



December 8, 2025

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

This letter is to inform the City Council of the City of Shady Cove, Oregon (the City) about significant matters related to the conduct of our audit as of and for the year ended June 30, 2023, so that it can appropriately discharge its oversight responsibility and we comply with our professional responsibilities.

The following required communications summarize our responsibilities regarding the financial statement audit as well as observations from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our engagement letter dated April 3, 2025. The audit of the financial statements, the governmental activities, and each major fund of the City does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We previously issued a separate communication dated May 5, 2025 regarding the planned scope and timing of our audit and identified significant risks.

Significant Accounting Practices, Including Policies, Estimates and Disclosures

In this letter to you, we will discuss our views about the qualitative aspects of the City's significant accounting practices, including significant accounting policies, significant unusual transactions, accounting estimates and financial statement disclosures. The following is a list of the matters which you may wish to monitor for your oversight responsibilities of the financial reporting process:

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. A summary of the significant accounting policies used by the City are described in Note 1 to the financial statements. New accounting policies adopted during the year (related to new accounting pronouncements) did not have a material impact on the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the City's financial statements are the following:

- Management's estimate of the property taxes receivable is based on information obtained from the Jackson County Taxation Department. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of allowance for doubtful accounts on receivables is based on historical collection rates. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements as a whole.
- Management's estimate of the accumulated depreciation and related expense is based on management's estimate of the life expectancy of the fixed assets. We evaluated the key factors and assumptions used to develop the accumulated and current year depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of its net pension liability and associated deferred outflows and inflows is based on information provided by the Oregon Public Employees Retirement System (OPERS). This information is subject to significant assumptions. In addition to testing certain contributions made by the District we have relied on the audit of OPERS plan. Based on the audit of OPERS and the procedures performed, the pension related entries appear reasonably stated.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to:

- The disclosure of the Restatement of Beginning Net Position in *Note 2*
- The disclosure of Appropriation and Budgetary Controls in *Note 3*
- The disclosure of the Defined Pension Benefit Plan in *Note 10*
- The disclosure of the Sewer Services Annexation in *Note 15*

The financial statement disclosures are neutral, consistent, and clear.

Audit Adjustments and Uncorrected Misstatements

There were a significant number of material audit adjustments made to the original trial balance presented to us to begin our audit.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial. Uncorrected misstatements or matters underlying these uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if we have concluded that the uncorrected misstatements are immaterial to the financial statements under audit.

Internal Control Matters

We have issued a separate communication dated December 8 , 2025 regarding certain deficiencies in internal control that we identified during the planning or performance of our audit of the financial statements.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Consultation With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters, other than those conversations that occur within the normal course of business.

Other Matters

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Shared Responsibilities: AICPA Independence

The American Institute of Certified Public Accountants (AICPA) regularly emphasizes that auditor independence is a joint responsibility and is managed most effectively when management, audit committees, and audit firms work together in considering compliance with AICPA independence rules. For KDP to fulfill its professional responsibility to maintain and monitor independence, management, the City, and KDP each play an important role.

Our Responsibilities

- AICPA rules require independence both of mind and in appearance when providing audit and other attestation services. KDP is to ensure that the AICPA's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality control over compliance with independence rules and firm policies.

The City's Responsibilities

- Timely inform KDP, before the effective date of transactions or other business changes, of the following:
 - New affiliates, directors, officers, or person in financial reporting oversight roles.
 - Change in corporate structure impacting affiliates such as add-on acquisitions or exits.
- Provide necessary affiliate information such as new or updated investment structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the City and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with KDP.
- Not entering into relationships resulting in KDP, KDP covered persons or their close family members, temporarily or permanently acting as an officer, director, or person in an accounting or financial reporting oversight role at the City.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 8, 2025.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the City.

This report is intended solely for the information and use of the City Council and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Benjamin R. Cohn, CPA
KDP Certified Public Accountants, LLP
Medford, Oregon
December 8, 2025