

***CITY OF PHILOMATH  
URBAN RENEWAL AGENCY  
(A component unit of the  
City of Philomath, Oregon)  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2011***

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH**  
**(A Component Unit of the City of Philomath, Oregon)**  
**AGENCY OFFICIALS**  
**JUNE 30, 2011**

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**MAYOR**

Ken Schaudt  
P.O. Box 400  
Philomath, Oregon 97370

**BOARD MEMBERS**

David Buddingh  
619 McCall Way  
Philomath, Oregon 97370

Michael McDonough  
3331 Brentwood Place  
Philomath, Oregon 97370

Charla Koeppe  
2638 Applegate Street  
Philomath, Oregon 97370

Matthew Bierek  
2337 Applegate Street  
Philomath, Oregon 97370

Angie Baca  
P.O. Box 1644  
Philomath, Oregon 97370

Rocky Sloan  
575 Neabeack Hill Drive  
Philomath, Oregon 97370

**CITY MANAGER**

Randy Kugler  
P.O. Box 400  
Philomath, Oregon 97370

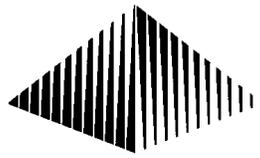
**FINANCE DIRECTOR**

Joan Swanson  
P.O. Box 400  
Philomath, Oregon 97370

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH**  
**(A Component Unit of the City of Philomath, Oregon)**  
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## **GROVE, MUELLER & SWANK, P.C.**

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

### ***INDEPENDENT AUDITOR'S REPORT***

Honorable Mayor and Board Members  
City of Philomath Urban Renewal Agency  
980 Applegate Street  
Philomath, Oregon 97370

We have audited the accompanying financial statements of the governmental activities and each major fund of the Urban Renewal Agency of the City of Philomath, Oregon (a Component Unit of the City of Philomath, Oregon) as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency'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 basic 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 and each major fund of the Urban Renewal Agency of the City of Philomath, Oregon as of June 30, 2011 and the changes in financial position 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 budgetary comparison information on page 15 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. The budgetary comparison information 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 Urban Renewal Agency of the City of Philomath, Oregon's basic financial statements as a whole. The budgetary comparison schedule on page 16 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.

Accounting standards generally accepted in the United States of America require that financial statements include Management's Discussion and Analysis as required supplemental information. Management has not presented the required Management's Discussion and Analysis.

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

By:   
\_\_\_\_\_  
Charles A. Swank, A Shareholder  
December 2, 2011

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
**(A Component Unit of the City of Philomath, Oregon)**  
**STATEMENT OF NET ASSETS – GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2011**

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**ASSETS**

Cash and investments	\$ 51,091
Property taxes receivable	23,287
	<hr/>
<i>Total Assets</i>	74,378

**LIABILITIES**

Accounts payable	1,407
Noncurrent liabilities:	
Due within one year:	
Bonds payable	43,000
	<hr/>
<i>Total Liabilities</i>	44,407

**NET ASSETS**

Restricted for debt service	62,192
Unrestricted	(32,221)
	<hr/>
<i>Total Net Assets</i>	\$ 29,971

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

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
**(A Component Unit of the City of Philomath, Oregon)**  
**STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

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**Expenses:**

Urban Renewal	\$ 28,257
Interest on long-term debt	9,842

<i>Total Expenses</i>	38,099
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**General Revenues:**

Property taxes	441,911
Miscellaneous	1,750

<i>Total Revenues</i>	443,661
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**Change in Net Assets**

405,562

**Net Assets, July 1, 2010**

(375,591)

**Net Assets, June 30, 2011**

\$ 29,971

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

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
**(A Component Unit of the City of Philomath, Oregon)**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**

	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and investments	\$ 12,186	\$ 38,905	\$ 51,091
Property taxes receivable	-	23,287	23,287
<i>Total Assets</i>	<u>\$ 12,186</u>	<u>\$ 62,192</u>	<u>\$ 74,378</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,301	\$ -	\$ 1,301
Deferred revenue	-	23,287	23,287
<i>Total Liabilities</i>	<u>1,301</u>	<u>23,287</u>	<u>24,588</u>
<b>Fund Balances</b>			
Restricted for debt service	-	38,905	38,905
Unassigned	10,885	-	10,885
<i>Total Fund Balances</i>	<u>10,885</u>	<u>38,905</u>	<u>49,790</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 12,186</u>	<u>\$ 62,192</u>	<u>\$ 74,378</u>
Amounts reported in the statement of net assets are different because:			
Fund balances as above			\$ 49,790
A portion of property taxes receivable is not available to pay for current-period expenditures and, therefore, is deferred in debt service			23,287
Some expenses do not require the use of current financial resources and are not reported as expenditures in the governmental funds			(106)
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the government funds			(43,000)
Total net assets			<u>\$ 29,971</u>

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

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
**(A Component Unit of the City of Philomath, Oregon)**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>
<b>REVENUES</b>			
Taxes and assessments	\$ -	\$ 439,028	\$ 439,028
Miscellaneous	29	1,721	1,750
	<hr/>		
<i>Total Revenues</i>	29	440,749	440,778
<b>EXPENDITURES</b>			
Materials and services	28,257	-	28,257
Debt service			
Principal	-	362,000	362,000
Interest	-	10,686	10,686
	<hr/>		
<i>Total Expenditures</i>	28,257	372,686	400,943
	<hr/>		
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(28,228)	68,063	39,835
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	32,000	-	32,000
Transfers out	-	(32,000)	(32,000)
	<hr/>		
<i>Total Other Financing Sources (Uses)</i>	32,000	(32,000)	-
	<hr/>		
<b>NET CHANGE IN FUND BALANCES</b>	3,772	36,063	39,835
	<hr/>		
<b>FUND BALANCES, Beginning of year</b>	7,113	2,842	9,955
	<hr/>		
<b>FUND BALANCES, End of year</b>	\$ 10,885	\$ 38,905	\$ 49,790
	<hr/> <hr/>		

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

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**

**(A Component Unit of the 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, 2011**

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Amounts reported in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$ 39,835
Governmental funds defer revenues that do not provide current financial resources. However, the statement of activities recognizes such revenues at the net realizable value when earned, regardless of when received.	2,883
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	844
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources. Neither transaction has any effect on net assets. Debt principal paid	362,000
	<hr/>
Change in net assets	<u><u>\$ 405,562</u></u>

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

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
**(A Component Unit of the City of Philomath, Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2011**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Urban Renewal Agency (Agency) of the City of Philomath, Oregon (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. The more significant of the Agency's accounting policies are described below.

*Reporting Entity*

The City of Philomath Urban Renewal Agency was created on September 10, 1990 to promote the economic welfare and prosperity of the City's inhabitants. The Agency is governed by a seven-member board of directors that are the City's mayor and council members and is included as a blended component unit in the City's financial statements as a special revenue fund and a debt service fund.

*Basic Financial Statements*

Basic financial statements are presented at both the government-wide and fund financial level.

*Government-wide financial statements* display information about the reporting governmental entity 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 Agency as an entity and the change in aggregate financial position resulting from the activities of the current fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

*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 Agency has two governmental (general and debt service) funds.

The financial transactions of the Agency 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.

GAAP 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.

The Agency reports the following major governmental funds:

- General Fund
- Debt Service Fund

*Fund Balance*

In the year ended June 30, 2011, the Agency adopted GASB Statement #54 *Fund Balance Reporting and Governmental Fund Types Definitions*. 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 Agency is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Although not a major impact on the financial statements, Governmental Fund type fund balances are now reported in the following classifications.

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
**(A Component Unit of the City of Philomath, Oregon)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Fund Balance (Continued)*

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 Agency Board takes formal action that places specific constraints on how the resources may be used.

The Agency Board can modify or rescind the commitment at any time through taking a similar formal action.

Resources that are constrained by the Agency'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 Agency Board approves which resources should be "reserved" during the adoption of the annual budget. The Agency's Finance Director uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the Agency'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.

*Definitions of Governmental Fund Types*

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

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

*Measurement Focus and Basis of Accounting*

The government-wide 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. The Agency considers property taxes as available if they are collected within 30 days after

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
**(A Component Unit of the City of Philomath, Oregon)**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Measurement Focus and Basis of Accounting (Continued)*

year end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

*Fund Accounting*

The accounts of the Agency are organized and operated as two funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. The Agency has a general fund and a debt service fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The primary source of revenue is from transfers. The General Fund is used to reimburse the City's General Fund for administrative costs of operating the Agency. The Debt Service Fund is used to account for the accumulation of tax resources for payment of principal and interest.

*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 certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

*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 Agency boundaries 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 Agency represent the Agency's allocated share of delinquent property taxes and other amounts to be collected from property owners.

*Long-Term Obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities on the Statement of Net Assets. Bond issuance costs, premiums and discounts are amortized over the life of the bonds.

In the fund financial statements bond premiums, discounts, and issuance costs are recognized 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.

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
**(A Component Unit of the City of Philomath, Oregon)**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Cash and Investments*

The Agency maintains its cash balance at the State Treasurer's Investments Pool (LGIP). Expenditures by the City for the Agency are reimbursed by the Agency. State statutes authorize the Agency to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial paper and the state treasurer's investment pool, among others.

*Budgetary Information*

The Agency budgets in accordance with the requirements of State law. Annual appropriated budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. For budgetary purposes, borrowing from and repayment to the City of Philomath Land, Building and Equipment Fund are recorded as resources (other financing sources) and requirements (expenditures) respectively. For GAAP purposes, borrowings are recorded as increases in liabilities, and repayments are recorded as decreases in liabilities.

The Agency begins its budgeting process by appointing budget committee members. The budget officer prepares a budget, which is reviewed by the Budget committee. The budget is then published in proposed form and is presented for public hearings to obtain taxpayer comments and approval from the Budget Committee. The budget is legally adopted by the Agency's Board by resolution prior to the beginning of the Agency's fiscal year. The Board resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Appropriations are made at the function level. Appropriations lapse at year-end.

Appropriation authority may be transferred from one level of control to another by Board resolution. Supplemental appropriations may occur if the Board approves them due to a need which exists which was not determined at the time the budget was adopted.

The Agency does not use encumbrances.

*Use of Restricted Assets*

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

**CASH AND INVESTMENTS**

Cash and investments are comprised of the following at June 30, 2011:

***Investments***

Local Government Investment Pool	<u>\$ 51,091</u>
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**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
**(A Component Unit of the City of Philomath, Oregon)**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

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**CASH AND INVESTMENTS (Continued)**

*Investments*

The State Treasurer of the State of Oregon maintains the Oregon Short-term Fund, of which the Local Government Investment Pool 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 Investment Council (ORS 294.805 to 294.895). At June 30, 2011, 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. 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 Agency 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-loan 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.

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
(A Component Unit of the City of Philomath, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2011

**PROPERTY TAXES RECEIVABLE**

	<i>Uncollected Balances July 1, 2010</i>	<i>2010-2011 Levy</i>	<i>Discounts &amp; Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balances June 30, 2011</i>
2010-11	\$ -	\$ 454,201	\$ (11,684)	\$ (431,452)	\$ 11,065
2009-10	13,675	-	(296)	(5,130)	8,249
2008-09	4,400	-	(185)	(1,832)	2,383
2007-08	1,871	-	(25)	(948)	898
2006-07	871	-	(31)	(550)	290
2005-06	220	-	(22)	(49)	149
prior	360	-	(47)	(60)	253
	<u>\$ 21,396</u>	<u>\$ 454,201</u>	<u>\$ (12,290)</u>	<u>\$ (440,021)</u>	<u>\$ 23,287</u>

**LONG-TERM DEBT**

	<i>Outstanding July 1, 2010</i>	<i>Issued</i>	<i>Matured/ Redeemed During Year</i>	<i>Outstanding June 30, 2011</i>	<i>Due within One year</i>
Urban Renewal Agency bonds, series 2004 with interest at 4.22% for 5 years, then variable rates until 2013. Original issue amount of \$710,000	\$ 270,000	\$ -	\$ (227,000)	\$ 43,000	\$ 43,000

*Internal Balances*

During the year ended June 30, 2009, the Land, Building and Equipment Fund loaned \$550,000 to the Urban Renewal Agency Fund. The Urban Renewal Agency Fund repaid the final \$135,000 during the year.

***REQUIRED SUPPLEMENTARY INFORMATION***

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
**(A Component Unit of the City of Philomath, Oregon)**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2011**

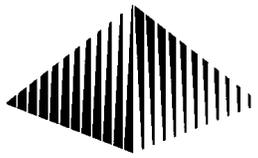
	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Miscellaneous	\$ 30	\$ 30	\$ 29	\$ (1)
<b>EXPENDITURES</b>				
Materials and services	29,830	29,830	28,257	1,573
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	(29,800)	(29,800)	(28,228)	1,572
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	32,000	32,000	32,000	-
<b>NET CHANGE IN FUND BALANCE</b>				
	2,200	2,200	3,772	1,572
<b>FUND BALANCE, Beginning of year</b>				
	13,150	13,150	7,113	(6,037)
<b>FUND BALANCE, End of year</b>				
	\$ 15,350	\$ 15,350	\$ 10,885	\$ (4,465)

***OTHER SUPPLEMENTARY INFORMATION***

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
(A Component Unit of the City of Philomath, Oregon)  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
YEAR ENDED JUNE 30, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Taxes and assessments	\$ 404,000	\$ 404,000	\$ 439,028	\$ 35,028
Miscellaneous	900	900	1,721	821
<i>Total Revenues</i>	404,900	404,900	440,749	35,849
<b>EXPENDITURES</b>				
Debt service	373,900	373,900	372,686	1,214
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	31,000	31,000	68,063	37,063
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(32,000)	(32,000)	(32,000)	-
<b>NET CHANGE IN FUND BALANCE</b>				
	(1,000)	(1,000)	36,063	37,063
<b>FUND BALANCE, Beginning of year</b>				
	1,000	1,000	2,842	1,842
<b>FUND BALANCE, End of year</b>				
	\$ -	\$ -	\$ 38,905	\$ 38,905

***COMPLIANCE SECTION***



## 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***

Board of Directors  
City of Philomath, Oregon Urban Renewal Agency  
Philomath, Oregon

We have audited the basic financial statements of the City of Philomath, Oregon Urban Renewal Agency as of and for the year ended June 30, 2011, and have issued our report thereon dated December 2, 2011. 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 Urban Renewal Agency'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.**
- **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 Agency 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.

**OAR 162-10-0230 Internal Control**

In planning and performing our audit, we considered the Agency'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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 mayor, council members, and management of the City of Philomath, Oregon Urban Renewal Agency 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:   
Charles A. Swank, A Shareholder  
December 2, 2011