



City of
Sweet Home, Oregon
Comprehensive Annual
Financial Report
For the Fiscal Year Ended
June 30, 2012

CITY OF SWEET HOME, OREGON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2012



CRAIG MARTIN, CITY MANAGER

PATRICIA GRAY, FINANCE DIRECTOR

Prepared by:

The Finance Department
City of Sweet Home, Oregon

CITY OF SWEET HOME
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CITY OF SWEET HOME
CITY OFFICIALS
JUNE 30, 2012

MAYOR

Term Expires

Craig Fentiman, Mayor
605 3rd Avenue
Sweet Home, Oregon 97386

December 31, 2014

CITY COUNCIL MEMBERS

Jim Gourley, President pro-tem
3441 Juniper Street
Sweet Home, Oregon 97386

December 31, 2012

Ron Rodgers
555 3rd Avenue
Sweet Home, Oregon 97386

December 31, 2012

Scott McKee, Jr.
5400 Hwy 20, Apt. 1
Sweet Home, Oregon 97386

December 31, 2014

Greg Mahler
700 4th Avenue
Sweet Home, Oregon 97386

December 31, 2014

Marybeth Angulo
4513 Long Street
Sweet Home, Oregon 97386

December 31, 2012

Michael Hall
940 14th Avenue
Sweet Home, Oregon 97386

December 31, 2012

CITY ADMINISTRATION

Craig M. Martin, City Manager

Robert Snyder, City Attorney

MAILING ADDRESS

City Hall
1140 12th Avenue
Sweet Home, Oregon 97386
(541) 367-5128



February 13, 2013

To the Mayor, City Council, and Citizens of the City of Sweet Home:

State Law requires that local governments publish within six months of the close of each fiscal year a complete set of audited financial statements. This Annual Financial Report for the City of Sweet Home is hereby submitted to fulfill this requirement for the fiscal year ended June 30, 2012.

Management assumes full responsibility for the completeness and reliability of the information contained in this report. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City's financial statements were audited by Grove, Mueller & Swank, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2012 were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

Grove, Mueller & Swank, P.C, have issued an unqualified ("clean") opinion on the City's financial statements for the year ended June 30, 2012. The independent auditor's report is located at the front of the Basic Financial Statements in the Financial Section of this report.

Profile of the Government

The City of Sweet Home was founded in 1851 and incorporated on February 10, 1893. Located in the Mid-Willamette Valley at the east-end of Linn County, the City currently occupies approximately 6.5 square miles and serves a population of 9,005. It is the third largest city in Linn County lying at the foot of the Cascade Mountains, next to the pristine Santiam River and close to Foster and Green Peter Reservoirs. Sweet Home offers close proximity to major urban areas for commuters and shoppers: Portland is 100 miles, Salem is 50 miles, Eugene 50 miles and Albany 25 miles.

Sweet Home operates under the provisions of its own Charter and applicable state law. It has a City Manager/Council form of government. The City Council consists of seven members who are elected by the citizens of Sweet Home. Councilors are elected to serve overlapping terms of two and four years. The Mayor is elected by the Council members to serve for a term of two years. A full-time City Manager administers the affairs of the City for the Council, and supervises a staff of five department directors and 53 full-time and part-time employees.

For financial reporting purposes the City is a primary government. This report includes all services and activities for which the elected officials exercise financial control. These services include police and dispatch services, municipal court, administration and finance, community planning and development, parks, library, recreational activities, nuisance abatements, water and wastewater treatment, construction and maintenance of roadways, streets, and infrastructure.

Fire and Ambulance services are provided by the Sweet Home Fire and Ambulance District. The District is not a component of the City of Sweet Home. The City may interact or contract with the District and other governmental entities, but it is not financially accountable for those entities.

Local Economy

Sweet Home is located away from major north-south transportation routes and population centers in the Willamette Valley. Historically, employment in Sweet Home has been dominated by lumber and wood products, which has declined in Sweet Home, but still remains a large employer in the Willamette Valley. The largest employer in Sweet Home has been the school district with manufacturing facilities such as Willamette Industries and White's Electronic following at a distance.

Sweet Home's primary comparative advantage is its small size and location near recreational opportunities. Many residents move to Sweet Home with the desire to live in a rural small town community, yet be able to drive to their jobs in larger cities, like Lebanon, Eugene, Corvallis and even the Portland area. With a Lowe's Warehouse Distribution Center, a new medical college and a future Veteran's Administration hospital being built in nearby Lebanon, Sweet Home continues to service an influx of residents who are able to achieve this. In addition to the current available housing, Sweet Home has a substantial inventory of buildable commercial and industrial land ready to accommodate any future developments.

Major Initiatives

The Sweet Home City Council met in a workshop on January 20 and 21, 2012 for the purpose of reflecting on the accomplishments of the prior year, and to set a strategic direction for 2012. The primary product of this workshop is a set of Council Goals for 2012.

The Goals will be used to guide development of the recommended 2012-2013 Budget, set program and project priorities, and establish expectations for the City Manager's work plan and performance for 2012.

Council Goals

- **Explore stronger partnerships with the School District and the Community's Schools**
 - o Find ways to create opportunities for youth
 - o Explore collaboration opportunities including using the City Library as an alternate venue for education

- **Explore options for providing Police services in light of inadequate revenue to maintain desired levels of service**
 - o Create organizational stability within the Department
 - o Initiate a process to identify and analyze options, develop an implementation strategy, and implement the strategy

- **Explore options for providing Library services in light of inadequate revenue to maintain desired levels of service**
 - o Create organizational stability within the Department
 - o Initiate a process to identify and analyze options, develop an implementation strategy, and implement the strategy

- **Facilitate the development of a new Sweet Home Community Strategic Plan**

- **Continue infrastructure improvements for regulatory compliance and economic development**
 - o Develop a strategy to achieve compliance with applicable rules and law
 - o Identify funding to implement the strategy
 - o Be prepared to do what is necessary to get the job done

- **Enhance our culture of quality customer service programs**
 - o Conduct customer service surveys

City Projects

- Preserve and Protect Weddle Bridge
- Complete the Hobart Management Plan
- Create a Technology Plan for City Government to increase efficiency of City operations
 - o Maintain currency of software, training, and support
 - o Explore using technology to make Council operations more efficient and to cut paper and printing costs

Property Taxes, Property Values & Compression

In October 2011, the City of Sweet Home was hit with a worst-case scenario of what could happen under the current property tax system that funds its Police and Library operations.

After 3 years of declining property values, Sweet Home experienced a \$38 million dollar loss in market values during 2011-2012 when Linn County foreclosed on a 460 acre parcel of property valued at \$3.5 million and a value reduction was recalculated on Comcast, the third largest property taxpayer in Sweet Home.

While the City budgeted for no increase in property values and over a half of million dollars in revenue loss due to Measure 5 property tax limitations during its 2011-2012 budget process, it did not foresee such a drastic reduction in property values that not only reduced any potential tax revenues but also escalated the compression to nearly a million dollars of additional loss in revenues.

In order for the Police and Library to continue operating until the end of their five year levies in 2015, both departments reduced their expenditures and services and emergency transfers were made from the General Fund to both funds to increase their fund balances.

Should tax revenue continue to come in less than expected, more cuts will need to be made with the possibility of more transfers from the General Fund to keep Police and Library services operating in Sweet Home.

Building Activity

Building permits in Sweet Home continue to reflect the national housing and economic trends. We did experience a small uptick in home starts and commercial projects during the year. During 2012, eleven new homes were started compared to six during 2011.

The value of work done under residential permits was up from the 2011 values of \$874,227 to \$925,731. While still low, this could be an indication that housing starts are on the rise again. Commercial values that dropped to a low of \$120,794 increased to \$1,028,903 during the year.

While only 290 permits were issued during 2012 compared to 335 in 2011, the value of the work more than doubled thanks to the commercial permits. Of the total number of permits, 47.4% of the added value was residential while 52.6% was from commercial projects.

Wastewater Inflow & Infiltration (I/I) Reduction Project

During peak wet weather periods, storm water infiltrates sanitary sewer lines and gets transported to the wastewater treatment plant, overwhelming the plant's capacity for treating sewage. A "demonstration" project was originally developed to correct storm water inflow and infiltration problems that are affecting the City's wastewater system in very specific, localized, small area within the City limits. Water flow in several sections of the system were monitored with the results used to help determine the extent of work necessary to repair the remainder of the system. Future projects call for continued repair, replacement, and/or rehabilitation of "private" sewer service laterals as well as public main-line pipes and manholes within the entire sanitary sewer collection system.

In November 2002, at a cost of \$2 million, the City began the 1st phase of the City's sanitary sewer system "demonstration" project. Construction on this phase was completed in 2003 and in January 2004, the original loan amount of \$2 million was doubled to \$4 million in order to provide funding for the second phase of the "demonstration" project, now known as "Phase 2".

In 2005, City received an additional loan of \$2 million to be used in an effort to obtain better data for the next portion of the project, known as "Phase 3 – Inspection". The results of this portion of the project would be used to base future system wide sanitary sewer collection system repair/rehabilitation work including potential modifications to the wastewater treatment plant, if necessary.

As a result of this and previous efforts, in 2007 additional funding was again requested by the City and subsequently granted by the State thereby increasing the second loan from \$2 million to \$5.886 million for the engineering, design, and competition of the designated "Phase 3 – Construction" project which began in late December 2007 and concluded in 2009. Of the total \$9.886 million of financing available to the City for the first three phases, only \$7.706 has currently been expended on the work to date.

This balance of approximately \$2.18 million has been combined with a third “zero interest” loan of an additional \$5 million secured in 2009 for the next “Phase 4” project in which the construction portion was completed in late 2012. All that remains is the post construction flow analysis and final report, currently scheduled to be received by the City mid 2013.

To date, the City has secured a total of \$14.886 million for the Inflow and Infiltration (I and I) reduction program Phases 1-4 of which a total balance of approximately \$1.48 million remains available for Phase 4 post construction analysis. Unfortunately however, the anticipated I and I reduction from this “Phase 4” project will not be enough to meet current compliance requirements of existing MAO.

As such, plant improvements will most likely become a requirement in the near future and at additional expense, to become compliant. Staff anticipates that it may take an additional \$20 - \$25 million to complete the project and continues to research a variety of funding sources from selling general obligation bonds to selling the wastewater system. Staff continues and expects to successfully negotiate a new time line with Oregon Department of Environmental Quality (DEQ) in an effort to spread the work and necessary funding over additional future years.

Financial Information

Financial and Accounting Policies

This report is prepared in conformance with the guidelines for financial reporting developed by the Government Finance Officers Association of the United States and Canada and the Governmental Accounting Standards Board (GASB), including all effective GASB pronouncements.

It presents fairly the financial position of the various funds of the City at June 30, 2012, and the results of operations of such funds and cash flow of the proprietary fund types for the year ended in conformity and generally accepted accounting principles (GAAP).

During the fiscal year of 2011-2012 the City maintained a total of 28 funds, of which 16 were governmental fund types, and 12 were proprietary fund types. The City also maintained 2 sets of accounting records for capital assets and long-term debt. The modified accrual basis of accounting is used for the governmental fund types (General Fund, special revenue funds, debt service funds, and capital projects). The accrual basis is used for the government-wide and proprietary financial statements.

Budgetary Policies

The annual budget for the City of Sweet Home is a comprehensive financial plan for the year ahead. The annual budget process integrates and authorizes the needs of the community with the finances available and the ability of city government to provide the needed services. Like all governments in Oregon, the City prepares its annual budget in accordance with provisions of Oregon Local Budget Law (ORS 294), which provides procedures for the preparation, presentation, administration, and appraisals of budgets.

The City establishes the level of budgetary control at the operations, materials and services, capital outlay, contingency, debt service and transfers in all funds, except in the General Fund, where budgetary controls are established at the department level, capital outlay level and contingency. These levels are adopted in a resolution by City Council during a public hearing held during the final City Council meeting of the fiscal year. The adopted budget is implemented through the City's accounting operations and the provision of City services.

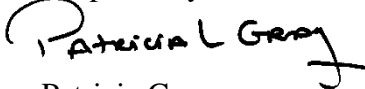
Oregon budget law allows for amendments to the City budget for reasons unforeseen at the time of the adoption of the original budget. Management is allowed to adjust budget numbers within adopted appropriations. Changes in appropriations, transfers outside of funds, appropriation of unexpected revenues and use of contingencies require Council action.

The City of Sweet Home manages its finances according to generally accepted accounting principals. During the year expenditures and revenues are closely monitored to ensure compliance with the adopted budget and state law. An annual audit is performed and filed with the State of Oregon each year by an independent Certified Public Accountant.

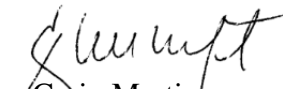
Acknowledgments

The preparation of the Annual Financial Report on a timely basis was made possible by the services of the City's Finance Department staff and the certified public accountants of Grove, Mueller & Swank, P.C. Their contributions to this report are sincerely appreciated.

Respectfully submitted,

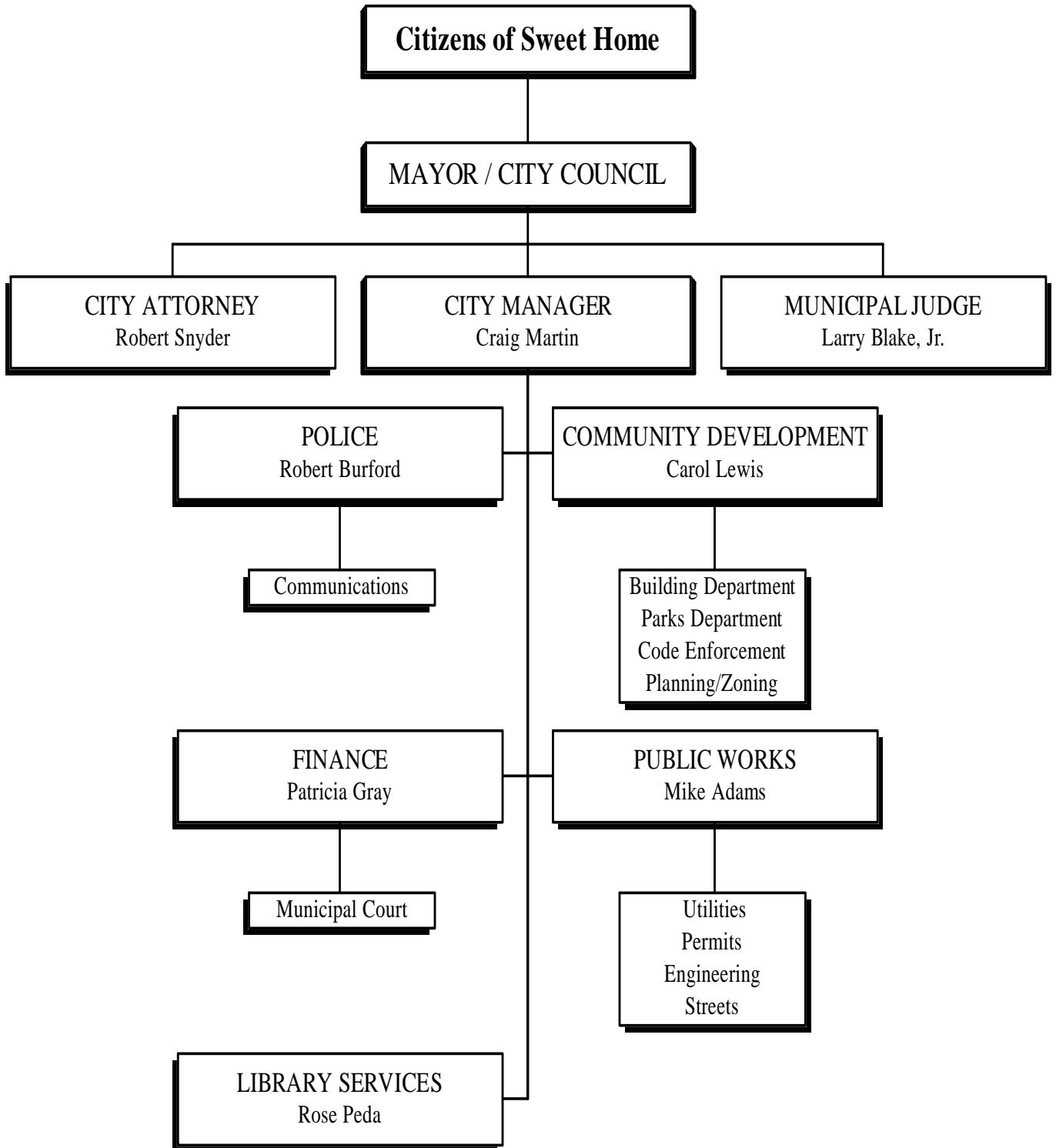


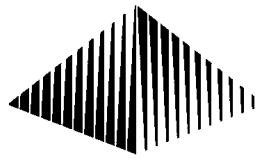
Patricia Gray
Finance Director



Craig Martin
City Manager

CITY OF SWEET HOME, OREGON
ORGANIZATION CHART





GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT

The Honorable Craig Fentiman, Mayor
and Members of the City Council
1140 12th Avenue
City of Sweet Home, Oregon 97386

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Sweet Home, Oregon as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sweet Home, Oregon as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

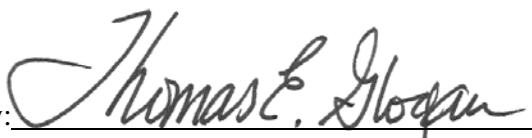
In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) (pages 11 through 21), the budgetary comparison information (pages 52 through 54) and the schedule of funding progress – Oregon Public Employees Retirement System (page 51) be presented to supplement the basic financial statements. Such information, although not a part of the basic

financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the MD&A and the schedule of funding progress – Oregon Public Employees Retirement System in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information on pages 52 through 54 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparison and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sweet Home, Oregon’s financial statements as a whole. The introductory section and other supplementary information (combining and individual fund financial statements and schedules; and other financial schedules) are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and other financial schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 
Thomas E. Glogau, A Shareholder
February 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2012

This discussion and analysis presents the highlights of financial activities and financial position for the City of Sweet Home. The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the City.

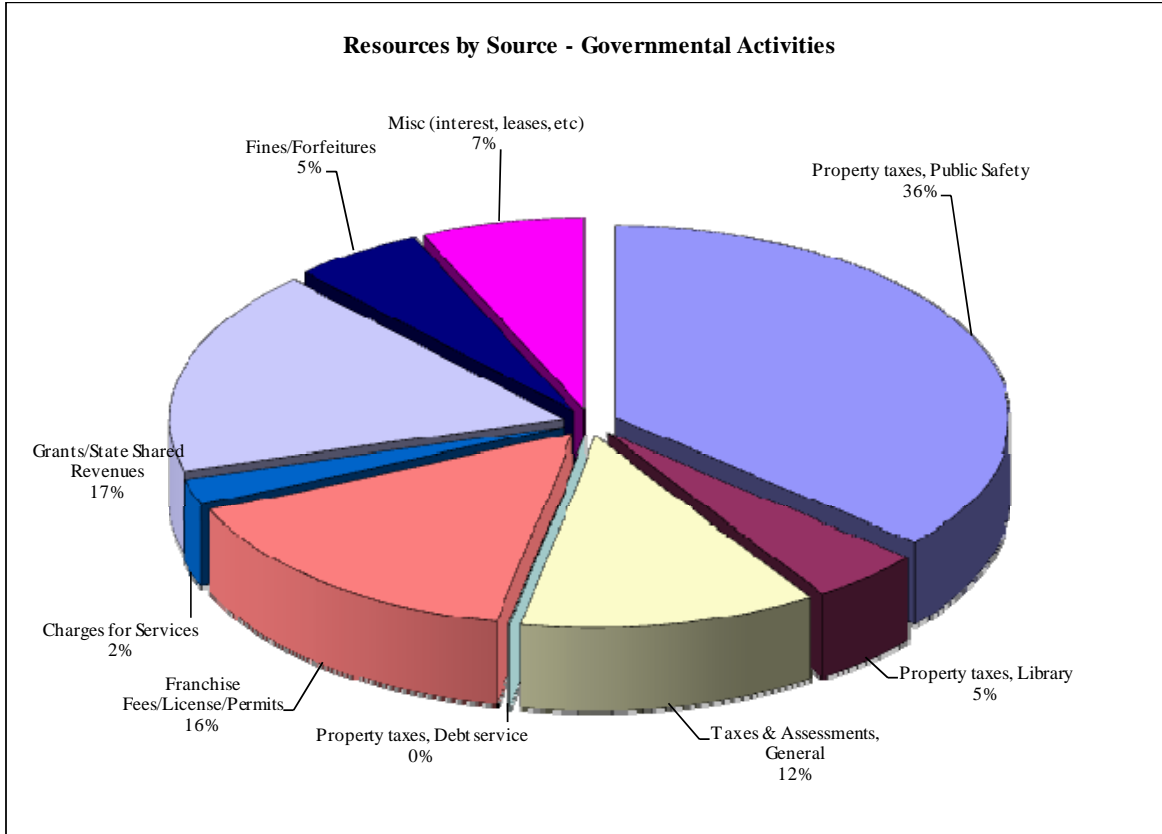
Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes. Please read it in conjunction with the Transmittal Letter (pages 2 through 7) and the City's financial statements (beginning on page 22).

FINANCIAL HIGHLIGHTS

The City's net assets decreased by \$897 thousand (or 2%) due to reductions in revenues over all funds in the City.

Governmental activities revenues decreased by \$529 thousand (or 11%) as the result of reductions in fee services, property taxes and the City receiving less grants during the year.

The revenues charted in the following pie chart includes all program and general revenues for governmental activities such as property taxes, franchise fees, charges for services, licenses, permits, fines, interest and intergovernmental charges.

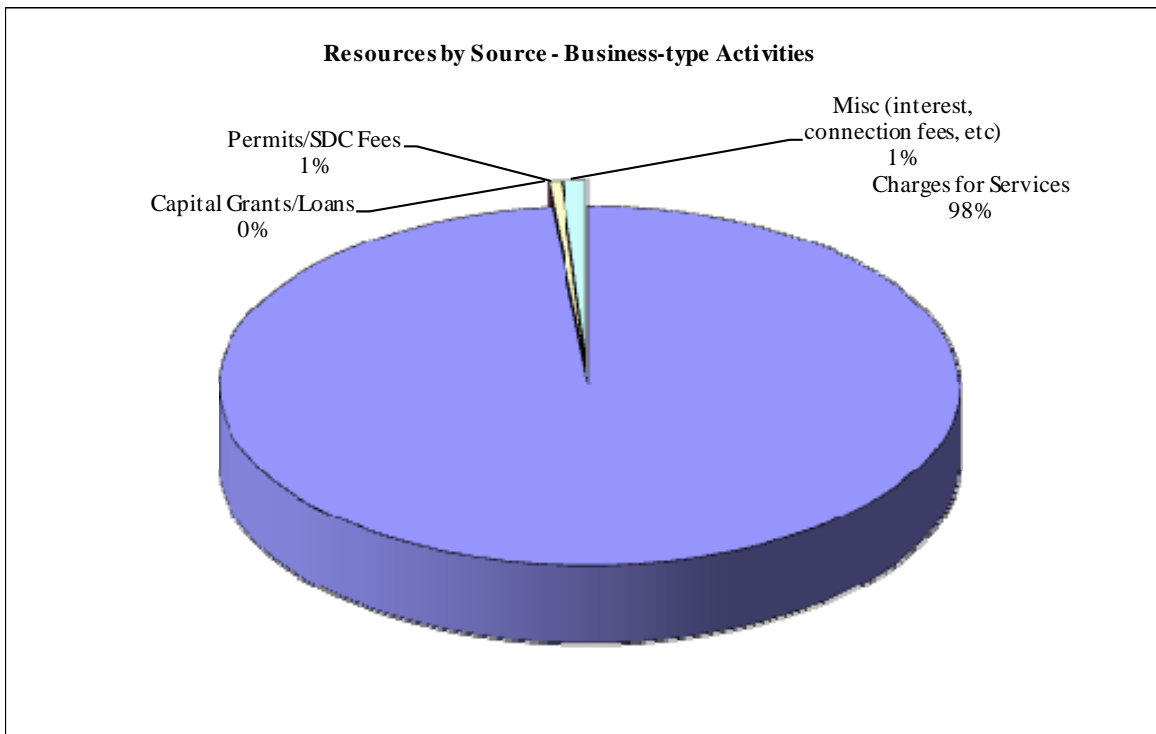


Charges for services in the business-type activities decreased \$86 thousand (or 2%) due to decrease in customer usage.

The Water Fund represents 48 percent of all utility revenues for the City. These revenues went towards operation of the new water treatment plant located off 47th Avenue.

The Wastewater Fund represents 49 percent of all utility revenues for the City. Sweet Home is serviced by a sanitary sewer system that feeds into several mainlines which meet at the wastewater treatment facility located off Pleasant Valley Road.

The new Storm Water Fund represents 2 percent of all utility revenues for the City. These revenues are dedicated to storm drainage projects throughout the City.

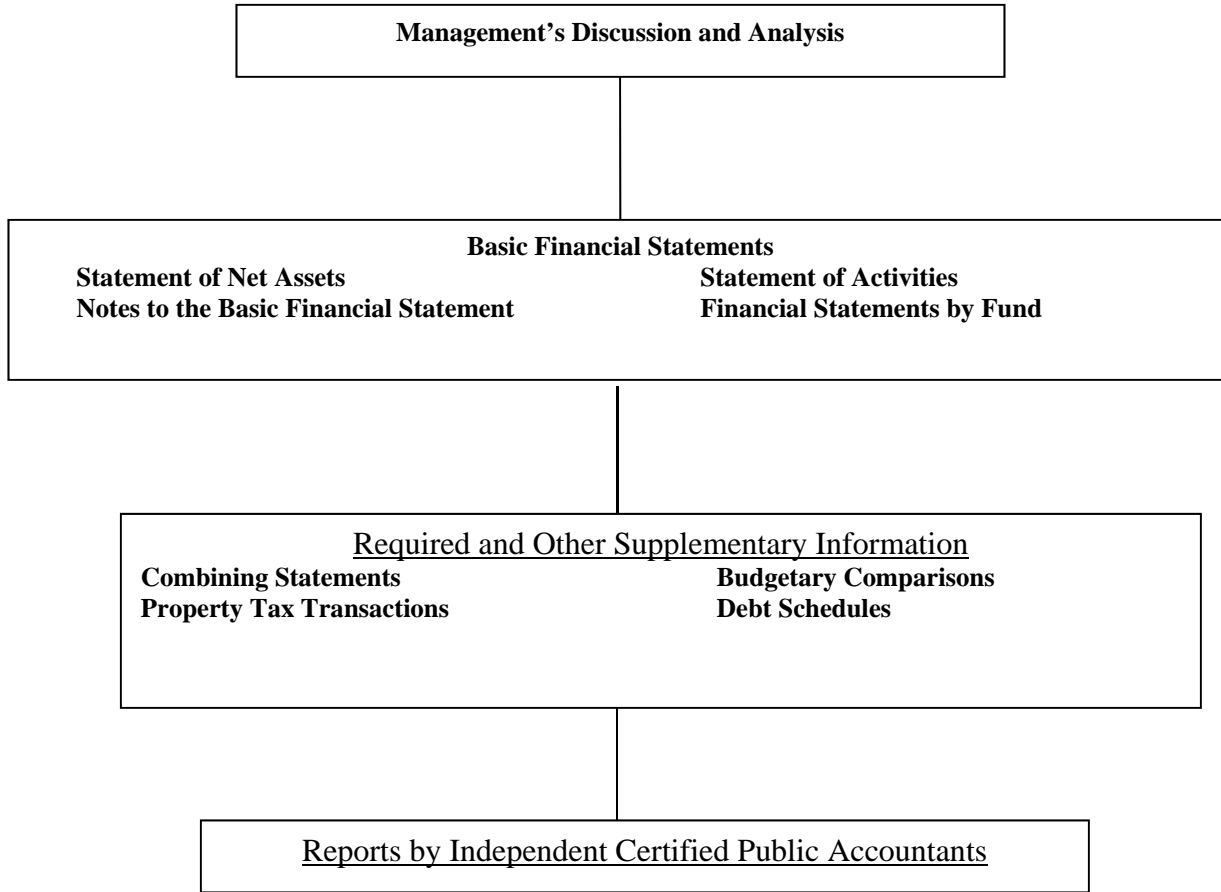


Overall City program costs decreased by \$1,240 thousand.

REPORT LAYOUT

The City's annual financial report consists of several sections. Taken together they provide a comprehensive financial look at the City. The components of the report include the following:

Components of the Comprehensive Annual Finance Report



- **Management's Discussion and Analysis.** This section of the report provides financial highlights, overview and economic factors affecting the City.
- **Basic Financial Statements.** Includes Statement of Net Assets, Statement of Activities, fund financial statements and the notes to the financial statements. The Statements of Net Assets and Activities focus on an entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the City.
- The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snap-shot view of the assets the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

- The Statement of Activities focuses on gross and net costs of city programs and the extent to which such programs rely upon general tax and other revenues. This Statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund Financial Statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's major governmental funds are presented in their own column and the remaining funds are combined into a column titled "Other Governmental Funds." Budgetary comparison statements are presented for the General, Public Safety Serial Levy, and State Gas Tax Funds as required supplementary information. Statements for the City's proprietary funds follow the governmental funds and include net assets, revenues, expenses and changes in fund net assets, and cash flows.
- The Notes to the Financial Statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.
- **Other Supplementary Information.** Readers desiring additional information on non-major funds can find it in the Combining Statements of Non-major Funds and/or the Supplementary Information-Budgetary Comparison sections of this report. Components within this section include:
 - Combining Statements. Major funds are included within the Basic Financial Statements, whereas non-major funds are presented here. These statements include balance sheets and statements of revenues, expenditures and changes in fund balances.
 - Budgetary Comparisons. Budgetary information for all funds, except those previously presented as required supplementary information.
 - Other Financial Schedules complete the Financial Section of the report.
- **Reports by independent certified public accountants.** Supplemental communication on City compliance and internal controls as required by Oregon statutes.
- **Reports required by Government Auditing Standards and OMB Circular A-133.** As a recipient of federal funding of more than \$500,000, the City is required to undergo a Single Audit of its major federally funded programs.

CITY AS A WHOLE

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following table reflects a statement of Net Assets of governmental and business-type funds compared to the prior year. Detail of this summary is presented on page 22.

Table 1
Statement of Net Assets
June 30, 2012 and 2011
(in thousands)

	Governmental		Business-type		Totals	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Cash and investments	\$ 5,881	\$ 6,029	\$ 4,279	\$ 4,450	\$ 10,160	\$ 10,479
Other assets	940	865	1,164	1,750	2,104	2,615
Capital assets	14,395	14,685	33,113	30,149	47,508	44,834
Total assets	21,216	21,579	38,556	36,349	59,772	57,928
Other liabilities	75	108	272	759	347	867
Long-term debt	161	106	22,625	19,419	22,786	19,525
Total liabilities	236	214	22,897	20,178	23,133	20,392
Net assets						
Investment in capital assets, net of debt	14,341	14,686	10,528	10,763	24,869	25,449
Restricted	1,665	1,435	725	706	2,390	2,141
Unrestricted	4,974	5,244	4,406	4,702	9,380	9,946
Total net assets	\$ 20,980	\$ 21,365	\$ 15,659	\$ 16,171	\$ 36,639	\$ 37,536

STATEMENT OF ACTIVITIES:

The following table reflects a change in activities for governmental and proprietary funds compared to the prior year. Detail of this summary is presented on page 23.

Table 2
Statements of Activities
For the years ending June 30, 2012 and 2011
(in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Revenues						
Charges for services	\$ 451	\$ 614	\$ 3,574	\$ 3,660	\$ 4,025	\$ 4,274
Grants and contributions	655	706	11	15	666	721
Taxes and assessments	2,261	2,615	-	-	2,261	2,615
Other	944	905	29	187	973	1,092
Total revenues	4,311	4,840	3,614	3,862	7,925	8,702
Expenses						
Programs	4,940	6,072	3,882	3,990	8,822	10,062
Transfers	244	289	(244)	(289)	-	-
Change in net assets	(385)	(943)	(512)	(417)	(897)	(1,360)
Beginning net assets	21,365	15,941	16,171	14,014	37,536	29,955
Prior period adjustment	-	6,367	-	2,574	-	8,941
Ending net assets	\$ 20,980	\$ 21,365	\$ 15,659	\$ 16,171	\$ 36,639	\$ 37,536

FUND FINANCIAL ANALYSIS: GOVERNMENTAL FUNDS

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

General Fund. The General Fund is the primary operating fund of the City. The fund balance was \$1,292,218 at year end. The fund balance decreased by \$422,824 during the current fiscal year. As a measure of the fund’s liquidity, it may be useful to compare total fund balances to total fund expenditures. Fund balance represents 73 percent of total General Fund expenditures.

Public Safety Serial Levy Fund. The Public Safety Serial Levy Fund is used to account for the serial property tax levy approved by voters every five years to finance police and dispatch services. The fund balance was

\$1,232,385 at year end. The fund balance increased by \$383,343 during the current fiscal year primarily due to decreases in public safety expenditures and a major transfer from the General fund to cover the loss in property tax revenue.

State Gas Tax Fund. The State Gas Tax Fund is used to account for the City’s share of state gasoline tax revenues which are restricted for use in the maintenance of streets. The fund balance was \$173,514 at year end. The fund balance increased by \$12,289 during the current fiscal year primarily due to an increase in gas tax revenue compared to the prior year.

FUND FINANCIAL ANALYSIS: PROPRIETARY FUNDS

Water Fund. The Water Fund is used to account for the operation of the City’s water department. The fund net assets were \$4,557,610 at year end. The fund net assets decreased by \$179,902 during the current fiscal year primarily due a decrease in utility revenue.

Wastewater. The Wastewater Fund is used to account for the operation of the City’s sewer utility. The fund net assets were \$3,261,113 at year end. The fund net assets decreased by \$531,403 during the current fiscal year primarily due an increase in operating expenses and transfers to other funds.

Wastewater Depreciation. The Wastewater Depreciation Fund is used to account for monies set aside for wastewater related capital projects. The fund net assets were \$3,658,422 at year end. The fund net assets increased by \$456,964 during the current fiscal year primarily due an increase in transfers from other funds.

FUND BALANCES

The following table reflects a summary of ending fund balances for governmental funds compared to the prior year. Detail of this summary is presented on page 24.

Table 3
Governmental Funds - Fund Balances
As of June 30, 2012 and 2011
(in thousands)

Major Funds	Fiscal Year June 30, 2012		Fiscal Year June 30, 2011		Compared to Prior Year	
	Amount	%	Amount	%	Change	%
General	\$ 1,292	21%	\$ 1,715	28%	\$ (423)	-25%
Public Safety Serial Levy	1,232	21%	849	14%	383	45%
State Gas Tax	174	3%	161	3%	13	8%
Other Governmental Funds	3,351	55%	3,358	55%	(7)	0%
Total fund balances	\$ 6,049	100%	\$ 6,083	100%	\$ (34)	-1%

The following table reflects a summary of ending fund balance for business-types activities on a budget basis compared to the prior year. Detail of this summary begins on page 76.

Table 4
Proprietary Funds - Fund Balances (Budget Basis)
As of June 30, 2012 and 2011
(in thousands)

Major Funds	Fiscal Year June 30, 2012		Fiscal Year June 30, 2011		Compared to Prior Year	
	Amount	%	Amount	%	Change	%
Water	\$ 577	11%	\$ 688	13%	\$ (111)	-19%
Wastewater	622	12%	911	17%	(289)	-46%
Wastewater Depreciation	1,898	38%	1,778	33%	120	7%
Other Business-type Funds	1,998	39%	1,994	37%	4	0%
Total fund net assets	<u>\$ 5,095</u>	<u>100%</u>	<u>\$ 5,371</u>	<u>100%</u>	<u>\$ (276)</u>	<u>-5%</u>

In the fund financial statements, the fund balance for governmental funds is reported in classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

BUDGETARY HIGHLIGHTS

City Council approved the following changes to the adopted budget:

The City adopted two supplemental budgets during the fiscal year.

- A supplemental budget adjustment in the amount of \$912,000 was adopted by City Council on November 8, 2011. The supplemental budget was adopted to recognize transfers made from the General Fund to cover property tax shortfalls in the Police and Library Operating Levies brought on by an incredible reduction in market values in Sweet Home and its subsequent unexpected additional increases in tax revenues compression.
- A supplemental budget adjustment in the amount of \$17,659 was adopted by City Council on June 12, 2012. The supplemental budget was adopted to recognize additional revenue that the library received from a Trust Management Services, LLC grant for \$7,659 and an additional \$10,000 of funds requested from the Boys and Girls Club in the Community Center Operating Fund.

City Council approved three transfers from contingency funds during the year:

- \$80,000 was transferred in the Equipment Reserve Fund from contingency to the Police Projects expense.
- \$10,000 was transferred in the Water Fund from contingency to the various materials and services expense lines.
- \$15,000 was transferred in the Wastewater Fund from contingency to the materials and services (\$10,000) and capital outlay (\$5,000) expense lines.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business activities as of year-end was \$48 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, equipment and infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was 10% (a 2% decrease for governmental activities and a 10% increase in for business-type activities.)

Table 5
Capital Assets at June 30, 2012 and 2011
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land and improvements	\$ 3,147	\$ 3,147	\$ -	\$ -	\$ 3,147	\$ 3,147
Buildings	9,177	9,177	28,725	28,725	37,902	37,902
Equipment	1,475	1,421	615	614	2,090	2,035
Infrastructure	25,736	25,736	10,297	10,297	36,033	36,033
CIP	-	-	13,977	9,977	13,977	9,977
Accumulated depreciation	(25,139)	(24,796)	(20,501)	(19,464)	(45,640)	(44,260)
Net capital assets	<u>\$ 14,396</u>	<u>\$ 14,685</u>	<u>\$ 33,113</u>	<u>\$ 30,149</u>	<u>\$ 47,509</u>	<u>\$ 44,834</u>

The following table reconciles the change in capital assets. Included within additions is the continuing work on the wastewater inflow and infiltration project in Business-type Activities. Detail of this summary is presented on pages 41-42 of the notes.

Table 6
Changes in Capital Assets
(in thousands)

	Governmental Activities	Business-type Activities	Total
Beginning balance	\$ 14,685	\$ 30,149	\$ 44,834
Additions	82	4,001	4,083
Depreciation	(371)	(1,037)	(1,408)
Ending balance	<u>\$ 14,396</u>	<u>\$ 33,113</u>	<u>\$ 47,509</u>

Long-term Debt

As of June 30, 2012 the City had \$22.6 million in debt (notes) outstanding compared to \$19.4 million last year. The \$3.2 million increase is the net result of new debt from the third wastewater improvement note being drawn down.

Table 7
Outstanding Debt at Year End
June 30, 2012 and 2011
(in thousands)

	Totals	
	2012	2011
Governmental		
Leases	\$ 55	\$ -
Business-type		
Notes	22,585	19,385
Total	\$ 22,640	\$ 19,385

For more detailed information the City’s debt and amortization terms refer to pages 43-45 of the notes.

MAJOR INITIATIVES

Status of the Inflow & Infiltration Program

As of June 30, 2012, the City has secured a total of \$14.886 million for the Inflow and Infiltration (I and I) reduction program Phases 1-4 of which a total balance of approximately \$1.48 million remains available for Phase 4 post construction analysis. Unfortunately however, the anticipated I and I reduction from this “Phase 4” project will not be enough to meet current compliance requirements of existing MAO and plant improvements will most likely become a requirement in the near future and at additional expense in order for the City to come into compliance with the order.

Staff anticipates that it may take an additional \$20 - \$25 million to complete the project and continues to research a variety of funding sources from selling general obligation bonds to selling the wastewater system. Staff continues and expects to successfully negotiate a new time line with Oregon Department of Environmental Quality (DEQ) in an effort to spread the work and necessary funding over additional future years.

Property Taxes

As discussed in more detail in the Transmittal Letter at the beginning of this report, the City of Sweet Home was hit with a major reduction in Property Tax revenues during 2011-2012 that had a direct impact upon Police and Library services in Sweet Home. Transfers were made and expenditures cut in the hopes of keeping these Funds whole until the Levies that support them can be renewed when they expire in 2015.

Unfortunately, under the current property tax system in Oregon, renewing them will not help secure any more funding for them because if one is increased the other is decreased and when property values decline both decrease, while calls for service and customers’ requests increase.

City staff is working the League of Oregon Cities who plans to approach the Legislature this coming year with a plan to make some changes in the current property system that will help keep local services like Public Safety and Libraries funded.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Finance Director at 1140 12th Avenue, Sweet Home, Oregon 97386.

BASIC FINANCIAL STATEMENTS

CITY OF SWEET HOME, OREGON
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
ASSETS			
Cash and investments	\$ 5,880,975	\$ 4,279,492	\$10,160,467
Accounts receivable	677,144	949,825	1,626,969
Property taxes receivable	232,909	-	232,909
Assessment liens receivable	29,906	124,781	154,687
Inventories	-	89,243	89,243
Non-depreciable capital assets	3,146,500	13,976,664	17,123,164
Other capital assets, net of depreciation	11,249,014	19,136,168	30,385,182
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	21,216,448	38,556,173	59,772,621
LIABILITIES			
Accounts payable	74,942	24,162	99,104
Deposits payable	-	119,250	119,250
Accrued interest payable	-	129,572	129,572
Noncurrent liabilities:			
Due within one year:			
Long-term debt	44,696	1,101,368	1,146,064
Accrued compensated absences	106,700	39,938	146,638
Due in more than one year:			
Long-term debt	10,287	21,483,208	21,493,495
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	236,625	22,897,498	23,134,123
NET ASSETS			
Invested in capital assets, net of related debt	14,340,531	10,528,256	24,868,787
Restricted for:			
Public safety	1,393,582	-	1,393,582
Construction	-	724,877	724,877
Community development	282,786	-	282,786
Library	157,331	-	157,331
Debt service	18,174	-	18,174
Unrestricted	4,787,419	4,405,542	9,192,961
	<hr/>	<hr/>	<hr/>
<i>Total Net Assets</i>	\$ 20,979,823	\$ 15,658,675	\$36,638,498

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

CITY OF SWEET HOME, OREGON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,383,657	\$ 108,145	\$ 297	\$ -
Library	185,978	14,930	7,916	-
Parks	136,504	3,107	1,044	-
Community development	911,159	6,052	551,776	6
Public safety	2,277,761	318,939	47,782	220
Community center	40,621	-	46,000	-
Interest on long-term debt	4,510	-	-	-
<i>Total Governmental activities</i>	4,940,190	451,173	654,815	226
Business-type activities:				
Water	1,810,443	1,722,150	-	5,514
Sewer	1,747,951	1,793,560	-	5,081
Stormwater	323,658	58,749	-	-
<i>Total Business-type activities</i>	3,882,052	3,574,459	-	10,595
<i>Total Activities</i>	\$ 8,822,242	\$ 4,025,632	\$ 654,815	\$ 10,821

General Revenues:

Property taxes
Franchise taxes
Intergovernmental
Miscellaneous

Total General Revenues

Transfers

Change in net assets

Net Assets - beginning of year

Net Assets - end of year

*Net (Expenses) Revenues
and Changes in Net Assets*

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
\$ (1,275,215)	\$ -	\$ (1,275,215)
(163,132)	-	(163,132)
(132,353)	-	(132,353)
(353,325)	-	(353,325)
(1,910,820)	-	(1,910,820)
5,379	-	5,379
(4,510)	-	(4,510)
(3,833,976)	-	(3,833,976)
-	(82,779)	(82,779)
-	50,690	50,690
-	(264,909)	(264,909)
-	(296,998)	(296,998)
(3,833,976)	(296,998)	(4,130,974)
2,261,475	-	2,261,475
596,672	-	596,672
232,323	-	232,323
114,473	29,043	143,516
3,204,943	29,043	3,233,986
244,100	(244,100)	-
(384,933)	(512,055)	(896,988)
21,364,756	16,170,730	37,535,486
\$ 20,979,823	\$ 15,658,675	\$ 36,638,498
\$ 20,979,823	\$ 15,658,675	\$ 36,638,498

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

CITY OF SWEET HOME, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Public Safety Serial Levy</u>	<u>State Gas Tax</u>
ASSETS			
Cash and investments	\$ 1,213,046	\$ 1,175,819	\$ 134,540
Accounts receivable	532,639	63,373	42,610
Property taxes receivable	46,070	161,197	-
Assessment liens receivable	13,729	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	\$ 1,805,484	\$ 1,400,389	\$ 177,150
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 26,960	\$ 6,807	\$ 3,636
Deferred revenue	486,306	161,197	-
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	513,266	168,004	3,636
Fund Balance:			
Restricted for:			
Public safety	-	1,232,385	-
Community development	-	-	173,514
Library	-	-	-
Debt service	-	-	-
Committed to:			
Public safety	-	-	-
Parks	-	-	-
Community development	-	-	-
Community center	-	-	-
Unassigned	1,292,218	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balance</i>	1,292,218	1,232,385	173,514
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Total Liabilities and Fund Balance</i>	\$ 1,805,484	\$ 1,400,389	\$ 177,150
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

<i>Other</i>	
<i>Governmental</i>	
<i>Funds</i>	<i>Total</i>
\$ 3,357,574	\$ 5,880,979
455,953	1,094,575
25,642	232,909
16,176	29,905
<hr/>	<hr/>
\$ 3,855,345	\$ 7,238,368
<hr/>	<hr/>
\$ 40,389	\$ 77,792
463,769	1,111,272
<hr/>	<hr/>
504,158	1,189,064
-	1,232,385
109,272	282,786
141,470	141,470
8,393	8,393
76,929	76,929
12,303	12,303
2,996,631	2,996,631
6,189	6,189
-	1,292,218
<hr/>	<hr/>
3,351,187	6,049,304
<hr/>	<hr/>
\$ 3,855,345	\$ 7,238,368
<hr/>	<hr/>

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

CITY OF SWEET HOME, OREGON
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

RECONCILIATION TO THE STATEMENT OF NET ASSETS

<i>Fund Balances</i>	\$ 6,049,304
<p>The Statement of Net Assets reports receivables at their net realizable value. However, receivables not available to pay for current period expenditures are deferred in governmental funds.</p>	
	696,687
<p>Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Assets at their net depreciable value.</p>	
Cost	39,534,679
Accumulated depreciation	(25,139,164)
<p>All liabilities are reported in the Statement of Net Assets. However, if they are not due and payable in the current period, they are not recorded in governmental funds.</p>	
Capital lease	(54,983)
Accrued compensated absences	(106,700)
	<hr/>
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 20,979,823</u></u>

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

CITY OF SWEET HOME, OREGON**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>	<u>Public Safety Serial Levy</u>	<u>State Gas Tax</u>
REVENUES			
Taxes and assessments	\$ 525,502	\$ 1,563,969	\$ -
Licenses and permits	666,537	1,187	-
Charges for services	23,495	6,188	-
Intergovernmental	213,236	-	488,830
Fines and forfeitures	210,255	-	-
Miscellaneous	82,511	121,502	3,069
<i>Total Revenues</i>	<u>1,721,536</u>	<u>1,692,846</u>	<u>491,899</u>
EXPENDITURES			
Current			
General government	980,549	-	-
Library	-	-	-
Parks	129,977	-	-
Community development	397,119	-	381,736
Public safety	253,954	1,949,799	-
Community center	-	-	-
Capital outlay	10,224	6,334	2,511
<i>Total Expenditures</i>	<u>1,771,823</u>	<u>1,956,133</u>	<u>384,247</u>
REVENUES OVER (UNDER) EXPENDITURES	(50,287)	(263,287)	107,652
OTHER FINANCING SOURCES (USES)			
Transfers in	335,593	646,630	-
Transfers out	(708,130)	-	(95,363)
<i>Total Other Financing Sources (Uses)</i>	<u>(372,537)</u>	<u>646,630</u>	<u>(95,363)</u>
NET CHANGE IN FUND BALANCE	(422,824)	383,343	12,289
FUND BALANCE, beginning of year	<u>1,715,042</u>	<u>849,042</u>	<u>161,225</u>
FUND BALANCE, end of year	<u>\$ 1,292,218</u>	<u>\$ 1,232,385</u>	<u>\$ 173,514</u>

<i>Other Governmental Funds</i>	<i>Total</i>
\$ 201,428	\$ 2,290,899
-	667,724
62,946	92,629
44,351	746,417
19,807	230,062
81,311	288,393
<hr/>	<hr/>
409,843	4,316,124
1,620	982,169
187,490	187,490
2,147	132,124
63,273	842,128
43,842	2,247,595
40,621	40,621
142,977	162,046
<hr/>	<hr/>
481,970	4,594,173
<hr/>	<hr/>
(72,127)	(278,049)
160,000	1,142,223
(94,630)	(898,123)
<hr/>	<hr/>
65,370	244,100
<hr/>	<hr/>
(6,757)	(33,949)
3,357,944	6,083,253
<hr/>	<hr/>
\$ 3,351,187	\$ 6,049,304
<hr/> <hr/>	<hr/> <hr/>

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

CITY OF SWEET HOME, OREGON

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Total Governmental Funds \$ (33,949)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds defer revenues that do not provide current financial resources.

However, the Statement of Activities recognizes such revenues at their net realizable value when earned, regardless of when received. (4,966)

Governmental funds do not report expenditures for unpaid compensated absences since they do not require the use of current financial resources. However, the Statement of Activities reports such expenses when incurred, regardless of when settlement ultimately occurs. (1,122)

Capital outlays are reported as expenditures in governmental funds. However, the Statement of Activities allocates the cost of capital outlay over their estimated useful lives as depreciation expense.

Capital outlay expenditures 81,694
Depreciation (371,607)

Proceeds from the issuance of long-term debt provide current financial resources to governmental funds and are reported as revenues. In the same way, repayments of long-term debt use current financial resources and are reported as expenditures in governmental funds. However, neither the receipt of debt proceeds nor the payment of debt principal affect the Statement of Activities, but are reported as increases and decreases in noncurrent liabilities in the Statement of Net Assets. (54,983)

Change in Net Assets of Governmental Activities \$ (384,933)

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

CITY OF SWEET HOME, OREGON
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2012

	<u>Water</u>	<u>Wastewater</u>	<u>Wastewater Depreciation</u>
ASSETS			
Current Assets			
Cash and investments	\$ 435,059	\$ 287,439	\$ 1,559,004
Accounts receivable	266,454	338,777	344,594
Inventories	77,583	3,531	-
<i>Total Current Assets</i>	779,096	629,747	1,903,598
Noncurrent Assets			
Assessment liens receivable	-	-	-
Nondepreciable capital assets	-	-	13,976,664
Other capital assets, net of depreciation	14,299,545	2,777,284	-
<i>Total Noncurrent Assets</i>	14,299,545	2,777,284	13,976,664
<i>Total Assets</i>	15,078,641	3,407,031	15,880,262
LIABILITIES			
Current Liabilities			
Accounts payable	5,399	4,500	5,554
Deposits payable	119,250	-	-
Accrued interest payable	109,941	3,445	16,186
Current portion of long-term liabilities			
Long-term debt	432,159	55,698	613,511
Accrued compensated absences	16,252	23,686	-
<i>Total Current Liabilities</i>	683,001	87,329	635,251
Noncurrent Liabilities			
Long-term debt	9,838,030	58,589	11,586,589
<i>Total Liabilities</i>	10,521,031	145,918	12,221,840
FUND NET ASSETS:			
Invested in capital assets, net of related debt	4,029,356	2,662,997	1,776,564
Restricted for:			
Construction	-	-	-
Unrestricted	528,254	598,116	1,881,858
<i>Total Fund Net Assets</i>	\$ 4,557,610	\$ 3,261,113	\$ 3,658,422

<i>Other Business- type Funds</i>	<i>Total</i>
\$ 1,997,990	\$ 4,279,492
-	949,825
8,129	89,243
2,006,119	5,318,560
124,781	124,781
-	13,976,664
2,059,339	19,136,168
2,184,120	33,237,613
4,190,239	38,556,173
8,709	24,162
-	119,250
-	129,572
-	1,101,368
-	39,938
8,709	1,414,290
-	21,483,208
8,709	22,897,498
2,059,339	10,528,256
724,877	724,877
1,397,314	4,405,542
\$ 4,181,530	\$ 15,658,675
\$ 4,181,530	\$ 15,658,675

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

CITY OF SWEET HOME, OREGON**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012**

	<u>Water</u>	<u>Wastewater</u>	<u>Wastewater Depreciation</u>
OPERATING REVENUES			
Charges for services	\$ 1,711,650	\$ 1,745,384	\$ 45,764
Miscellaneous	10,503	2,411	-
<i>Total Operating Revenues</i>	1,722,153	1,747,795	45,764
OPERATING EXPENSES			
Personal services	456,542	545,690	-
Materials and services	609,596	579,952	86,443
Depreciation	486,941	292,535	-
<i>Total Operating Expenses</i>	1,553,079	1,418,177	86,443
OPERATING INCOME (LOSS)	169,074	329,618	(40,679)
NONOPERATING REVENUES (EXPENSES)			
Investment revenue	2,552	3,053	8,200
Interest expense	(193,728)	(243,331)	-
<i>Total Nonoperating Revenues (Expenses)</i>	(191,176)	(240,278)	8,200
NET INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	(22,102)	89,340	(32,479)
Capital contributions	-	-	-
Transfers in	-	-	489,443
Transfers out	(157,800)	(620,743)	-
CHANGE IN NET ASSETS	(179,902)	(531,403)	456,964
FUND NET ASSETS, Beginning of year	4,737,512	3,792,516	3,201,458
FUND NET ASSETS, End of year	\$ 4,557,610	\$ 3,261,113	\$ 3,658,422

<i>Other Enterprise</i>		
<i>Funds</i>		<i>Total</i>
\$ 58,749	\$	3,561,547
-		12,914
58,749		3,574,461
60,421		1,062,653
69,455		1,345,446
257,418		1,036,894
387,294		3,444,993
(328,545)		129,468
15,236		29,041
-		(437,059)
15,236		(408,018)
(313,309)		(278,550)
10,595		10,595
50,000		539,443
(5,000)		(783,543)
(257,714)		(512,055)
4,439,244		16,170,730
\$ 4,181,530	\$	15,658,675

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

CITY OF SWEET HOME, OREGON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	<u>Enterprise</u>	
	<u>Water</u>	<u>Wastewater</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collected from customers	\$ 1,670,603	\$ 1,744,162
Paid to suppliers	(609,833)	(591,388)
Paid to employees	(454,995)	(540,900)
	<hr/>	<hr/>
<i>Net Cash Provided by (Used in) Operating Activities</i>	605,775	611,874
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers in	-	-
Transfers out	(157,800)	(620,743)
	<hr/>	<hr/>
<i>Net Cash Provided by (Used in) Non-Capital Financing Activities</i>	(157,800)	(620,743)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(1,155)	(555)
Principal paid on long-term debt	(417,911)	(52,950)
Proceeds from issuance of debt	-	-
Contribution of capital	-	-
Interest paid	(199,884)	(244,927)
	<hr/>	<hr/>
<i>Net Cash Provided by (Used in) Capital and Related Financing Activities</i>	(618,950)	(298,432)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	2,552	3,053
	<hr/>	<hr/>
<i>Increase (Decrease) in Cash and Investments</i>	(168,423)	(304,248)
CASH AND INVESTMENTS, Beginning of year	<hr/>	<hr/>
	603,482	591,687
CASH AND INVESTMENTS, End of year	<hr/> <hr/>	<hr/> <hr/>
	\$ 435,059	\$ 287,439

<i>Funds</i>		
<i>Wastewater Depreciation</i>	<i>Nonmajor Funds</i>	<i>Totals</i>
\$ 655,997	\$ 60,613	\$ 4,131,375
(86,443)	(62,281)	(1,349,945)
-	(60,421)	(1,056,316)
569,554	(62,089)	1,725,114
489,443	50,000	539,443
-	(5,000)	(783,543)
489,443	45,000	(244,100)
(4,440,464)	-	(4,442,174)
(326,443)	-	(797,304)
3,996,490	-	3,996,490
-	14,620	14,620
(7,231)	-	(452,042)
(777,648)	14,620	(1,680,410)
8,200	15,236	29,041
289,549	12,767	(170,355)
1,269,455	1,985,223	4,449,847
<u>\$ 1,559,004</u>	<u>\$ 1,997,990</u>	<u>\$ 4,279,492</u>

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

CITY OF SWEET HOME, OREGON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
YEAR ENDED JUNE 30, 2012

	<u>Water</u>	<u>Wastewater</u>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 169,074	\$ 329,618
Depreciation	486,941	292,535
Change in assets and liabilities:		
Accounts receivable	(30,970)	(3,633)
Inventory	4,901	(130)
Accounts payable and accrued liabilities	(25,718)	(11,306)
Accrued vacation payable	1,547	4,790
	<u>605,775</u>	<u>611,874</u>
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>\$ 605,775</u>	<u>\$ 611,874</u>

<u>Wastewater Depreciation</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
\$ (40,679)	(328,545)	\$ 129,468
	257,418	1,036,894
610,233	1,864	577,494
-	-	4,771
-	7,174	(29,850)
	-	6,337
<u>\$ 569,554</u>	<u>\$ (62,089)</u>	<u>\$ 1,725,114</u>

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

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sweet Home in Linn County, Oregon was incorporated as a municipal corporation in 1893 under the name of "City of Sweet Home." The City of Sweet Home charter of 1986 was approved by the voters on June 24, 1986.

The government of the City of Sweet Home is vested in a City Council. The Council is composed of seven members elected at large at each biennial general election. The three council members who receive the highest number of votes serve four year terms and the councilor who receives the next highest number of votes serves for a two-year term. The Mayor is elected by the other council members after each biennial general election for a two-year term. The City Manager, City Attorney, and Municipal Judge are appointed by and serve at the pleasure of the City Council. The City Manager is selected by the Council as the administrative head of the city government.

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 financial statements display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial 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, or fiduciary. Currently, the City has governmental (general, special revenue, capital projects and debt service) and proprietary type (enterprise) funds. Major individual governmental funds, and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the other supplementary information.

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, fund equity, revenues and expenses. The various funds are reported by generic classification within the financial statements.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The model sets forth minimum criteria (percentage of the assets liabilities, revenues or expenditures of either fund category or the government and enterprise combined) for the determination of major funds.

The City reports the following major governmental funds:

General Fund - this fund is used to account for all financial resources except those required to be accounted for in another fund. Primary sources of revenue are property taxes, franchise fees, state shared revenues, licenses and permits. Primary expenditures are made for public safety, parks and community services and general government.

Special Revenue Fund

Public Safety Serial Levy Fund - this fund is used to account for the serial property tax levy approved by voters every four years to finance police and dispatch services.

State Gas Tax Fund - this fund is used to account for the City's share of state gasoline tax revenues which are restricted for use in the maintenance of streets.

The City reports the following major proprietary funds:

Water Fund - this fund is used to account for the operation of the City's water department. Primary revenues are sales of waters to users, connection fees, and interest on invested funds.

Wastewater Fund - this fund is used to account for the operation of the City sewer utility.

Wastewater Depreciation Fund - this fund is used to account for monies set aside for wastewater related capital projects.

The City reports the following nonmajor governmental funds:

Special Revenue Funds

Narcotic Enforcement Reserve Fund - this fund is used to account for property seized and forfeited to the Police Department in drug related cases, which must be used for drug enforcement by the Police Department.

Library Serial Levy Fund - this fund is used to account for serial property tax levy approved by voters every four years for operation of the library.

Parks and Recreation Program Fund - this fund is used to account for funds received from donations that are to be used for parks improvements and a recreation program.

Path Program Reserve Fund - this fund accounts for the construction of bicycle paths.

Public Transit Grant Fund - this fund is used to account for the expenditures of public transportation grant monies.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Special Revenue Funds (Continued)

Street Maintenance Improvement Fund - this fund is used to account for funds received from Linn County in conjunction with the transfer of several County roads to the City and for the City's share of Linn County timber revenues which are restricted to maintenance and improvement of these roads.

Housing Rehabilitation Loan Fund - this fund is used to account for Community Development Block Grant housing rehabilitation loans.

Community Center Operating Fund - this fund is used to account for funds to be used for the general operation of the community center.

Special Assessments Fund - this fund is used to account for reimbursements on local improvement City projects financed by assessments against benefited property owners.

911 Tax Fund - this fund is used to account for the City's share of 911 tax revenues which is passed through to 911 call centers.

Capital Projects Funds

Building Reserve Fund - this fund was established as a reserve for the construction of a new City Hall.

Equipment Reserve Fund - this fund is a reserve for purchase of equipment as provided by ORS 180.100.

Debt Service Fund

Police Facilities Debt Service Fund - this fund is used to account for revenues from property tax payments to pay back general obligation bonds used to build the Police/Emergency Dispatch Facilities.

The City reports the following nonmajor proprietary funds:

Water Capital Fund - this fund is used to account for water facilities projects.

Water SDC Reserve Fund - this fund is used to account for interest in investments and transfers from the Water Fund. Expenditures are for the development of the water system.

Water Depreciation Fund - this fund is used to account for monies set aside for water related capital projects.

Wastewater SDC Reserve Fund - this fund is used to account for sewer system improvements and expansion.

Wastewater Capital Fund - this fund is used to account for wastewater facilities project.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Storm Water Drainage Fund - this fund is used to account for the operation of the storm water drainage system.

Storm Water SDC Reserve Fund - this fund is used to account for interest in investments and transfers from the Storm Water Drainage Fund. Expenditures are for the development of the storm water system.

Storm Water Capital Fund - this fund is used to account for storm water facilities project.

Storm Water Depreciation Fund - this fund is used to account for monies set aside for storm water related capital projects.

Fund Balance

The fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Although not a major impact on the financial statements, Governmental Fund type fund balances are now reported in the following classifications.

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Fund balance is reported as restricted when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Fund balance is reported as committed when the City Council takes formal action that places specific constraints on how the resources may be used. The City Council can modify or rescind the commitment at any time through taking a similar formal action.

Resources that are constrained by the City's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the City Council approves which resources should be "reserved" during the adoption of the annual budget. The City's Finance Director uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the City's Annual Financial Report.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds.

When expenditures are paid for purposes in which both restricted and unrestricted net assets are available, the City deems restricted net assets to be spent first.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Definitions of Governmental Fund Types

The General Fund is used to account for all financial resources not accounted for in another fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term “proceeds of specific revenues sources” means that the revenue sources for the fund must be from restricted or committed sources, specifically that a substantial portion of the revenue must be from these sources and be expended in accordance with those requirements.

Capital Projects Funds are utilized to account for financial resources to be used for the acquisition or construction of capital equipment and facilities.

Debt Service Funds are utilized to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide financial statements and the proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets are segregated into investment in capital assets, net of related debt, restricted and unrestricted components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are franchise taxes, licenses, interest revenue and charges for services. Fines and permits and property taxes revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The City has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.” The City has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed under GASB No. 20, the City has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

Enterprise funds distinguish between operating revenues and expenses and nonoperating items. Operating revenues and expenses result from providing services to customers in connection with ongoing utility operations. The principal operating revenues are charges to customers for service. Operating expenses include payroll and related costs, materials and supplies, and capital outlay. All revenues not considered operating are reported as nonoperating items.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenses as of and for the year ended June 30, 2012. Actual results may differ from such estimates.

Cash and Investments

Investments, included in cash and investments, are carried at cost which approximates fair value. For purposes of the statement of cash flows, the proprietary funds consider cash and cash equivalents to include the cash and investment common pool. These amounts have the general characteristics of demand deposit accounts in that the proprietary funds may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty.

Receivables and Deferred Revenues

Receivables for state, county and local shared revenues, included in accounts receivable, are recorded as revenue in the governmental funds as earned.

Receivables of the enterprise funds are recorded as revenue as earned.

Property taxes receivable for the governmental fund types are recognized as revenues on the cash basis. Uncollected property taxes are offset by deferred revenue and, accordingly, have not been recorded as revenue. Real and personal property taxes are levied upon all taxable property within the City and become liens against the property as of July 1 of each year and are payable in three installments which are due on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent. Property taxes receivable by the City represent the City's allocated share of delinquent property taxes and other amounts to be collected from property owners within Linn County, Oregon.

Assessment liens in the governmental fund types are recognized as receivables at the time property owners are assessed for property improvements. All assessments receivable are offset by a deferred revenue account and, accordingly, have not been recorded as revenue.

Interest earned on assessments in the governmental fund types is accrued when due.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventories of supplies in the proprietary funds are stated at cost (first-in, first-out basis) and are charged to expense as used.

Capital Assets

Capital assets are stated at cost or estimated historical cost. Donated assets are recorded at fair market value at date of donation. Estimated fair market value of donated assets is determined based on engineering estimates of current cost or price indexed cost.

Normal maintenance and repairs are charged to operations as incurred. Major additions, improvements and replacements are capitalized. Gains or losses from sales or retirements of fixed assets are included in operations.

Capital assets include land, right-of-way (included with land), buildings, improvements, equipment, infrastructure, and other tangible and intangible assets costing over \$200 used in operations that have initial useful lives extending beyond a single reporting period. Infrastructure are those capital assets that are stationary in nature and can be preserved for a significantly greater number of years than most other capital assets. Infrastructure reported in business-type activities consist of water, stormwater and wastewater collection systems.

Capital assets are depreciated unless they are inexhaustible in nature (e.g., land and right-of-ways). Depreciation is an accounting process to allocate the cost of capital assets to expense in a systematic and rational manner to those periods expected to benefit from the use of capital assets. Depreciation is not intended to represent an estimate in the decline of fair market value, nor are capital assets, net of accumulated depreciation, intended to represent an estimate of the current condition of the assets, or the maintenance requirements needed to maintain the assets at their current level of condition.

Depreciation is computed over the estimated useful lives of the capital assets. All estimates of useful lives are based on actual experience by City departments with identical or similar capital assets. Depreciation is calculated on the straight-line basis, except for infrastructure and improvements other than buildings reported in the governmental activities column of the government-wide financial statements, which are calculated using a composite depreciation method. The estimated useful lives of the various categories of assets are as follows:

Buildings	30-50 years
Improvements other than buildings	20 years
Infrastructure	20-40 years
Equipment	3-15 years

Upon disposal of capital assets, cost and accumulated depreciation are removed from the accounts and, if appropriate, a gain or loss on the disposal is recognized. In accordance with the composite depreciation method, no gain or loss is recorded upon disposal, but rather, cost is removed from the capital asset account and charged to the accumulated depreciation account.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, and in proprietary fund types, long-term obligations are reported as liabilities. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs at the time of issuance. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Accrued Compensated Absences

Accumulated vested vacation pay is accrued in the government-wide and proprietary funds as it is earned by employees. In the governmental fund types the amounts, if any, expected to be liquidated with expendable available resources are accrued as liabilities of the funds. Accumulated sick leave does not vest and is therefore recorded in all funds when leave is taken.

Encumbrances

The City does not utilize encumbrances.

Budget and Budgetary Accounting

A budget is prepared for each fund in accordance with the modified accrual basis of accounting with certain modifications and legal requirements set forth in the Oregon Local Budget Law.

The City begins its budgeting process after City Council holds a work session in January at which goals and objectives are discussed for the upcoming year. Utilizing the goals and objectives adopted by City Council, city staff develops a proposed budget in early spring which is present to the Budget Committee in late spring. Following a series of public meetings with the Budget Committee an Approved Budget is sent to City Council for adoption at a Public Hearing at the end of June.

City Council adopts the budget, makes appropriations and declares the tax levies by resolution no later than June 30. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. The City established the levels of budgetary control at the personal services, materials and services, capital outlay, operating contingencies, debt service, and all other requirement levels for all funds except the General Fund, in which budgetary controls are established at the departmental operations level, capital outlay and contingency. Management is allowed to adjust budget numbers between services levels within funds, while transfers outside of funds, appropriation of unexpected revenues and use of contingencies require Council action through the supplemental budget process.

Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in a local newspaper and approval by the City Council. City Council must authorize all appropriation transfers and supplementary budgetary appropriations. With the approval of the supplemental budget during the year, budget amounts shown in the general purpose financial statements have been revised since the original budget amounts were adopted. All annual appropriations lapse at fiscal year-end.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget and Budgetary Accounting (Continued)

A detailed budget document that contains more specific information on all funds, their operational purposes, their levels of budgetary controls and historical data is made available to the public and used constantly by the City for its administration control purposes.

CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2012:

	<i>Carrying Value</i>	<i>Fair Value</i>
	<hr/>	<hr/>
Cash		
Cash on hand	\$ 2,634	\$ 2,634
Deposits with financial institutions	312,084	312,084
Certificates of deposit	131,650	131,650
Investments		
Local Government Investment Pool	9,714,099	9,714,099
	<hr/>	<hr/>
	\$ 10,160,467	\$ 10,160,467
	<hr/> <hr/>	<hr/> <hr/>

Deposits

The book balance of the City's bank deposits with various financial institutions was \$312,084 and the bank balance was \$542,042 at year-end. The difference is due to transactions in process. Deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides unlimited insurance for the City's deposits with financial institutions for the aggregate of all non-interest bearing accounts and up to \$250,000 for the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program. The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2012, the City's bank balances were fully covered by FDIC.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

CASH AND INVESTMENTS (Continued)

Investments

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool (LGIP) is part. Participation by local governments is voluntary. At June 30, 2012, the carrying value of the position in the Oregon State Treasurer's Short-Term Investment Pool approximates fair value. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP. The LGIP is not rated for credit quality.

CAPITAL ASSETS

Business-type capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<i>Balances</i> <i>July 1,</i> <i>2011</i>	<i>Increases</i>	<i>Decreases</i>	<i>Transfers</i>	<i>Balances</i> <i>June 30,</i> <i>2012</i>
NON-DEPRECIABLE					
Construction in progress-sewer	\$ 9,977,174	\$ 3,999,490	\$ -	\$ -	\$ 13,976,664
DEPRECIABLE					
Equipment-water	133,745	1,155	-	-	134,900
Equipment-sewer	479,789	555	-	-	480,344
Water facilities	18,942,652	-	-	-	18,942,652
Sewer facilities	9,782,260	-	-	-	9,782,260
Stormwater Infrastructure	10,296,700	-	-	-	10,296,700
<i>Total depreciable</i>	39,635,146	1,710	-	-	39,636,856

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

CAPITAL ASSETS (Continued)

ACCUMULATED DEPRECIATION

Equipment-water	(210,985)	(13,375)	-	157,487	(66,873)
Equipment-sewer	(594,583)	(47,978)	-	402,668	(239,893)
Water facilities	(4,080,081)	(473,566)	-	(157,487)	(4,711,134)
Sewer facilities	(6,598,201)	(244,557)	-	(402,668)	(7,245,426)
Stormwater Infrastructure	(7,979,943)	(257,418)	-	-	(8,237,361)
<i>Total accumulated depreciation</i>	<u>(19,463,792)</u>	<u>(1,036,894)</u>	<u>-</u>	<u>-</u>	<u>(20,500,687)</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 30,148,528</u>	<u>\$ 2,964,306</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,112,833</u>

Governmental activities capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<i>Balances July 1, 2011</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balances June 30, 2012</i>
NON-DEPRECIABLE				
Land and improvements	\$ 3,146,500	\$ -	\$ -	\$ 3,146,500
DEPRECIABLE				
Buildings	9,177,486	-	-	9,177,486
Equipment	1,421,701	81,694	(28,711)	1,474,684
Infrastructure	25,736,008	-	-	25,736,008
<i>Total depreciable</i>	<u>36,335,195</u>	<u>81,694</u>	<u>(28,711)</u>	<u>36,388,178</u>
ACCUMULATED DEPRECIATION				
Buildings	(3,790,856)	(229,437)	-	(4,020,293)
Equipment	(1,265,051)	(142,170)	28,711	(1,378,510)
Infrastructure	(19,740,361)	-	-	(19,740,361)
<i>Total accumulated depreciation</i>	<u>(24,796,268)</u>	<u>(371,607)</u>	<u>28,711</u>	<u>(25,139,164)</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 14,685,427</u>	<u>\$ (289,913)</u>	<u>\$ -</u>	<u>\$ 14,395,514</u>

Depreciation expense in the amount of \$371,607 was charged to general government on the statement of activities. Depreciation of \$1,036,894 was charged to business-type activities in the same amounts as shown on the enterprise fund financial statements.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

LONG-TERM DEBT

Long-term debt transactions for the year were as follows:

	<i>Outstanding July 1, 2011</i>	<i>Issued</i>	<i>Matured/ Redeemed During Year</i>	<i>Outstanding June 30, 2012</i>	<i>Due Within One Year</i>
<i>Governmental Activities</i>					
Multiple vehicle leases with interest rates varying from 7% to 8% and the longest maturing in 2013-14	\$ -	\$ 54,983	\$ -	\$ 54,983	\$ 44,696
<i>Business-type Activities</i>					
<i>Water Fund</i>					
1992 OEDD promissory note, annual payments of \$118,504 including interest at 6.13%	\$ 216,869	\$ -	\$ (105,210)	\$ 111,659	\$ 111,659
Water treatment facility note, estimated annual payments of \$289,310 including interest at 1%	7,041,576	-	(210,508)	6,831,068	212,613
Water treatment facility note, due two years after project completion including interest at 3.56%	3,429,655	-	(102,193)	3,327,462	107,887
<i>Wastewater Fund</i>					
1993 OEDD promissory note, annual payments of \$61,630 including interest at 5.19%	167,237	-	(52,950)	114,287	55,698
<i>Wastewater Depreciation Fund</i>					
Wastewater improvement note, annual payments of \$275,854 including interest at 3.14%	3,034,768	-	(175,640)	2,859,128	181,199
Wastewater improvement note, variable annual payments including interest at 2.90%	3,779,051	712,724	(150,803)	4,340,972	182,312
Wastewater improvement note, semi-annual payments of \$125,000 including 0% interest. Annual fees at 0.5% are charged.	1,716,234	3,283,766	-	5,000,000	250,000
	<u>\$ 19,385,390</u>	<u>\$ 3,996,490</u>	<u>\$ (797,304)</u>	<u>\$ 22,584,576</u>	<u>\$ 1,101,368</u>

Governmental Activities

Governmental activity debt requirements consist of capital lease which have future required payments of \$44,696 due in the fiscal year ending June 30, 2013 and the remaining balance of \$10,287 due in the fiscal year ending June 30, 2014.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

LONG-TERM DEBT (Continued)

Business-type Activities (Continued)

Business-type activity debt requirements are shown below for the full amount of the Water Treatment Facility loans. These loans were only partially disbursed at June 30, 2012.

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,101,368	\$ 437,813	\$ 1,539,181
2014	1,003,940	413,401	1,417,341
2015	959,195	404,101	1,363,296
2016	978,415	385,877	1,364,292
2017	993,019	367,140	1,360,159
2018-2022	5,246,346	1,521,037	6,767,383
2023-2027	5,227,723	940,066	6,167,789
2028-2032	4,413,020	423,733	4,836,753
2033-2037	1,835,356	192,659	2,028,015
2038-2040	826,194	16,578	842,772
	<u>\$ 22,584,576</u>	<u>\$ 5,102,405</u>	<u>\$ 27,686,981</u>

On December 3, 1992, the City obtained a Special Public Works Fund (SPWF) \$1,345,000 loan from the Oregon Economic Development Department to finance water distribution system improvements and a two million gallon reservoir. This loan was made under a promissory note and a related loan agreement under which the City has pledged revenue of its Water Fund and also its taxing power under Article XI, Section 11 of the Constitution of the State of Oregon. The State of Oregon has assigned the City's obligations under this loan agreement to a trustee under the State's bond indenture as security for the bonds issued by the State of Oregon. Final payment is scheduled for 2012-13.

On December 2, 1993, the City obtained a Special Public Works Fund (SPWF) \$755,816 loan from the Oregon Economic Development Department to finance wastewater treatment plant improvements required by EPA. This loan was made under provision in a note and a related loan agreement under which the City has pledged revenues of its Wastewater Fund and also its taxing power under Article XI, Section 11 of the Constitution of the State of Oregon. Interest on this loan is 5.19% per annum which reflects the interest rate of the Oregon Bond Bank Revenue Bond 1993 Series C which the State of Oregon issued to fund this loan. The State of Oregon has assigned the City's obligations under this loan agreement to a trustee under the State's bond indenture as security for the bonds issued by the State of Oregon. Final payment is scheduled for 2013-14.

On November 26, 2002, the City signed a \$2,000,000 loan agreement with the State of Oregon Department of Environmental Quality. On April 13, 2004, the City signed an amendment for an additional \$2,000,000, bringing the total loan amount to \$4,000,000. The loan requires a reserve balance of \$268,625. The City was in compliance with the loan reserve requirement as of June 30, 2012. Funds are being disbursed from the State's Clean Water State Revolving Loan Fund to correct storm water inflow and infiltration problems that are affecting the City's wastewater system. The interest rate is set at 3.14% for twenty years. Payments of \$269,564 plus fees will continue annually until the loan is paid back. The City will make these payments utilizing wastewater revenue set aside for depreciation replacement. Final payment is scheduled for 2024-25.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

LONG-TERM DEBT *(Continued)*

On September 22, 2004, the City signed a \$4,000,000 loan with Oregon Economic and Community Development Department to finance the planning, design and construction of river intake and transmission lines, two pump stations, a new 6,000 square-foot building, a filter, a disinfection contact tank, structural improvements to existing buildings, a new backwash pond, a clearwell and plumbing and electrical improvements. On March 10, 2009, the City signed an amendment bringing the total loan amount to \$7,500,000. This loan was made under a promissory note and a related loan agreement under which the City has pledged revenue of its Water Fund and also its taxing power under Article XI, Section 11 of the Constitution of the State of Oregon. Interest is set at 1.00% per annum. The State of Oregon has assigned the City's obligations under this loan agreement to a trustee under the State's bond indenture as security for the bonds issued by the State of Oregon. Funds will be disbursed from the State's Clean Water State Revolving Loan Fund. Final payment is scheduled for 2039-40.

On September 22, 2004, the City signed a \$1,030,000 loan with Oregon Economic and Community Development Department for costs associated with the construction of a new water treatment facility. The City subsequently signed an amendment for an additional \$3,000,000, bringing the total loan amount to \$4,030,000. Interest on this loan is set at 3.56%. At June 30, 2012, the City had drawn down \$3,429,655 of the loan. Future debt service requirements are estimated based on full disbursement of the loan.

On April 1, 2005, the City signed a \$2,000,000 loan agreement with the State of Oregon Department of Environmental Quality. On April 30, 2005, the loan agreement was amended to reduce the interest rate to a rate in effect at the time of loan execution, which was 2.90%. On February 5, 2007, the City signed an amendment bringing the total loan amount to \$5,886,440. The loan requires a reserve balance of \$196,008. Funds will be disbursed from the State's Clean Water State Revolving Loan Fund. At June 30, 2012, the City had drawn down \$4,491,775 of the loan, and was in compliance with the reserve requirement. Future debt service requirements for this loan are based on the payment schedule provided by the State of Oregon, which assumes full disbursement of the loan. Final payment is scheduled for 2030-31.

On December 16, 2009, the City signed a \$5,000,000 loan agreement with the State of Oregon Department of Environmental Quality. Funds are being disbursed from the State's Clean Water State Revolving Loan Fund to fund wastewater system improvements to reduce inflow and infiltration problems that are affecting the City's wastewater system. There is no interest charged on the loan. The loan requires a reserve balance of \$125,000. During the year ending June 30, 2012, the City drew down the remaining balance of the \$5,000,000 loan, and was in compliance with the reserve requirement. Interest is set at 0.00% with a fee of 0.50% per annum. Final payment is scheduled for 2031-32.

DEFINED BENEFIT PENSION PLAN

Plan Description

City police officers participate 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.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

DEFINED BENEFIT PENSION PLAN (Continued)

Plan Description (Continued)

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 City participates in the state and local government rate pool (SLGRP). 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, Oregon 97281-3700, by calling (503) 598-7377, or by accessing the PERS web site at <http://oregon.gov/PERS/>.

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 City has elected to contribute the 6.0% "pick-up" for the year ended June 30, 2012.

In addition to the 6.0% "pick-up," the City contributed 6.08% of covered payroll to PERS and 0.5% to OPSRP for the fiscal year ended June 30, 2012. This contribution rate was determined as part of the December 31, 2009 actuarial valuation.

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, 2012, the City's annual pension expenditures/expense was \$74,859. The City's contributions were equal to the annual required contributions.

The City's pension liability and the annual required contribution rate were determined using the entity age cost method. The actuarial assumptions utilized in the valuation include an investment return of 8.0%, a projected salary increase of 3.75%, health cost inflation graded from 6.9% in 2007 to 4.5% in 2029 and a consumer price inflation component of 2.75%

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

DEFINED BENEFIT PENSION PLAN (Continued)

Annual Pension Cost (Continued)

The unfunded actuarial liability ("UAL"), created by this method is amortized as a level percentage of projected payroll over a closed amortization period of twenty-two years. This is different from the prior method of amortization, in that the liability was previously amortized as a level percentage of PERS covered payroll. The change in amortization method was in response to anticipated future declines in PERS covered payroll, since new hires will be participating in OPSRP.

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 25.0% per year. The actuarial value of assets is limited to a 10.0% 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 on all member contributions in Tier One and Tier Two Regular Accounts are assumed to accrue at an annual rate of 8.0%, compounded annually.

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

<u>Year Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	\$ 97,159	100%	-
2011	94,923	100%	-
2012	74,860	100%	-

DEFINED CONTRIBUTION PENSION PLAN

Plan Description

Under the ICMA IRC Section 401 defined contribution pension plan agreement for all full-time general and emergency services employees who are union members and not covered by another retirement plan, the City's contribution rate is 12% of the employee's salary. There is no mandatory or voluntary employee contribution and the plan does not provide for employer "pick-up" of any employee contributions. The City's contribution to this plan for fiscal year ended June 30, 2012 totaled \$145,975 on \$1,190,873 of covered payroll.

Under the ICMA IRC Section 401 defined contribution pension plan agreement the City's contribution rate is 10% of the Police Chief's salary per his contract. The City's contribution to the money purchase pension plan for the Chief of Police for the fiscal year ended June 30, 2012 was \$8,097 on \$80,973.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

DEFINED CONTRIBUTION PENSION PLAN (Continued)

Plan Description (Continued)

Under the ICMA IRC Section 401 defined contribution pension plan agreement for non-contractual employees the City’s contribution rate is 15.7% of the non-contractual employee’s salary. The non-contractual employees also have a mandatory 1.0% contribution based on their salary. The City’s contribution to the money purchase pension plan for the non-contractual employees for the fiscal year ended June 30, 2012 was \$97,082 on \$618,332 of covered non-contractual City payroll.

Under the ICMA Pension Plans there is no minimum age requirement and there is a six-month period of service requirement for participation. The normal retirement age under this pension plan is age 65. There is no minimum vesting requirement under the plan and employees vest as follows:

<u>Years of Service Completed</u>	<u>Specified Percent Vesting</u>
1	-
2	-
3	50%
4	75%
5	100%

Deferred Compensation

The City makes available an IRC Section 457 deferred compensation plan through the ICMA Retirement Corporation for all employees. Employee participation is voluntary and the City does not make any contribution to the plan.

COMMITMENTS AND CONTINGENCIES

The City purchases commercial insurance from the City/County Insurance Services Trust to cover all commonly insurable risks, which includes property damage, liability and employee bonds. This is a self-insurance pool set up for city and county entities in Oregon. For premiums paid by the city during the 2011-2012 fiscal year, the city received insurance for four major concerns: Liability, Auto & Equipment, Property and Equipment Breakdown for Boiler and Machinery. The general Liability Coverage has a per occurrence limit of \$5,000,000. A \$2,500 conditional deductible may apply on certain employment claims. Auto coverage has a \$100 deductible for comprehensive and \$500 for collision. Property coverage has a \$1,000 deductible, while the Equipment Breakdown for Boiler and Machinery has a maximum coverage of \$50,000 with a \$1,000 deductible per occurrence.

If the pool is profitable, the trustees can make a distribution of net income to the entities based upon a pro rata share and experience. During fiscal year 2011-2012, the City incurred four claims with a total cost of \$14,944 with \$4,500 held in reserves for all open claims. No insurance claims settled in each of the prior four years have exceeded policy coverage.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

COMMITMENTS AND CONTINGENCIES (Continued)

<u>Fiscal Year Ended June 30,</u>	<u>Insurance Settlements</u>	<u>Premiums Paid by City</u>
2010	\$ 1,449	\$ 104,632
2011	143	61,657
2012	14,944	79,928

From time to time, the City is a defendant in various litigation proceedings. Management believes any losses arising from these actions will not materially affect the City's financial position.

The City has received several federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Based upon prior experience, City Management believes such disallowances, if any, will be immaterial.

TRANSFERS

Interfund transfers for the year ended June 30, 2012, consisted of the following amounts:

<u>Fund Name</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 335,593	\$ 708,130
Public Safety	646,630	-
State Gas Tax	-	95,363
Library Serial Levy	60,000	-
Path Program Reserve	45,000	-
Street Maintenance	-	20,000
Equipment Reserve	55,000	-
Police Facilities	-	74,630
Water	-	157,800
Wastewater	-	620,743
Wastewater Depreciation	489,443	-
Water Depreciation	25,000	-
Wastewater Capital	20,000	-
Storm Water	-	5,000
Storm Water Capital	1,500	-
Storm Water Depreciation	3,500	-
	<u>\$ 1,681,666</u>	<u>\$ 1,681,666</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move revenues restricted to debt service from the funds collecting the revenues to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF SWEET HOME, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

OVER-EXPENDITURE OF APPROPRIATIONS

Oregon law prohibits expenditures of a fund in excess of Council approved appropriations. Expenditures in excess of appropriations in individual funds for the year ended June 30, 2012 occurred as follows:

<u>Fund/Appropriation Category</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Transit Grant			
Materials and services	\$ 51,594	\$ 62,946	\$ (11,352)

SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 13, 2013, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

NEW PRONOUNCEMENTS

The City will implement new GASB pronouncements no later than the required fiscal year. Management has not determined the effect on the financial statements from implementing any of the pronouncements.

GASB Statement No. 61 “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34.” This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government. The statement is effective for fiscal years beginning after June 15, 2012.

GASB Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.” The objective of this Statement is to incorporate into GASB’s authoritative literature certain accounting and financial reporting guidance that were issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The statement is effective for fiscal years beginning after December 15, 2011.

GASB Statement No. 63 “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” The statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The statement is effective for fiscal years beginning after December 15, 2011.

GASB Statement No. 68 “Accounting and Reporting for Pension Plans—an amendment of GASB Statement No. 27.” The statement establishes accounting and financial reporting requirements related to pensions provided by governments. The statement is effective for fiscal years beginning after June 15, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SWEET HOME, OREGON
SCHEDULE OF FUNDING PROGRESS - PUBLIC EMPLOYEES RETIREMENT SYSTEM
JUNE 30, 2012

The following table presents a schedule of funding progress for the City's defined benefit pension plan:

<i>Actuarial Valuation Ending December 31</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability</i>	<i>Assets in Excess of Actuarial Liability (UAL)</i>	<i>Funded Percent</i>	<i>Covered Payroll</i>	<i>UAL as a Percentage of Covered Payroll</i>
1999	\$ 4,337,544	\$ 3,105,085	\$ (1,232,459)	140%	\$ 847,082	(145%)
2001	4,458,143	3,899,013	(559,130)	114%	573,823	(97%)
2003	4,049,927	4,431,123	381,196	91%	719,749	53%
2004	4,904,357	5,260,450	356,093	93%	704,863	51%
2005	5,674,886	4,406,081	(1,268,805)	129%	700,557	(181%)
2006	6,590,624	4,442,449	(2,148,175)	148%	711,226	(302%)
2007	7,148,035	4,825,288	(2,322,747)	148%	751,771	(309%)
2008	5,349,083	5,001,138	(347,945)	107%	803,558	(43%)
2009	6,230,307	5,371,122	(859,185)	116%	817,510	(105%)
2010	6,905,331	5,733,310	(1,172,021)	120%	860,986	(136%)
2011	6,785,370	6,077,241	(708,129)	112%	636,038	(111%)

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 512,742	\$ 512,742	\$ 525,502	\$ 12,760
Licenses and permits	613,858	613,858	666,537	52,679
Charges for services	22,065	22,065	23,495	1,430
Intergovernmental	186,547	186,547	213,236	26,689
Fines and forfeitures	200,000	200,000	210,255	10,255
Miscellaneous	38,369	38,369	82,511	44,142
<i>Total Revenues</i>	1,573,581	1,573,581	1,721,536	147,955
EXPENDITURES				
Current				
General government	17,813	17,813	16,214	1,599
Executive department	237,878	237,878	230,003	7,875
Municipal court	275,128	265,128	253,954	11,174
Building inspection program	220,562	220,562	169,861	50,701
Community development	217,395	217,395	191,158	26,237
Community services programs	39,100	39,100	36,100	3,000
Parks maintenance	100,383	142,383	129,977	12,406
Finance	190,451	190,451	185,834	4,617
Non-departmental	656,795	626,295	548,498	77,797
Capital outlay	21,850	21,850	10,224	11,626
Contingency	100,000	58,000	-	58,000
<i>Total Expenditures</i>	2,077,355	2,036,855	1,771,823	265,032
REVENUES OVER (UNDER) EXPENDITURES	(503,774)	(463,274)	(50,287)	412,987
OTHER FINANCING SOURCES (USES)				
Transfers in	335,593	335,593	335,593	-
Transfers out	(387,630)	(708,130)	(708,130)	-
<i>Total Other Financing Sources and Uses</i>	(52,037)	(372,537)	(372,537)	-
NET CHANGE IN FUND BALANCE	(555,811)	(835,811)	(422,824)	412,987
FUND BALANCE, beginning of year	1,314,866	1,594,866	1,715,042	120,176
FUND BALANCE, end of year	\$ 759,055	\$ 759,055	\$ 1,292,218	\$ 533,163

Budgetary basis is same as GAAP.

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - PUBLIC SAFETY SERIAL LEVY FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 1,707,715	\$ 1,707,715	\$ 1,563,969	\$ (143,746)
Licenses and permits	320	320	1,187	867
Charges for services	5,000	5,000	6,188	1,188
Miscellaneous	20,715	20,715	121,502	100,787
<i>Total Revenues</i>	1,733,750	1,733,750	1,692,846	(40,904)
EXPENDITURES				
Current				
Police operations	1,893,687	1,893,687	1,560,089	333,598
Communications operations	465,150	465,150	389,710	75,440
Capital outlay	10,800	10,800	6,334	4,466
Contingency	50,000	622,000	-	622,000
<i>Total Expenditures</i>	2,419,637	2,991,637	1,956,133	1,035,504
REVENUES OVER (UNDER) EXPENDITURES	(685,887)	(1,257,887)	(263,287)	994,600
OTHER FINANCING SOURCES (USES)				
Transfers in	74,630	646,630	646,630	-
NET CHANGE IN FUND BALANCE	(611,257)	(611,257)	383,343	994,600
FUND BALANCE, beginning of year	824,047	824,047	849,042	24,995
FUND BALANCE, end of year	\$ 212,790	\$ 212,790	\$ 1,232,385	\$ 1,019,595

Budgetary basis is same as GAAP.

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - STATE GAS TAX FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 503,370	\$ 503,370	\$ 488,830	\$ (14,540)
Miscellaneous	512	512	3,069	2,557
<i>Total Revenues</i>	503,882	503,882	491,899	(11,983)
EXPENDITURES				
Current				
Operations	438,758	438,758	381,736	57,022
Capital outlay	7,250	7,250	2,511	4,739
Contingency	100,000	100,000	-	100,000
<i>Total Expenditures</i>	546,008	546,008	384,247	161,761
REVENUES OVER (UNDER)				
EXPENDITURES	(42,126)	(42,126)	107,652	149,778
OTHER FINANCING SOURCES (USES)				
Transfers out	(95,363)	(95,363)	(95,363)	-
NET CHANGE IN FUND BALANCE	(137,489)	(137,489)	12,289	149,778
FUND BALANCE, beginning of year	148,953	148,953	161,225	12,272
FUND BALANCE, end of year	\$ 11,464	\$ 11,464	\$ 173,514	\$ 162,050

Budgetary basis is same as GAAP.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SWEET HOME, OREGON
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	<i>Special Revenue</i>		
	<i>Narcotics Enforcement</i>	<i>Library Serial Levy</i>	<i>Parks and Recreation Program</i>
ASSETS			
Cash and investments	\$ 76,929	\$ 140,376	\$ 12,668
Accounts receivable	-	2,650	(365)
Property taxes receivable	-	15,861	-
Assessment liens receivable	-	-	-
<i>Total Assets</i>	<u>\$ 76,929</u>	<u>\$ 158,887</u>	<u>\$ 12,303</u>
 LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ -	\$ 1,556	\$ -
Deferred revenue	-	15,861	-
<i>Total Liabilities</i>	-	17,417	-
 Fund Balance:			
Restricted for:			
Community development	-	-	-
Library	-	141,470	-
Debt service	-	-	-
Committed to:			
Public safety	76,929	-	-
Parks	-	-	12,303
Community development	-	-	-
Community center	-	-	-
<i>Total Fund Balance</i>	<u>76,929</u>	<u>141,470</u>	<u>12,303</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 76,929</u>	<u>\$ 158,887</u>	<u>\$ 12,303</u>

<i>Special Revenue</i>				
<i>Path Program Reserve</i>	<i>Street Maintenance Improvement</i>	<i>Housing Rehabilitation Loan</i>	<i>Community Center Operating</i>	<i>Special Assessment</i>
\$ 109,272	\$ 1,431,048	\$ 215,197	\$ 3,537	\$ 754
-	-	421,951	5,000	-
-	-	-	-	-
-	5,095	-	-	11,081
\$ 109,272	\$ 1,436,143	\$ 637,148	\$ 8,537	\$ 11,835
\$ -	\$ 5,076	\$ -	\$ 2,348	\$ -
-	5,095	421,951	-	11,081
-	10,171	421,951	2,348	11,081
109,272	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	1,425,972	215,197	-	754
-	-	-	6,189	-
109,272	1,425,972	215,197	6,189	754
\$ 109,272	\$ 1,436,143	\$ 637,148	\$ 8,537	\$ 11,835

CITY OF SWEET HOME, OREGON**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)**

JUNE 30, 2012

	<u>Special Revenue</u>		<u>Capital</u>
	<u>Public Transit Grant</u>	<u>911 Tax</u>	<u>Building Reserve</u>
ASSETS			
Cash and investments	\$ -	\$ -	\$ 1,074,165
Accounts receivable	15,800	10,917	-
Property taxes receivable	-	-	-
Assessment liens receivable	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	<u>\$ 15,800</u>	<u>\$ 10,917</u>	<u>\$ 1,074,165</u>
 LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 15,800	\$ 10,917	\$ -
Deferred revenue	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	15,800	10,917	-
 Fund Balance:			
Restricted for:			
Community development	-	-	-
Library	-	-	-
Debt service	-	-	-
Committed to:			
Public safety	-	-	-
Parks	-	-	-
Community development	-	-	1,074,165
Community center	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balance</i>	-	-	1,074,165
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 15,800</u>	<u>\$ 10,917</u>	<u>\$ 1,074,165</u>

<u>Projects</u>		<u>Debt Service</u>	
<u>Equipment Reserve</u>		<u>Police Facilities</u>	<u>Total</u>
\$ 285,235		\$ 8,393	\$ 3,357,574
-		-	455,953
-		9,781	25,642
-		-	16,176
<hr/>			
\$ 285,235		\$ 18,174	\$ 3,855,345
<hr/>			
\$ 4,692		\$ -	\$ 40,389
-		9,781	463,769
<hr/>			
4,692		9,781	504,158
-		-	109,272
-		-	141,470
-		8,393	8,393
-		-	76,929
-		-	12,303
280,543		-	2,996,631
-		-	6,189
<hr/>			
280,543		8,393	3,351,187
<hr/>			
\$ 285,235		\$ 18,174	\$ 3,855,345
<hr/>			

CITY OF SWEET HOME, OREGON**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	<i>Special Revenue</i>		
	<i>Narcotics Enforcement</i>	<i>Library Serial Levy</i>	<i>Parks and Recreation Program</i>
REVENUES			
Taxes and assessments	\$ -	\$ 198,165	\$ -
Licenses and permits	-	-	-
Charges for services	-	-	-
Intergovernmental	-	-	-
Fines and forfeitures	7,671	12,136	-
Miscellaneous	361	12,627	3,346
<i>Total Revenues</i>	8,032	222,928	3,346
EXPENDITURES			
Current			
General government	-	-	-
Library	-	187,490	-
Parks	-	-	2,147
Community development	-	-	-
Public safety	-	-	-
Community center	-	-	-
Capital outlay	-	-	841
<i>Total Expenditures</i>	-	187,490	2,988
REVENUES OVER (UNDER) EXPENDITURES	8,032	35,438	358
OTHER FINANCING SOURCES (USES)			
Transfers in	-	60,000	-
Transfers out	-	-	-
<i>Total Other Financing Sources and Uses</i>	-	60,000	-
NET CHANGE IN FUND BALANCE	8,032	95,438	358
FUND BALANCE, beginning of year	68,897	46,032	11,945
FUND BALANCE, end of year	\$ 76,929	\$ 141,470	\$ 12,303

<i>Special Revenue</i>				
<i>Path Program Reserve</i>	<i>Street Maintenance Improvement</i>	<i>Housing Rehabilitation Loan</i>	<i>Community Center Operating</i>	<i>Special Assessment</i>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
860	7,193	1,051	46,001	4
860	7,193	1,051	46,001	4
-	-	-	-	-
-	-	-	-	-
-	-	327	-	-
-	-	-	-	-
-	-	-	40,621	-
46,117	24,153	-	-	-
46,117	24,153	327	40,621	-
(45,257)	(16,960)	724	5,380	4
45,000	-	-	-	-
-	(20,000)	-	-	-
45,000	(20,000)	-	-	-
(257)	(36,960)	724	5,380	4
109,529	1,462,932	214,473	809	750
\$ 109,272	\$ 1,425,972	\$ 215,197	\$ 6,189	\$ 754

CITY OF SWEET HOME, OREGON**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS (Continued)
YEAR ENDED JUNE 30, 2012**

	<u>Special Revenue</u>		<u>Capital</u>
	<u>Public Transit</u>		<u>Building</u>
	<u>Grant</u>	<u>911 Tax</u>	<u>Reserve</u>
REVENUES			
Taxes and assessments	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Charges for services	62,946	-	-
Intergovernmental	-	43,842	-
Fines and forfeitures	-	-	-
Miscellaneous	-	-	7,792
<i>Total Revenues</i>	62,946	43,842	7,792
EXPENDITURES			
Current			
General government	-	-	1,620
Library	-	-	-
Parks	-	-	-
Community development	62,946	-	-
Public safety	-	43,842	-
Community center	-	-	-
Capital outlay	-	-	-
<i>Total Expenditures</i>	62,946	43,842	1,620
REVENUES OVER (UNDER) EXPENDITURES	-	-	6,172
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
<i>Total Other Financing Sources and Uses</i>	-	-	-
NET CHANGE IN FUND BALANCE	-	-	6,172
FUND BALANCE, beginning of year	-	-	1,067,993
FUND BALANCE, end of year	\$ -	\$ -	\$ 1,074,165

<u>Projects</u>		<u>Debt Service</u>	
<u>Equipment Reserve</u>	<u>Police Facilities</u>	<u>Total</u>	
\$ -	\$ 3,263	\$	201,428
-	-		-
-	-		62,946
509	-		44,351
-	-		19,807
1,485	591		81,311
1,994	3,854		409,843
-	-		1,620
-	-		187,490
-	-		2,147
-	-		63,273
-	-		43,842
-	-		40,621
71,866	-		142,977
71,866	-		481,970
(69,872)	3,854		(72,127)
55,000	-		160,000
-	(74,630)		(94,630)
55,000	(74,630)		65,370
(14,872)	(70,776)		(6,757)
295,415	79,169		3,357,944
\$ 280,543	\$ 8,393	\$	3,351,187

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - NARCOTICS ENFORCEMENT FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Fines and forfeitures	\$ -	\$ -	\$ 7,671	\$ 7,671
Miscellaneous	365	365	361	(4)
<i>Total Revenues</i>	365	365	8,032	7,667
EXPENDITURES				
Capital outlay	73,501	73,501	-	73,501
NET CHANGE IN FUND BALANCE	(73,136)	(73,136)	8,032	81,168
FUND BALANCE, beginning of year	73,136	73,136	68,897	(4,239)
FUND BALANCE, end of year	\$ -	\$ -	\$ 76,929	\$ 76,929

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - LIBRARY SERIAL LEVY FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 231,647	\$ 231,647	\$ 198,165	\$ (33,482)
Fines and forfeitures	7,000	7,000	12,136	5,136
Miscellaneous	296	7,955	12,627	4,672
<i>Total Revenues</i>	238,943	246,602	222,928	(23,674)
EXPENDITURES				
Current				
Operations	246,616	254,275	187,490	66,785
Capital outlay	1,000	1,000	-	1,000
Contingency	2,000	62,000	-	62,000
<i>Total Expenditures</i>	249,616	317,275	187,490	129,785
REVENUES OVER (UNDER)				
EXPENDITURES	(10,673)	(70,673)	35,438	106,111
OTHER FINANCING SOURCES (USES)				
Transfers in	-	60,000	60,000	-
NET CHANGE IN FUND BALANCE	(10,673)	(10,673)	95,438	106,111
FUND BALANCE, beginning of year	24,550	24,550	46,032	21,482
FUND BALANCE, end of year	\$ 13,877	\$ 13,877	\$ 141,470	\$ 127,593

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - PARKS AND RECREATION PROGRAM FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 3,834	\$ 3,834	\$ 3,346	\$ (488)
EXPENDITURES				
Current				
Operations	2,368	2,368	2,147	221
Capital outlay	13,491	13,491	841	12,650
<i>Total Expenditures</i>	15,859	15,859	2,988	12,871
NET CHANGE IN FUND BALANCE	(12,025)	(12,025)	358	12,383
FUND BALANCE, beginning of year	12,025	12,025	11,945	(80)
FUND BALANCE, end of year	\$ -	\$ -	\$ 12,303	\$ 12,303

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - PATH PROGRAM RESERVE FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 887	\$ 887	\$ 860	\$ (27)
EXPENDITURES				
Capital outlay	125,000	125,000	46,117	78,883
REVENUES OVER (UNDER)				
EXPENDITURES	(124,113)	(124,113)	(45,257)	78,856
OTHER FINANCING SOURCES (USES)				
Transfers in	45,000	45,000	45,000	-
NET CHANGE IN FUND BALANCE	(79,113)	(79,113)	(257)	78,856
FUND BALANCE, beginning of year	83,993	83,993	109,529	25,536
FUND BALANCE, end of year	\$ 4,880	\$ 4,880	\$ 109,272	\$ 104,392

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - PUBLIC TRANSIT GRANT FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 51,594	\$ 51,594	\$ 62,946	\$ 11,352
EXPENDITURES				
Current				
Materials and services	51,594	51,594	62,946	(11,352)
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, beginning of year	-	-	-	-
FUND BALANCE, end of year	\$ -	\$ -	\$ -	\$ -

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – 911 TAX FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 44,715	\$ 44,715	\$ 43,842	\$ (873)
EXPENDITURES				
Current				
Operations	44,715	44,715	43,842	873
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, beginning of year	-	-	-	-
FUND BALANCE, end of year	\$ -	\$ -	\$ -	\$ -

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - STREET MAINTENANCE IMPROVEMENT FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 228,876	\$ 228,876	\$ -	\$ (228,876)
Miscellaneous	7,693	7,693	7,193	(500)
<i>Total Revenues</i>	236,569	236,569	7,193	(229,376)
EXPENDITURES				
Current				
Operations	150,000	150,000	-	150,000
Capital outlay	180,000	180,000	24,153	155,847
<i>Total Expenditures</i>	330,000	330,000	24,153	305,847
REVENUES OVER (UNDER)				
EXPENDITURES	(93,431)	(93,431)	(16,960)	76,471
OTHER FINANCING SOURCES (USES)				
Transfers out	(20,000)	(20,000)	(20,000)	-
NET CHANGE IN FUND BALANCE	(113,431)	(113,431)	(36,960)	76,471
FUND BALANCE, beginning of year	1,127,723	1,127,723	1,462,932	335,209
FUND BALANCE, end of year	\$ 1,014,292	\$ 1,014,292	\$ 1,425,972	\$ 411,680

CITY OF SWEET HOME, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - HOUSING REHABILITATION LOAN FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 1,057	\$ 1,057	\$ 1,051	\$ (6)
EXPENDITURES				
Current				
Operations	215,541	215,541	327	215,214
NET CHANGE IN FUND BALANCE	(214,484)	(214,484)	724	215,208
FUND BALANCE, beginning of year	214,484	214,484	214,473	(11)
FUND BALANCE, end of year	\$ -	\$ -	\$ 215,197	\$ 215,197

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - COMMUNITY CENTER OPERATING FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 36,000	\$ 46,000	\$ 46,001	\$ 1
EXPENDITURES				
Current				
Operations	35,000	45,000	40,621	4,379
Contingency	1,000	1,000	-	1,000
<i>Total Expenditures</i>	<u>36,000</u>	<u>46,000</u>	<u>40,621</u>	<u>5,379</u>
NET CHANGE IN FUND BALANCE	-	-	5,380	5,380
FUND BALANCE, beginning of year	-	-	809	809
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,189</u>	<u>\$ 6,189</u>

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - SPECIAL ASSESSMENTS FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ -	\$ -	\$ 4	\$ 4
EXPENDITURES	-	-	-	-
NET CHANGE IN FUND BALANCE	-	-	4	4
FUND BALANCE, beginning of year	750	750	750	-
FUND BALANCE, end of year	\$ 750	\$ 750	\$ 754	\$ 4

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - BUILDING RESERVE FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 5,428	\$ 5,428	\$ 7,792	\$ 2,364
EXPENDITURES				
Current				
Operations	120,000	120,000	1,620	118,380
REVENUES OVER (UNDER)				
EXPENDITURES	(114,572)	(114,572)	6,172	120,744
OTHER FINANCING SOURCES (USES)				
Transfers in	312,000	-	-	-
NET CHANGE IN FUND BALANCE	197,428	(114,572)	6,172	120,744
FUND BALANCE, beginning of year	1,067,135	1,067,135	1,067,993	858
FUND BALANCE, end of year	\$ 1,264,563	\$ 952,563	\$ 1,074,165	\$ 121,602

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - EQUIPMENT RESERVE FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 509	\$ 509
Miscellaneous	1,674	1,674	1,485	(189)
<i>Total Revenues</i>	1,674	1,674	1,994	320
EXPENDITURES				
Capital outlay	80,000	160,000	71,866	88,134
REVENUES OVER (UNDER)				
EXPENDITURES	(78,326)	(158,326)	(69,872)	88,454
OTHER FINANCING SOURCES (USES)				
Transfers in	55,000	55,000	55,000	-
NET CHANGE IN FUND BALANCE	(23,326)	(103,326)	(14,872)	88,454
FUND BALANCE, beginning of year	287,727	287,727	295,415	7,688
FUND BALANCE, end of year	\$ 264,401	\$ 184,401	\$ 280,543	\$ 96,142

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - POLICE FACILITIES FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 1,333	\$ 1,333	\$ 3,263	\$ 1,930
Miscellaneous	-	-	591	591
<i>Total Revenues</i>	1,333	1,333	3,854	2,521
EXPENDITURES	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	1,333	1,333	3,854	2,521
OTHER FINANCING SOURCES (USES)				
Transfers out	(74,630)	(74,630)	(74,630)	-
NET CHANGE IN FUND BALANCE	(73,297)	(73,297)	(70,776)	2,521
FUND BALANCE, beginning of year	73,297	73,297	79,169	5,872
FUND BALANCE, end of year	\$ -	\$ -	\$ 8,393	\$ 8,393

CITY OF SWEET HOME, OREGON**COMBINING STATEMENT OF FUND NET ASSETS - NONMAJOR PROPRIETARY FUNDS**

JUNE 30, 2012

	<u>Water SDC Reserve</u>	<u>Water Capital</u>	<u>Water Depreciation</u>
ASSETS			
Current Assets			
Cash and investments	\$ 255,009	\$ 110,881	\$ 608,089
Inventories	-	-	-
<i>Total Current Assets</i>	255,009	110,881	608,089
Noncurrent Assets			
Assessment liens receivable	92,418	-	-
Capital assets, net of depreciation	-	-	-
<i>Total Noncurrent Assets</i>	92,418	-	-
<i>Total Assets</i>	347,427	110,881	608,089
LIABILITIES			
Current Liabilities			
Accounts payable	-	-	7,791
NET ASSETS:			
Invested in capital assets, net of related debt	-	-	-
Restricted for:			
Construction	347,427	-	-
Unrestricted	-	110,881	600,298
<i>Total Net Assets</i>	<u>\$ 347,427</u>	<u>\$ 110,881</u>	<u>\$ 600,298</u>

<u>Wastewater SDC Reserve</u>	<u>Wastewater Capital</u>	<u>Storm Water</u>	<u>Storm Water SDC Reserve</u>	<u>Storm Water Capital</u>	<u>Storm Water Depreciation</u>	<u>Total</u>
\$ 334,430	\$ 514,919	\$ 21,733	\$ 10,657	\$ 55,681	\$ 86,591	\$ 1,997,990
-	-	8,129	-	-	-	8,129
334,430	514,919	29,862	10,657	55,681	86,591	2,006,119
32,363	-	-	-	-	-	124,781
-	-	2,059,039	-	-	-	2,059,039
32,363	-	2,059,039	-	-	-	2,183,820
366,793	514,919	2,088,901	10,657	55,681	86,591	4,189,939
-	-	918	-	-	-	8,709
-	-	2,059,039	-	-	-	2,059,039
366,793	-	-	10,657	-	-	724,877
-	514,919	28,944	-	55,681	86,591	1,397,314
<u>\$ 366,793</u>	<u>\$ 514,919</u>	<u>\$ 2,087,983</u>	<u>\$ 10,657</u>	<u>\$ 55,681</u>	<u>\$ 86,591</u>	<u>\$ 4,181,230</u>

CITY OF SWEET HOME, OREGON**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012**

	<u>Water System Development</u>	<u>Water Capital</u>	<u>Water Depreciation</u>
OPERATING REVENUES			
Charges for services	\$ -	\$ -	\$ -
OPERATING EXPENSES			
Personal services	-	-	-
Materials and services	-	-	63,636
Depreciation	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Expenses</i>	-	-	63,636
	<hr/>	<hr/>	<hr/>
OPERATING INCOME (LOSS)	-	-	(63,636)
NONOPERATING REVENUES (EXPENSES)			
Investment revenue	5,575	567	3,134
	<hr/>	<hr/>	<hr/>
NET INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	5,575	567	(60,502)
Capital contributions	5,514	-	-
Transfers in	-	-	25,000
Transfers out	-	-	-
	<hr/>	<hr/>	<hr/>
CHANGE IN NET ASSETS	11,089	567	(35,502)
FUND NET ASSETS, Beginning of year	336,338	110,314	635,800
	<hr/>	<hr/>	<hr/>
FUND NET ASSETS, End of year	\$ 347,427	\$ 110,881	\$ 600,298
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

<i>Wastewater System Development</i>	<i>Wastewater Capital</i>	<i>Storm Water</i>	<i>Storm Water SDC</i>	<i>Storm Water Capital</i>	<i>Storm Water Depreciation</i>	<i>Total</i>
\$ -	\$ -	\$ 58,749	\$ -	\$ -	\$ -	\$ 58,749
-	-	60,421	-	-	-	60,421
-	-	3,119	-	-	2,700	69,455
-	-	257,418	-	-	-	257,418
-	-	320,958	-	-	2,700	387,294
-	-	(262,209)	-	-	(2,700)	(328,545)
2,486	2,505	214	52	271	432	15,236
2,486	2,505	(261,995)	52	271	(2,268)	(313,309)
5,081	-	-	-	-	-	10,595
-	20,000	-	-	1,500	3,500	50,000
-	-	(5,000)	-	-	-	(5,000)
7,567	22,505	(266,995)	52	1,771	1,232	(257,714)
359,226	492,414	2,355,278	10,605	53,910	85,359	4,439,244
\$ 366,793	\$ 514,919	\$ 2,088,283	\$ 10,657	\$ 55,681	\$ 86,591	\$ 4,181,530

CITY OF SWEET HOME, OREGON
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	<u>Water SDC</u>	<u>Water Cap</u>	<u>Water Depreciation</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Collected from customers	\$ -	\$ -	\$ -
Paid to suppliers	-	-	(56,833)
Paid to employees	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Net Cash Provided by (Used in) Operating Activities</i>	-	-	(56,833)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers in	-	-	25,000
Transfers out	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Net Cash Provided by (Used in) Non-Capital Financing Activities</i>	-	-	25,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Contribution of capital	8,273	-	-
	<hr/>	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	5,575	567	3,134
	<hr/>	<hr/>	<hr/>
<i>Increase (Decrease) in Cash and Investments</i>	13,848	567	(28,699)
CASH AND INVESTMENTS, Beginning of year	241,161	110,314	636,788
	<hr/>	<hr/>	<hr/>
CASH AND INVESTMENTS, End of year	<u>\$ 255,009</u>	<u>\$ 110,881</u>	<u>\$ 608,089</u>

<i>Wastewater SDC</i>	<i>Wastewater Cap</i>	<i>Storm water</i>	<i>Storm water SDC</i>	<i>Storm water Cap</i>	<i>Storm water Depreciation</i>	<i>Totals</i>
\$ -	\$ -	\$ 60,613	\$ -	\$ -	\$ -	\$ 60,613
-	-	(2,748)	-	-	(2,700)	(62,281)
-	-	(60,421)	-	-	-	(60,421)
-	-	(2,556)	-	-	(2,700)	(62,089)
-	20,000	-	-	1,500	3,500	50,000
-	-	(5,000)	-	-	-	(5,000)
-	20,000	(5,000)	-	1,500	3,500	45,000
6,347	-	-	-	-	-	14,620
2,486	2,505	214	52	271	432	15,236
8,833	22,505	(7,342)	52	1,771	1,232	12,767
325,597	492,414	29,075	10,605	53,910	85,359	1,985,223
<u>\$ 334,430</u>	<u>\$ 514,919</u>	<u>\$ 21,733</u>	<u>\$ 10,657</u>	<u>\$ 55,681</u>	<u>\$ 86,591</u>	<u>\$ 1,997,990</u>

CITY OF SWEET HOME, OREGON

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR PROPRIETARY FUNDS (Continued)

YEAR ENDED JUNE 30, 2012

	<u>Water SDC</u>	<u>Water Cap</u>	<u>Water Depreciation</u>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ -	\$ -	\$ (63,636)
Depreciation			
Accounts receivable	-	-	-
Accounts payable and accrued liabilities	-	-	6,803
	<hr/>	<hr/>	<hr/>
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (56,833)</u>

<i>Wastewater SDC</i>	<i>Wastewater Cap</i>	<i>Stormwater</i>	<i>Stormwater SDC</i>	<i>Stormwater Cap</i>	<i>Stormwater Depreciation</i>	<i>Totals</i>
\$ -	\$ -	\$ (262,209)	\$ -	\$ -	\$ (2,700)	\$ (328,545)
		257,418				257,418
-	-	1,864	-	-	-	1,864
-	-	371	-	-	-	7,174
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,556)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,700)</u>	<u>\$ (62,089)</u>

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - WATER FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 1,602,572	\$ 1,602,572	\$ 1,711,650	\$ 109,078
Miscellaneous	5,000	5,000	10,503	5,503
Interest earnings	2,784	2,784	2,552	(232)
<i>Total Revenues</i>	1,610,356	1,610,356	1,724,705	114,349
EXPENDITURES				
Current				
Operations	1,109,447	1,119,447	1,057,313	62,134
Debt service				
Principal	277,819	277,819	417,911	(140,092)
Interest	339,979	339,979	199,884	140,095
Capital outlay	15,500	15,500	2,728	12,772
Contingency	200,000	190,000	-	190,000
<i>Total Disbursements</i>	1,942,745	1,942,745	1,677,836	264,909
REVENUES OVER (UNDER)				
EXPENDITURES	(332,389)	(332,389)	46,869	379,258
OTHER FINANCING SOURCES (USES)				
Transfers out	(157,800)	(157,800)	(157,800)	-
NET CHANGE IN FUND BALANCE	(490,189)	(490,189)	(110,931)	379,258
FUND BALANCE, beginning of year	490,189	490,189	687,795	197,606
FUND BALANCE, end of year	\$ -	\$ -	\$ 576,864	\$ 576,864

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - WASTEWATER FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 1,800,000	\$ 1,800,000	\$ 1,745,384	\$ (54,616)
Miscellaneous	5,000	5,000	2,412	(2,588)
Interest earnings	4,864	4,864	3,053	(1,811)
<i>Total Revenues</i>	1,809,864	1,809,864	1,750,849	(59,015)
EXPENDITURES				
Current				
Operations	1,134,265	1,144,265	1,104,424	39,841
Debt service				
Principal	678,590	678,590	379,393	299,197
Interest	332,028	332,028	244,928	87,100
Capital outlay	15,750	20,750	17,113	3,637
Contingency	200,000	185,000	-	185,000
<i>Total Disbursements</i>	2,360,633	2,360,633	1,745,858	614,775
REVENUES OVER (UNDER)				
EXPENDITURES	(550,769)	(550,769)	4,991	555,760
OTHER FINANCING SOURCES (USES)				
Transfers out	(294,300)	(294,300)	(294,300)	-
NET CHANGE IN FUND BALANCE	(845,069)	(845,069)	(289,309)	555,760
FUND BALANCE, beginning of year	845,069	845,069	911,024	65,955
FUND BALANCE, end of year	\$ -	\$ -	\$ 621,715	\$ 621,715

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - WASTEWATER DEPRECIATION FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 50,000	\$ 50,000	\$ 45,764	\$ (4,236)
Interest earnings	9,096	9,096	8,201	(895)
<i>Total Revenues</i>	59,096	59,096	53,965	(5,131)
EXPENDITURES				
Current				
Materials and services	1,000,000	1,000,000	50,973	949,027
Capital outlay	7,550,000	7,550,000	4,042,191	3,507,809
<i>Total Disbursements</i>	8,550,000	8,550,000	4,093,164	4,456,836
REVENUES OVER (UNDER)				
EXPENDITURES	(8,490,904)	(8,490,904)	(4,039,199)	4,451,705
OTHER FINANCING SOURCES (USES)				
Transfers in	163,000	163,000	163,000	-
Proceeds from issuance of debt	6,500,000	6,500,000	3,996,490	(2,503,510)
<i>Total Other Financing Sources and</i>	6,663,000	6,663,000	4,159,490	(2,503,510)
NET CHANGE IN FUND BALANCE	(1,827,904)	(1,827,904)	120,291	1,948,195
FUND BALANCE, beginning of year	1,914,225	1,914,225	1,777,753	(136,472)
FUND BALANCE, end of year	\$ 86,321	\$ 86,321	\$ 1,898,044	\$ 1,811,723

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - WATER SYSTEM DEVELOPMENT FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 10,000	\$ 10,000	\$ 12,278	\$ 2,278
Interest earnings	1,226	1,226	1,571	345
<i>Total Revenues</i>	11,226	11,226	13,849	2,623
EXPENDITURES				
Current				
Materials and services	20,000	55,000	-	55,000
Capital outlay	90,000	55,000	-	55,000
<i>Total Expenditures</i>	110,000	110,000	-	110,000
NET CHANGE IN FUND BALANCE	(98,774)	(98,774)	13,849	112,623
FUND BALANCE, beginning of year	98,774	98,774	241,160	142,386
FUND BALANCE, end of year	\$ -	\$ -	\$ 255,009	\$ 255,009

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - WATER CAPITAL FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Interest earnings	\$ -	\$ -	\$ 566	\$ 566
EXPENDITURES				
Capital outlay	75,000	75,000	-	75,000
NET CHANGE IN FUND BALANCE	(75,000)	(75,000)	566	75,566
FUND BALANCE, beginning of year	75,000	75,000	110,315	35,315
FUND BALANCE, end of year	\$ -	\$ -	\$ 110,881	\$ 110,881

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - WATER DEPRECIATION FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Interest earnings	\$ 3,352	\$ 3,352	\$ 3,133	\$ (219)
EXPENDITURES				
Current				
Materials and services	125,000	125,000	3,612	121,388
Capital outlay	375,000	375,000	60,023	314,977
<i>Total Expenditures</i>	<u>500,000</u>	<u>500,000</u>	<u>63,635</u>	<u>436,365</u>
REVENUES OVER (UNDER)				
EXPENDITURES	(496,648)	(496,648)	(60,502)	436,146
OTHER FINANCING SOURCES (USES)				
Transfers in	25,000	25,000	25,000	-
NET CHANGE IN FUND BALANCE	(471,648)	(471,648)	(35,502)	436,146
FUND BALANCE, beginning of year	<u>500,000</u>	<u>500,000</u>	<u>635,800</u>	<u>135,800</u>
FUND BALANCE, end of year	<u>\$ 28,352</u>	<u>\$ 28,352</u>	<u>\$ 600,298</u>	<u>\$ 571,946</u>

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - WASTEWATER SYSTEM DEVELOPMENT FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Licenses and permits	\$ 15,000	\$ 15,000	\$ 6,948	\$ (8,052)
Miscellaneous	-	-	281	281
Interest earnings	1,644	1,644	1,604	(40)
<i>Total Revenues</i>	16,644	16,644	8,833	(7,811)
EXPENDITURES				
Current				
Materials and services	125,000	125,000	-	125,000
Capital outlay	190,880	190,880	-	190,880
<i>Total Expenditures</i>	315,880	315,880	-	315,880
NET CHANGE IN FUND BALANCE	(299,236)	(299,236)	8,833	308,069
FUND BALANCE, beginning of year	319,000	319,000	325,597	6,597
FUND BALANCE, end of year	\$ 19,764	\$ 19,764	\$ 334,430	\$ 314,666

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - WASTEWATER CAPITAL FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Interest earnings	\$ 2,506	\$ 2,506	\$ 2,505	\$ (1)
EXPENDITURES				
Current				
Materials and services	200,000	200,000	-	200,000
Capital outlay	250,000	250,000	-	250,000
<i>Total Expenditures</i>	450,000	450,000	-	450,000
REVENUES OVER (UNDER)				
EXPENDITURES	(447,494)	(447,494)	2,505	449,999
OTHER FINANCING SOURCES (USES)				
Transfers in	20,000	20,000	20,000	-
NET CHANGE IN FUND BALANCE	(427,494)	(427,494)	22,505	449,999
FUND BALANCE, beginning of year	470,000	470,000	492,414	22,414
FUND BALANCE, end of year	\$ 42,506	\$ 42,506	\$ 514,919	\$ 472,413

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - STORM WATER DRAINAGE FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 66,000	\$ 66,000	\$ 58,749	\$ (7,251)
Interest earnings	171	171	214	43
<i>Total Revenues</i>	66,171	66,171	58,963	(7,208)
EXPENDITURES				
Current				
Materials and services	78,232	78,232	63,241	14,991
Capital outlay	1,300	1,300	300	1,000
Contingency	10,000	10,000	-	10,000
<i>Total Expenditures</i>	89,532	89,532	63,541	25,991
REVENUES OVER (UNDER) EXPENDITURES	(23,361)	(23,361)	(4,578)	18,783
OTHER FINANCING SOURCES (USES)				
Transfers out	(5,000)	(5,000)	(5,000)	-
NET CHANGE IN FUND BALANCE	(28,361)	(28,361)	(9,578)	18,783
FUND BALANCE, beginning of year	29,849	29,849	39,068	9,219
FUND BALANCE, end of year	\$ 1,488	\$ 1,488	\$ 29,490	\$ 28,002

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - STORM WATER SDC FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Interest earnings	\$ -	\$ -	\$ 52	\$ 52
EXPENDITURES				
Capital outlay	8,042	8,042	-	8,042
NET CHANGE IN FUND BALANCE	(8,042)	(8,042)	52	8,094
FUND BALANCE, beginning of year	8,042	8,042	10,605	2,563
FUND BALANCE, end of year	\$ -	\$ -	\$ 10,657	\$ 10,657

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - STORM WATER CAPITAL FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Interest earnings	\$ 274	\$ 274	\$ 271	\$ (3)
EXPENDITURES				
Current				
Materials and services	10,000	10,000	-	10,000
Capital outlay	35,000	35,000	-	35,000
<i>Total Expenditures</i>	45,000	45,000	-	45,000
REVENUES OVER (UNDER)				
EXPENDITURES	(44,726)	(44,726)	271	44,997
OTHER FINANCING SOURCES (USES)				
Transfers in	1,500	1,500	1,500	-
NET CHANGE IN FUND BALANCE	(43,226)	(43,226)	1,771	44,997
FUND BALANCE, beginning of year	52,000	52,000	53,910	1,910
FUND BALANCE, end of year	\$ 8,774	\$ 8,774	\$ 55,681	\$ 46,907

CITY OF SWEET HOME, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - STORM WATER DEPRECIATION FUND
YEAR ENDED JUNE 30, 2012

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Interest earnings	\$ 515	\$ 515	\$ 432	\$ (83)
EXPENDITURES				
Current				
Materials and services	5,000	5,000	2,700	2,300
Capital outlay	50,000	50,000	-	50,000
<i>Total Expenditures</i>	55,000	55,000	2,700	52,300
REVENUES OVER (UNDER)				
EXPENDITURES	(54,485)	(54,485)	(2,268)	52,217
OTHER FINANCING SOURCES (USES)				
Transfers in	3,500	3,500	3,500	-
NET CHANGE IN FUND BALANCE	(50,985)	(50,985)	1,232	52,217
FUND BALANCE, beginning of year	53,413	53,413	85,359	31,946
FUND BALANCE, end of year	\$ 2,428	\$ 2,428	\$ 86,591	\$ 84,163

OTHER FINANCIAL SCHEDULES

CITY OF SWEET HOME, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS - GENERAL FUND
YEAR ENDED JUNE 30, 2012

<i>Tax Year</i>	<i>Uncollected Balances July 1, 2011</i>	<i>2011-2012 Levy</i>	<i>Added To Rolls</i>	<i>Interest, Discounts & Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balances June 30, 2012</i>
2011-2012	\$ -	\$ 2,357,716	\$ 496	\$ (78,118)	\$ (2,181,220)	\$ 98,874
2010-2011	126,841	-	139	(12,823)	(43,067)	71,090
2009-2010	62,027	-	3	(11,825)	(11,484)	38,721
2008-2009	36,565	-	-	(530)	(17,878)	18,157
2007-2008	5,202	-	-	(148)	(3,592)	1,462
2006-2007	2,963	-	-	(320)	(1,260)	1,383
2005-2006	1,152	-	-	(290)	(471)	391
Prior Years	3,633	-	-	(285)	(517)	2,831
Total	\$ 238,383	\$ 2,357,716	\$ 638	\$ (104,339)	\$ (2,259,489)	\$ 232,909

CITY OF SWEET HOME, OREGON
SCHEDULE OF DEBT TRANSACTIONS
YEAR ENDED JUNE 30, 2012

	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Fiscal Year of Maturity</u>
DEBT PRINCIPAL TRANSACTIONS			
<i>Governmental activities</i>			
Capital leases	3.750 - 6.000%	1999	2013-2014
<i>Business-type activities</i>			
Water System Improvements note	6.13%	1992	2012-13
Wastewater Treatment Plant Improvements note	5.19%	1993	2014-15
Wastewater Improvement note R89750	3.14%	2002	2024-25
Wastewater Improvement note R89751 (partially disbursed at June 30, 2012)	2.90%	2005	2026-27
Wastewater Improvement note R89752	0.00%	2011	2030-31
Water Treatment Facility note S04002	1.00%	2007	2038-39
Water Treatment Facility note G04003	3.56%	2007	2034-35

	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Unmatured Interest July 1, 2011</u>
DEBT INTEREST TRANSACTIONS			
<i>Governmental activities</i>			
Capital leases	3.750 - 6.000%	1999	\$ -
<i>Business-type activities</i>			
Water System Improvements note	6.13%	1992	20,139
Wastewater Treatment Plant Improvements note	5.19%	1993	17,652
Wastewater Improvement note R89750	3.14%	2002	739,147
Wastewater Improvement note R89751	2.90%	2005	1,991,970
Wastewater Improvement note R89752	0.00%	2012	-
Water Treatment Facility note S04002	1.00%	2007	1,105,214
Water Treatment Facility note G04003	3.56%	2007	1,769,082
			<u>\$ 5,643,204</u>

<i>Outstanding July 1, 2011</i>	<i>New Debt Issued</i>	<i>Principal Paid/Forgiven</i>	<i>Outstanding June 30, 2012</i>
\$ -	\$ 54,983	-	\$ 54,983
216,869	-	(105,210)	111,659
167,237	-	(52,950)	114,287
3,034,768	-	(175,640)	2,859,128
3,779,051	712,724	(150,803)	4,340,972
1,716,234	3,283,766	-	5,000,000
7,041,576	-	(210,508)	6,831,068
3,429,655	-	(102,193)	3,327,462
<u>\$ 19,385,390</u>	<u>\$ 4,051,473</u>	<u>\$ (797,304)</u>	<u>\$ 22,639,559</u>

<i>New Issues</i>	<i>Interest and Fees Paid</i>	<i>Adjustments</i>	<i>Unmatured Interest June 30, 2012</i>
\$ -	\$ -	\$ -	\$ -
-	(13,294)	-	6,845
-	(8,680)	-	8,972
-	(108,662)	14,738	645,223
-	(127,586)	(339,019)	1,525,365
226,250	-	-	226,250
-	(70,416)	-	1,034,798
-	(114,130)	-	1,654,952
<u>\$ 226,250</u>	<u>\$ (442,768)</u>	<u>\$ (324,281)</u>	<u>\$ 5,102,405</u>

CITY OF SWEET HOME, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS BY ISSUE
JUNE 30, 2012

Fiscal Year Ending June 30,	Water Systems Improvements			Wastewater Treatment Plant		
	Reservoir Note, bearing 6.13% Interest			Improvements Note, bearing 5.19% Interest,		
	dated December 3, 1992			dated December 2, 1993		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 111,659	\$ 6,845	\$ 118,504	\$ 55,698	\$ 5,931	\$ 61,629
2014	-	-	-	58,589	3,041	61,630
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
	<u>\$ 111,659</u>	<u>\$ 6,845</u>	<u>\$ 118,504</u>	<u>\$ 114,287</u>	<u>\$ 8,972</u>	<u>\$ 123,259</u>

**Wastewater Improvement Note R89750,
bearing 3.14% Interest
dated November 26, 2002**

**Wastewater Improvement Note R89751,
bearing 2.90% Interest dated
dated April 1, 2005**

Wastewater Improvement Note R89750, bearing 3.14% Interest dated November 26, 2002			Wastewater Improvement Note R89751, bearing 2.90% Interest dated dated April 1, 2005		
Principal	Interest	Total	Principal	Interest	Total
\$ 181,199	\$ 88,365	\$ 269,564	\$ 182,312	\$ 144,093	\$ 326,405
186,934	82,630	269,564	185,433	140,060	325,493
192,848	76,716	269,564	190,850	133,716	324,566
198,952	70,612	269,564	196,425	127,187	323,612
205,248	64,316	269,564	202,163	120,467	322,630
211,743	57,821	269,564	208,068	113,551	321,619
218,444	51,120	269,564	214,145	106,434	320,579
225,357	44,207	269,564	220,401	99,107	319,508
232,489	37,075	269,564	226,839	91,567	318,406
239,846	29,718	269,564	233,465	83,807	317,272
247,437	22,127	269,564	240,284	75,820	316,104
255,267	14,297	269,564	247,303	67,600	314,903
263,364	6,219	269,583	254,526	59,140	313,666
-	-	-	261,962	50,432	312,394
-	-	-	269,613	41,471	311,084
-	-	-	277,489	32,247	309,736
-	-	-	285,594	22,754	308,348
-	-	-	293,937	12,984	306,921
-	-	-	150,163	2,928	153,091
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ 2,859,128	\$ 645,223	\$ 3,504,351	\$ 4,340,972	\$ 1,525,365	\$ 5,866,337

CITY OF SWEET HOME, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS BY ISSUE (Continued)
JUNE 30, 2012

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>Wastewater Improvement Note R89752,</i> <i>bearing 0% Interest dated</i> <i>dated April 1, 2011</i>			<i>Water Treatment Facility loan S04002</i> <i>bearing 1.0% Interest amended to</i> <i>March 15, 2010</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
	2013	\$ 250,000	\$ 12,188	\$ 262,188	\$ 212,613	\$ 68,311
2014	250,000	11,563	261,563	214,739	66,185	280,924
2015	250,000	21,875	271,875	216,887	64,037	280,924
2016	250,000	20,625	270,625	219,056	61,868	280,924
2017	250,000	19,375	269,375	221,246	59,677	280,923
2018	250,000	18,125	268,125	223,458	57,465	280,923
2019	250,000	16,875	266,875	225,693	55,231	280,924
2020	250,000	15,625	265,625	227,950	52,974	280,924
2021	250,000	14,375	264,375	230,230	50,694	280,924
2022	250,000	13,125	263,125	232,532	48,392	280,924
2023	250,000	11,875	261,875	234,857	46,067	280,924
2024	250,000	10,625	260,625	237,206	43,718	280,924
2025	250,000	9,375	259,375	239,577	41,346	280,923
2026	250,000	8,125	258,125	241,974	38,950	280,924
2027	250,000	6,875	256,875	244,393	36,531	280,924
2028	250,000	5,625	255,625	246,837	34,087	280,924
2029	250,000	4,375	254,375	249,306	31,618	280,924
2030	250,000	3,125	253,125	251,798	29,125	280,923
2031	250,000	1,875	251,875	254,317	26,607	280,924
2032	250,000	624	250,624	256,860	24,064	280,924
2033	-	-	-	259,428	21,495	280,923
2034	-	-	-	262,023	18,901	280,924
2035	-	-	-	264,643	16,281	280,924
2036	-	-	-	267,289	13,634	280,923
2037	-	-	-	269,962	10,962	280,924
2038	-	-	-	272,662	8,262	280,924
2039	-	-	-	275,389	5,535	280,924
2040	-	-	-	278,143	2,781	280,924
	<u>\$ 5,000,000</u>	<u>\$ 226,250</u>	<u>\$ 5,226,250</u>	<u>\$ 6,831,068</u>	<u>\$ 1,034,798</u>	<u>\$ 7,865,866</u>

Water Treatment Facility loan G04003

bearing 3.56% Interest dated

September 1, 2004

Total Proprietary Long-term Debt

<i>September 1, 2004</i>			Total Proprietary Long-term Debt		
<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
\$ 107,887	\$ 112,080	\$ 219,967	\$ 1,101,368	\$ 437,813	\$ 1,539,181
108,245	109,922	218,167	1,003,940	413,401	1,417,341
108,610	107,757	216,367	959,195	404,101	1,363,296
113,982	105,585	219,567	978,415	385,877	1,364,292
114,362	103,305	217,667	993,019	367,140	1,360,159
119,846	100,446	220,292	1,013,115	347,408	1,360,523
120,441	96,851	217,292	1,028,723	326,511	1,355,234
126,054	93,238	219,292	1,049,762	305,151	1,354,913
126,791	88,826	215,617	1,066,349	282,537	1,348,886
132,554	84,388	216,942	1,088,397	259,430	1,347,827
138,230	80,411	218,641	1,110,808	236,300	1,347,108
143,956	76,092	220,048	1,133,732	212,332	1,346,064
149,915	70,333	220,248	1,157,382	186,413	1,343,795
150,911	64,337	215,248	904,847	161,844	1,066,691
156,948	58,300	215,248	920,954	143,177	1,064,131
163,026	52,022	215,048	937,352	123,981	1,061,333
174,147	45,501	219,648	959,047	104,248	1,063,295
180,312	38,535	218,847	976,047	83,769	1,059,816
186,487	31,548	218,035	840,967	62,958	903,925
192,747	24,089	216,836	699,607	48,777	748,384
199,056	16,379	215,435	458,484	37,874	496,358
312,955	95,007	407,962	574,978	113,908	688,886
-	-	-	264,643	16,281	280,924
-	-	-	267,289	13,634	280,923
-	-	-	269,962	10,962	280,924
-	-	-	272,662	8,262	280,924
-	-	-	275,389	5,535	280,924
-	-	-	278,143	2,781	280,924
<u>\$ 3,327,462</u>	<u>\$ 1,654,952</u>	<u>\$ 4,982,414</u>	<u>\$ 22,584,576</u>	<u>\$ 5,102,405</u>	<u>\$ 27,686,981</u>

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

The Honorable Craig Fentiman, Mayor
and Members of the City Council
1140 12th Avenue
City of Sweet Home, Oregon 97386

We have audited the basic financial statements of the City of Sweet Home, Oregon as of and for the year ended June 30, 2012, and have issued our report thereon dated February 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

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

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

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).
- Accountability for collecting or receiving money by elected officials – no money was collected or received by elected officials.

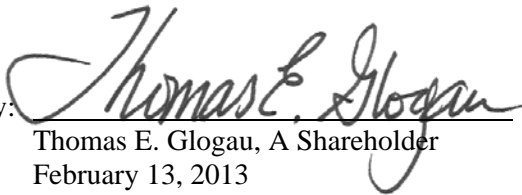
In connection with our testing nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except expenditures in excess of appropriations as indicated in the notes to the financial statements, and the City did not file on a timely basis.

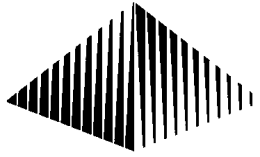
OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting. Please see report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

This report is intended solely for the information and use of the council members and management of the City of Sweet Home, Oregon and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

*GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS*

By: 
Thomas E. Glogau, A Shareholder
February 13, 2013



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

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

Honorable Mayor, Members of the
City Council and the City Manager
1140 12th Avenue
Sweet Home, Oregon 97386

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sweet Home, Oregon, as of and for the year ended June 30, 2012, which collectively comprise the City of Sweet Home's basic financial statements and have issued our report thereon dated February 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

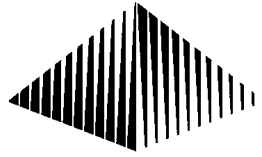
We noted certain matters that we reported to management of the City, in a separate letter dated February 13, 2013.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the City's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the County's compliance but not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.



James Mueller & David R. [unclear]
CERTIFIED PUBLIC ACCOUNTANTS

February 13, 2013



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor, Members of the
City Council and the City Manager
1140 12th Avenue
Sweet Home, Oregon 97386

Compliance

We have audited the City of Sweet Home's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Sweet Home's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Sweet Home's compliance with those requirements.

In our opinion, the City of Sweet Home complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City of Sweet Home is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in

accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Sweet Home's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the City Council, others within the City of Sweet Home, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.


CERTIFIED PUBLIC ACCOUNTANTS

February 13, 2013

CITY OF SWEET HOME, OREGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Public Transit Grant, Small City and Rural Areas Program Passed through Oregon Department of Transportation Public Transit Division to fund Dial-A-Bus Services. Awarded July 1, 2010 through June 30, 2011 in the amount of \$49,911	20.509	ODOT 26693	\$ 51,594
Clean Water State Revolving Fund Loan, Passed through State of Oregon Dept. of Environmental Quality - executed on January 21, 2010 in the amount of \$5,000,000 to provide additional funding for wastewater demonstration project	66.458	R89752	3,254,276
DUII Traffic Grant, Passed through Oregon Association of Police Chiefs (OACP) - requested \$1,280	20.601	n/a	762
Seat Belt Traffic Safety Grant, Passed through Oregon Association of Police Chiefs (OACP) - requested \$2,240	20.600	n/a	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,306,632

See notes to schedules of expenditures of federal awards.

CITY OF SWEET HOME, OREGON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

PURPOSE OF THE SCHEDULE

The accompanying schedule of expenditures of federal awards (the “Schedule”) is a supplementary schedule to the City of Sweet Home’s basic financial statements and is presented for purposes of additional analysis. Because the Schedule presents only a selected portion of the activities of the City, it is not intended to and does not present either the financial position or the results of operations of the City.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The information in the Schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Federal Financial Assistance

Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Major Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs for the City are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

Reporting Entity

The reporting entity is fully described in the notes to the basic financial statements. Additionally, the Schedule includes all federal programs administered by the City for the year ended June 30, 2012.

Revenue and Expenditure Recognition

The revenue and expenditure of federal awards are accounted for under the modified accrual basis of accounting. Revenues are recorded as received in cash or on the accrual basis where measurable and available. Expenditures are recorded when the liability is incurred.

CITY OF SWEET HOME, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issues: Unqualified
 Internal control reporting: No
 • Material weakness(es) identified? None reported
 • Significant deficiency(ies) identified? No
 • Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs: No
 • Material weakness(es) identified? None reported
 • Significant deficiency(ies) identified? Unqualified
 Type of auditor's report issued on compliance for major programs: Unqualified
 Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? No

Identification of major program:

CFDA	Agency	Authorization	Program Title
66.458	EPA	R89752	Capitalization Grant for Clean Water State Revolving Funds - ARRA

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
 Auditee qualified as low-risk auditee? No

FINANCIAL STATEMENT FINDINGS

None

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None