

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013



12700 SW 72nd Ave.
Tigard, OR 97223

CITY OF PHILOMATH
BENTON COUNTY, OREGON

For the Year Ended June 30, 2013

ANNUAL FINANCIAL REPORT

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CITY OF PHILOMATH
BENTON COUNTY, OREGON

CITY COUNCIL

TERM EXPIRES

Rocky Sloan, Mayor

December 31, 2014

Nolan Bartlow

December 31, 2014

Joshua Kvidt

December 31, 2014

Charla Koeppe

December 31, 2014

Sean Manning

December 31, 2014

Matthew Bierek

December 31, 2014

Jason Leonard

December 31, 2014

All council members receive mail at the address listed below.

ADMINISTRATION
Randy Kugler, City Manager
City Hall
P.O. Box 400
Philomath, OR 97370

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BENTON COUNTY, OREGON
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BENTON COUNTY, OREGON
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October 10, 2013

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Philomath, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements 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 and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents. The financial statements as of June 30, 2012, were audited by other auditors whose report dated November 29, 2012, issued an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, as of June 30, 2013, and the respective changes in financial position and budgetary comparisons for the general fund and major special revenue funds, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, as listed in the table of contents, 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 required supplementary information 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 schedules presented as Required Supplementary Information, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting 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, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other and Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplementary and other information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The listing of elected officials containing their term expiration dates, located before the table of contents, has 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 it.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated October 10, 2013, on our consideration of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Matthew Graves, CPA
PAULY, ROGERS AND CO., P.C.

City of Philomath, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2013

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, 2013.

Financial Highlights

Following are the financial highlights of the City for the fiscal year ended June 30, 2013.

- The City's total assets exceeded its liabilities at the close of FY 2012-13 by \$17.7 million (net position). Of this amount, \$12.9 million is invested in capital assets, net of related debt; \$4.4 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 position was \$8.3 million with restricted net position totaling \$4 million as of June 30, 2013.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$193,610 or approximately 8 percent of total General Fund expenditures.
- The City's total liabilities decreased by approximately \$197,000 or 2.7 percent during fiscal year 2012-13. 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 buildings) as well as all liabilities (including bond debt). Additionally, certain eliminations have occurred as prescribed by GASB Statement No. 34 with regards to interfund activities.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position has changed during the most recent fiscal year. All changes in net position 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 14 through 15 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 17 and 19 in the basic financial statements.

The governmental fund financial statements can be found on pages 16 and 18 in the basic financial statements.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund 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, Street Fund, Urban Renewal Debt Fund, and Land Building & Equipment 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 46 through 47 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 51 through 53.

The proprietary fund financial statements can be found on pages 20 through 23 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 Position

	<i>June 30, 2013</i>		
	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total</i>
Cash and investments	\$ 3,127,937	540,009	\$ 3,667,946
Other assets	1,320,679	174,455	1,495,134
Capital assets	4,594,144	15,064,653	19,658,797
<i>Total Assets</i>	9,042,760	15,779,117	24,821,877
Other liabilities	87,013	168,739	255,752
Long-term liabilities	705,180	6,175,718	6,880,898
<i>Total Liabilities</i>	792,193	6,344,457	7,136,650
Net Position			
Net Investment in Capital Assets	4,594,144	8,811,488	13,405,632
Restricted	3,468,565	419,992	3,888,557
Unrestricted	187,858	203,180	391,038
<i>Total Net Position</i>	<u>\$ 8,250,567</u>	<u>9,434,660</u>	<u>\$ 17,685,227</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$17,685,227 at the close of FY 2012-13.

The largest portion of the City's net position reflects its investment of \$13,405,632 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 position \$3,888,557 or approximately 22 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position totaling \$391,038 or approximately 2 percent.

<i>June 30, 2012</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>
\$ 2,812,147	559,096	\$ 3,371,243	\$ 315,790	\$ (19,087)	\$ 296,703
1,370,010	155,265	1,525,275	(49,331)	19,190	(30,141)
4,619,063	15,345,642	19,964,705	(24,919)	(280,989)	(305,908)
8,801,220	16,060,003	24,861,223	241,540	(280,886)	(39,346)
126,529	187,366	313,895	(39,516)	(18,627)	(58,143)
712,846	6,307,389	7,020,235	(7,666)	(131,671)	(139,337)
839,375	6,494,755	7,334,130	(47,182)	(150,298)	(197,480)
4,619,063	9,065,937	13,685,000	(24,919)	(254,449)	(279,368)
3,034,650	402,014	3,436,664	433,915	17,978	451,893
308,132	97,297	405,429	(120,274)	105,883	(14,391)
<u>\$ 7,961,845</u>	<u>9,565,248</u>	<u>\$ 17,527,093</u>	<u>\$ 288,722</u>	<u>\$ (130,588)</u>	<u>\$ 158,134</u>

Table 2
Statement of Activities
Fiscal Year Ended June 30, 2013

	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total</i>
Revenues			
Program Revenues			
Charges for services	\$ 689,382	\$ 1,762,920	\$ 2,452,302
Operating grants and contributions	286,160	-	286,160
Capital grants and contributions	1,585	64,951	66,536
<i>Total Program Revenues</i>	<u>977,127</u>	<u>1,827,871</u>	<u>2,804,998</u>
General Revenues			
Property taxes	1,767,720	-	1,767,720
Franchise taxes	381,365	-	381,365
Other	196,033	37,452	233,485
<i>Total General Revenues</i>	<u>2,345,118</u>	<u>37,452</u>	<u>2,382,570</u>
<i>Total Revenues</i>	<u>3,322,245</u>	<u>1,865,323</u>	<u>5,187,568</u>
Expenses (Net of Indirect Expenses)			
General governmental	1,187,422	-	1,187,422
Police	1,284,798	-	1,284,798
Streets	398,700	-	398,700
Public Works	230,886	-	230,886
Interest on long-term debt	22,694	-	22,694
Other	-	-	-
Water	-	834,210	834,210
Sewer	-	1,016,254	1,016,254
Storm Drain	-	54,469	54,469
<i>Total Expenses</i>	<u>3,124,500</u>	<u>1,904,933</u>	<u>5,029,433</u>
Transfers	<u>90,978</u>	<u>(90,978)</u>	<u>-</u>
Changes in Net Position	<u>288,723</u>	<u>(130,588)</u>	<u>158,135</u>
Beginning Net Position	<u>7,961,844</u>	<u>9,565,248</u>	<u>17,527,092</u>
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>
Ending Net Position	<u>\$ 8,250,567</u>	<u>\$ 9,434,660</u>	<u>\$ 17,685,227</u>

<i>Fiscal Year Ended June 30, 2012</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>
\$ 776,856	\$ 1,614,473	\$ 2,391,329	\$ (87,474)	\$ 148,447	\$ 60,973
296,805	-	296,805	(10,645)	-	(10,645)
(3,704)	52,555	48,851	5,289	12,396	17,685
<u>1,069,957</u>	<u>1,667,028</u>	<u>2,736,985</u>	<u>(92,830)</u>	<u>160,843</u>	<u>68,013</u>
1,722,571	-	1,722,571	45,149	-	45,149
384,130	-	384,130	(2,765)	-	(2,765)
195,250	29,881	225,131	783	7,571	8,354
<u>2,301,951</u>	<u>29,881</u>	<u>2,331,832</u>	<u>43,167</u>	<u>7,571</u>	<u>50,738</u>
3,371,908	1,696,909	5,068,817	(49,663)	168,414	118,751
1,129,055	-	1,129,055	58,367	-	58,367
1,184,584	-	1,184,584	100,214	-	100,214
445,997	-	445,997	(47,297)	-	(47,297)
209,191	-	209,191	21,695	-	21,695
23,986	-	23,986	(1,292)	-	(1,292)
-	880,018	880,018	-	(45,808)	(45,808)
-	957,736	957,736	-	58,518	58,518
-	51,566	51,566	-	2,903	2,903
<u>2,992,813</u>	<u>1,889,320</u>	<u>4,882,133</u>	<u>131,687</u>	<u>15,613</u>	<u>147,300</u>
148,016	(148,016)	-	(57,038)	57,038	-
527,111	(340,427)	186,684	(238,388)	209,839	(28,549)
6,797,928	9,228,014	16,025,942	(181,350)	152,801	(28,549)
636,805	677,661	1,314,466	(636,805)	(677,661)	(1,314,466)
<u>\$ 7,961,844</u>	<u>\$ 9,565,248</u>	<u>\$ 17,527,092</u>	<u>\$ (1,056,543)</u>	<u>\$ (315,021)</u>	<u>\$ (1,371,564)</u>

General Fund Budgetary Highlights

Appropriation transfers of \$37,000 were made from contingency for 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, 2013, the City's governmental funds reported combined ending fund balances of \$3,159,602, an increase of \$358,087 in comparison with prior year.

General Fund. The General Fund is the primary operating fund of the City. As of June 30, 2013, the fund balance was \$193,610, a decrease of \$119,687 during the current fiscal year. Property tax revenue, building permit revenue and franchise fees were all lower than the previous fiscal year which contributed to the decrease. Property tax appeals from Hewlett Packard and Comcast reduced property tax revenue. Building permits and franchise fees are down due to the sluggish economy.

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 \$32,397 in repayments from loan recipients and had no expenditures. This resulted in an increase in fund balance of \$33,068.

Street Fund. The Street 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 \$69,321, with a fund balance increase of \$30,321.

Urban Renewal Debt Fund. The Urban Renewal Debt Fund was created to service the debt of the Urban Renewal Agency. The final debt service payments were made in fiscal 2011-12.

Land, Building & Equipment Reserve Fund. The Land, Building and Equipment Reserve Fund was established to accumulate funds for large future capital projects. There were no large construction projects this fiscal year.

Business-type activities - Business-type activities decreased the City's net position by \$130,588. 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 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. The fund had a small increase of \$21,328 in its net position.

Sewer Fund. The Sewer Fund activity includes operating and maintenance of the City's sewer system. This funds net position decreased by \$145,742 during the fiscal year. Operating revenue was \$34,177 which was not enough to cover interest expense of \$237,518 on the 2009 sewer bonds.

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 position of \$36,328.

System Development Business Fund. The System Development Business fund is used to account for the business portion of systems development charges. There were no expenditures this year other than a \$50,000 transfer to the sewer fund to help pay the debt service on the 2009 sewer bonds. The funds net position increased by \$30,154 during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2013, the City had approximately \$19.7 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, 2013			
	<i>Governmental Activities</i>		<i>Total Percentage Change</i>
	<u>2013</u>	<u>2012</u>	<u>2012-2013</u>
Land	\$ 128,233	\$ 128,233	- %
Improvements	276,268	287,474	(3.90)
Buildings	1,823,274	1,795,915	1.52
Equipment	437,021	459,436	(4.88)
Infrastructure	1,929,348	1,948,005	(0.96)
<i>Total</i>	<u>\$ 4,594,144</u>	<u>\$ 4,619,063</u>	(0.54) %

	<i>Business-type Activities</i>		<i>Total Percentage Change</i>	
	<i>2013</i>	<i>2012</i>	<i>2012-2013</i>	
Land	\$ 853,202	\$ 853,202	-	%
Improvements	30,213	32,469	(6.95)	
Buildings	219,461	228,861	(4.11)	
Equipment	403,139	458,348	(12.05)	
Infrastructure	13,558,638	13,772,762	(1.55)	
<i>Total</i>	<i>\$ 15,064,653</i>	<i>\$ 15,345,642</i>	<i>(1.83)</i>	<i>%</i>

Capital purchases during the fiscal year included \$86,000 in engineering fees for the Applegate utility construction that was scheduled to begin in July 2013 and \$50,000 towards a new enclosed park shelter at City Park.

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$6,789,496. Of this amount, \$536,331 represents outstanding notes payable for the governmental funds. This is the outstanding note 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 remainder of the City's debt is for business-type activities and includes one outstanding water note payable, one sewer bond and one storm drain note payable. Final payment on the Oregon Economic and Community Development Department water bond was paid in fiscal year 2012-13. The remaining outstanding water debt outstanding at June 30, 2013 is \$164,946. The notes payable are paid from net revenues of the water system. The sewer bond payable at June 30, 2013 is \$5,895,000 which resulted from the sale of \$6.125 million in full faith and credit obligations in January 2009. The credit obligations 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, 2013 is \$193,219. The note is paid from storm drain systems development charges.

	June 30, 2013		
	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total Government</i>
Governmental			
Bonds payable	\$ -	\$ 5,895,000	\$ 5,895,000
Urban Renewal bonds	-	-	-
Notes payable	536,331	358,165	894,496
<i>Total Outstanding Debt</i>	<i>\$ 536,331</i>	<i>\$ 6,253,165</i>	<i>\$ 6,789,496</i>

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

June 30, 2012			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>
\$ -	\$ 5,985,000	\$ 5,985,000	\$ -	\$ (90,000)	\$ (90,000)
-	-	-	-	-	-
560,076	408,226	968,302	(23,745)	(50,061)	(73,806)
<u>\$ 560,076</u>	<u>\$ 6,393,226</u>	<u>\$ 6,953,302</u>	<u>\$ (23,745)</u>	<u>\$ (140,061)</u>	<u>\$ (163,806)</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 2013-14 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. The July 2012 population was 4,620. 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.
- The city's portion of the Hewlett Packard property tax refund was \$82,105. This was a refund for overpayment of property taxes between 2008 and 2011. The City chose to pay the full refund in July 2013.
- Assessed values, the basis of property tax revenues, have been growing at about 4.5% per year. The 2012-13 assessed values increased by 2.4%.
- 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 5.9%. 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 1.4%.

The City's adopted budget for FY 2013-14 reflects total estimated resources of \$8,548,902 which exceeds total estimated expenditures by \$1,126,701.

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 OR 97370.

CITY OF PHILOMATH
BENTON COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**STATEMENT OF NET POSITION
June 30, 2013**

ASSETS	GOVERNMENTAL	BUSINESS- TYPE	TOTAL
Current:			
Cash and Investments	\$ 3,127,937	\$ 540,009	\$ 3,667,946
Receivables:			
Accounts	5,403	174,455	179,858
Property Taxes	115,942	-	115,942
Special Assessments	45,256	-	45,256
Other	75,878	-	75,878
Prepaid Items	500	-	500
Total Current Assets	<u>3,370,916</u>	<u>714,464</u>	<u>4,085,380</u>
Non-Current:			
Loans Receivable	1,077,700	-	1,077,700
Nondepreciable Capital Assets	128,233	853,202	981,435
Depreciable Capital Assets	<u>4,465,911</u>	<u>14,211,452</u>	<u>18,677,363</u>
Total Assets	<u>9,042,760</u>	<u>15,779,118</u>	<u>24,821,878</u>
LIABILITIES			
Current:			
Accounts Payable	46,632	39,465	86,097
Other Current Liabilities	<u>16,505</u>	<u>-</u>	<u>16,505</u>
Total Current Liabilities	<u>63,137</u>	<u>39,465</u>	<u>102,602</u>
Bonds Payable:			
Due within one year			
Notes Payable	23,876	29,275	53,151
Bonds Payable	-	100,000	100,000
Due in more than one year			
Notes Payable	512,455	328,890	841,345
Bonds Payable	-	5,795,000	5,795,000
Accrued Compensated Absences	<u>192,725</u>	<u>51,828</u>	<u>244,553</u>
Total Long Term Liabilities	<u>729,056</u>	<u>6,304,993</u>	<u>7,239,253</u>
Total Liabilities	<u>792,193</u>	<u>6,344,458</u>	<u>\$ 7,136,651</u>
NET POSITION			
Net Investments in Capital Assets	4,057,813	8,811,489	12,869,302
Restricted	4,004,896	419,992	4,424,888
Unrestricted	<u>187,858</u>	<u>203,179</u>	<u>391,037</u>
TOTAL NET POSITION	<u>\$ 8,250,567</u>	<u>\$ 9,434,660</u>	<u>\$ 17,685,227</u>

See accompanying notes to the basic financial statements

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses) and Changes in Net Position		Total
		Fines and Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
General Government	\$ 1,187,422	\$ 625,279	\$ 23,851	3,088	\$ (535,204)	\$ -	\$ (535,204)
Police	1,284,798	11,616	9,879		(1,263,303)	-	(1,263,303)
Streets	398,700	52,487	249,905	(1,503)	(97,811)	-	(97,811)
Public Works	230,886	-	2,525	-	(228,361)	-	(228,361)
Interest on long-term debt	22,694	-	-	-	(22,694)	-	(22,694)
Total Governmental Activities	3,124,500	689,382	286,160	1,585	(2,147,373)	-	(2,147,373)
Business-Type Activities							
Water	834,210	920,894	-	27,876	-	114,560	114,560
Sewer	1,016,254	799,531	-	32,195	-	(184,528)	(184,528)
Storm Drain	54,469	42,495	-	4,880	-	(7,094)	(7,094)
Total Business-Type Activities	1,904,933	1,762,920	-	64,951	-	(77,062)	(77,062)
Total Primary Government	\$ 5,029,433	\$ 2,452,302	\$ 286,160	66,536	\$ (2,147,373)	\$ (77,062)	\$ (2,224,435)

General Revenues

Property Taxes	1,767,720	-	1,767,720
Franchise Fees	381,365	-	381,365
Intergovernmental	106,785	-	106,785
Gain/Loss on Sale of Capital Assets	4,796	-	4,796
Interest and Miscellaneous	84,452	37,452	121,904
Transfers	90,978	(90,978)	-
Total General Revenues	2,436,096	(53,526)	2,382,570
Change in Net Position	288,723	(130,588)	158,135
Beginning Net Position	7,340,601	8,904,129	16,244,730
Prior Period Adjustment	621,243	661,119	1,282,362
Ending Net Position	\$ 8,250,567	\$ 9,434,660	\$ 17,685,227

See accompanying notes to the basic financial statements

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013**

	<u>GENERAL</u>	<u>COMMUNITY DEVELOPMENT</u>	<u>STREET</u>
ASSETS			
Cash and Investments	\$ 187,496	\$ 170,151	\$ 46,714
Receivables:			
Accounts	-	-	5,403
Property Taxes	87,303	-	-
Special Assessments	19,624	-	-
Other	35,329	-	40,328
Prepaid Items	500	-	-
Loans Receivable	629,398	448,302	-
	<u>629,398</u>	<u>448,302</u>	<u>-</u>
Total Assets	<u>\$ 959,650</u>	<u>\$ 618,453</u>	<u>\$ 92,445</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	26,231	-	4,578
Other Liabilities	3,484	-	-
	<u>29,715</u>	<u>-</u>	<u>4,578</u>
Total Liabilities	<u>29,715</u>	<u>-</u>	<u>4,578</u>
Deferred Inflows of Resources:			
Unavailable Revenue - Special Assessments	\$ 19,624	\$ -	\$ -
Unavailable Revenue - Loans Receivable	629,398	448,302	-
Unavailable Revenue - Property Taxes	87,303	-	-
	<u>736,325</u>	<u>448,302</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>736,325</u>	<u>448,302</u>	<u>-</u>
Fund Balances			
Non-Spendable	500	-	-
Restricted For:			
Community Development	-	170,151	-
Construction	-	-	-
Debt Service	-	-	-
Streets	-	-	87,867
Urban Renewal	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	193,110	-	-
	<u>193,610</u>	<u>170,151</u>	<u>87,867</u>
Total Fund Balances	<u>193,610</u>	<u>170,151</u>	<u>87,867</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 959,650</u>	<u>\$ 618,453</u>	<u>\$ 92,445</u>

See accompanying notes to the basic financial statements

<u>URBAN RENEWAL DEBT</u>	<u>LAND, BUILDING & EQUIPMENT</u>	<u>OTHER GOVERNMENTAL</u>	<u>TOTAL</u>
\$ 381,645	\$ 1,770,392	\$ 571,539	\$ 3,127,937
-	-	-	5,403
28,625	-	14	115,942
-	16,721	8,911	45,256
-	221	-	75,878
-	-	-	500
-	-	-	1,077,700
<u>\$ 410,270</u>	<u>\$ 1,787,334</u>	<u>\$ 580,464</u>	<u>\$ 4,448,616</u>
-	15,823	-	46,632
-	-	-	3,484
-	15,823	-	50,116
\$ -	\$ 16,721	\$ 8,911	\$ 45,256
-	-	-	1,077,700
28,625	-	14	115,942
28,625	16,721	8,925	1,238,898
-	-	-	500
-	-	-	170,151
-	1,754,790	281,200	2,035,990
381,645	-	11,179	392,824
-	-	-	87,867
-	-	279,160	279,160
-	-	-	-
-	-	-	-
-	-	-	193,110
381,645	1,754,790	571,539	3,159,602
<u>\$ 410,270</u>	<u>\$ 1,787,334</u>	<u>\$ 580,464</u>	<u>\$ 4,448,616</u>

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
June 30, 2013**

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

Fund Balances	\$ 3,159,602
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.	
	1,238,898
The cost of capital assets (land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress) is reported as an expenditure in governmental funds. The statement of net position includes those capital assets among the assets of the City as a whole.	
Net Capital Assets	4,594,144
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.	
Notes Payable	(536,331)
Accrued Compensated Absences	(192,725)
Accrued Interest Payable	(13,021)
	<hr/>
Total Net Position	<u>\$ 8,250,567</u>

See accompanying notes to the basic financial statements

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013**

	GENERAL	COMMUNITY DEVELOPMENT	STREET	URBAN RENEWAL DEBT
Revenue				
Property Taxes	\$ 1,305,849	\$ -	\$ -	\$ 433,049
Licenses and Permits	44,674	-	-	-
Charges for Services	296,173	-	52,487	-
Franchise Fees	293,756	-	87,609	-
Intergovernmental	116,664	-	249,905	-
Fines and Forfeitures	284,432	-	-	-
Interest and Miscellaneous	40,460	33,068	697	2,871
Total Revenue	2,382,008	33,068	390,698	435,920
Expenditures				
Current:				
General Government	951,245	-	-	-
Police	1,236,657	-	-	-
Streets	-	-	321,377	-
Public Works	200,293	-	-	-
Capital Outlay:				
General Government	-	-	-	-
Police	-	-	-	-
Streets	-	-	-	-
Public Works	-	-	-	-
Water	-	-	-	-
Sewer	-	-	-	-
Storm Drain	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	2,388,195	-	321,377	-
Excess Revenue Over/ Under Expenditures	(6,187)	33,068	69,321	435,920
Other Financing Sources, -Uses				
Transfers In	-	-	18,500	-
Transfers Out	(113,500)	-	(57,500)	(370,000)
Total Other Financing Sources, -Uses	(113,500)	-	(39,000)	(370,000)
Net Change in Fund Balance	(119,687)	33,068	30,321	65,920
Beginning Fund Balance	313,297	137,083	57,546	315,725
Ending Fund Balance	\$ 193,610	\$ 170,151	\$ 87,867	\$ 381,645

See accompanying notes to the basic financial statements

<u>LAND, BUILDING & EQUIPMENT</u>	<u>OTHER GOVERNMENTAL</u>	<u>TOTAL</u>
\$ -	\$ 3	\$ 1,738,901
-	18,847	63,521
-	-	348,660
-	-	381,365
2,525	-	369,094
11,616	-	296,048
<u>50,924</u>	<u>49,617</u>	<u>177,637</u>
<u>65,065</u>	<u>68,467</u>	<u>3,375,226</u>
-	138,959	1,090,204
-	-	1,236,657
-	-	321,377
-	-	200,293
83,656	-	83,656
69,689	-	69,689
28,700	-	28,700
23,651	-	23,651
28,700	-	28,700
121,602	-	121,602
6,516	-	6,516
-	23,745	23,745
-	<u>23,270</u>	<u>23,270</u>
<u>362,514</u>	<u>185,974</u>	<u>3,258,060</u>
(297,449)	(117,507)	117,166
393,421	370,000	781,921
-	-	<u>(541,000)</u>
<u>393,421</u>	<u>370,000</u>	<u>240,921</u>
95,972	252,493	358,087
<u>1,658,818</u>	<u>319,046</u>	<u>2,801,515</u>
<u>\$ 1,754,790</u>	<u>\$ 571,539</u>	<u>\$ 3,159,602</u>

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - TO STATEMENT OF ACTIVITIES
For the year ended June 30, 2013**

Explanation of certain differences between the governmental fund statement of revenue, expenditures, and changes in fund balance and the government-wide statement of activities

Excess of Revenue over Expenditures	\$ 358,087
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.	(22,950)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Collection on long-term receivables	(29,607)
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.	576
The net effect of disposal of capital assets is to reduce net assets.	(424)
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.	(16,210)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as an expenditure. This is the amount by which capital outlays exceeded depreciation in the current period.	
Purchases of Capital Assets	201,801
Depreciation	(226,295)
Changes in Bonds Payable have an effect on net income in the governmental funds. On the government wide statements, however, changes are posted to the liability account on the balance sheet.	<u>23,745</u>
Change in Net Position	<u><u>\$ 288,723</u></u>

See accompanying notes to the basic financial statements

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013**

ASSETS:	Water Fund	Sewer Fund	Storm Drain Fund	System Development Fund	Total
Current Assets					
Cash and Investments	\$ 92,161	\$ 3,990	\$ 17,103	\$ 426,755	\$ 540,009
Accounts Receivable	88,694	81,364	4,397	-	174,455
Total Current Assets	180,855	85,354	21,500	426,755	714,464
Noncurrent Assets					
Nondepreciable Capital Assets	219,594	633,608	-	-	853,202
Depreciable Capital Assets, net	3,277,803	9,644,174	1,289,475	-	14,211,452
Total Assets	3,678,252	10,363,136	1,310,975	426,755	15,779,118
LIABILITIES:					
Current Liabilities					
Accounts Payable	9,077	22,900	725	6,763	39,465
Noncurrent Liabilities					
Due within one year	16,369	100,000	-	12,906	129,275
Due in more than one year	148,577	5,795,000	-	180,313	6,123,890
Accrued Compensated Absences	28,615	23,213	-	-	51,828
Total Liabilities	202,638	5,941,113	725	199,982	6,344,458
NET POSITION:					
Net Investment in Capital Assets	3,332,451	4,382,782	1,289,475	(193,219)	8,811,489
Restricted for Construction	-	-	-	419,992	419,992
Unrestricted	143,163	39,241	20,775	-	203,179
Total Net Position	\$ 3,475,614	\$ 4,422,023	\$ 1,310,250	\$ 226,773	\$ 9,434,660

See accompanying notes to the basic financial statements

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2013**

	Water Fund	Sewer Fund	Storm Drain Fund	System Development Fund	Total
OPERATING Revenue					
Charges for Services	\$ 920,894	799,531	42,495	-	1,762,920
Miscellaneous	7,021	13,382	128	-	20,531
Total Operating Revenue	<u>927,915</u>	<u>812,913</u>	<u>42,623</u>	<u>-</u>	<u>1,783,451</u>
OPERATING Expenditures					
Personal Services	341,130	270,339	-	-	611,469
Materials and Services	334,548	256,047	10,821	-	601,416
Depreciation	146,831	252,350	31,751	-	430,932
Total Operating Expenditures	<u>822,509</u>	<u>778,736</u>	<u>42,572</u>	<u>-</u>	<u>1,643,817</u>
Operating Income/(Loss)	<u>105,406</u>	<u>34,177</u>	<u>51</u>	<u>-</u>	<u>139,634</u>
NONOPERATING Revenue (Expenditures)					
Investment Revenue	323	241	105	2,600	3,269
Property Lease	-	13,652	-	-	13,652
Interest Expense	(11,701)	(237,518)	-	(11,897)	(261,116)
Gain (Loss) on Sale of Capital Assets	-	-	-	-	-
Total	<u>(11,378)</u>	<u>(223,625)</u>	<u>105</u>	<u>(9,297)</u>	<u>(244,195)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	94,028	(189,448)	156	(9,297)	(104,561)
Capital Contributions	-	-	-	64,951	64,951
Transfers In	28,700	51,206	6,516	24,500	110,922
Transfers Out	(101,400)	(7,500)	(43,000)	(50,000)	(201,900)
Change in Net Position	21,328	(145,742)	(36,328)	30,154	(130,588)
Beginning Net Position	<u>3,454,286</u>	<u>4,567,765</u>	<u>1,346,578</u>	<u>196,619</u>	<u>9,565,248</u>
Ending Net Position	<u>\$ 3,475,614</u>	<u>\$ 4,422,023</u>	<u>\$ 1,310,250</u>	<u>\$ 226,773</u>	<u>\$ 9,434,660</u>

See accompanying notes to the basic financial statements

CITY OF PHILOMATH
BENTON COUNTY, OREGON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Water Fund	Sewer Fund	Storm Drain Fund	System Development Fund	Total
Cash Flows from Operating Activities:					
Cash Received from Customers	\$ 920,496	\$ 801,815	\$ 42,510	\$ -	\$ 1,764,821
Cash Paid to Suppliers	(341,486)	(256,195)	(10,096)	-	(607,777)
Cash Paid to Employees	(343,196)	(270,668)	-	-	(613,864)
Net Cash Provided -Used by Operating Activities	235,814	274,952	32,414	-	543,180
Cash Flows from Noncapital Financing Activities:					
Transfers	(101,400)	42,500	(43,000)	(25,500)	-
Net Cash Provided -Used by Noncapital Financing Activities	(101,400)	42,500	(43,000)	(25,500)	(127,400)
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	-	-	-	64,951	64,951
Bond Proceeds Received	-	(113,521)	-	-	(113,521)
Principal Payments on Long-Term Debt	(37,885)	(90,000)	-	(12,175)	(140,060)
Interest Payments on Long-Term Debt	(13,071)	(237,763)	-	(12,324)	(263,158)
Additions/Deletions to Capital Assets	-	-	-	-	-
Net Cash Provided -Used by Capital and Related Financing Activities	(50,956)	(441,284)	-	40,452	(451,788)
Cash Flows from Investing Activities:					
Property Lease	-	13,652	-	-	13,652
Interest on Investments	323	241	105	2,600	3,269
Net Increase -Decrease in Cash and Cash Equivalents	83,781	(109,939)	(10,481)	17,552	(19,087)
Cash and Investments at Beginning of Year	8,380	113,929	27,584	409,203	559,096
Cash and Investments at End of Year	\$ 92,161	\$ 3,990	\$ 17,103	\$ 426,755	\$ 540,009
Reconciliation of Operating Income to					
Net Cash Provided by Operating Activities					
Operating Income, -Loss	\$ 105,406	\$ 34,177	\$ 51	\$ -	\$ 139,634
Noncash Items Included in Income:					
Depreciation	146,831	252,350	31,751	-	430,932
Decrease -Increase in Accounts Receivable	(7,979)	(11,098)	(113)	-	(19,190)
Increase -Decrease in Accounts Payable	(6,938)	(148)	725	-	(6,361)
Increase -Decrease in Deposits	560	-	-	-	560
Increase -Decrease in Compensated Absences	(2,066)	(329)	-	-	(2,395)
Net Cash Provided -Used by Operating Activities	\$ 235,814	\$ 274,952	\$ 32,414	\$ -	\$ 543,180

See accompanying notes to the basic financial statements

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

Although it is legally separate from the City, because of the significance of its financial relationship with the City, the Urban Renewal Agency of the City of Philomath is reported as if it were part of the reporting entity. The Agency is reported as a blended component unit in these financial statements. Separate financial statements for the Urban Renewal Agency of the City of Philomath may be obtained from the City administrative offices at Philomath City Hall.

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.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the statement of Net Position and the statement of activities) report information on all of the nonfiduciary activities and component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., general government, public safety, streets, etc.) is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 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.

CITY OF PHILOMATH
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate financial statements are provided for governmental funds and proprietary funds. Each fund is considered to be a separate accounting entity. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Remaining governmental funds are aggregated and reported as non-major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary fund financial statements. 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available (i.e. susceptible to accrual). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual if collected within 60 days of fiscal year end. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

There are the following *major governmental funds*:

General Fund – This is the primary operating fund. It accounts for all the financial operations except those required to be accounted for in another 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.

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 Debt Fund – This fund is used to account for property tax revenue and payment of debt service.

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

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

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There are the following *non-major governmental funds*:

Special Revenue Funds

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

Capital Projects Funds

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.

Debt Service Funds

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

There are the following *major proprietary funds*:

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.

There are the following *non-major proprietary funds*:

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation.

For Net Position, when both restricted and unrestricted resources are available for use, it is the policy to use restricted resources first, then unrestricted resources as they are needed.

BUDGETS

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.

Expenditure budgets are appropriated at the following levels for each fund other than the General Fund:

LEVEL OF CONTROL

Personal Services	Interfund Transfers
Materials and Services	Debt Service
Capital Outlay	Operating Contingency

The General Fund is appropriated at the department level along with transfers and contingencies. Expenditures cannot legally exceed the above appropriation levels except in the case of grants which could not be estimated at the time of budget adoption. Appropriations lapse at the fiscal year-end. Management may amend line items in the budget without Council approval as long as appropriation levels (the legal level of control) are not changed. Supplemental appropriations may occur if the Council approves them due to a need which exists which was not determined at the time the budget was adopted.

Budget amounts shown in the basic financial statements reflect the original budget amount and appropriation transfers. All expenditures were within appropriations for year ended.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

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.

Receivables

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net positions that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has no items that qualify for reporting in the category.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

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.

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.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position/Fund balance

Net Position is comprised of the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net Position is classified in the following three categories.

Invested in capital assets, net of related debt – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of external constraints placed on net asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – consists of all other assets that are not included in the other categories previously mentioned.

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications – nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents inventories, prepaid items and a nonspendable jurisdictional exchange deposit.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body. The City Manager and Finance Director have the authority to classify portions of ending fund balances as Assigned.
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position/Fund equity (continued)

There are no assigned or committed fund balances reported.

The following order of spending regarding fund balance categories is used: Restricted resources are spent first when both restricted and unrestricted (committed, assigned or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed (if applicable), assigned (if applicable) and unassigned.

2. CASH AND INVESTMENTS

The cash management policies are governed by state statutes. Statutes authorize investment in banker's acceptances, time certificates of deposit, repurchase agreements, obligations of the United States and its agencies and instrumentalities, and the Oregon State Treasurer's Local Government Investment Pool.

A cash pool is maintained that is available for use by all funds. Each fund type's portion of this pool is reported on the combined balance sheet as Cash and Investments.

Cash and Investments (recorded at cost) consisted of:

Deposits with Financial Institutions:	
Petty Cash	\$ 500
Demand Deposits	18,907
Investments	<u>3,648,539</u>
Total Cash and Investments	<u>\$ 3,667,946</u>
Reconciliation of Cash Reported in:	
Governmental	\$ 3,127,937
Business Type	<u>540,009</u>
Total Cash and Investments	<u>\$ 3,667,946</u>

Deposits

Deposits with financial institutions consist of bank demand deposits. The total bank balance per the bank statements for all pooled cash is \$64,267, all of which is covered by Federal Depository Insurance.

The insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Effective July 1, 2008, state statutes (ORS 295.002) allow public officials to deposit public funds in one or more depositories currently qualified pursuant to ORS 295.001 to 295.108. As long as the bank depository has entered into an agreement (ORS 295.008(2)(b)) and has deposited securities pursuant to state statutes (ORS 295.015(1)), there may now be on deposit at any one bank depository and its branches, a sum in excess of the amount insured by the Federal Deposit Insurance Corporation.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned. There is no deposit policy for custodial credit risk. As of June 30, 2013, none of the bank balance was exposed to custodial credit risk because it was insured or collateralized.

Investments

State statutes authorize investment in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial papers and the State Treasurer's Investment Pool, among others. As of June 30, 2013 the fair value of the position in the LGIP approximates fair value of the Pool shares as reported in the Oregon Short Term Fund audited financial statements.

As of June 30, 2013, the City had the following investments and maturities:

Investment Type	Fair Value	Less than 3	3-17	18-19
State Treasurer's Investment Pool	\$ 3,648,539	\$ 3,648,539	\$ -	\$ -
Certificate of Deposits	-	-	-	-
Total	\$ 3,648,539	\$ 3,648,539	\$ -	\$ -

The State Treasurer's Local Government Investment Pool (LGIP) is a cash and investment pool available for use by all state funds and local governments and is maintained by the State Treasurer. The LGIP is an open-ended, no-load diversified portfolio offered to eligible participants, including any municipality, political subdivision, or public corporation of the state. Local government pooled assets are reported as an Investment Trust Fund in Oregon's Comprehensive Annual Financial Report.

The Oregon Short-Term Fund Board, established by the Oregon Legislature, advises the Oregon Investment Council and the Oregon State Treasury in the management and investments of the LGIP.

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. There are no investments that have a maturity beyond three months.

Custodial Credit Risk

Oregon Revised Statutes does not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

Concentration Risk

Concentration risk is the risk of loss due to a large portion of investments with a single issuer. To avoid incurring unreasonable risks inherent to over-investing in specific instruments or in individual financial institutions, the

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

investment policy sets maximum limits on the percentage of the portfolio that can be invested in any one type of security. At June 30, 2013, all percentage restrictions were complied with. Oregon Revised Statutes require no more than 25 percent of the moneys of local government to be invested in bankers' acceptances of any qualified financial institution. Amounts in the State Treasurer's Local Government Investment Pool are not required by law to be collateralized. State statutes do not limit the percentage of investments in this instrument.

3. PROPERTY TAXES RECEIVABLE

Property taxes are levied and become a lien on all taxable property as of July 1. Taxes unpaid and outstanding on May 16 are considered delinquent. No allowance for uncollectible accounts has been recorded because all receivables are considered to be collectible.

4. 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 2013 was \$448,302. 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%.	\$ 93,067
Contract receivable from Lakeside Industrial Park, annual payments of approximately \$43,000, including interest from 3% to 4.5% (payments on receivable mirror the payments due on the loan to OECDD)	536,331

The Following loans receivable are recorded in the Community Development Fund

Community Development Block Grant (CDBG) loans	<u>448,302</u>
	<u>\$ 1,077,700</u>

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS

Capital asset activity for governmental activities of the primary government for the year ended June 30, 2013 was as follows:

GOVERNMENTAL ACTIVITIES CAPITAL ASSETS					
Description	June 30, 2012	Prior Period Adjustment	Additions	Disposals	June 30, 2013
Capital assets not being depreciated					
Land	\$ 128,233	\$ -	\$ -	\$ -	\$ 128,233
Capital assets being depreciated					
Land and Improvements	480,914	7,546	3,400	-	491,860
Buildings and Improvements	2,340,027	-	75,465	-	2,415,492
Equipment	1,165,620	(7,546)	94,236	(46,152)	1,206,158
Infrastructure	1,613,813	778,082	28,700	-	2,420,595
Total other Capital Assets	5,600,374	778,082	201,801	(46,152)	6,534,105
Less Accumulated Depreciation					
Land and Improvements	193,440	-	22,153	-	215,593
Buildings and Improvements	544,112	-	48,106	-	592,218
Equipment	706,184	-	108,680	(45,727)	769,137
Infrastructure	287,052	156,839	47,356	-	491,247
Total Accumulated Depreciation	1,730,788	156,839	226,295	(45,727)	2,068,195
Total Governmental Activities	<u>\$ 3,997,819</u>	<u>\$ 621,243</u>	<u>\$ (24,494)</u>	<u>\$ (425)</u>	<u>\$ 4,594,144</u>

Depreciation Expense for governmental activities is charged to functions as follows:

Function	Governmental Funds
General Government	\$ 89,066
Police	33,720
Streets	74,154
Public Works	29,355
Total	<u>\$ 226,295</u>

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS (CONTINUED)

Capital asset activity for business type activities for the year ended June 30, 2013 was as follows:

Description	June 30, 2012	Prior Period Adjustment	Additions	Disposals	June 30, 2013
Capital assets not being depreciated					
Land	\$ 853,202	\$ -	\$ -	\$ -	\$ 853,202
Capital assets being depreciated					
Land and Improvements	79,090	-	-	-	79,090
Buildings and Improvements	418,870	-	-	-	418,870
Equipment	1,186,808	-	-	(18,442)	1,168,366
Infrastructure	16,649,593	827,156	149,943	-	17,626,692
Total other Capital Assets	18,334,361	827,156	149,943	(18,442)	19,293,018
Less Accumulated Depreciation					
Land and Improvements	46,621	-	2,256	-	48,877
Buildings and Improvements	190,009	-	9,400	-	199,409
Equipment	728,460	-	55,209	(18,442)	765,227
Infrastructure	3,537,950	166,037	364,067	-	4,068,054
Total Accumulated Depreciation	4,503,040	166,037	430,932	(18,442)	5,081,567
Total Governmental Activities	<u>\$ 14,684,523</u>	<u>\$ 661,119</u>	<u>\$ (280,989)</u>	<u>\$ -</u>	<u>\$ 15,064,654</u>

Depreciation Expense for business type activities is charged to functions as follows:

Function	Business-type Activities
Water	\$ 146,831
Sewer	252,350
Storm	31,751
Total	<u>\$ 430,932</u>

6. DEFERRED INFLOWS OF RESOURCES

At June 30, 2013, deferred inflows of resources on the balance sheet - governmental funds consisted of the following:

Property taxes	\$ 115,942
Community Development Block Grant Loans	448,302
Other loans receivable	629,398
Assessments	45,256
	<u>\$ 1,238,898</u>

CITY OF PHILOMATH
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

7. EMPLOYEE RETIREMENT PLAN

Plan Description

The State of Oregon Public Employees Retirement System (PERS), a cost sharing multiple-employer defined benefit pension plan administered by the Oregon Public Employees Retirement System (OPERS) is participated in. Retirement is allowed at age 58 with full benefits, but retirement is generally available after age 55 with reduced benefits. Police and Fire Department employees may retire with full benefits at the age of 55 with 30 years of service. Compulsory retirement is age 70. Retirement benefits are payable in lump sum or monthly amounts using several payment options. PERS also provides death and disability benefits. Benefits are established by State statute.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan ("OPSRP") is effective for all new employees hired on or after August 29, 2003, and applies to any inactive PERS members who return to employment following a six month or greater break in service. The new plan consists of a defined benefit program (the "Pension Program") and a defined contribution portion (the Individual Account Program or "IAP"). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service and a factor that varies based on type of service (general versus police or fire).

Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account. Those employees who had established a PERS membership prior to creation of OPSRP will be members of both the PERS and OPSRP system as long as they remain in covered employment.

Both PERS and OPSRP are administered under Oregon Revised Statute (ORS) Chapter 238. ORS 238.620 establishes the Public Employees Retirement Board as the governing body of PERS. The Oregon Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information.

Funding Policy

Covered employees are required by State statute to contribute 6% of their salary to the plan, which the City has elected to pay for the employee. The City is required to contribute at actuarially determined rates, as adopted by the PERS Board. The current rate is 12.22% of covered payroll for Tier One/Two employees and 8.02% for general OPSRP employees and 10.73% for police employees. The contribution to the plan for the years ending June 30, 2013, 2012, and 2011 were as follows:

Annual Pension Costs

For the years ended June 30, 2013, 2012, and 2011, the City's annual pension costs were \$230,050, \$246,865, and \$178,608 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

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

7. EMPLOYEE RETIREMENT PLAN (CONTINUED)

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.

8. 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.

9. LONG TERM DEBT

Changes in Long-Term Liabilities: During the year ended June 30, 2013, the following changes occurred in long-term liabilities:

	<u>Balance 7/1/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2013</u>	<u>Due in One Year</u>
Governmental activities					
OECD Lakeside Loan, 2004	\$ 560,076	\$ -	\$ (23,745)	\$ 536,331	\$ 23,876
Compensated absences	176,515	16,210	-	192,725	-
Total Governmental activities	<u>736,591</u>	<u>16,210</u>	<u>(23,745)</u>	<u>729,056</u>	<u>23,876</u>
Business-type activities					
OEDD 1993	30,635	-	(30,635)	-	-
OEDD, 2006	172,197	-	(7,251)	164,946	16,369
Storm Drain SPWF Loan	205,394	-	(12,176)	193,218	12,905
Full Faith and Credit Obligations, 2009	5,985,000	-	(90,000)	5,895,000	153,150
Compensated absences	54,223	-	(2,396)	51,827	-
Total Business-type activities	<u>\$ 6,447,449</u>	<u>\$ -</u>	<u>\$ (142,458)</u>	<u>\$ 6,304,991</u>	<u>\$ 182,424</u>

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

9. LONG TERM DEBT (CONTINUED)

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 Eanding</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013-14	\$ 23,876	\$ 22,439	\$ 46,315
2014-15	24,012	21,603	45,615
2015-16	24,152	20,763	44,915
2016-17	24,303	19,887	44,190
2017-18	24,464	18,976	43,440
2018-23	145,152	78,815	223,967
2023-28	185,960	44,534	230,494
2028-33	84,412	5,705	90,117
	<u>\$ 536,331</u>	<u>\$ 232,721</u>	<u>\$ 769,052</u>

Business-type Activities

<u>Fiscal Year Eanding</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013-14	\$ 129,274	\$ 257,382	\$ 386,656
2014-15	131,112	252,544	383,657
2015-16	163,067	248,090	411,157
2016-17	180,143	242,113	422,257
2017-18	197,351	235,556	432,907
2018-23	1,249,106	1,049,172	2,298,279
2023-28	1,713,112	757,400	2,470,512
2028-33	2,490,000	346,635	2,836,635
	<u>\$ 6,253,165</u>	<u>\$ 3,388,891</u>	<u>\$ 9,642,056</u>

CITY OF PHILOMATH
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

10. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2013 on the budgetary basis of accounting, consisted of the following:

Fund	Transfers In	Transfers Out
General	\$ -	\$ 113,500
Street	18,500	57,500
Community Development	-	-
Urban Renewal - General	370,000	-
Urban Renewal - Debt	-	370,000
Land, Building and Equipment	393,421	-
Systems Development - Business	24,500	50,000
Water	28,700	101,400
Sewer	51,206	7,500
Storm	6,516	43,000
Capitalized Enterprise	<u>(149,943)</u>	<u>-</u>
	<u>\$ 742,900</u>	<u>\$ 742,900</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

11. PROPERTY TAX LIMITATIONS

The State of Oregon has a constitutional limit on property taxes for schools and nonschool government operations. The limitation provides that property taxes for nonschool operations are limited to \$10.00 for each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt.

An additional limit reduces the amount of operating property tax revenues available. This reduction was accomplished by rolling property values for 1997-98 back to their 1995-96 values less 10% and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The Constitution also sets restrictive voter approval requirements for most tax and many fee increases and new bond issues.

12. RISK MANAGEMENT

There is exposure to various risks of loss related to torts; theft of, damage to, and destruction of assets; and omissions; injuries to employees; and natural disasters. Commercial insurance is purchased to minimize its exposure to these risks. Settled claims have not exceeded this commercial coverage for any of the past three years.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

13. 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.

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CITY OF PHILOMATH
BENTON COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

GENERAL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Revenue				
Property Taxes	\$ 1,345,500	\$ 1,345,500	\$ 1,305,849	\$ (39,651)
Licenses and Permits	62,000	62,000	44,674	(17,326)
Charges for Services	295,020	295,020	296,173	1,153
Franchise Fees	302,800	302,800	293,756	(9,044)
Intergovernmental	108,760	108,760	116,664	7,904
Fines and Forfeitures	280,000	280,000	284,432	4,432
Interest and Miscellaneous	20,270	20,270	40,460	20,190
Total Revenue	<u>2,414,350</u>	<u>2,414,350</u>	<u>2,382,008</u>	<u>(32,342)</u>
Expenditures				
Personal Services	1,694,911	1,694,911 (1)	1,651,558	43,353
Materials and Services	776,439	799,939 (1)	736,637	63,302
Contingency	50,000	13,000 (1)	-	13,000
Total Expenditures	<u>2,521,350</u>	<u>2,507,850</u>	<u>2,388,195</u>	<u>119,655</u>
Excess of Revenue Over, -Under Expenditures	(107,000)	(93,500)	(6,187)	87,313
Other Financing Sources, -Uses				
Transfers Out	(100,000)	(113,500) (1)	(113,500)	-
Total Other Financing Sources, -Uses	<u>(100,000)</u>	<u>(113,500)</u>	<u>(113,500)</u>	<u>-</u>
Net Change in Fund Balance	<u>(207,000)</u>	<u>(207,000)</u>	<u>(119,687)</u>	<u>87,313</u>
Beginning Fund Balance	<u>300,000</u>	<u>300,000</u>	<u>313,297</u>	<u>13,297</u>
Ending Fund Balance	<u>\$ 93,000</u>	<u>\$ 93,000</u>	<u>\$ 193,610</u>	<u>\$ 100,610</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

COMMUNITY DEVELOPMENT FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)</u>
Revenue				
Interest and Miscellaneous	\$ 63,852	\$ 63,852	\$ 33,068	\$ (30,784)
Total Revenue	<u>63,852</u>	<u>63,852</u>	<u>33,068</u>	<u>(30,784)</u>
Expenditures				
Materials and Services	197,412	197,412 (1)	-	197,412
Contingency	<u>-</u>	<u>- (1)</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>197,412</u>	<u>197,412</u>	<u>-</u>	<u>197,412</u>
Excess of Revenues Over -Under Expenditures	(133,560)	(133,560)	33,068	166,628
OTHER FINANCING SOURCES				
Transfers Out	<u>-</u>	<u>- (1)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(133,560)	(133,560)	33,068	166,628
Beginning Fund Balance	<u>133,560</u>	<u>133,560</u>	<u>137,083</u>	<u>3,523</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,151</u>	<u>\$ 170,151</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

STREET FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Revenue				
Charges for Services	\$ 52,600	\$ 52,600	\$ 52,487	\$ (113)
Franchise Fees	83,700	83,700	87,609	3,909
Intergovernmental	256,100	256,100	249,905	(6,195)
Interest and Miscellaneous	1,200	1,200	697	(503)
Total Revenue	<u>393,600</u>	<u>393,600</u>	<u>390,698</u>	<u>(2,902)</u>
Expenditures				
Personal Services	184,506	184,506 (1)	169,725	14,781
Materials and Services	185,094	185,094 (1)	151,652	33,442
Contingency	25,000	25,000 (1)	-	25,000
Total Expenditures	<u>394,600</u>	<u>394,600</u>	<u>321,377</u>	<u>73,223</u>
Excess of Revenue Over, -Under Expenditures	(1,000)	(1,000)	69,321	70,321
Other Financing Sources, -Uses				
Transfers In	18,500	18,500	18,500	-
Transfers Out	(57,500)	(57,500) (1)	(57,500)	-
Total Other Financing Sources, -Uses	<u>(39,000)</u>	<u>(39,000)</u>	<u>(39,000)</u>	<u>-</u>
Net Change in Fund Balance	(40,000)	(40,000)	30,321	70,321
Beginning Fund Balance	<u>60,000</u>	<u>60,000</u>	<u>57,546</u>	<u>(2,454)</u>
Ending Fund Balance	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 87,867</u>	<u>\$ 67,867</u>

(1) Appropriation Level

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CITY OF PHILOMATH
BENTON COUNTY, OREGON

SUPPLEMENTARY INFORMATION

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

URBAN RENEWAL DEBT SERVICE FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)</u>
Revenue				
Property Taxes	\$ 429,500	\$ 429,500	\$ 433,049	\$ 3,549
Interest and Miscellaneous	<u>5,500</u>	<u>5,500</u>	<u>2,871</u>	<u>(2,629)</u>
Total Revenue	<u>435,000</u>	<u>435,000</u>	<u>435,920</u>	<u>920</u>
Excess of Revenue Over, -Under Expenditures	435,000	435,000	435,920	920
Other Financing Sources, -Uses				
Transfers Out	<u>(370,000)</u>	<u>(370,000) (1)</u>	<u>(370,000)</u>	<u>-</u>
Total Other Financing Sources, -Uses	<u>(370,000)</u>	<u>(370,000)</u>	<u>(370,000)</u>	<u>-</u>
Net Change in Fund Balance	65,000	65,000	65,920	920
Beginning Fund Balance	<u>315,000</u>	<u>315,000</u>	<u>315,725</u>	<u>725</u>
Ending Fund Balance	<u>\$ 380,000</u>	<u>\$ 380,000</u>	<u>\$ 381,645</u>	<u>\$ 1,645</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

LAND BUILDING AND EQUIPMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Revenue				
Intergovernmental	\$ 2,600	\$ 2,600	\$ 2,525	\$ (75)
Fines and Forfeitures	12,500	12,500	11,616	(884)
Interest and Miscellaneous	20,120	20,120	50,924	30,804
Total Revenue	<u>35,220</u>	<u>35,220</u>	<u>65,065</u>	<u>29,845</u>
Expenditures				
Capital Outlay	1,271,200	1,284,700 (1)	362,514	922,186
Total Expenditures	<u>1,271,200</u>	<u>1,284,700</u>	<u>362,514</u>	<u>922,186</u>
Excess of Revenue Over, -Under Expenditures	(1,235,980)	(1,249,480)	(297,449)	952,031
Other Financing Sources, -Uses				
Transfers In	307,700	321,200	279,900	(41,300)
Total Other Financing Sources, -Uses	<u>307,700</u>	<u>321,200</u>	<u>279,900</u>	<u>(41,300)</u>
Net Change in Fund Balance	(928,280)	(928,280)	(17,549)	910,731
Beginning Fund Balance	1,990,000	1,990,000	1,658,818	(331,182)
Amount Related to Sewer Fund Borrowing	-	-	113,521	113,521
Ending Fund Balance	<u>\$ 1,061,720</u>	<u>\$ 1,061,720</u>	<u>\$ 1,754,790</u>	<u>\$ 693,070</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013**

	<u>Special Revenue</u> URBAN RENEWAL	<u>Debt Service</u> ECONOMIC DEVELOPMENT	<u>Capital Projects</u> SYSTEMS DEVELOPMENT	<u>TOTAL</u>
ASSETS				
Cash and Investments	\$ 279,160	\$ 11,179	\$ 281,200	\$ 571,539
Receivables:				-
Property Taxes	-	14	-	14
Special Assessments	-	-	8,911	8,911
Total Assets	<u>\$ 279,160</u>	<u>\$ 11,193</u>	<u>\$ 290,111</u>	<u>\$ 580,464</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Deferred Inflows of Resources:				
Unavailable Revenue - Special Assessments	\$ -	\$ -	\$ 8,911	\$ 8,911
Unavailable Revenue - Property Taxes	-	14	-	14
Total Deferred Inflows of Resource:	<u>\$ -</u>	<u>\$ 14</u>	<u>\$ 8,911</u>	<u>\$ 8,925</u>
Fund Balances				
Non-Spendable	-	-	-	-
Restricted For:				
Community Development	-	-	-	-
Construction	-	-	281,200	281,200
Debt Service	-	11,179	-	11,179
Streets	-	-	-	-
Urban Renewal	279,160	-	-	279,160
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	<u>279,160</u>	<u>11,179</u>	<u>281,200</u>	<u>571,539</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 279,160</u>	<u>\$ 11,193</u>	<u>\$ 290,111</u>	<u>\$ 580,464</u>

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013**

	Special Revenue URBAN RENEWAL	Debt Service ECONOMIC DEVELOPMENT	Capital Projects SYSTEMS DEVELOPMENT	TOTAL
Revenue				
Property Taxes	\$ -	\$ 3	\$ -	\$ 3
Licenses and Permits	-	-	18,847	18,847
Interest and Miscellaneous	897	47,051	1,669	49,617
Total Revenue	897	47,054	20,516	68,467
Expenditures				
Current:				
General Government	138,959	-	-	138,959
Debt Service				
Principal	-	23,745	-	23,745
Interest	-	23,270	-	23,270
Total Expenditures	138,959	47,015	-	185,974
Excess Revenue Over/Under Expenditures	(138,062)	39	20,516	(117,507)
Other Financing Sources, -Uses				
Transfers In	370,000	-	-	370,000
Transfers Out	-	-	-	-
Total Other Financing Sources, -Uses	370,000	-	-	370,000
Net Change in Fund Balance	231,938	39	20,516	252,493
Beginning Fund Balance	47,222	11,140	260,684	319,046
Ending Fund Balance	\$ 279,160	\$ 11,179	\$ 281,200	\$ 571,539

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

URBAN RENEWAL GENERAL FUND (SPECIAL REVENUE)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Revenue				
Interest and Miscellaneous	\$ 400	\$ 400	\$ 897	\$ 497
Total Revenue	400	400	897	497
Expenditures				
Materials and Services	367,400	367,400 (1)	138,959	228,441
Total Expenditures	367,400	367,400	138,959	228,441
Excess of Revenue Over, -Under Expenditures	(367,000)	(367,000)	(138,062)	228,938
Other Financing Sources				
Transfers In	370,000	370,000	370,000	-
Total Other Financing Sources	370,000	370,000	370,000	-
Net Change in Fund Balance	3,000	3,000	231,938	228,938
Beginning Fund Balance	47,000	47,000	47,222	222
Ending Fund Balance	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 279,160</u>	<u>\$ 229,160</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

ECONOMIC DEVELOPMENT FUND (DEBT SERVICE)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Revenue				
Property Taxes	\$ -	\$ -	\$ 3	\$ 3
Interest and Miscellaneous	47,065	47,065	47,051	(14)
Total Revenue	47,065	47,065	47,054	(11)
Expenditures				
Debt Service				
Principal	23,745	23,745	23,745	-
Interest	23,270	23,270	23,270	-
Total Expenditures	47,015	47,015 (1)	47,015	-
Excess of Revenue Over, -Under Expenditures	50	50	39	(11)
Beginning Fund Balance	11,135	11,135	11,140	5
Ending Fund Balance	\$ 11,185	\$ 11,185	\$ 11,179	\$ (6)

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

SYSTEMS DEVELOPMENT FUND (CAPITAL PROJECTS)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Revenue				
Licenses and Permits	\$ 24,100	\$ 24,100	\$ 18,847	\$ (5,253)
Interest and Miscellaneous	1,101	1,101	1,669	568
Total Revenue	25,201	25,201	20,516	(4,685)
Expenditures				
Capital Outlay	212,000	212,000 (1)	-	212,000
Total Expenditures	212,000	212,000	-	212,000
Excess of Revenue Over, -Under Expenditures	(186,799)	(186,799)	20,516	207,315
Beginning Fund Balance	251,600	251,600	260,684	9,084
Ending Fund Balance	\$ 64,801	\$ 64,801	\$ 281,200	\$ 216,399

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

WATER FUND

	ORIGINAL BUDGET	FINAL BUDGET	BUDGET BASIS	GAAP BASIS
Revenue				
Charges for Services	\$ 886,250	\$ 886,250	\$ 920,894	\$ 920,894
Interest and Miscellaneous	3,300	3,300	7,344	7,344
Total Revenue	889,550	889,550	928,238	928,238
Expenditures				
Personal Services	362,512	362,512 (1)	343,196	341,130
Materials and Services	400,982	400,982 (1)	334,548	334,548
Capital Outlay/Depreciation	10,000	10,000 (1)	-	146,831
Debt Service	50,956	50,956 (1)	50,956	11,701
Contingency	25,000	25,000 (1)	-	-
Total Expenditures	849,450	849,450	728,700	834,210
Excess of Revenue Over -Under Expenditures	40,100	40,100	199,538	94,028
OTHER FINANCING SOURCES				
Transfers In	-	-	-	28,700
Transfers Out	(101,400)	(101,400) (1)	(101,400)	(101,400)
Total Other Financing Sources, -Uses	(101,400)	(101,400)	(101,400)	(72,700)
Net Change in Fund Balance	(61,300)	(61,300)	98,138	21,328
Beginning Fund Balance	61,300	61,300	79,894	3,152,649
Prior Period Adjustment	-	-	-	301,637
Ending Fund Balance	\$ -	\$ -	\$ 178,032	\$ 3,475,614

Reconciliation to the Statement of Proprietary Net Position:

Net Capital Assets	3,497,397
Long Term Debt	(164,946)
Net Position	\$ 3,332,451

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

SEWER FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>GAAP BASIS</u>
Revenue				
Charges for Services	\$ 810,940	\$ 810,940	\$ 799,531	\$ 799,531
Lease of Land	12,200	12,200	13,652	13,652
Interest and Miscellaneous	2,200	2,200	13,623	13,623
Total Revenue	<u>825,340</u>	<u>825,340</u>	<u>826,806</u>	<u>826,806</u>
Expenditures				
Personal Services	282,269	282,269 (1)	270,669	270,339
Materials and Services	260,503	265,503 (1)	256,047	256,047
Capital Outlay/Depreciation	-	- (1)	-	252,350
Debt Service	327,768	327,768 (1)	327,763	237,518
Contingency	5,000	- (1)	-	-
Total Expenditures	<u>875,540</u>	<u>875,540</u>	<u>854,479</u>	<u>1,016,254</u>
Excess of Revenue Over -Under Expenditures	(50,200)	(50,200)	(27,673)	(189,448)
OTHER FINANCING SOURCES				
Transfers In	50,000	50,000	50,000	51,206
Transfers Out	(48,800)	(48,800) (1)	(7,500)	(7,500)
Total Other Financing Sources, -Uses	<u>1,200</u>	<u>1,200</u>	<u>42,500</u>	<u>43,706</u>
Net Change in Fund Balance	(49,000)	(49,000)	14,827	(145,742)
Beginning Fund Balance	49,000	49,000	68,330	4,439,233
Prior Period Adjutment	-	-	-	128,532
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,157</u>	<u>\$ 4,422,023</u>

Reconciliation to the Statement of Proprietary Net Position:

Net Capital Assets	10,277,782
Long Term Debt	(5,895,000)
Net Position	<u>\$ 4,382,782</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

STORM DRAIN FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>GAAP BASIS</u>
Revenue				
Charges for Services	\$ 42,500	\$ 42,500	\$ 42,495	\$ 42,495
Interest and Miscellaneous	80	80	233	233
Total Revenue	<u>42,580</u>	<u>42,580</u>	<u>42,728</u>	<u>42,728</u>
Expenditures				
Materials and Services	14,580	14,580 (1)	10,821	10,821
Capital Outlay/Depreciation	-	-	-	31,751
Total Expenditures	<u>14,580</u>	<u>14,580</u>	<u>10,821</u>	<u>42,572</u>
Excess of Revenue Over -Under Expenditures	28,000	28,000	31,907	156
OTHER FINANCING SOURCES				
Transfers In	-	-	-	6,516
Transfers Out	<u>(43,000)</u>	<u>(43,000) (1)</u>	<u>(43,000)</u>	<u>(43,000)</u>
Total Other Financing Sources, -Uses	<u>(43,000)</u>	<u>(43,000)</u>	<u>(43,000)</u>	<u>(36,484)</u>
Net Change in Fund Balance	(15,000)	(15,000)	(11,093)	(36,328)
Beginning Fund Balance	26,000	26,000	31,868	1,115,628
Prior Period Adjustment	-	-	-	230,950
Ending Fund Balance	<u>\$ 11,000</u>	<u>\$ 11,000</u>	<u>\$ 20,775</u>	<u>\$ 1,310,250</u>

Reconciliation to the Statement of Proprietary Net Position:

Net Capital Assets	<u>1,289,475</u>
Net Position	<u>\$ 1,289,475</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2013**

SYSTEM DEVELOPMENT FUND (PROPRIETARY FUND)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	GAAP BASIS
Revenue				
Charges for Services	\$ 75,200	\$ 75,200	\$ 64,951	\$ 64,951
Interest and Miscellaneous	1,699	1,699	2,600	2,600
Total Revenue	76,899	76,899	67,551	67,551
Expenditures				
Capital Outlay	390,000	390,000 (1)	-	-
Debt Service	24,499	24,499 (1)	24,499	11,897
Total Expenditures	414,499	414,499	24,499	11,897
Excess of Revenue Over -Under Expenditures	(337,600)	(337,600)	43,052	55,654
OTHER FINANCING SOURCES				
Transfers In	24,500	24,500	24,500	24,500
Transfers Out	(50,000)	(50,000) (1)	(50,000)	(50,000)
Total Other Financing Sources, -Uses	(25,500)	(25,500)	(25,500)	(25,500)
Net Change in Fund Balance	(363,100)	(363,100)	17,552	30,154
Beginning Fund Balance	375,400	375,400	409,203	196,619
Ending Fund Balance	\$ 12,300	\$ 12,300	\$ 426,755	\$ 226,773

Reconciliation to the Statement of Proprietary Net Position:

Long Term Debt	(193,219)
Net Position	\$ (193,219)

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED - GENERAL FUND
For the Year Ended June 30, 2013**

TAX YEAR	IMPOSED LEVY OR UNCOLLECTED AT 7-1-12	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED AT 6-30-13
CURRENT:						
2012-13	\$ 1,370,296	\$ 37,556	\$ -	\$ -	\$ 1,286,428	\$ 46,312
PRIOR YEARS:						
2011-12	\$ 30,325	\$ -	\$ (2,015)	\$ -	\$ 10,445	\$ 17,865
2010-11	11,438	-	(1,894)	-	3,370	6,174
2009-10	18,446	-	(1,240)	-	2,520	14,686
2008-09	2,386	-	(49)	-	2,004	333
Prior	3,171	-	(139)	-	1,085	1,947
Total	\$ 1,436,062	\$ 37,556	\$ (5,337)	\$ -	\$ 1,305,852	\$ 87,317

RECONCILIATION TO REVENUE

Cash Collections by County Treasurer Above	\$ 1,305,852
Other Taxes in Lieu of Property Taxes	-
Total Revenue	\$ 1,305,852

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED - DEBT SERVICE FUND
For the Year Ended June 30, 2013**

TAX YEAR	IMPOSED LEVY OR UNCOLLECTED AT 7-1-12	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED AT 6-30-13
CURRENT:						
2012-13	\$ 454,530	\$ 12,457	\$ -	\$ -	\$ 426,711	\$ 15,362
PRIOR YEARS:						
2011-12	\$ 9,660	\$ -	\$ (642)	\$ -	\$ 3,327	\$ 5,691
2010-11	3,990	-	(660)	-	1,176	2,154
2009-10	5,998	-	(403)	-	819	4,776
2008-09	945	-	(16)	-	652	277
Prior	764	-	(35)	-	364	365
Total	\$ 475,887	\$ 12,457	\$ (1,756)	\$ -	\$ 433,049	\$ 28,625

RECONCILIATION TO REVENUE

Cash Collections by County Treasurer Above	\$ 433,049
Other Taxes in Lieu of Property Taxes	-
Total Revenue	\$ 433,049

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CITY OF PHILOMATH
BENTON COUNTY, OREGON

REPORTS ON LEGAL AND OTHER
REGULATORY REQUIREMENTS

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October 10, 2013

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the City of Philomath, Oregon as of and for the year ended June 30, 2013, and have issued our report thereon dated October 10, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Governmental Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of 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.**
- **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).**
- **Programs funded from outside sources.**

In connection with our testing nothing came to our attention that caused us to believe the City of Philomath, Oregon 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 internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal controls over financial reporting.

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



Matthew Graves, CPA
PAULY, ROGERS AND CO., P.C.