service Fund	229,541	-
Urban Renewal Agency Debt Service Fund	-	474,238
Total Major Governmental Funds:	<u>229,541</u>	<u>1,038,657</u>
Non-major Governmental Funds:		
Police Communication Fund	278,580	8,580
Bicycle and Footpath Fund	193,000	-
General Reserve Fund	108,000	26,916
Narcotics Forfeiture Fund	-	1,131
Building Inspection Program Fund	-	1,062
Urban Renewal Agency Capital Projects Fund	474,238	-
Total Non-major Governmental Funds	<u>1,053,818</u>	<u>37,689</u>
Proprietary Funds:		
Water Fund	-	27,040
Water Reserve Fund	15,000	-
Wastewater System Development Fund	-	120,000
Wastewater Reserve Fund	120,000	-
Storm Drainage Utility Fund	-	1,973
Storm System Development Fund	-	193,000
Total Proprietary Funds:	<u>135,000</u>	<u>342,013</u>
Total All Funds	<u>\$ 1,418,359</u>	<u>\$ 1,418,359</u>

Interfund transfers are used to provide funds for debt service, contribute toward the costs of capital projects, and to provide operational resources.

Note 7. - Short-term Note

On June 29 2010, the City received a \$474,238, 6% note from Siuslaw Bank to make available tax increment monies for capital projects budgeted in the Urban Renewal Capital Projects Fund. The entire amount was paid back by the Urban Renewal Agency Debt Service Fund on June 30, 2010.

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 7. - Short-term Note, continued

Transactions for the year ended June 30, 2010 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities				
Note payable:	\$ -	\$ 474,238	\$ (474,238)	\$ -

Note 8. - Long-Term Obligations

A. Changes in General Long-Term Liabilities

Transactions for the year ended June 30, 2010 are 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	\$ 2,424,441	\$ -	\$ (29,096)	\$ 2,395,345	\$ 33,419
Loans	<u>2,527,402</u>	<u>44,654</u>	<u>(397,426)</u>	<u>2,174,630</u>	<u>420,278</u>
Total bonds and notes payable	4,951,843	44,654	(426,522)	4,569,975	453,697
Compensated absences	<u>223,103</u>	<u>250,055</u>	<u>(223,103)</u>	<u>250,055</u>	<u>250,055</u>
Total Governmental Activities	<u>\$ 5,174,946</u>	<u>\$ 294,709</u>	<u>\$ (649,625)</u>	<u>\$ 4,820,030</u>	<u>\$ 703,752</u>
Business-type Activities					
Loans	\$ 20,423,168	\$ 263,534	\$ (813,727)	\$ 19,872,975	\$ 1,074,854
Compensated Absences	<u>74,810</u>	<u>78,849</u>	<u>(74,810)</u>	<u>78,849</u>	<u>78,849</u>
Total Business-type Activities	<u>\$ 20,497,978</u>	<u>\$ 342,383</u>	<u>\$ (888,537)</u>	<u>\$ 19,951,824</u>	<u>\$ 1,153,703</u>

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 \$40,796. The 40-year 5% bond is being paid by the Industrial Park fund.

\$ 636,107

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%.

1,759,238

Total bonds payable

\$ 2,395,345

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 8. - Long-Term Obligations, continued

General obligation bonded debt requirements are summarized below:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2011	\$ 33,419	\$ 156,575	\$ 189,994
2012	34,561	157,433	191,994
2013	35,543	161,450	196,993
2014	38,532	168,461	206,993
2015	38,667	173,326	211,993
2016 - 2020	226,582	963,385	1,189,967
2021 - 2025	910,911	522,882	1,433,793
2026 - 2030	738,266	180,859	919,125
2031 - 2035	131,798	72,182	203,980
2036 - 2040	168,213	35,767	203,980
2041 - 2045	38,853	1,943	40,796
Total	\$ 2,395,345	\$ 2,594,263	\$ 4,989,608

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. This 25-year 5.33% loan is being paid by the Industrial Park fund. \$ 407,580

During 1998-99 the City received a 15-year \$1,585,000 loan to remodel the City Shop. The loan is repayable in semiannual installments of \$67,289, 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. 433,540

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. 112,373

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. 93,575

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. 315,906

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. 773,170

In September 2009, the City received a \$299,188, 3.71% loan from US Bank for the purchase of a vactor and greens roller. This is a 5-year loan being repaid equally from the Street Fund, Water Reserve Fund, Wastewater Reserve Fund and Storm Reserve Funds. 38,486

Total notes and loans payable \$ 2,174,630

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 8. - Long-Term Obligations, continued

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

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2011	\$ 420,278	\$ 102,191	\$ 522,469
2012	369,442	184,153	553,595
2013	327,578	66,499	394,077
2014	158,641	51,615	210,256
2015	70,330	45,966	116,296
2016 - 2020	338,238	1,094,286	1,432,524
2021 - 2025	274,702	88,359	363,061
2026 - 2030	215,421	23,004	238,425
Total	<u>\$ 2,174,630</u>	<u>\$ 1,656,073</u>	<u>\$ 3,830,703</u>

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 8. - Long-Term Obligations, continued

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.	\$ 251,676
On January 21, 2004, the City and the Oregon Department of Environmental Quality executed a \$9 million loan agreement to upgrade the City's wastewater treatment plant. Beginning fiscal year 2006, \$887,718 was disbursed. The loan was amended on June 30, 2007 to increase the loan amount to \$9,261,399. The City is required to repay the loan in semiannual installments of \$318,217, including interest at 3.60% and annual payments of fees of 0.5% beginning in fiscal year 2007.	8,171,948
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.	754,385
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.	346,126
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	2,554,743
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, 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.	6,270,000
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.	1,244,147
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.	7,968
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.	44,674
In September 2009, the City received a \$299,188, 3.71% loan from US Bank for the purchase of a vactor and greens roller. This is a 5-year loan being repaid equally from the Street Fund, Water Reserve Fund, Wastewater Reserve Fund and Storm Reserve Funds.	<u>227,308</u>
Total loans payable	<u>\$ 19,872,975</u>

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 8. - Long-Term Obligations, continued

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

Year Ending June 30,	Business-type Activities		
	Principal	Interest	Total
2011	\$ 1,074,854	\$ 761,215	\$ 1,836,069
2012	851,039	714,983	1,566,022
2013	864,585	684,056	1,548,641
2014	891,254	652,476	1,543,730
2015	877,718	620,322	1,498,040
2016 - 2020	4,829,165	2,595,293	7,424,458
2021 - 2025	5,801,312	1,618,069	7,419,381
2026 - 2030	4,041,721	561,445	4,603,166
2031 - 2035	641,327	77,652	718,979
Total	<u>\$ 19,872,975</u>	<u>\$ 8,285,511</u>	<u>\$ 28,158,486</u>

Note 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, or by accessing the PERS web site at www.pers.state.or.us.

B. Funding Policy

Employer contributions are required by state statute and are 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 \$620,595 which included the union employee's portion for the year ended June 30, 2010. The City contributed 14.17% of covered payroll to PERS for the fiscal year ended June 30, 2010. For employees hired on or after August 29, 2003, the City's contribution rate was 14.77% for police and fire employees and 12.06% 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 benefitting agencies are charged the same rate to pay this debt service.

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 9. Pension Plan, continued

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, 2010, the City's annual pension payment was \$620,595. This was comprised of \$505,127 in employer contributions and \$115,468 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 \$1,249,014 at June 30, 2010. The City is amortizing the pension asset over the life of the bonds, or 26 years. The pension asset for the year ended June 30, 2010 is as follows:

Pension asset at June 30, 2009	\$ 1,318,403
Annual amortization	<u>(69,389)</u>
Pension asset at June 30, 2010	<u>\$ 1,249,014</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 2010, 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, 2009.

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.

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

Fiscal Year Ended	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Asset
6/30/2010	\$ 620,595	100 %	\$ 1,249,014
6/30/2009	\$ 636,581	100 %	\$ 1,318,403
6/30/2008	\$ 588,063	100 %	\$ 1,387,792

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.

December 31 Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Actuarial Assets in Excess of (Less than) Accrued Liability	Funded %	Covered Payroll	Overfunded, (Underfunded) Actuarial Liability as a % of Payroll
2009	\$ 29,216,208	\$ 32,864,480	\$(3,648,272)	89 %	\$ 3,747,512	(97) %
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 %

CITY OF COTTAGE GROVE, OREGON

Notes to Financial Statements

June 30, 2010

Note 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.

Note 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.

Note 12. Subsequent Events

In early October 2010, the City put a \$1 down payment on the Cottage Grove Armory in earnest of purchasing the property from the Oregon Military Department ("OMD"). The purchase of the property and building was settled in December of 2010 for a total purchase price of \$395,000.

According to the agreement the City will pay interest free installments to the OMD annually as follows:

December:		
2011	\$	19,750
2012		19,750
2013		50,786
2014		50,786
2015		50,786
2016		50,786
2017		50,786
2018		50,785
2019		50,784
Total	\$	<u>394,999</u>

Note 13. Prior Period Adjustment

The City discovered an error in the capital assets balance for the Water Fund at June 30, 2009. As a result of this prior period adjustment, net assets decreased by \$164,141.

Note 14. Recently Issued Accounting Guidance

Management is determining the effect on its financial statements of the following recently issued accounting standards.

GASB Statement 54, *Fund balance Reporting and Governmental Fund Type Definitions*, is effective for periods beginning after June 15, 2010. Early implementation is encouraged. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. Governments are required to disclose information about the processes through which constraints are imposed. Governmental fund type definitions are modified and clarified which may affect the activities governments choose to report in governmental funds.