

***CITY OF PHILOMATH, OREGON
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2012***

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CITY OF PHILOMATH, OREGON
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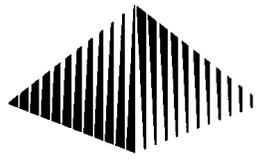
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GROVE, MUELLER & SWANK, P.C.

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Philomath
P.O. Box 400
Philomath, Oregon 97370

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 Philomath, 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. 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.

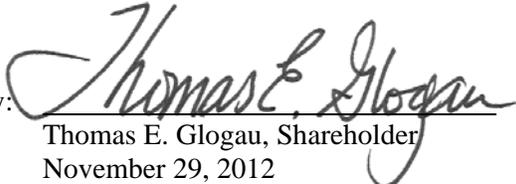
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Philomath, Oregon as of June 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and the budgetary comparison information on pages 3 through 14 and 42 through 44 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 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 42 through 44 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 comparing 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining financial statements, individual fund schedules and other financial schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining financial statements and individual fund schedules 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 the 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 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, Shareholder
November 29, 2012

City of Philomath, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2012

This discussion and analysis presents the highlights of financial activities and financial position for the City of Philomath (City). The analysis focuses on the financial activities of the City for the fiscal year ended June 30, 2012.

Financial Highlights

Following are the financial highlights of the City for the fiscal year ended June 30, 2012.

- The City's total assets exceeded its liabilities at the close of FY 2011-12 by \$16.2 million (net assets). Of this amount, \$12.4 million is invested in capital assets, net of related debt; \$3.4 million is restricted for construction projects, debt service and other commitments; and the balance of \$.4 million is considered unrestricted.
- The City's governmental activities net assets were \$7.3 million with restricted net assets totaling \$3 million as of June 30, 2012.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$313,297 or approximately 14 percent of total General Fund expenditures.
- The City's total liabilities decreased by approximately \$251,000 or 3.3 percent during fiscal year 2011-12. The decrease is due to scheduled debt repayments.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the City's basic financial statements and required supplementary information. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements include all assets of the City (including infrastructure such as streets and sidewalks) as well as all liabilities (including bonded debt). Additionally, certain eliminations have occurred as prescribed by GASB Statement No. 34 with regards to interfund activities.

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

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash inflows or outflows in a future fiscal period. Examples of such items include earned but uncollected property taxes (future inflow), and earned but unused compensated absences (future outflow).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include the following:

- General Administration (City Manager, City Recorder, Planning)
- Building Permits
- Finance
- Municipal Court
- Police Services
- Parks
- Buildings and Grounds Maintenance
- Street Maintenance
- Urban Renewal

The business-type activities of the City include the following:

- Water Utility
- Sewer Utility
- Storm Drain Utility

The government-wide financial statements can be found on pages 15 through 16 of this report.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are divided into two categories: governmental funds and proprietary funds.

Governmental funds - Governmental funds are used to account for activities where the emphasis is placed on available financial resources, rather than upon net income determination. Therefore, unlike the government-wide financial statements, governmental fund financial statements focus on the acquisition and use of current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations can be found on pages 18 and 20 in the basic financial statements.

The governmental fund financial statements can be found on pages 17 and 19 in the basic financial statements.

The City maintains eight individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances for those funds that are considered significant (major) to the City taken as a whole. These financial statements report five major funds: General Fund, Community Development Fund, Urban Renewal Debt Fund, Land, Building & Equipment Fund and Street Fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Summary fund data by fund-type for these nonmajor governmental funds is provided in the form of combining statements on pages 45 through 46 of this report.

The City adopts an annual appropriated budget for all governmental funds. To demonstrate compliance with the budget, budgetary comparison statements have been provided for the General Fund and the major special revenue funds on pages 42 through 44, and for all other governmental funds on pages 47 through 51.

Proprietary funds - Proprietary funds are used to account for activities where the emphasis is placed on net income determination. The City maintains only enterprise funds and has no internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements.

The City uses enterprise funds to account for its water utility, sewer utility and storm drain utility business funds. All enterprise funds are considered to be major funds of the City, and are reported separately as proprietary fund financial statements in the basic financial statements.

The City also adopts an annual appropriated budget for all proprietary funds. To demonstrate compliance with the budget, budgetary comparison statements have been provided for the enterprise funds as Supplementary Information on pages 52 through 54.

The proprietary fund financial statements can be found on pages 21 through 24 in the basic financial statements.

Notes to the basic financial statements - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. They are an integral part of the basic financial statements and should be read in conjunction with them.

Required Supplementary Information (RSI) - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, including the management discussion and analysis and budgetary comparison schedules for the General Fund and major special revenue funds.

Other Supplementary Information including combining statements for nonmajor governmental funds and fund schedules of budgetary information for funds not previously presented. Other supplementary information is also presented.

Government-Wide Financial Analysis

Table 1
Summary of Net Assets

	<i>June 30, 2012</i>		
	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total</i>
Cash and investments	\$ 2,812,147	\$ 559,096	\$ 3,371,243
Other assets	1,370,010	155,265	1,525,275
Capital assets	3,997,819	14,684,523	18,682,342
<i>Total Assets</i>	<u>8,179,976</u>	<u>15,398,884</u>	<u>23,578,860</u>
Other liabilities	126,529	187,366	313,895
Long-term liabilities	712,846	6,307,389	7,020,235
<i>Total Liabilities</i>	<u>839,375</u>	<u>6,494,755</u>	<u>7,334,130</u>
Net Assets			
Invested in capital assets, net of debt	3,997,819	8,404,818	12,402,637
Restricted	3,034,650	402,014	3,436,664
Unrestricted	308,132	97,297	405,429
<i>Total Net Assets</i>	<u>\$ 7,340,601</u>	<u>8,904,129</u>	<u>\$ 16,244,730</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$16,244,730 at the close of FY 2011-12.

The largest portion of the City's net assets reflects its investment of \$12,402,637 or 76 percent, in capital assets (e.g., land, buildings, improvements, equipment, and infrastructure, net of accumulated depreciation); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets \$3,436,664 or approximately 21 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net assets totaling \$405,429 or approximately 3 percent.

<i>June 30, 2011</i>			<i>Change</i>		
<i>Governmental</i>	<i>Business-</i>		<i>Governmental</i>	<i>Business-</i>	
<i>Activities</i>	<i>Type</i>	<i>Total</i>	<i>Activities</i>	<i>Type</i>	<i>Total</i>
<i>Activities</i>	<i>Activities</i>		<i>Activities</i>	<i>Activities</i>	
\$ 2,210,727	\$ 3,810,329	\$ 6,021,056	\$ 601,420	\$ (3,251,233)	\$ (2,649,813)
1,474,385	156,982	1,631,367	(104,375)	(1,717)	(106,092)
4,078,715	11,879,665	15,958,380	(80,896)	2,804,858	2,723,962
7,763,827	15,846,976	23,610,803	416,149	(448,092)	(31,943)
219,513	172,684	392,197	(92,984)	14,682	(78,302)
746,386	6,446,278	7,192,664	(33,540)	(138,889)	(172,429)
965,899	6,618,962	7,584,861	(126,524)	(124,207)	(250,731)
4,078,715	8,629,778	12,708,493	(80,896)	(224,960)	(305,856)
2,489,726	457,838	2,947,564	544,924	(55,824)	489,100
229,487	140,398	369,885	78,645	(43,101)	35,544
<u>\$ 6,797,928</u>	<u>9,228,014</u>	<u>\$ 16,025,942</u>	<u>\$ 542,673</u>	<u>\$ (323,885)</u>	<u>\$ 218,788</u>

Table 2
Statement of Activities

	<i>Fiscal Year Ended June 30, 2012</i>		
	<i>Governmental</i>	<i>Business-</i>	
	<i>Activities</i>	<i>Type</i>	<i>Total</i>
		<i>Activities</i>	
Revenues			
Program Revenues			
Charges for services	\$ 776,856	\$ 1,614,473	\$ 2,391,329
Operating grants and contributions	296,805	-	296,805
Capital grants and contributions	(3,704)	52,555	48,851
<i>Total Program Revenues</i>	<u>1,069,957</u>	<u>1,667,028</u>	<u>2,736,985</u>
General Revenues			
Property taxes	1,722,571	-	1,722,571
Franchise taxes	384,130	-	384,130
Other	195,250	29,881	225,131
<i>Total General Revenues</i>	<u>2,301,951</u>	<u>29,881</u>	<u>2,331,832</u>
<i>Total Revenues</i>	<u>3,371,908</u>	<u>1,696,909</u>	<u>5,068,817</u>
Expenses (Net of Indirect Expenses)			
General governmental	1,129,055	-	1,129,055
Police	1,184,584	-	1,184,584
Streets	430,435	-	430,435
Public Works	209,191	-	209,191
Interest on long-term debt	23,986	-	23,986
Water	-	872,463	872,463
Sewer	-	954,523	954,523
Storm Drain	-	45,792	45,792
<i>Total Expenses</i>	<u>2,977,251</u>	<u>1,872,778</u>	<u>4,850,029</u>
Transfers	<u>148,016</u>	<u>(148,016)</u>	<u>-</u>
Changes in Net Assets	<u>542,673</u>	<u>(323,885)</u>	<u>218,788</u>
Beginning Net Assets	<u>6,797,928</u>	<u>9,228,014</u>	<u>16,025,942</u>
Ending Net Assets	<u>\$ 7,340,601</u>	<u>\$ 8,904,129</u>	<u>\$ 16,244,730</u>

The City's overall net assets increased by \$218,788 during FY 2011-12.

<i>Fiscal Year Ended June 30, 2011</i>			<i>Change</i>		
<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total</i>	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total</i>
\$ 759,219	\$ 1,561,541	\$ 2,320,760	\$ 17,637	\$ 52,932	\$ 70,569
280,258	-	280,258	16,547	-	16,547
39,146	84,953	124,099	(42,850)	(32,398)	(75,248)
<u>1,078,623</u>	<u>1,646,494</u>	<u>2,725,117</u>	<u>(8,666)</u>	<u>20,534</u>	<u>11,868</u>
1,708,520	-	1,708,520	14,051	-	14,051
364,349	-	364,349	19,781	-	19,781
209,871	27,760	237,631	(14,621)	2,121	(12,500)
<u>2,282,740</u>	<u>27,760</u>	<u>2,310,500</u>	<u>19,211</u>	<u>2,121</u>	<u>21,332</u>
3,361,363	1,674,254	5,035,617	10,545	22,655	33,200
1,195,463	-	1,195,463	(66,408)	-	(66,408)
1,143,709	-	1,143,709	40,875	-	40,875
392,039	-	392,039	38,396	-	38,396
209,235	-	209,235	(44)	-	(44)
34,091	-	34,091	(10,105)	-	(10,105)
-	856,575	856,575	-	15,888	15,888
-	914,842	914,842	-	39,681	39,681
-	44,303	44,303	-	1,489	1,489
<u>2,974,537</u>	<u>1,815,720</u>	<u>4,790,257</u>	<u>2,714</u>	<u>57,058</u>	<u>59,772</u>
2,755	(2,755)	-	145,261	(145,261)	-
389,581	(144,221)	245,360	153,092	(179,664)	(26,572)
<u>6,408,347</u>	<u>9,372,235</u>	<u>15,780,582</u>	<u>389,581</u>	<u>(144,221)</u>	<u>245,360</u>
<u>\$ 6,797,928</u>	<u>\$ 9,228,014</u>	<u>\$ 16,025,942</u>	<u>\$ 542,673</u>	<u>\$ (323,885)</u>	<u>\$ 218,788</u>

General Fund Budgetary Highlights

Appropriation transfers of \$50,000 were made from contingency in the General Fund during the year.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements,

Governmental Funds. The focus of the City's governmental funds is to provide information on relatively short-term cash flow and funding for future basic services on a fund basis. 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 a fiscal year.

At June 30, 2012, the City's governmental funds reported combined ending fund balances of \$2,801,515 an increase of \$611,690 in comparison with prior year.

General Fund. The General Fund is the primary operating fund of the City. As of June 30, 2012, fund balance was \$313,297, an increase of \$35,274 during the current fiscal year. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 14% of the total of General Fund expenditures.

Community Development Fund. The Community Development Fund administers Federal low-income housing rehabilitation grant money that the City received in past years. The City received \$9,020 in repayments from loan recipients and had no expenditures. This resulted in an increase in fund balance of \$9,020.

Street Maintenance Fund. The Street Maintenance Fund is funded primarily by the City's portion of state gasoline taxes and franchise fees. The primary function is to maintain the City's transportation network. Revenues exceeded expenditures by \$14,452, but the fund balance decreased from \$89,194 to \$57,546 because of transfers made to the Land, Building and Equipment Reserve Fund.

Urban Renewal Debt Fund. The Urban Renewal Debt Fund was created to service the debt of the Urban Renewal Agency. The final payment was made on the Series 2004 Urban Renewal Agency Bonds, and the fund balance increased by \$276,820 to \$315,725.

Land, Building & Equipment Reserve Fund. The Land, Building and Equipment Reserve Fund was established to accumulate funds for large future capital projects. The completion of a sewer lagoon project accounted for \$3.25 million of capital outlay during the fiscal year.

Business-type activities - Business-type activities decreased the City's net assets by \$323,885. The decrease is the result of operating revenues that were not sufficient to pay for nonoperating expenses such as interest expense.

The City can only use these net assets to finance the continuing operations of the water, sewer, and storm drain operations.

Water Fund. The Water Fund activity includes the operation and maintenance of the City's water system. Although revenues exceeded expenses in the current year, the fund balance decreased by \$123,283 because of transfers to the Land, Building and Equipment Reserve Fund.

Sewer Fund. The Sewer Fund activity includes operating and maintenance of the City’s sewer system. Expenses exceeded revenues by \$225,477, but an incoming transfer resulted in a much smaller reduction in net assets.

Storm Drain Fund. The Storm Drain Fund was established to reduce the potential of neighborhood flooding during periods of high water. It is funded mainly by storm drain fees paid by the City’s utility customers. Revenues exceeded expenditures in the current year but transfers out resulted in a decrease in net assets of \$9,770.

System Development Business Fund. The System Development Business fund is used to account for the business portion of systems development charges. Transfers to the Sewer Fund of \$90,000 exceeded capital contributions, resulting in a \$44,339 reduction in net assets.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2012, the City had approximately \$18.7 million invested in a broad range of capital assets, including land, buildings and improvements, equipment, roads, water, sewer and storm drain lines.

Capital Assets at Year-End (Net of Depreciation) June 30, 2012

	<i>Governmental Activities</i>		<i>Total Percentage Change</i>
	<i>2012</i>	<i>2011</i>	<i>2011-2012</i>
Land	\$ 128,233	\$ 128,233	- %
Improvements	287,474	273,252	5.20
Buildings	1,795,915	1,843,311	(2.57)
Equipment	459,436	475,364	(3.35)
Infrastructure	1,326,761	1,358,555	(2.34)
<i>Total</i>	<i>\$ 3,997,819</i>	<i>\$ 4,078,715</i>	<i>(1.98) %</i>

	<i>Business-type Activities</i>		<i>Total Percentage Change</i>
	<i>2012</i>	<i>2011</i>	<i>2011-2012</i>
Land	\$ 853,202	\$ 853,202	- %
Improvements	32,469	79,807	(59.32)
Buildings	228,861	238,310	(3.97)
Equipment	458,348	501,344	(8.58)
Infrastructure	13,111,643	10,207,002	28.46
<i>Total</i>	<i>\$ 14,684,523</i>	<i>\$ 11,879,665</i>	<i>23.61 %</i>

Major capital asset activities during the fiscal year included construction of a \$3.1 million sewer lagoon, \$48,000 for new playground equipment at Newton Creek Park, a new \$36,000 truck wash facility at Public Works and a \$32,000 police vehicle.

Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$6,953,302. Of this amount, \$560,076 represents an outstanding note payable for the governmental funds. This note is outstanding on the Lakeside Industrial property. Lakeside reimburses the City annually for principal and interest payments. The City has a lien on the Lakeside property for the amount of the loan. The final payment on the Urban Renewal note payable in the amount of \$43,000 was paid using ad-valorem taxes, but did not require voter approval.

The remainder of the City's debt is for business-type activities and includes two outstanding water notes payable, one sewer bond and one storm drain note payable. The total amount of water debt outstanding at June 30, 2012 is \$202,831. The notes payable are paid from net revenues of the water system. The sewer bond payable at June 30, 2012 is \$5,985,000 which resulted from the sale of \$6.125 million in full faith and credit obligations in January 2009. The bonds will be paid over 24 years from net revenues of the sewer system and sewer systems development charges. The amount of storm drain debt outstanding at June 30, 2012 is \$205,395. The note is paid from storm drain systems development charges.

	June 30, 2012		
	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total Government</i>
<i>Governmental</i>			
Bonds payable	\$ -	\$ 5,985,000	\$ 5,985,000
Urban Renewal bonds	-	-	-
Notes payable	560,076	408,226	968,302
	<u>560,076</u>	<u>6,393,226</u>	<u>6,953,302</u>
<i>Total Outstanding Debt</i>	<u>\$ 560,076</u>	<u>\$ 6,393,226</u>	<u>\$ 6,953,302</u>

Additional information on the City's capital assets and debt can be found in the notes to the basic financial statements.

June 30, 2011			Change		
<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total Government</i>	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total Government</i>
\$ -	\$ 6,060,000	\$ 6,060,000	\$ -	\$ (75,000)	\$ (75,000)
43,000	-	43,000	(43,000)	-	(43,000)
583,694	455,383	1,039,077	(23,618)	(47,157)	(70,775)
<u>\$ 626,694</u>	<u>\$ 6,515,383</u>	<u>\$ 7,142,077</u>	<u>\$ (66,618)</u>	<u>\$ (122,157)</u>	<u>\$ (188,775)</u>

Economic Factors and Next Year's Budgets and Rates

During the preparation of the budget for the ensuing fiscal year, the long-term impacts of the local economy were examined in conjunction with business decisions made by the City. The following are the major assumptions used in developing the FY 2012-13 budget:

- The 2010 census reduced Philomath's population from an estimated 4,710 to an actual population of 4,584. The July 2011 population was 4,610. Prior to the census, the estimated population had grown steady at around 1.5% for the last several years.
- Growth is expected to be sluggish for the upcoming year due to slow construction activity. Commercial and residential building permit revenue and SDC revenue are expected to show a slight increase.
- Assessed values, the basis of property tax revenues, have been growing at about 4.5% per year. The 2011-12 assessed values increased by 3.1%.
- The City's permanent tax rate of \$5.3005.

- The City has no projects scheduled for the foreseeable future that would require local option funding approval by the electorate.
- Interest rates on investments are expected to be between .5% and 1%.
- Water and Sewer utility rates increased by 6.9%. All other fees charged by the City will remain at their present levels.
- There will be no increase in the number of General Fund supported personnel.
- Health benefit costs will increase by 11%.

The City's adopted budget for FY 2012-13 reflects total estimated resources of \$8,472,352 which exceeds total estimated expenditures by \$1,274,006.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report should be addressed to the Finance Director at P.O. Box 400, Philomath Oregon 97370.

BASIC FINANCIAL STATEMENTS

CITY OF PHILOMATH, OREGON
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current			
Cash and investments	\$ 2,812,147	\$ 559,096	\$ 3,371,243
Receivables			
Accounts	5,288	155,265	160,553
Property taxes	87,123	-	87,123
Special assessments/loans	64,628	-	64,628
Other receivables	72,751	-	72,751
Prepaid expenses	516	-	516
Noncurrent			
Loans receivable	1,139,704	-	1,139,704
Nondepreciable capital assets	128,233	853,202	981,435
Depreciable capital assets, net	3,869,586	13,831,321	17,700,907
	<u>8,179,976</u>	<u>15,398,884</u>	<u>23,578,860</u>
<i>Total Assets</i>			
LIABILITIES			
Current			
Accounts payable and other current liabilities	102,784	47,306	150,090
Noncurrent			
Due within one year:			
Notes payable	23,745	50,060	73,805
Bonds payable	-	90,000	90,000
Due in more than one year:			
Notes payable	536,331	358,166	894,497
Bonds payable	-	5,895,000	5,895,000
Accrued compensated absences	176,515	54,223	230,738
	<u>839,375</u>	<u>6,494,755</u>	<u>7,334,130</u>
<i>Total Liabilities</i>			
NET ASSETS			
Investment in capital assets, net of related debt	3,997,819	8,404,818	12,402,637
Restricted for:			
Community Development	617,782	-	617,782
Construction	1,963,856	402,014	2,365,870
Debt Service	348,244	-	348,244
Streets	57,546	-	57,546
Urban Renewal	47,222	-	47,222
Unrestricted	308,132	97,297	405,429
	<u>\$ 7,340,601</u>	<u>\$ 8,904,129</u>	<u>\$ 16,244,730</u>
<i>Total Net Assets</i>			

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

CITY OF PHILOMATH, OREGON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
FUNCTIONS/PROGRAMS				
Governmental activities:				
General government	\$ 1,129,055	\$ 710,918	\$ 46,060	\$ 1,515
Police	1,184,584	13,561	150	-
Streets	430,435	52,377	248,089	(5,219)
Public works	209,191	-	2,506	-
Interest on long-term debt	23,986	-	-	-
<i>Total governmental activities</i>	<u>2,977,251</u>	<u>776,856</u>	<u>296,805</u>	<u>(3,704)</u>
Business-type activities:				
Water	872,463	857,341	-	21,843
Sewer	954,523	714,545	-	26,710
Storm drain	45,792	42,587	-	4,002
<i>Total business-type activities</i>	<u>1,872,778</u>	<u>1,614,473</u>	<u>-</u>	<u>52,555</u>
Total primary government	<u>\$ 4,850,029</u>	<u>\$ 2,391,329</u>	<u>\$ 296,805</u>	<u>\$ 48,851</u>

General Revenues:

Taxes and assessments
Franchise taxes
Intergovernmental
Gain on disposition of assets
Miscellaneous

Total general revenues

Transfers

Change in net assets

Net assets, July 1, 2011

Net assets, June 30, 2012

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
\$ (370,562)	\$ -	\$ (370,562)
(1,170,873)	-	(1,170,873)
(135,188)	-	(135,188)
(206,685)	-	(206,685)
(23,986)	-	(23,986)
(1,907,294)	-	(1,907,294)
-	6,721	6,721
-	(213,268)	(213,268)
-	797	797
-	(205,750)	(205,750)
(1,907,294)	(205,750)	(2,113,044)
1,722,571	-	1,722,571
384,130	-	384,130
102,526	-	102,526
11,062	-	11,062
81,662	29,881	111,543
2,301,951	29,881	2,331,832
148,016	(148,016)	-
542,673	(323,885)	218,788
6,797,928	9,228,014	16,025,942
\$ 7,340,601	\$ 8,904,129	\$ 16,244,730

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

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

	<u>Special Revenue</u>		
	<u>General</u>	<u>Community Development</u>	<u>Street</u>
ASSETS			
Cash and investments	\$ 306,651	\$ 137,083	\$ 15,824
Receivables			
Accounts	-	-	5,288
Property taxes	65,744	-	-
Special assessments/loans	20,274	-	-
Other receivables	34,274	-	38,259
Prepaid expenses	516	-	-
Loans receivable	659,005	480,699	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,086,464</u>	<u>\$ 617,782</u>	<u>\$ 59,371</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 27,550	\$ -	\$ 1,825
Other current liabilities	594	-	-
Deferred revenue	745,023	480,699	-
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	773,167	480,699	1,825
Fund Balances			
Nonspendable:	516	-	-
Restricted for:			
Community Development	-	137,083	-
Construction	-	-	-
Debt Service	-	-	-
Streets	-	-	57,546
Urban Renewal	-	-	-
Unassigned	312,781	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	313,297	137,083	57,546
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 1,086,464</u>	<u>\$ 617,782</u>	<u>\$ 59,371</u>

<u>Debt Service</u>	<u>Capital Projects</u>		
<u>Urban</u>	<u>Land</u>	<u>Other</u>	
<u>Renewal</u>	<u>Building &</u>	<u>Governmental</u>	
<u>Debt</u>	<u>Equipment</u>	<u>Funds</u>	<u>Totals</u>
\$ 315,725	\$ 1,711,298	\$ 325,566	\$ 2,812,147
-	-	-	5,288
21,357	-	22	87,123
-	18,181	26,173	64,628
-	218	-	72,751
-	-	-	516
-	-	-	1,139,704
<u>\$ 337,082</u>	<u>\$ 1,729,697</u>	<u>\$ 351,761</u>	<u>\$ 4,182,157</u>
\$ -	\$ 52,698	\$ 6,520	\$ 88,593
-	-	-	594
21,357	18,181	26,195	1,291,455
<u>21,357</u>	<u>70,879</u>	<u>32,715</u>	<u>1,380,642</u>
-	-	-	516
-	-	-	137,083
-	1,658,818	260,684	1,919,502
315,725	-	11,140	326,865
-	-	-	57,546
-	-	47,222	47,222
-	-	-	312,781
<u>315,725</u>	<u>1,658,818</u>	<u>319,046</u>	<u>2,801,515</u>
<u>\$ 337,082</u>	<u>\$ 1,729,697</u>	<u>\$ 351,761</u>	<u>\$ 4,182,157</u>

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

CITY OF PHILOMATH, OREGON
RECONCILIATION TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

RECONCILIATION TO THE STATEMENT OF NET ASSETS

<i>Fund Balances</i>	\$ 2,801,515
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.	1,291,455
Capital assets are not financial resources in governmental funds, but are reported in the statement of net assets at their net depreciable value.	
Cost	5,728,607
Accumulated depreciation	(1,730,788)
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.	
Notes Payable	(560,076)
Accrued compensated absences	(176,515)
Accrued interest payable	(13,597)
 <i>Net Assets of Governmental Activities</i>	 <u>\$ 7,340,601</u>

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

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

	<i>Special Revenue</i>		
	<i>General</i>	<i>Community Development</i>	<i>Street</i>
REVENUES			
Taxes and assessments	\$ 1,310,501	\$ -	\$ -
Licenses and permits	422,119	-	85,967
Charges for services	301,708	-	52,377
Intergovernmental	102,526	-	248,089
Fines and forfeitures	285,254	-	-
Miscellaneous	27,000	9,020	1,477
<i>Total Revenues</i>	<u>2,449,108</u>	<u>9,020</u>	<u>387,910</u>
EXPENDITURES			
Current operating:			
General government	970,651	-	-
Police	1,169,933	-	-
Streets	-	-	373,458
Public works	176,250	-	-
Capital outlay:			
General government	-	-	-
Police	-	-	-
Public works	-	-	-
Sewer	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
<i>Total Expenditures</i>	<u>2,316,834</u>	<u>-</u>	<u>373,458</u>
REVENUES OVER (UNDER) EXPENDITURES	132,274	9,020	14,452
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	20,100
Transfers out	(97,000)	-	(66,200)
<i>Total Other Financing Sources (Uses)</i>	<u>(97,000)</u>	<u>-</u>	<u>(46,100)</u>
NET CHANGE IN FUND BALANCES	35,274	9,020	(31,648)
FUND BALANCES, Beginning of year	<u>278,023</u>	<u>128,063</u>	<u>89,194</u>
FUND BALANCES, End of year	<u>\$ 313,297</u>	<u>\$ 137,083</u>	<u>\$ 57,546</u>

<i>Debt Service</i>	<i>Capital Projects</i>		
<i>Urban</i>	<i>Land</i>	<i>Other</i>	
<i>Renewal</i>	<i>Building &</i>	<i>Governmental</i>	<i>Totals</i>
<i>Debt</i>	<i>Equipment</i>	<i>Funds</i>	
\$ 418,060	\$ -	\$ 4	\$ 1,728,565
-	-	13,267	521,353
-	-	-	354,085
-	2,506	46,060	399,181
-	13,561	-	298,815
2,330	60,452	51,042	151,321
420,390	76,519	110,373	3,453,320
-	-	63,849	1,034,500
-	-	-	1,169,933
-	-	-	373,458
-	-	-	176,250
-	9,220	48,239	57,459
-	50,891	-	50,891
-	35,871	-	35,871
-	3,154,959	-	3,154,959
43,000	-	23,618	66,618
570	-	24,096	24,666
43,570	3,250,941	159,802	6,144,605
376,820	(3,174,422)	(49,429)	(2,691,285)
-	3,446,075	100,000	3,566,175
(100,000)	-	-	(263,200)
(100,000)	3,446,075	100,000	3,302,975
276,820	271,653	50,571	611,690
38,905	1,387,165	268,475	2,189,825
\$ 315,725	\$ 1,658,818	\$ 319,046	\$ 2,801,515

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

CITY OF PHILOMATH, 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**

<i>Net change in fund balances - total governmental funds</i>	\$ 611,690
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.	(36,102)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Collections on long-term receivables	(29,112)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	680
The net effect of disposal of capital assets is to reduce net assets.	(16,198)
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.	9,795
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 Depreciation	142,424 (207,122)
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. Debt principal paid Bonds and notes	66,618
<i>Change in net assets of governmental activities.</i>	<u><u>\$ 542,673</u></u>

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

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

	<u>Water</u>	<u>Sewer</u>	<u>Storm Drain</u>
ASSETS			
Current			
Cash and investments	\$ 8,380	\$ 113,929	\$ 27,584
Accounts receivable	80,715	70,266	4,284
Noncurrent			
Nondepreciable capital assets	219,594	633,608	-
Depreciable capital assets, net	3,094,297	9,653,264	1,083,760
<i>Total Assets</i>	3,402,986	10,471,067	1,115,628
LIABILITIES			
Current			
Accounts payable	16,825	23,292	-
Noncurrent			
Noncurrent liabilities			
Due within one year	37,885	90,000	-
Due in more than one year	164,946	5,895,000	-
Accrued compensated absences	30,681	23,542	-
<i>Total Liabilities</i>	250,337	6,031,834	-
NET ASSETS			
Investment in capital assets, net of related debt	3,111,060	4,415,393	1,083,760
Restricted for construction	-	-	-
Unrestricted	41,589	23,840	31,868
<i>Total Net Assets</i>	<u>\$ 3,152,649</u>	<u>\$ 4,439,233</u>	<u>\$ 1,115,628</u>

<i>System Development Business</i>	<i>Totals</i>
\$ 409,203	\$ 559,096
-	155,265
-	853,202
-	13,831,321
409,203	15,398,884
7,189	47,306
12,175	140,060
193,220	6,253,166
-	54,223
212,584	6,494,755
(205,395)	8,404,818
402,014	402,014
-	97,297
\$ 196,619	\$ 8,904,129
\$ 196,619	\$ 8,904,129

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

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

	<u>Water</u>	<u>Sewer</u>	<u>Storm Drain</u>
OPERATING REVENUES			
Charges for services	\$ 857,341	\$ 714,545	\$ 42,587
Miscellaneous	8,540	2,044	834
<i>Total Operating Revenues</i>	865,881	716,589	43,421
OPERATING EXPENSES			
Personnel services	352,710	267,908	-
Materials and services	365,887	235,317	7,290
Depreciation	139,863	189,423	25,891
<i>Total Operating Expenses</i>	858,460	692,648	33,181
OPERATING INCOME	7,421	23,941	10,240
NONOPERATING REVENUES (EXPENSES)			
Investment revenue	199	269	90
Property lease	-	12,188	-
Interest expense	(13,991)	(239,747)	-
Gain (loss) on sale of capital assets	(12)	(22,128)	-
<i>Total Nonoperating Revenue (Expenses)</i>	(13,804)	(249,418)	90
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(6,383)	(225,477)	10,330
Capital contributions	-	-	-
Transfers in	-	92,984	-
Transfers out	(116,900)	(14,000)	(20,100)
CHANGE IN NET ASSETS	(123,283)	(146,493)	(9,770)
NET ASSETS, Beginning of year	3,275,932	4,585,726	1,125,398
NET ASSETS, End of year	\$ 3,152,649	\$ 4,439,233	\$ 1,115,628

<i>System Development Business</i>	<i>Totals</i>
\$ -	\$ 1,614,473
-	11,418
-	1,625,891
-	620,618
-	608,494
-	355,177
-	1,584,289
-	41,602
5,717	6,275
-	12,188
(12,611)	(266,349)
-	(22,140)
(6,894)	(270,026)
(6,894)	(228,424)
52,555	52,555
-	92,984
(90,000)	(241,000)
(44,339)	(323,885)
240,958	9,228,014
<u>\$ 196,619</u>	<u>\$ 8,904,129</u>

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

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

	<u>Water</u>	<u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 868,059	\$ 717,716
Cash paid to employees for services	(352,518)	(266,930)
Cash paid to suppliers for goods and services	(366,055)	(236,305)
	<hr/>	<hr/>
<i>Net cash provided by (used for) operating activities</i>	149,486	214,481
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	-	90,000
Transfers out	(116,900)	(14,000)
	<hr/>	<hr/>
<i>Net cash provided by (used for) noncapital financing activities</i>	(116,900)	76,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	-	-
Principal payments on notes, bonds, and certificates	(35,673)	(75,000)
Interest payments on notes, bonds, and certificates	(15,282)	(240,009)
Acquisition and construction of capital assets	(27,216)	(3,151,975)
	<hr/>	<hr/>
<i>Net cash provided by (used for) capital and related financing activities</i>	(78,171)	(3,466,984)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue	199	269
Property lease	-	12,188
	<hr/>	<hr/>
<i>Net cash provided by (used for) investing activities</i>	199	12,457
NET INCREASE (DECREASE) IN CASH	(45,386)	(3,164,046)
CASH, beginning of year	<u>53,766</u>	<u>3,277,975</u>
CASH, end of year	<u>\$ 8,380</u>	<u>\$ 113,929</u>

<i>Storm Drain</i>	<i>Systems Development Business</i>	<i>Totals</i>
\$ 41,834	\$ -	\$ 1,627,609
-	-	(619,448)
(7,399)	-	(609,759)
34,435	-	398,402
-	-	90,000
(20,100)	(90,000)	(241,000)
(20,100)	(90,000)	(151,000)
-	52,555	52,555
-	(11,486)	(122,159)
-	(13,013)	(268,304)
-	-	(3,179,191)
-	28,056	(3,517,099)
90	5,718	6,276
-	-	12,188
90	5,718	18,464
14,425	(56,226)	(3,251,233)
13,159	465,429	3,810,329
\$ 27,584	\$ 409,203	\$ 559,096

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

CITY OF PHILOMATH, OREGON

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)

YEAR ENDED JUNE 30, 2012

	<u>Water</u>	<u>Sewer</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income	\$ 7,421	\$ 23,941
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	139,863	189,423
(Increase) Decrease in accounts receivable	2,178	1,127
Increase (Decrease) in accounts payable	(168)	(988)
Increase (Decrease) in compensated absences payable	192	978
	<hr/>	<hr/>
<i>Net cash Provided by (used for) Operating Activities</i>	<u>\$ 149,486</u>	<u>\$ 214,481</u>

<i>Storm Drain</i>	<i>Systems Development Business</i>	<i>Totals</i>
\$ 10,240	\$ -	\$ 41,602
25,891	-	355,177
(1,587)	-	1,718
(109)	-	(1,265)
-	-	1,170
<u>\$ 34,435</u>	<u>\$ -</u>	<u>\$ 398,402</u>

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Philomath, Oregon (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial reporting standards.

The Financial Reporting Entity

The City of Philomath, Oregon is governed by an elected mayor and six council members who comprise the City Council. The City Council exercises supervisory responsibilities over the City operations, but day-to-day management control is the responsibility of a city manager. All significant activities and organizations for which the City is financially accountable are included in the financial statements.

The governing board of the Urban Renewal Agency of the City of Philomath consists of all members of the Philomath City Council. The majority of the area served by the Agency is within City limits. There is a small portion adjacent to the City, but within Benton County jurisdiction. The Urban Renewal Agency is reported as a blended component unit of the City.

There are other governmental agencies and various service districts which provide services within the City. These agencies have independently elected governing boards and the City is not financially accountable for these organizations. Therefore, financial information for these agencies is not included in the accompanying financial statements.

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 funds) and proprietary (enterprise) type funds.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements (Continued)

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

Accounting standards set forth minimum criteria (percentage of the assets, liabilities, revenues or expenses of either fund category or the government and enterprise combined) for the determination of major funds. Major individual 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.

The City reports the following major governmental funds:

- General
- Community Development Fund
- Urban Renewal Debt
- Land, Building and Equipment
- Street

The City reports the following major proprietary funds:

- Sewer
- Water
- Storm Drain

Fund Balance

In the fund financial statements, 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.

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.

CITY OF PHILOMATH, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

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.

Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 long-term debt are recorded as fund liabilities when due. For budgetary purposes, interfund loan transactions are recorded as another financing source in the fund receiving the loan (or the loan repayment) and as another financing use in the fund making the loan (or the repayment).

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 December 20, 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 December 20, 1989, unless specifically adopted by the GASB.

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 and expenses not considered operating are reported as nonoperating items.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City's financial operations are accounted for in the following funds:

Governmental Fund Types

General Fund

The General Fund accounts for activities of the City which are not accounted for in any other fund. Principal sources of revenue are property taxes, franchise taxes, and state and county shared revenues. Primary expenditures are for police protection and general government.

Special Revenue Funds

The special revenue funds account for revenue derived from specific tax or other earmarked revenue sources, including state gas tax, grants and funds set aside to finance particular functions or activities. Funds included in this category are:

Street Fund - This fund is used to account for the City's share of motor fuel tax revenues.

Community Development Fund - This fund is used to account for federal monies received through the Oregon Community Development Block Grant program to make loans for the rehabilitation of low-income housing.

Urban Renewal General Fund - This fund accounts for the activities of the Urban Renewal Agency not accounted for in the Urban Revenue Debt Fund.

Debt Service Funds

The City has two debt service funds, the Economic Development Fund and the Urban Renewal Debt Fund. These funds account for the payment of principal and interest. Enterprise fund long-term debt is accounted for in the enterprise funds.

Economic Development Fund - This fund is used to account for special assessment bond principal and interest from special assessment levies.

Urban Renewal Debt Service Fund - This fund is used to account for property tax revenue and payment of debt service.

Capital Projects Funds

The City has two capital projects funds, the Land, Building and Equipment Fund and the Systems Development Fund. These funds account for the acquisition of fixed assets or construction of major capital projects, not being financed by a proprietary fund.

Land, Building and Equipment Fund - This fund is used to account for the construction or replacement of existing facilities and equipment.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Types (Continued)

Capital Projects Funds (Continued)

Systems Development Fund - This fund is used to account for acquisition and construction of streets, sewer, water, park and storm drain system improvement and expansion. Revenue is received from dedicated systems development charges on new construction. For budgetary purposes, the City accounts for business and nonbusiness SDC charges in one fund. For reporting purposes, in the basic financial statements the components of this fund have been segregated into the business and nonbusiness portions.

Proprietary Fund Types

Enterprise Funds

The City's enterprise fund accounts for the operation of the City's water, wastewater and storm drain utility system. User charges are the primary source of revenue. Expenditures are primarily for personnel services and system operating expenses.

Water Fund - This fund is used to account for activities of the Water Department.

Sewer Fund - This fund is used to account for activities of the Sanitary Sewer Department.

Storm Drain Fund - This fund is used to account for the maintenance of the storm drain system. Revenue is received from storm drain fees.

Systems Development Business - This fund is used to account for the business portion of systems development charges.

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 expenditures 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 all funds may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Property taxes receivable for the governmental fund types, which have been collected within 30 days subsequent to year end, are considered measurable and available and are recognized as revenues. All other property taxes are offset by deferred property tax revenues 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.

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.

Amounts due from developers and others are recorded as other receivables. Revenue is recorded as payments are received.

Housing rehabilitation loans are recorded as notes receivable when the loan is made. All notes receivable are offset by a deferred revenue account.

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

Capital Assets

Capital assets (items lasting more than one year and costing in excess of \$1,000) are stated at historical cost. Capital assets are charged to expenditures in the governmental fund types as purchased. Depreciation is computed on assets in service, using the straight-line method over their estimated useful lives:

Office and computer equipment	5 years
Vehicles	5
Other equipment	10
Buildings and improvements	20
Utility systems	30
Infrastructure	50

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, and in proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type Statement of Net Assets. Bond premiums, discounts, and issuance costs are not material, and are expensed when paid.

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 sick and vacation pay is accrued as it is earned by employees. In governmental fund types the amounts, if any, expected to be liquidated with expendable available resources are accrued as liabilities of the funds. Terminated employees are eligible to receive half of their accrued sick leave. Sick pay is accrued at 50% of the actual leave. Payment of accrued compensated absences in governmental funds is made from the General Fund and the Street Fund.

Interfund Transactions

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Budget and Budgetary Accounting

A budget is prepared for each fund in accordance with the modified accrual basis of accounting. Appropriations are made at the program/function level for all funds. Expenditures may not legally exceed appropriations. Appropriations lapse at the end of each fiscal year. Budget amounts include original approved amounts and all subsequent appropriation transfers approved by the City Council. After budget approval, the City Council may approve supplemental appropriations if an occurrence, condition, or need exists which had not been ascertained at the time the budget was adopted. Management may not amend the budget. A supplemental budget requires hearings before the public, publications in newspapers and approval by the City Council if it exceeds 10% of a fund's expenditures. The budget for each fund includes capital outlay expenditures in each program for capital outlays applicable to that program.

Use of Restricted Assets

When disbursements 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 PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2012

CASH AND INVESTMENTS

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

	<u>Carrying Value</u>	<u>Fair Value</u>
Cash		
Cash on hand	\$ 575	\$ 575
Deposits with financial institutions	53,934	53,934
Investments		
Local Government Investment Pool	3,316,734	3,316,734
	<u>\$ 3,371,243</u>	<u>\$ 3,371,243</u>

Deposits

At year end, the book balance of the City’s bank deposits (checking accounts) was \$53,934 and the bank balance was \$115,676. The difference is due to transactions in process. Bank 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 (PFCP). 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, none of the City’s bank balances were exposed to custodial credit risk as part of the Public Funds Collateralization Program.

Investments

The State Treasurer of the State of Oregon maintains the Oregon Short-term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-term Fund Board and approved by the Oregon

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

CASH AND INVESTMENTS (Continued)

Investments (Continued)

Investment Council (ORS 294.805 to 294.895). At June 30, 2012, the fair value of the position in the Oregon State Treasurer’s Short-term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-term Fund is not subject to risk evaluation. The LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-term Fund are available from the Oregon State Treasurer.

Interest Rate Risk

In accordance with its investment policy, the City manages its exposure to declines in fair value of its investments by limiting its investments to the LGIP.

Custodial Risk - Investments

For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The City's investment policy limits the types of investments that may be held and does not allow securities to be held by the counterparty.

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.

PROPERTY TAXES RECEIVABLE

<u>Fund Type</u>	<u>Receivable</u>	<u>Available</u>	<u>Deferred</u>
General Fund	\$ 65,744	\$ -	\$ 65,744
City Economic Development Fund	22	-	22
Urban Renewal Debt Service Fund	21,357	-	21,357
<i>Total</i>	<u>\$ 87,123</u>	<u>\$ -</u>	<u>\$ 87,123</u>

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

LOANS RECEIVABLE

Loans receivable on the governmental funds balance sheet in the Community Development Fund represent amounts due from property owners for Community Development Block Grant (CDBG) loans. These loans are secured by real estate and are generally due when the real estate is transferred. The balance of these notes at June 30, 2012 was \$480,699. The CDBG loans do not bear interest, and are due when the property securing the loans is transferred.

The following loans receivable are recorded in the General Fund.

Contract for sale of police building, monthly payments of \$1,010 including interest at 6.5%	\$ 98,929
Contract receivable from Lakeside Industrial Park, annual payments of approximately \$43,000, including interest from 3.0% to 4.5% (payments on receivable mirror the payments due on the loan to OECDD)	560,076
	<u>\$ 659,005</u>

CAPITAL ASSETS

The summary of capital assets for the business-type activities for the year ended June 30, 2012 is as follows:

	<i>Balances July 1, 2011</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balances June 30, 2012</i>
Nondepreciable:				
Land	\$ 853,202	\$ -	\$ -	\$ 853,202
Depreciable				
Improvements	52,216	27,274	(400)	79,090
Buildings	418,870	-	-	418,870
Equipment	1,265,596	30,200	(108,988)	1,186,808
Infrastructure	13,564,526	3,124,701	(39,634)	16,649,593
	<u>15,301,208</u>	<u>3,182,175</u>	<u>(149,022)</u>	<u>18,334,361</u>
Accumulated Depreciation:				
Improvements	(45,833)	(1,176)	388	(46,621)
Buildings	(180,560)	(9,449)	-	(190,009)
Equipment	(764,252)	(70,127)	105,919	(728,460)
Infrastructure	(3,284,100)	(274,425)	20,575	(3,537,950)
	<u>(4,274,745)</u>	<u>(355,177)</u>	<u>126,882</u>	<u>(4,503,040)</u>
Depreciable capital assets, net	<u>11,026,463</u>	<u>2,826,998</u>	<u>(22,140)</u>	<u>13,831,321</u>
	<u>\$ 11,879,665</u>	<u>\$ 2,826,998</u>	<u>\$ (22,140)</u>	<u>\$ 14,684,523</u>

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

CAPITAL ASSETS (Continued)

During the year ending June 30, 2009, the City issued \$6,125,000 of full faith and credit obligations to pay for various sewer-related construction projects. \$6,011,479 of the debt proceeds received and the construction costs paid were recorded in the Land, Building, and Equipment Fund. Bond issue costs paid and bond premiums received were also recorded in the Land, Building, and Equipment Fund. For GAAP purposes, sewer-related capital assets were recorded as transfers out of the Land, Building, and Equipment Fund and as capital assets and transfers in to the Sewer Fund. Unspent bond proceeds in the amount of \$113,521 are recorded in the Sewer Fund. The Sewer Fund investment in capital assets account at June 30, 2012 does not include debt equal to the unspent portion of bond proceeds.

Depreciation expense for the year was allocated as follows:

Water	\$	139,863
Sewer		189,423
Storm		25,891
	\$	<u>355,177</u>

The changes in the capital assets for governmental activities for the year ended June 30, 2012 are as follows:

	<i>Balances July 1, 2011</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balances June 30, 2012</i>
Nondepreciable:				
Land	\$ 128,233	\$ -	\$ -	\$ 128,233
Depreciable				
Improvements	445,043	35,871		480,914
Buildings	2,341,341		(1,314)	2,340,027
Equipment	1,110,367	106,553	(51,300)	1,165,620
Infrastructure	1,613,813	-		1,613,813
	<u>5,510,564</u>	<u>142,424</u>	<u>(52,614)</u>	<u>5,600,374</u>
Accumulated Depreciation:				
Improvements	(171,791)	(21,649)		(193,440)
Buildings	(498,030)	(47,241)	1,159	(544,112)
Equipment	(635,003)	(106,438)	35,257	(706,184)
Infrastructure	(255,258)	(31,794)	-	(287,052)
	<u>(1,560,082)</u>	<u>(207,122)</u>	<u>36,416</u>	<u>(1,730,788)</u>
Depreciable capital assets, net	<u>3,950,482</u>	<u>(64,698)</u>	<u>(16,198)</u>	<u>3,869,586</u>
	<u>\$ 4,078,715</u>	<u>\$ (64,698)</u>	<u>\$ (16,198)</u>	<u>\$ 3,997,819</u>

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

CAPITAL ASSETS (Continued)

Depreciation expense for the year was allocated as follows:

General Government	\$	88,902
Police		26,406
Streets		58,592
Public works		33,222
	\$	<u>207,122</u>

DEFERRED REVENUE

At June 30, 2012, deferred revenue on the balance sheet - governmental funds consisted of the following:

Property taxes	\$	87,123
Community Development Block Grant loans		480,699
Other loans receivable		659,005
Assesments		64,628
<i>Total</i>	\$	<u>1,291,455</u>

LONG-TERM DEBT

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

	<u>Outstanding July 1, 2011</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2012</u>	<u>Due within One year</u>
<i>Governmental activities</i>					
Urban Renewal Agency bonds, series 2004 with interest at 4.22% for 5 years, then variable rates until 2013	\$ 43,000	\$ -	\$ (43,000)	\$ -	\$ -
OECCD Lakeside loan, annual payments including interest at 4.16% until 2029	583,694	-	(23,618)	560,076	23,745
	626,694	-	(66,618)	560,076	\$ 23,745
Accrued vacation	186,310	(9,795)	-	176,515	
	<u>\$ 813,004</u>	<u>\$ (9,795)</u>	<u>\$ (66,618)</u>	<u>\$ 736,591</u>	

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

LONG-TERM DEBT (Continued)

	<u>Outstanding July 1, 2011</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2012</u>	<u>Due within One year</u>
<i>Business-type activities</i>					
Oregon Economic Development Department annual payments of \$32,511 with interest at 6.13%	\$ 59,500	\$ -	\$ (28,865)	\$ 30,635	\$ 30,634
Oregon Economic Development Department annual payments of \$18,444 with interest at 6.5%, starting December, 2006	179,005	-	(6,808)	172,197	7,251
Storm Drain SPWF loan, annual payments of \$24,499 including interest at 6%	216,880	-	(11,486)	205,394	12,175
Full Faith and Credit Obligations, Series 2009 annual debt service starting at \$324,000 increasing to \$601,000 average interest of 4.2%	6,060,000		(75,000)	5,985,000	90,000
	6,515,385	-	(122,159)	6,393,226	\$ 140,060
Accrued vacation	53,054	-	1,169	54,223	
	<u>\$ 6,568,439</u>	<u>\$ -</u>	<u>\$ (120,990)</u>	<u>\$ 6,447,449</u>	

The full faith and credit obligations issued in 2009 were for the purpose of capital construction projects, including construction of a submersible pump station, reconstruction of trunk sewer lines, control system and pump handling improvements, telemetry improvements, and expansion of the wastewater treatment plant.

Future debt service requirements are as follows:

Governmental Activities

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 23,745	\$ 23,270	\$ 47,015
2014	23,876	22,439	46,315
2015	24,012	21,603	45,615
2016	24,152	20,763	44,915
2017	24,303	19,887	44,190
2018-2022	139,178	84,421	223,599
2023-2027	174,654	52,227	226,881
2028-2030	126,156	11,382	137,538
	<u>\$ 560,076</u>	<u>\$ 255,992</u>	<u>\$ 816,068</u>

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

LONG-TERM DEBT (Continued)

Business-type Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 140,060	\$ 263,163	\$ 403,223
2014	129,275	257,382	386,657
2015	131,112	252,545	383,657
2016	163,067	248,090	411,157
2017	180,143	242,114	422,257
2018-2022	1,164,653	1,095,591	2,260,244
2023-2027	1,599,916	822,295	2,422,211
2028-2032	2,310,000	444,715	2,754,715
2033	575,000	26,163	601,163
	<u>\$ 6,393,226</u>	<u>\$ 3,652,054</u>	<u>\$ 10,045,280</u>

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Plan Description

The City contributes to the Oregon Public Employees Retirement System (PERS) and to the Oregon Public Service Retirement Plan (OPSRP). PERS is an agent multi-employer defined benefit public employee retirement system. OPSRP is a hybrid retirement plan with two components: the Pension Program (defined benefit; established and maintained as a tax-qualified governmental defined benefit plan) and the Individual Account Program (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan). The City participates in the state and local government rate pool. A defined benefit plan provides for a specific benefit determined by length of service multiplied by a factor. A defined contribution plan has no guarantee. OPSRP is administered by PERS, which acts as a common investment and administrative agent for political subdivisions in the State of Oregon.

The 1995 Oregon Legislature established a different level of benefits for employees who began their six-month waiting period on or after January 1, 1996 called Tier Two. The 2003 Oregon Legislature established OPSRP for public employees hired on or after August 29, 2003, unless membership was previously established in PERS.

Benefits generally vest after five years of continuous service. Retirement is allowed at age fifty-eight with unreduced benefits, but retirement is generally available after age fifty-five with reduced benefits. Retirement benefits based on salary and length of service are calculated using a formula and are payable in a lump sum or monthly using several payment options. PERS also provides death and disability benefits. These benefit provisions and other requirements are established by state statute.

The State of Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700 or by calling 1-888-320-7377.

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (Continued)

Funding Policy

The rate of employer contributions to PERS is determined periodically by PERS based on actuarial valuations performed at least every two years. Members of PERS and OPSRP are required to contribute 6 percent of their salary covered under the plan. The City is required by ORS 238.225 to contribute at an actuarially determined rate. The City's rate is 12.22 percent for PERS and 8.02 percent for OPSRP – general employees, and 10.73 percent for OPSRP – police employees, of salary covered under the plan. These rates are reported inclusive of the retiree healthcare rates disclosed in a separate note disclosure. The contribution requirements for plan members and the City are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual Pension Cost

For the years ended June 30, 2012, 2011, and 2010, the City's annual pension costs were \$246,865, \$178,608, and \$166,700 respectively, and were equal to the City's required and actual contributions. The required contribution was determined as part of the actuarial valuation at December 31, 2009, using the projected unit credit actuarial cost method. The fair market value method is used to determine the actuarial value of the plan's assets. Significant actuarial assumptions used in the valuation include: (i) consumer price inflation of 2.75 percent per year, (ii) healthcare cost inflation assumed at 7 percent in 2010, then declining by 0.5 percent per year until the rate of 4.5 percent is reached in 2029; (iii) a rate of return on the future investment earnings of the assets of the members' regular accounts are assumed to accrue at an annual rate of 8 percent compounded annually; (iv) a rate of return on the future investment earnings of the members' variable accounts are assumed to accrue at an annual rate of 8.5 percent, compounded annually; (v) projected annual rate of wage inflation of 3.75 percent, compounded annually, excluding merit or longevity increases; (vi) unfunded actuarial liability is amortized on a level percentage of combined annual payroll on a closed group fixed term basis over 20 years.

DEFERRED COMPENSATION

The City of Philomath, by Council action, authorized a deferred compensation plan to be made available to its employees wherein they may execute an individual agreement with the City for amounts earned by them to not be paid until a future date when certain circumstances are met. These circumstances are: termination by reason of death, disability, resignation or retirement. Payment to the employee will be made over a period not to exceed 15 years. The deferred compensation plan is one which is authorized under IRC Section 457 and has been approved in its specifics by a private ruling from the Internal Revenue Service.

Amounts accumulated by the City under its deferred compensation plan have been deposited with Nationwide Retirement Solutions. In order to comply with House Bill 3448, Nationwide Retirement Solutions established a custodial account with Bank One Trust Company, N.A., to hold all non-annuity plan assets. Annuity contracts are considered to be qualified trusts and, therefore, do not need to be transferred to the custodial account. Effective January 15, 1997, Nationwide Retirement Solutions transferred all non-annuity plan assets into this custodial account. While legal ownership will remain with the City, the beneficial ownership of the assets will belong to the participants and their beneficiaries.

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

INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2012 on the budgetary basis of accounting, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 97,000
Street	20,100	66,200
Urban Renewal - General	100,000	-
Urban Renewal - Debt	-	100,000
Systems Development	-	90,000
Land, Building and Equipment	294,100	-
Water	-	116,900
Sewer	90,000	14,000
Storm Drain	-	20,100
	<u>\$ 504,200</u>	<u>\$ 504,200</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 receipts restricted to debt service from the funds collecting the receipts 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.

CONTINGENCIES

The City purchases commercial insurance to cover all commonly insurable risks, which includes property damage, liability and employee bonds. Most policies carry a small deductible amount. No insurance claims settled in each of the prior three years have exceeded policy coverage.

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.

SUBSEQUENT EVENTS

The City follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855). ASC 855 establishes accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through November 29, 2012, 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 PHILOMATH, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2012

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 1,290,000	\$ 1,290,000	\$ 1,310,501	\$ 20,501
Licenses and permits	339,500	339,500	422,119	82,619
Charges for services	297,692	297,692	301,708	4,016
Intergovernmental	102,500	102,500	102,526	26
Fines and forfeitures	270,000	270,000	285,254	15,254
Miscellaneous	28,808	28,808	27,000	(1,808)
<i>Total Revenues</i>	2,328,500	2,328,500	2,449,108	120,608
EXPENDITURES				
Current				
Personnel services	1,591,105	1,591,105	1,586,098	5,007
Materials and services	746,395	796,395	730,736	65,659
Contingency	50,000	-	-	-
<i>Total Expenditures</i>	2,387,500	2,387,500	2,316,834	70,666
REVENUES OVER (UNDER) EXPENDITURES				
	(59,000)	(59,000)	132,274	191,274
OTHER FINANCING SOURCES (USES)				
Transfers out	(97,000)	(97,000)	(97,000)	-
NET CHANGE IN FUND BALANCE				
	(156,000)	(156,000)	35,274	191,274
FUND BALANCE, Beginning of year				
	256,000	256,000	278,023	22,023
FUND BALANCE, End of year				
	\$ 100,000	\$ 100,000	\$ 313,297	\$ 213,297

CITY OF PHILOMATH, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - COMMUNITY DEVELOPMENT FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 65,502	\$ 65,502	\$ 9,020	\$ (56,482)
EXPENDITURES				
Current				
Materials and services	193,562	193,562	-	193,562
REVENUES OVER (UNDER) EXPENDITURES	(128,060)	(128,060)	9,020	137,080
FUND BALANCE, Beginning of year	128,060	128,060	128,063	3
FUND BALANCE, End of year	\$ -	\$ -	\$ 137,083	\$ 137,083

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

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Licenses and permits	\$ 85,700	\$ 85,700	\$ 85,967	\$ 267
Charges for services	52,600	52,600	52,377	(223)
Intergovernmental	263,000	263,000	248,089	(14,911)
Miscellaneous	200	200	1,477	1,277
<i>Total Revenues</i>	401,500	401,500	387,910	(13,590)
EXPENDITURES				
Current				
Personnel services	201,342	201,342	196,955	4,387
Materials and services	197,058	197,058	176,503	20,555
Contingency	30,000	30,000	-	30,000
<i>Total Expenditures</i>	428,400	428,400	373,458	54,942
REVENUES OVER (UNDER) EXPENDITURES	(26,900)	(26,900)	14,452	41,352
OTHER FINANCING SOURCES (USES)				
Transfers in	20,100	20,100	20,100	-
Transfers out	(66,200)	(66,200)	(66,200)	-
<i>Total Other Financing Sources (Uses)</i>	(46,100)	(46,100)	(46,100)	-
NET CHANGE IN FUND BALANCE	(73,000)	(73,000)	(31,648)	41,352
FUND BALANCE, Beginning of year	93,000	93,000	89,194	(3,806)
FUND BALANCE, End of year	\$ 20,000	\$ 20,000	\$ 57,546	\$ 37,546

OTHER SUPPLEMENTARY INFORMATION

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

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
	<i>Urban</i>			
	<i>Renewal</i>	<i>Economic</i>	<i>Systems</i>	
	<i>General</i>	<i>Development</i>	<i>Development</i>	<i>Totals</i>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and investments	\$ 53,742	\$ 11,140	\$ 260,684	\$ 325,566
Receivables				
Property taxes	-	22	-	22
Special assessments/loans	-	-	26,173	26,173
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Total Assets</i>	<u>\$ 53,742</u>	<u>\$ 11,162</u>	<u>\$ 286,857</u>	<u>\$ 351,761</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 6,520	\$ -	\$ -	\$ 6,520
Deferred revenue	-	22	26,173	26,195
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities</i>	6,520	22	26,173	32,715
Fund Balances				
Restricted for:				
Construction	-	-	260,684	260,684
Debt Service	-	11,140	-	11,140
Urban Renewal	47,222	-	-	47,222
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Total Fund Balances</i>	<u>47,222</u>	<u>11,140</u>	<u>260,684</u>	<u>319,046</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 53,742</u>	<u>\$ 11,162</u>	<u>\$ 286,857</u>	<u>\$ 351,761</u>

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

	<u>Urban Renewal General</u>	<u>Economic Development</u>	<u>Systems Development General</u>	<u>Totals</u>
REVENUES				
Taxes and assessments	\$ -	\$ 4	\$ -	\$ 4
Licenses and permits	-	-	13,267	13,267
Intergovernmental	-	-	46,060	46,060
Miscellaneous	186	47,766	3,090	51,042
	<u>186</u>	<u>47,766</u>	<u>3,090</u>	<u>51,042</u>
<i>Total Revenues</i>	186	47,770	62,417	110,373
EXPENDITURES				
Current operating:				
General government	63,849	-	-	63,849
Capital outlay:				
General government	-	-	48,239	48,239
Debt service:				
Principal	-	23,618	-	23,618
Interest	-	24,096	-	24,096
	<u>-</u>	<u>24,096</u>	<u>-</u>	<u>24,096</u>
<i>Total Expenditures</i>	<u>63,849</u>	<u>47,714</u>	<u>48,239</u>	<u>159,802</u>
REVENUES OVER (UNDER) EXPENDITURES	(63,663)	56	14,178	(49,429)
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	-	-	100,000
	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
NET CHANGE IN FUND BALANCES	36,337	56	14,178	50,571
FUND BALANCES, Beginning of year	<u>10,885</u>	<u>11,084</u>	<u>246,506</u>	<u>268,475</u>
FUND BALANCES, End of year	<u>\$ 47,222</u>	<u>\$ 11,140</u>	<u>\$ 260,684</u>	<u>\$ 319,046</u>

CITY OF PHILOMATH, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - URBAN RENEWAL DEBT FUND
YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes and assessments	\$ 449,600	\$ 449,600	\$ 418,060	\$ (31,540)
Miscellaneous	1,900	1,900	2,330	430
<i>Total Revenues</i>	<u>451,500</u>	<u>451,500</u>	<u>420,390</u>	<u>(31,110)</u>
EXPENDITURES				
Debt service				
Principal	50,000	50,000	43,000	7,000
Interest	2,500	2,500	570	1,930
<i>Total Expenditures</i>	<u>52,500</u>	<u>52,500</u>	<u>43,570</u>	<u>8,930</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>399,000</u>	<u>399,000</u>	<u>376,820</u>	<u>(22,180)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(100,000)	(100,000)	(100,000)	-
NET CHANGE IN FUND BALANCE	<u>299,000</u>	<u>299,000</u>	<u>276,820</u>	<u>(22,180)</u>
FUND BALANCE, Beginning of year	<u>33,000</u>	<u>33,000</u>	<u>38,905</u>	<u>5,905</u>
FUND BALANCE, End of year	<u>\$ 332,000</u>	<u>\$ 332,000</u>	<u>\$ 315,725</u>	<u>\$ (16,275)</u>

CITY OF PHILOMATH, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - LAND, BUILDING AND EQUIPMENT FUND (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
REVENUES				
Intergovernmental	\$ 2,640	\$ 2,640	\$ 2,506	\$ (134)
Fines and forfeitures	13,500	13,500	13,561	61
Miscellaneous	21,980	21,980	60,452	38,472
<i>Total Revenues</i>	38,120	38,120	76,519	38,399
EXPENDITURES				
Capital outlay	4,079,340	4,079,340	3,250,941	828,399
REVENUES OVER (UNDER) EXPENDITURES				
	(4,041,220)	(4,041,220)	(3,174,422)	(790,000)
OTHER FINANCING SOURCES (USES)				
Transfers in	327,400	327,400	294,100	(33,300)
NET CHANGE IN FUND BALANCE	(3,713,820)	(3,713,820)	(2,880,322)	833,498
FUND BALANCE, Beginning of year	4,877,820	4,877,820	4,652,661	(225,159)
FUND BALANCE, End of year	\$ 1,164,000	\$ 1,164,000	\$ 1,772,339	\$ 608,339
Amount related to Sewer fund borrowing			(113,521)	
FUND BALANCE, End of year (GAAP)			\$ 1,658,818	

CITY OF PHILOMATH, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - URBAN RENEWAL GENERAL FUND
YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES				
Miscellaneous	\$ 18	\$ 18	\$ 186	\$ 168
EXPENDITURES				
Materials and services	67,418	67,418	63,849	3,569
REVENUES OVER (UNDER) EXPENDITURES	(67,400)	(67,400)	(63,663)	3,737
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	100,000	100,000	-
NET CHANGE IN FUND BALANCE	32,600	32,600	36,337	3,737
FUND BALANCE, Beginning of year	12,400	12,400	10,885	(1,515)
FUND BALANCE, End of year	\$ 45,000	\$ 45,000	\$ 47,222	\$ 2,222

CITY OF PHILOMATH, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - ECONOMIC DEVELOPMENT FUND
YEAR ENDED JUNE 30, 2012**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ -	\$ -	\$ 4	\$ 4
Miscellaneous	47,714	47,714	47,766	52
<i>Total Revenues</i>	47,714	47,714	47,770	56
EXPENDITURES				
Debt service				
Principal	23,618	23,618	23,618	-
Interest	24,096	24,096	24,096	-
<i>Total Expenditures</i>	47,714	47,714	47,714	-
REVENUES OVER (UNDER) EXPENDITURES				
	-	-	56	56
FUND BALANCE, Beginning of year	11,077	11,077	11,084	7
FUND BALANCE, End of year	\$ 11,077	\$ 11,077	\$ 11,140	\$ 63

CITY OF PHILOMATH, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - SYSTEMS DEVELOPMENT FUND
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Licenses and permits	\$ 185,600	\$ 185,600	\$ 65,822	\$ (119,778)
Intergovernmental	-	-	46,060	46,060
Miscellaneous	3,800	3,800	8,808	5,008
<i>Total Revenues</i>	189,400	189,400	120,690	(68,710)
EXPENDITURES				
Capital outlay	115,601	115,601	48,239	67,362
Debt service	24,499	24,499	24,499	-
<i>Total Expenditures</i>	140,100	140,100	72,738	67,362
REVENUES OVER (UNDER) EXPENDITURES				
	49,300	49,300	47,952	(1,348)
OTHER FINANCING SOURCES (USES)				
Transfers out	(90,000)	(90,000)	(90,000)	-
NET CHANGE IN FUND BALANCE				
	(40,700)	(40,700)	(42,048)	(1,348)
FUND BALANCE, Beginning of year				
	691,900	691,900	711,935	20,035
FUND BALANCE, End of year				
	\$ 651,200	\$ 651,200	\$ 669,887	\$ 18,687

CITY OF PHILOMATH, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - WATER FUND
YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>GAAP Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ 880,110	\$ 880,110	\$ 857,341	\$ 857,341
Gain on the sale of assets	-	-	-	(12)
Miscellaneous	2,400	2,400	8,739	8,739
<i>Total Revenues</i>	882,510	882,510	866,080	866,068
EXPENSES				
Current				
Personnel services	364,390	364,390	352,517	352,710
Materials and services	393,665	393,665	365,887	365,887
Capital outlay/depreciation	51,000	51,000	27,216	139,863
Debt service	50,955	50,955	50,955	13,991
Contingency	20,000	20,000	-	-
<i>Total Expenses</i>	880,010	880,010	796,575	872,451
REVENUES OVER (UNDER)				
EXPENSES	2,500	2,500	69,505	(6,383)
OTHER FINANCING SOURCES (USES)				
Transfers out	(116,900)	(116,900)	(116,900)	(116,900)
NET CHANGE IN NET ASSETS	(114,400)	(114,400)	(47,395)	(123,283)
NET ASSETS, Beginning of year	114,400	114,400	127,289	3,275,932
NET ASSETS, End of year	\$ -	\$ -	\$ 79,894	\$ 3,152,649

CITY OF PHILOMATH, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - SEWER FUND
YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>GAAP Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ 742,590	\$ 742,590	\$ 714,545	\$ 714,545
Loss on the sale of assets	-	-	-	(22,128)
Miscellaneous	16,780	16,780	14,501	14,501
<i>Total Revenues</i>	<u>759,370</u>	<u>759,370</u>	<u>729,046</u>	<u>706,918</u>
EXPENSES				
Current				
Personnel services	279,270	279,270	266,930	267,908
Materials and services	255,782	255,782	235,317	235,317
Capital outlay/depreciation	5,000	5,000	-	189,423
Debt service	315,018	315,018	315,009	239,747
Contingency	20,000	20,000	-	-
<i>Total Expenses</i>	<u>875,070</u>	<u>875,070</u>	<u>817,256</u>	<u>932,395</u>
REVENUES OVER (UNDER) EXPENSES	(115,700)	(115,700)	(88,210)	(225,477)
OTHER FINANCING SOURCES (USES)				
Transfers in	90,000	90,000	90,000	92,984
Transfers out	(37,300)	(37,300)	(14,000)	(14,000)
<i>Total Other Financing Sources (Uses)</i>	<u>52,700</u>	<u>52,700</u>	<u>76,000</u>	<u>78,984</u>
NET CHANGE IN NET ASSETS	(63,000)	(63,000)	(12,210)	(146,493)
NET ASSETS, Beginning of year	<u>63,000</u>	<u>63,000</u>	<u>80,540</u>	<u>4,585,726</u>
NET ASSETS, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,330</u>	<u>\$ 4,439,233</u>

CITY OF PHILOMATH, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - STORM DRAIN FUND
YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>GAAP Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ 42,500	\$ 42,500	\$ 42,587	\$ 42,587
Miscellaneous	100	100	924	924
<i>Total Revenues</i>	42,600	42,600	43,511	43,511
EXPENSES				
Current				
Materials and services	17,500	17,500	7,290	7,290
Capital outlay/depreciation	-	-	-	25,891
<i>Total Expenses</i>	17,500	17,500	7,290	33,181
REVENUES OVER (UNDER)				
EXPENSES	25,100	25,100	36,221	10,330
OTHER FINANCING SOURCES (USES)				
Transfers out	(30,100)	(30,100)	(20,100)	(20,100)
NET CHANGE IN NET ASSETS	(5,000)	(5,000)	16,121	(9,770)
NET ASSETS, Beginning of year	15,000	15,000	15,747	1,125,398
NET ASSETS, End of year	\$ 10,000	\$ 10,000	\$ 31,868	\$ 1,115,628

CITY OF PHILOMATH, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2012

	<i>Uncollected Balances July 1, 2011</i>	<i>2011-2012 Levy</i>	<i>Discounts & Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balances June 30, 2012</i>
<i>City of Philomath</i>					
2011-12	\$ -	\$ 1,343,333	\$ (34,948)	\$ (1,278,060)	\$ 30,325
2010-11	31,718	-	(838)	(19,442)	11,438
2009-10	25,367	-	(247)	(6,674)	18,446
2008-09	6,809	-	(478)	(3,945)	2,386
2007-08	2,568	-	(113)	(1,702)	753
2006-07	804	-	(171)	(109)	524
prior	2,564	-	(98)	(572)	1,894
	<u>\$ 38,112</u>	<u>\$ 1,343,333</u>	<u>\$ (36,893)</u>	<u>\$ (1,310,504)</u>	<u>\$ 65,766</u>
<i>Urban Renewal District</i>					
2011-12	\$ -	\$ 427,918	\$ (11,133)	\$ (407,125)	\$ 9,660
2010-11	11,065	-	(292)	(6,783)	3,990
2009-10	8,249	-	(80)	(2,170)	5,999
2008-09	2,383	-	(155)	(1,283)	945
2007-08	898	-	(40)	(595)	263
2006-07	290	-	(62)	(39)	189
prior	402	-	(26)	(65)	311
	<u>\$ 23,287</u>	<u>\$ 427,918</u>	<u>\$ (11,788)</u>	<u>\$ (418,060)</u>	<u>\$ 21,357</u>

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

	<u><i>Interest Rates</i></u>	<u><i>Fiscal Year of Maturity</i></u>
<i>PRINCIPAL TRANSACTIONS</i>		
Governmental activities		
Urban Renewal Agency bonds	4.22%	2012-13
OECDD Lakeside loan	4.16%	2028-29
Business-type activities		
OECDD loan	6.13%	2012-13
OECDD loan (contact chamber)	6.50%	2020-21
SPWF loan	6.00%	2023-24
Full Faith & Credit Obligations, Series 2009	4.20%	2032-33
 <i>INTEREST TRANSACTIONS</i>		
Governmental activities		
Urban Renewal Agency bonds		
OECDD Lakeside loan		
Business-type activities		
OECDD loan		
OECDD loan (contact chamber)		
SPWF loan		
Full Faith & Credit Obligations, Series 2009		

<i>Outstanding July 1, 2011</i>	<i>Issued</i>	<i>Adjustment</i>	<i>Paid</i>	<i>Outstanding June 30, 2012</i>
\$ 43,000	\$ -	\$ -	\$ (43,000)	\$ -
583,694	-	-	(23,618)	560,076
<u>\$ 626,694</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (66,618)</u>	<u>\$ 560,076</u>
\$ 59,498	\$ -	\$ -	\$ (28,865)	\$ 30,633
179,005	-	-	(6,808)	172,197
216,880	-	-	(11,486)	205,394
6,060,000	-	-	(75,000)	5,985,000
<u>\$ 6,515,383</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (122,159)</u>	<u>\$ 6,393,224</u>
\$ 1,169	\$ -	\$ (599)	\$ (570)	\$ -
280,088	-	-	(24,096)	255,992
<u>\$ 281,257</u>	<u>\$ -</u>	<u>\$ (599)</u>	<u>\$ (24,666)</u>	<u>\$ 255,992</u>
\$ 5,525	\$ -	\$ -	\$ (3,647)	\$ 1,878
74,604	-	-	(11,635)	62,969
101,605	-	-	(13,013)	88,592
3,738,633	-	(9)	(240,009)	3,498,615
<u>\$ 3,920,367</u>	<u>\$ -</u>	<u>\$ (9)</u>	<u>\$ (268,304)</u>	<u>\$ 3,652,054</u>

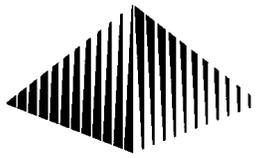
CITY OF PHILOMATH, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS
JUNE 30, 2012

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>OECD Lakeside</i>			<i>OEDD Note</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 23,745	\$ 23,270	\$ 47,015	\$ 30,634	\$ 1,878	\$ 32,512
2014	23,876	22,439	46,315	-	-	-
2015	24,012	21,603	45,615	-	-	-
2016	24,152	20,763	44,915	-	-	-
2017	24,303	19,887	44,190	-	-	-
2018	24,464	18,976	43,440	-	-	-
2019	24,643	17,997	42,640	-	-	-
2020	29,828	17,012	46,840	-	-	-
2021	30,021	15,818	45,839	-	-	-
2022	30,222	14,618	44,840	-	-	-
2023	30,438	13,371	43,809	-	-	-
2024	35,669	12,077	47,746	-	-	-
2025	35,917	10,517	46,434	-	-	-
2026	36,176	8,945	45,121	-	-	-
2027	36,454	7,317	43,771	-	-	-
2028	41,744	5,677	47,421	-	-	-
2029	42,047	3,799	45,846	-	-	-
2030	42,365	1,906	44,271	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
	<u>\$ 560,076</u>	<u>\$ 255,992</u>	<u>\$ 816,068</u>	<u>\$ 30,634</u>	<u>\$ 1,878</u>	<u>\$ 32,512</u>

<i>Contact Chamber</i>			<i>SPWF Loan</i>		
<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
\$ 7,251	\$ 11,193	\$ 18,444	\$ 12,175	\$ 12,324	\$ 24,499
16,369	10,721	27,090	12,906	11,593	24,499
17,432	9,658	27,090	13,680	10,819	24,499
18,566	8,524	27,090	14,501	9,998	24,499
19,772	7,318	27,090	15,371	9,128	24,499
21,058	6,032	27,090	16,293	8,206	24,499
22,426	4,664	27,090	17,271	7,228	24,499
23,885	3,206	27,091	18,307	6,192	24,499
25,438	1,653	27,091	19,405	5,093	24,498
-	-	-	20,570	3,929	24,499
-	-	-	21,804	2,695	24,499
-	-	-	23,112	1,387	24,499
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 172,197</u>	<u>\$ 62,969</u>	<u>\$ 235,166</u>	<u>\$ 205,395</u>	<u>\$ 88,592</u>	<u>\$ 293,987</u>

CITY OF PHILOMATH, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS (Continued)
JUNE 30, 2012

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>Series 2009 Bond</i>			<i>Totals</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$ 90,000	\$ 237,768	\$ 327,768	\$ 163,805	\$ 286,433	\$ 450,238
2014	100,000	235,068	335,068	153,151	279,821	432,972
2015	100,000	232,068	332,068	155,124	274,148	429,272
2016	130,000	229,568	359,568	187,219	268,853	456,072
2017	145,000	225,668	370,668	204,446	262,001	466,447
2018	160,000	221,318	381,318	221,815	254,532	476,347
2019	175,000	216,518	391,518	239,340	246,407	485,747
2020	195,000	211,268	406,268	267,020	237,678	504,698
2021	215,000	204,443	419,443	289,864	227,007	516,871
2022	235,000	195,843	430,843	285,792	214,390	500,182
2023	260,000	186,443	446,443	312,242	202,509	514,751
2024	285,000	176,043	461,043	343,781	189,507	533,288
2025	310,000	164,643	474,643	345,917	175,160	521,077
2026	335,000	152,243	487,243	371,176	161,188	532,364
2027	365,000	138,843	503,843	401,454	146,160	547,614
2028	395,000	124,243	519,243	436,744	129,920	566,664
2029	425,000	108,443	533,443	467,047	112,242	579,289
2030	460,000	90,805	550,805	502,365	92,711	595,076
2031	495,000	71,255	566,255	495,000	71,255	566,255
2032	535,000	49,970	584,970	535,000	49,970	584,970
2033	575,000	26,163	601,163	575,000	26,163	601,163
	<u>\$ 5,985,000</u>	<u>\$ 3,498,615</u>	<u>\$ 9,483,615</u>	<u>\$ 6,953,302</u>	<u>\$ 3,908,046</u>	<u>\$ 10,861,348</u>



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
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(503) 581-7788

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

City Council
City of Philomath, Oregon
P.O. Box 400
Philomath, Oregon 97370

We have audited the basic financial statements of the City of Philomath, Oregon as of and for the year ended June 30, 2012, and have issued our report thereon dated November 29, 2012. 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 Philomath, Oregon's financial statements are free of material misstatement, 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 included, 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 that the public notice for the budget committee meeting that was published in the newspaper did not include the City's web address where the notice was also posted.

OAR 162-10-0230 Internal Control

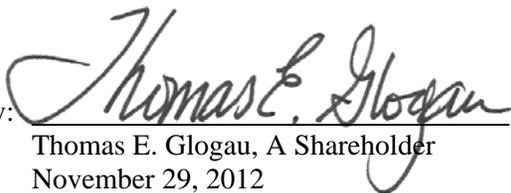
In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This report is intended solely for the information and use of the council members and management of the City of Philomath, 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
November 29, 2012