

***CITY OF PHILOMATH, OREGON***  
***ANNUAL FINANCIAL REPORT***  
***Year Ended June 30, 2009***

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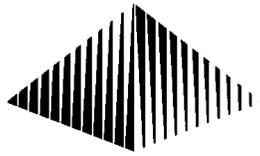
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## GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
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### *INDEPENDENT AUDITOR'S REPORT*

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Philomath, Oregon as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Philomath, Oregon as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Philomath's basic financial statements. The schedules of revenues, expenditures and changes in fund balance - budget and actual, General, Community Development and Urban Renewal General Funds and the other supplementary information listed in the table of contents are presented for purposes of additional

analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

By: 

Charles A. Swank, Shareholder  
October 26, 2009

City of Philomath, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2009

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, 2009.

**Financial Highlights**

Following are the financial highlights of the City for the fiscal year ended June 30, 2009.

- The City's total assets exceeded its liabilities at the close of FY 2008-09 by \$15.2 million (net assets). Of this amount, \$12.1 million is invested in capital assets, net of related debt; \$1.7 million is restricted for construction projects, debt service and other commitments; and the balance of \$1.4 million is considered unrestricted.
- The City's governmental activities net assets were \$5.9 million with restricted net assets totaling \$1.2 million as of June 30, 2009.
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$231,125 or approximately 10 percent of total General Fund expenditures.
- The City's total liabilities increased by \$6.4 million or 300 percent during fiscal year 2008-09. The increase is primarily due to the sale of \$6.125 million in full faith and credit obligations.

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

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

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

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

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

- Water Utility
- Sewer Utility
- Storm Drain Utility

The government-wide financial statements can be found on pages 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, Urban Renewal General Fund, Land Building & Equipment Fund and Systems Development General Fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Summary fund data by fund-type for these nonmajor governmental funds is provided in the form of combining statements on pages 45 through 46 of this report. Individual fund data for each of these nonmajor governmental funds is provided as Supplementary Information on pages 47 through 49.

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 40 through 42.

*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 50 through 52.

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.



<i>June 30, 2008</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>
\$ 2,364,541	\$ 549,960	\$ 2,914,501	\$ (403,131)	\$ 5,558,845	\$ 5,155,714
1,643,379	165,453	1,808,832	34,352	(2,443)	31,909
3,874,255	8,357,252	12,231,507	(42,452)	1,690,120	1,647,668
<u>7,882,175</u>	<u>9,072,665</u>	<u>16,954,840</u>	<u>(411,231)</u>	<u>7,246,522</u>	<u>6,835,291</u>
166,339	107,504	273,843	339,914	104,033	443,947
1,131,554	794,194	1,925,748	(107,091)	6,034,811	5,927,720
<u>1,297,893</u>	<u>901,698</u>	<u>2,199,591</u>	<u>232,823</u>	<u>6,138,844</u>	<u>6,371,667</u>
3,444,255	7,546,164	10,990,419	37,548	1,120,675	1,158,223
1,696,246	513,563	2,209,809	(509,923)	(4,928)	(514,851)
1,443,781	111,240	1,555,021	(171,679)	(8,069)	(179,748)
<u>\$ 6,584,282</u>	<u>\$ 8,170,967</u>	<u>\$ 14,755,249</u>	<u>\$ (644,054)</u>	<u>\$ 1,107,678</u>	<u>\$ 463,624</u>

**Table 2**  
**Changes in Net Assets**

	<i>Fiscal Year Ended June 30, 2009</i>		
	<i>Governmental</i>	<i>Business-</i>	
	<i>Activities</i>	<i>Type</i>	<i>Total</i>
		<i>Activities</i>	
<b>Revenues</b>			
Program Revenues			
Charges for services	\$ 611,051	\$ 1,545,738	\$ 2,156,789
Operating grants and contributions	283,395	-	283,395
Capital grants and contributions	74,601	118,193	192,794
<i>Total Program Revenues</i>	<u>969,047</u>	<u>1,663,931</u>	<u>2,632,978</u>
General Revenues			
Taxes	1,588,125	-	1,588,125
Franchise revenues	287,593	-	287,593
Other	369,439	49,745	419,184
<i>Total General Revenues</i>	<u>2,245,157</u>	<u>49,745</u>	<u>2,294,902</u>
<i>Total Revenues</i>	<u>3,214,204</u>	<u>1,713,676</u>	<u>4,927,880</u>
<b>Transfers</b>	(922,891)	922,891	-
<b>Expenses (Net of Indirect Expenses)</b>			
General governmental	1,337,933	-	1,337,933
Police	1,077,901	-	1,077,901
Streets	289,098	-	289,098
Public Works	174,413	-	174,413
Interest on long-term debt	56,022	-	56,022
Water	-	849,549	849,549
Sewer	-	630,504	630,504
Storm Drain	-	48,836	48,836
<i>Total Expenses</i>	<u>2,935,367</u>	<u>1,528,889</u>	<u>4,464,256</u>
<b>Changes in Net Assets</b>	(644,054)	1,107,678	463,624
<b>Beginning Net Assets</b>	<u>6,584,282</u>	<u>8,170,967</u>	<u>14,755,249</u>
<b>Ending Net Assets</b>	<u>\$ 5,940,228</u>	<u>\$ 9,278,645</u>	<u>\$ 15,218,873</u>

The City's overall net assets increased by \$463,624 during FY 2008-09. This increase is explained in the government and business-type activities as discussed below.

<i>Fiscal Year Ended June 30, 2008</i>			<i>Change</i>		
<i>Governmental</i>	<i>Business-</i>		<i>Governmental</i>	<i>Business-</i>	
<i>Activities</i>	<i>Type</i>	<i>Total</i>	<i>Activities</i>	<i>Type</i>	<i>Total</i>
<i>Activities</i>	<i>Activities</i>		<i>Activities</i>	<i>Activities</i>	
\$ 645,709	\$ 1,518,963	\$ 2,164,672	\$ (34,658)	\$ 26,775	\$ (7,883)
297,637	-	297,637	(14,242)	-	(14,242)
75,545	245,906	321,451	(944)	(127,713)	(128,657)
<u>1,018,891</u>	<u>1,764,869</u>	<u>2,783,760</u>	<u>(49,844)</u>	<u>(100,938)</u>	<u>(150,782)</u>
1,538,835	-	1,538,835	49,290	-	49,290
296,777	-	296,777	(9,184)	-	(9,184)
349,954	100,884	450,838	19,485	(51,139)	(31,654)
<u>2,185,566</u>	<u>100,884</u>	<u>2,286,450</u>	<u>59,591</u>	<u>(51,139)</u>	<u>8,452</u>
<u>3,204,457</u>	<u>1,865,753</u>	<u>5,070,210</u>	<u>9,747</u>	<u>(152,077)</u>	<u>(142,330)</u>
(88,779)	88,779	-	(834,112)	834,112	-
991,562	-	991,562	346,371	-	346,371
1,004,051	-	1,004,051	73,850	-	73,850
302,870	-	302,870	(13,772)	-	(13,772)
163,848	-	163,848	10,565	-	10,565
47,024	-	47,024	8,998	-	8,998
-	805,477	805,477	-	44,072	44,072
-	532,046	532,046	-	98,458	98,458
-	53,837	53,837	-	(5,001)	(5,001)
<u>2,509,355</u>	<u>1,391,360</u>	<u>3,900,715</u>	<u>426,012</u>	<u>137,529</u>	<u>563,541</u>
606,323	563,172	1,169,495	(1,250,377)	544,506	(705,871)
<u>5,977,959</u>	<u>7,607,795</u>	<u>13,585,754</u>	<u>606,323</u>	<u>563,172</u>	<u>1,169,495</u>
<u>\$ 6,584,282</u>	<u>\$ 8,170,967</u>	<u>\$ 14,755,249</u>	<u>\$ (644,054)</u>	<u>\$ 1,107,678</u>	<u>\$ 463,624</u>

*Governmental activities* - Governmental activities decreased the City's net assets by \$.6 million, due primarily to transfers to the business-type activities. The investment in capital assets net of debt increased by \$37,548, this was primarily due to borrowing by the Urban Renewal General Fund for construction of capital assets. Restricted assets decreased by \$509,923. The decrease resulted from the Urban Renewal Agency's use of cash to construct capital assets. Other significant governmental activity was the construction of capital assets by the Land, Building, and Equipment Fund.

There were appropriations transfers made from contingency for the General Fund during the year.

*Business-type activities* - Business-type activities increased the City's net assets by \$1.1 million. The increase was primarily due to transfers from the governmental activities. The City sold \$6.125 million of full faith and credit obligations. The proceeds will be used to upgrade the City's 1950 era sanitary sewer system. It is anticipated that the sewer infrastructure project will be completed by the end of fiscal 2010.

## Capital Assets and Debt Administration

### Capital Assets

At June 30, 2009, the City had approximately \$13.9 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, 2009

	<i>Governmental Activities</i>		<i>Total Percentage Change</i>
	<i>2009</i>	<i>2008</i>	<i>2008-2009</i>
Land	\$ 128,233	\$ 128,233	- %
Improvements	211,592	188,896	12.02
Buildings	1,728,216	1,782,370	(3.04)
Equipment	341,622	335,329	1.88
Infrastructure	1,422,140	1,439,427	(1.20)
<i>Total</i>	<i>\$ 3,831,803</i>	<i>\$ 3,874,255</i>	<i>(1.10) %</i>
	<i>Business-type Activities</i>		<i>Total Percentage Change</i>
	<i>2009</i>	<i>2008</i>	<i>2008-2009</i>
Land	\$ 853,202	\$ 853,202	- %
Improvements	86,124	64,547	33.43
Buildings	254,483	260,861	(2.44)
Equipment	434,293	417,827	3.94
Infrastructure	8,419,270	6,760,815	24.53
<i>Total</i>	<i>\$ 10,047,372</i>	<i>\$ 8,357,252</i>	<i>20.22 %</i>

Major capital asset activities during the fiscal year included purchase of a new police vehicle, Neabeack Hill park improvements and \$1.9 million of infrastructure improvements to upgrade the City's 1950 era sanitary sewer system.

*Debt*

At the end of the current fiscal year, the City had total debt outstanding of \$7,837,253. Of this amount, \$970,592 represents outstanding notes payable for the governmental funds. A note payable for \$620,592 is outstanding on the Lakeside Industrial property. Lakeside reimburses the City annually for principal and interest payments. The City has a lien on the Lakeside property for the amount of the loan. An Urban Renewal note payable in the amount of \$350,000 is paid from ad-valorem taxes, but did not require voter approval.

The remainder of the City's debt is for business-type activities and includes two outstanding water notes payable, one sewer note and one sewer bond payable, and one storm drain note payable. The total amount of water debt outstanding at June 30, 2009 is \$303,722. The notes payable are paid from net revenues of the water system. The sewer note payable had an outstanding balance at June 30, 2009 of \$200,000. The sewer bonds payable resulted from a sale of \$6.125 million in full faith and credit obligations during the current fiscal year. The credit obligations will be paid over the next 25 years. The first principal payment will be due in June 2011. The sewer debt is paid from net revenues of the sewer system and sewer systems development charges. The amount of storm drain debt outstanding at June 30, 2009 is \$237,939. The note is paid from storm drain systems development charges.

	<b>June 30, 2009</b>		
	<i><b>Governmental Activities</b></i>	<i><b>Business- Type Activities</b></i>	<i><b>Total Government</b></i>
<i><b>Governmental</b></i>			
General obligation	\$ -	\$ 6,125,000	\$ 6,125,000
Urban renewal	350,000	-	350,000
Notes payable	620,592	741,661	1,362,253
	<hr/>	<hr/>	<hr/>
<i>Total Outstanding Debt</i>	<u>\$ 970,592</u>	<u>\$ 6,866,661</u>	<u>\$ 7,837,253</u>

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

<b>June 30, 2008</b>			<b>Change</b>		
<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total Government</i>	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total Government</i>
\$ -	\$ -	\$ -	\$ -	\$ 6,125,000	\$ 6,125,000
430,000	-	430,000	(80,000)	-	(80,000)
638,883	811,088	1,449,971	(18,291)	(69,427)	(87,718)
<u>\$ 1,068,883</u>	<u>\$ 811,088</u>	<u>\$ 1,879,971</u>	<u>\$ (98,291)</u>	<u>\$ 6,055,573</u>	<u>\$ 5,957,282</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 2009-10 budget:

- The City's population has grown steady at around 1.5% per year for the last several years.
- Although the City has not been unduly effected by the housing crisis, residential construction is expected to be slower going into and most likely through FY 2009-10.
- Sluggish construction activity in general will result in SDC collections similar to FY 2008-09 but down by 50-60% compared to prior years.
- 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.
- Assessed values, the basis of property tax revenues, have been growing at about 4.5% per year. The 2008-09 assessed values increased by 3.9%. Construction will not add significant value due to the downturn in housing construction.
- Interest rates on investments are expected to be between .5% and 1%.

- Water and Sewer utility rates increase by 2.7%.
- Health benefit costs will increase by 12%.

The City's adopted budget for FY 2009-10 reflects total estimated resources of \$14,387,680 which exceeds total estimated expenditures by \$5,579,492.

### **Requests for Information**

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

***BASIC FINANCIAL STATEMENTS***

**CITY OF PHILOMATH, OREGON**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

	<i><b>Governmental Activities</b></i>	<i><b>Business-type Activities</b></i>	<i><b>Total</b></i>
<b>ASSETS</b>			
Cash and investments	\$ 1,961,410	\$ 6,108,805	\$ 8,070,215
Receivables			
Accounts	5,391	163,010	168,401
Property taxes	67,174	-	67,174
Special assessments/loans	226,754	-	226,754
Other receivables	66,147	-	66,147
Prepaid expenses	72,962	-	72,962
Internal balances			
Loans receivable	1,239,303	-	1,239,303
Nondepreciable capital assets	128,233	853,202	981,435
Depreciable capital assets, net	3,703,570	9,194,170	12,897,740
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	7,470,944	16,319,187	23,790,131
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	407,859	134,686	542,545
Noncurrent liabilities:			
Due within one year:			
Notes payable	98,394	76,851	175,245
Due in more than one year:			
Notes payable	872,198	664,810	1,537,008
Bonds payable	-	6,125,000	6,125,000
Accrued compensated absences	152,265	39,195	191,460
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	1,530,716	7,040,542	8,571,258
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	3,481,803	8,666,839	12,148,642
Restricted for:			
Community Development	625,285	-	625,285
Construction	368,173	508,635	876,808
Debt service	76,618	-	76,618
Streets	89,216	-	89,216
Urban Renewal	27,031	-	27,031
Unrestricted	1,272,102	103,171	1,375,273
	<hr/>	<hr/>	<hr/>
<i>Total Net Assets</i>	<u>\$ 5,940,228</u>	<u>\$ 9,278,645</u>	<u>\$ 15,218,873</u>

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

**CITY OF PHILOMATH, OREGON**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2009**

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>FUNCTIONS/PROGRAMS</b>			
<b>Governmental activities:</b>			
General government	\$ 1,337,933	\$ 544,175	\$ 100,000
Police	1,077,901	14,322	7,285
Streets	289,098	52,554	174,349
Public works	174,413	-	1,761
Interest on long-term debt	56,022	-	-
<i>Total governmental activities</i>	<u>2,935,367</u>	<u>611,051</u>	<u>283,395</u>
<b>Business-type activities:</b>			
Water	849,549	793,150	-
Sewer	630,504	710,082	-
Storm drain	48,836	42,506	-
<i>Total business-type activities</i>	<u>1,528,889</u>	<u>1,545,738</u>	<u>-</u>
Total primary government	<u>\$ 4,464,256</u>	<u>\$ 2,156,789</u>	<u>\$ 283,395</u>
<b>General Revenues:</b>			
Taxes and assessments			
Franchise fees			
Intergovernmental			
Miscellaneous			
<i>Total general revenues</i>			
<b>Transfers</b>			
<b>Change in net assets</b>			
<i>Net assets, July 1, 2008</i>			
<i>Net assets, June 30, 2009</i>			

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

<i>Capital Grants and Contributions</i>	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
\$ 8,467	\$ (685,291)	\$ -	\$ (685,291)
-	(1,056,294)	-	(1,056,294)
66,134	3,939	-	3,939
-	(172,652)	-	(172,652)
-	(56,022)	-	(56,022)
74,601	(1,966,320)	-	(1,966,320)
54,844	-	(1,555)	(1,555)
49,300	-	128,878	128,878
14,049	-	7,719	7,719
118,193	-	135,042	135,042
<u>\$ 192,794</u>	(1,966,320)	135,042	(1,831,278)
	1,588,125	-	1,588,125
	287,593	-	287,593
	100,465	-	100,465
	268,974	49,745	318,719
	2,245,157	49,745	2,294,902
	(922,891)	922,891	-
	(644,054)	1,107,678	463,624
	6,584,282	8,170,967	14,755,249
	<u>\$ 5,940,228</u>	<u>\$ 9,278,645</u>	<u>\$ 15,218,873</u>

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

**CITY OF PHILOMATH, OREGON**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2009**

	<u>General</u>	<u>Community Development</u>	<u>Urban Renewal General</u>
<b>ASSETS</b>			
Cash and investments	\$ 171,307	\$ 112,875	\$ 27,031
Receivables			
Accounts	-	-	-
Property taxes	50,522	-	-
Special assessments/loans	27,901	-	-
Other receivables	26,953	-	-
Prepaid expenses	72,962	-	-
Loans receivable	720,592	518,711	-
	<u>1,070,237</u>	<u>631,586</u>	<u>27,031</u>
<i>Total Assets</i>	<u>\$ 1,070,237</u>	<u>\$ 631,586</u>	<u>\$ 27,031</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 41,505	\$ 6,300	\$ -
Other current liabilities	3,678	-	-
Deferred revenue	793,929	518,711	-
	<u>839,112</u>	<u>525,011</u>	<u>-</u>
<i>Total Liabilities</i>	839,112	525,011	-
<b>Fund Balances</b>			
Reserved for prepaids	72,962	-	-
Unreserved, reported in:			
General fund	158,163	-	-
Special revenue funds	-	106,575	27,031
Capital projects funds	-	-	-
Debt services funds	-	-	-
	<u>231,125</u>	<u>106,575</u>	<u>27,031</u>
<i>Total Fund Balances</i>	<u>231,125</u>	<u>106,575</u>	<u>27,031</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,070,237</u>	<u>\$ 631,586</u>	<u>\$ 27,031</u>

<i>Land Building &amp; Equipment</i>	<i>Systems Development</i>	<i>Other Governmental Funds</i>	<i>Totals</i>
\$ 1,342,782	\$ 191,465	\$ 115,950	\$ 1,961,410
-	-	5,391	5,391
-	-	16,652	67,174
21,830	176,859	164	226,754
151	-	31,399	58,503
-	-	-	72,962
-	-	-	1,239,303
<u>\$ 1,364,763</u>	<u>\$ 368,324</u>	<u>\$ 169,556</u>	<u>\$ 3,631,497</u>
\$ 331,269	\$ 151	\$ 3,723	\$ 382,948
-	-	-	3,678
21,830	176,859	15,109	1,526,438
<u>353,099</u>	<u>177,010</u>	<u>18,832</u>	<u>1,913,064</u>
-	-	-	72,962
-	-	-	158,163
-	-	89,216	222,822
1,011,664	191,314	-	1,202,978
-	-	61,508	61,508
<u>1,011,664</u>	<u>191,314</u>	<u>150,724</u>	<u>1,718,433</u>
<u>\$ 1,364,763</u>	<u>\$ 368,324</u>	<u>\$ 169,556</u>	<u>\$ 3,631,497</u>

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

**CITY OF PHILOMATH, OREGON**  
**RECONCILIATION TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

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**RECONCILIATION TO THE STATEMENT OF NET ASSETS**

<i>Fund Balances</i>	\$ 1,718,433
<p>All receivables are reported in the statement of net assets. However, if they are not due and payable in the current period, they are not recorded in governmental funds.</p>	
Accrued interest receivable	7,644
<p>The statement of net assets reports receivables at their net realizable value. However, receivables not available to pay for current-period expenditures are deferred in governmental funds.</p>	
	1,526,438
<p>Capital assets are not financial resources in governmental funds, but are reported in the statement of net assets at their net depreciable value.</p>	
	3,831,803
<p>All liabilities are reported in the statement of net assets. However, if they are not due and payable in the current period, they are not recorded in governmental funds.</p>	
Notes payable	(970,592)
Accrued compensated absences	(152,265)
Accrued interest payable	(21,233)
	<hr/>
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 5,940,228</u></u>

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

**CITY OF PHILOMATH, OREGON****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2009**

	<u>General</u>	<u>Community Development</u>	<u>Urban Renewal General</u>
<b>REVENUES</b>			
Taxes and assessments	\$ 1,181,836	\$ -	\$ -
Licenses and permits	245,694	-	-
Charges for services	245,098	-	-
Intergovernmental	201,842	-	-
Fines and forfeitures	250,697	-	-
Miscellaneous	46,105	38,196	2,251
	<u>2,171,272</u>	<u>38,196</u>	<u>2,251</u>
<i>Total Revenues</i>	2,171,272	38,196	2,251
<b>EXPENDITURES</b>			
Current operating:			
General government	930,544	41,529	14,263
Police	1,038,409	-	-
Streets	-	-	-
Public works	157,436	-	-
Capital outlay:			
General government	-	-	-
Police	-	-	-
Streets	-	-	-
Public works	-	-	-
Water	-	-	1,845
Sewer	-	-	1,309,265
Debt service:			
Principal	-	-	-
Interest	-	-	-
Bond issue costs	-	-	-
	<u>2,126,389</u>	<u>41,529</u>	<u>1,325,373</u>
<i>Total Expenditures</i>	2,126,389	41,529	1,325,373
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	44,883	(3,333)	(1,323,122)
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund loan proceeds	-	-	550,000
Interfund loan payments	-	-	-
Proceeds from issuance of debt	-	-	-
Bond premium	-	-	-
Transfers in	-	-	560,000
Transfers out	(129,500)	-	-
	<u>(129,500)</u>	<u>-</u>	<u>1,110,000</u>
<i>Total Other Financing Sources (Uses)</i>	(129,500)	-	1,110,000
<b>NET CHANGE IN FUND BALANCES</b>	(84,617)	(3,333)	(213,122)
<b>FUND BALANCES, Beginning of year</b>	<u>315,742</u>	<u>109,908</u>	<u>240,153</u>
<b>FUND BALANCES (Deficit), End of year</b>	<u>\$ 231,125</u>	<u>\$ 106,575</u>	<u>\$ 27,031</u>

<i>Land Building &amp; Equipment</i>	<i>Systems Development General</i>	<i>Other Governmental Funds</i>	<i>Totals</i>
\$ -	\$ -	\$ 393,250	\$ 1,575,086
-	43,553	90,279	379,526
-	-	52,554	297,652
1,761	-	174,349	377,952
14,322	-	-	265,019
92,987	8,497	51,615	239,651
<u>109,070</u>	<u>52,050</u>	<u>762,047</u>	<u>3,134,886</u>
-	-	-	986,336
-	-	-	1,038,409
-	-	247,801	247,801
-	-	-	157,436
70,003	-	-	70,003
51,789	-	-	51,789
25,627	54,720	-	80,347
3,427	-	-	3,427
25,123	-	-	26,968
638,872	-	-	1,948,137
-	-	180,291	180,291
-	-	51,812	51,812
161,398	-	-	161,398
<u>976,239</u>	<u>54,720</u>	<u>479,904</u>	<u>5,004,154</u>
(867,169)	(2,670)	282,143	(1,869,268)
82,000	-	-	632,000
(550,000)	-	-	(550,000)
638,872	-	-	638,872
34,454	-	-	34,454
547,100	-	13,000	1,120,100
-	-	(625,900)	(755,400)
<u>752,426</u>	<u>-</u>	<u>(612,900)</u>	<u>1,120,026</u>
(114,743)	(2,670)	(330,757)	(749,242)
<u>1,126,407</u>	<u>193,984</u>	<u>481,481</u>	<u>2,467,675</u>
<u>\$ 1,011,664</u>	<u>\$ 191,314</u>	<u>\$ 150,724</u>	<u>\$ 1,718,433</u>

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

**CITY OF PHILOMATH, OREGON**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009**

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Net change in fund balances - total governmental funds \$ (749,242)

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

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

However, the statement of activities recognizes such revenues at their net realizable value when earned, regardless of when received. 59,080

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (14,219)

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 (4,208)

The net effect of disposals of capital assets is to reduce net assets. (11,126)

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. 8,696

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

Capital outlay 2,180,671  
Assets transferred to enterprise funds (1,407,507)  
Depreciation (165,618)

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

Proceeds from issuance of debt  
Full faith and credit obligations (638,872)  
Debt principal paid  
Bonds and notes 98,291

Change in net assets of governmental activities. \$ (644,054)

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**CITY OF PHILOMATH, OREGON**

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

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
 JUNE 30, 2009

	<i>Business-type Activities</i>		
	<i>Water</i>	<i>Sewer</i>	<i>Storm Drain</i>
<b>ASSETS</b>			
Cash and investments	\$ 26,110	\$ 5,540,388	\$ 25,344
Accounts receivable	84,625	73,432	4,953
Nondepreciable capital assets	219,594	633,608	-
Depreciable capital assets, net	3,285,798	4,796,500	1,111,872
<i>Total Assets</i>	3,616,127	11,043,928	1,142,169
<b>LIABILITIES</b>			
Accounts payable	19,460	106,615	283
Noncurrent liabilities			
Due within one year	31,629	35,000	-
Due in more than one year	272,093	6,290,000	-
Accrued compensated absences	22,871	16,324	-
<i>Total Liabilities</i>	346,053	6,447,939	283
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	3,201,670	4,591,236	1,111,872
Restricted for construction	-	-	-
Unrestricted	68,404	4,753	30,014
<i>Total Net Assets</i>	\$ 3,270,074	\$ 4,595,989	\$ 1,141,886

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<i>System Development Business</i>	<i>Totals</i>
\$ 516,963	\$ 6,108,805
-	163,010
-	853,202
-	9,194,170
516,963	16,319,187
8,328	134,686
10,222	76,851
227,717	6,789,810
-	39,195
246,267	7,040,542
(237,939)	8,666,839
508,635	508,635
-	103,171
<u>\$ 270,696</u>	<u>\$ 9,278,645</u>

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

**CITY OF PHILOMATH, OREGON****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2009**

	<i>Business-type Activities</i>		
	<i>Water</i>	<i>Sewer</i>	<i>Storm Drain</i>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 793,150	\$ 710,082	\$ 42,506
Licenses and permits	-	-	-
Miscellaneous	5,946	3,227	5
<i>Total Operating Revenues</i>	<u>799,096</u>	<u>713,309</u>	<u>42,511</u>
<b>OPERATING EXPENSES</b>			
Personal services	310,577	205,220	-
Materials and services	299,750	188,631	9,453
Depreciation	132,576	116,392	24,865
<i>Total Operating Expenses</i>	<u>742,903</u>	<u>510,243</u>	<u>34,318</u>
<b>OPERATING INCOME (LOSS)</b>	56,193	203,066	8,193
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment revenue	805	750	375
Property lease	-	17,680	-
Interest expense	(20,094)	(120,261)	-
Gain (loss) on sale of capital assets	(86,552)	-	-
<i>Total Nonoperating Revenue (Expenses)</i>	<u>(105,841)</u>	<u>(101,831)</u>	<u>375</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	(49,648)	101,235	8,568
Transfers in	47,934	1,357,728	1,845
Transfers out	(105,000)	(238,700)	(21,000)
<b>CHANGE IN NET ASSETS</b>	(106,714)	1,220,263	(10,587)
<b>NET ASSETS, Beginning of year</b>	<u>3,376,788</u>	<u>3,375,726</u>	<u>1,152,473</u>
<b>NET ASSETS, End of year</b>	<u>\$ 3,270,074</u>	<u>\$ 4,595,989</u>	<u>\$ 1,141,886</u>

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<i>System Development Business</i>	<i>Totals</i>
\$ -	\$ 1,545,738
118,193	118,193
-	9,178
118,193	1,673,109
-	515,797
-	497,834
-	273,833
-	1,287,464
118,193	385,645
20,957	22,887
-	17,680
(14,518)	(154,873)
-	(86,552)
6,439	(200,858)
124,632	184,787
-	1,407,507
(119,916)	(484,616)
4,716	1,107,678
265,980	8,170,967
<u>\$ 270,696</u>	<u>\$ 9,278,645</u>

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

**CITY OF PHILOMATH, OREGON**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2009**

	<u>Water</u>	<u>Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 800,307	\$ 714,654
Cash paid to employees for services	(316,937)	(212,198)
Cash paid to suppliers for goods and services	(299,181)	(86,778)
	<hr/>	<hr/>
<i>Net cash provided by (used for) operating activities</i>	184,189	415,678
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers out	(105,000)	(238,700)
	<hr/>	<hr/>
<i>Net cash used for noncapital financing activities</i>	(105,000)	(238,700)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Bond proceeds received	-	5,486,128
Principal payments on notes, bonds, and certificates	(29,783)	(30,000)
Interest payments on notes, bonds, and certificates	(20,094)	(120,261)
Acquisition and construction of capital assets	(4,125)	-
	<hr/>	<hr/>
<i>Net cash used for capital and related financing activities</i>	(54,002)	5,335,867
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest revenue	805	750
Property lease	-	17,680
	<hr/>	<hr/>
<i>Net cash provided by (used for) investing activities</i>	805	18,430
<b>NET INCREASE (DECREASE) IN CASH</b>	25,992	5,531,275
<b>CASH, beginning of year</b>	118	9,113
	<hr/>	<hr/>
<b>CASH, end of year</b>	<u>\$ 26,110</u>	<u>\$ 5,540,388</u>

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<i>Storm Drain</i>	<i>Systems Development Business</i>	<i>Totals</i>
\$ 42,398	\$ 118,193	\$ 1,675,552
-	-	(529,135)
(9,179)	(6,088)	(401,226)
33,219	112,105	745,191
(21,000)	(119,916)	(484,616)
(21,000)	(119,916)	(484,616)
-	-	5,486,128
-	(9,644)	(69,427)
-	(14,518)	(154,873)
-	-	(4,125)
-	(24,162)	5,257,703
375	20,957	22,887
-	-	17,680
375	20,957	40,567
12,594	(11,016)	5,558,845
12,750	527,979	549,960
<u>\$ 25,344</u>	<u>\$ 516,963</u>	<u>\$ 6,108,805</u>

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

**CITY OF PHILOMATH, OREGON**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)**

**YEAR ENDED JUNE 30, 2009**

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	<u>Water</u>	<u>Sewer</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating income	\$ 56,193	\$ 203,066
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	132,576	116,392
(Increase) Decrease in accounts receivable	1,211	1,345
Increase (Decrease) in accounts payable	569	101,853
Increase (Decrease) in compensated absences payable	(6,360)	(6,978)
	<u>          </u>	<u>          </u>
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 184,189</u>	<u>\$ 415,678</u>

**NONCASH TRANSACTIONS**

Capital assets purchased in the Land, Building and Equipment Fund and Systems Development Business were transferred	\$ 47,934	\$ 1,357,728
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<i>Storm Drain</i>	<i>Systems Development Business</i>	<i>Totals</i>
\$ 8,193	\$ 118,193	\$ 385,645
24,865	-	273,833
(113)	-	2,443
274	(6,088)	96,608
-	-	(13,338)
<u>\$ 33,219</u>	<u>\$ 112,105</u>	<u>\$ 745,191</u>
\$ 1,845	\$ -	\$ 1,407,507

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

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

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

*The Financial Reporting Entity*

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

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

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

*Basic Financial Statements*

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

*Fund financial statements* display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the City has governmental (general, special revenue, capital projects and debt service funds) and proprietary (enterprise) type funds.

**CITY OF PHILOMATH, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2009

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

*Basic Financial Statements (Continued)*

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

GASB 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenses of either fund category or the government and enterprise combined) for the determination of major funds. Major individual funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the other supplementary information.

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

- Sewer
- Water
- Storm Drain
- Systems Development Business

*Measurement Focus and Basis of Accounting*

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

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 30 days after year end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on long-term debt are recorded as fund liabilities when due. For budgetary purposes, interfund loan transactions are recorded as an other financing source in the fund receiving the loan (or the loan repayment) and as an other financing use in the fund making the loan (or the repayment).

**CITY OF PHILOMATH, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2009

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

*Measurement Focus and Basis of Accounting (Continued)*

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

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

*Governmental Fund Types*

*General Fund*

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

*Special Revenue Funds*

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

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

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

*Urban Renewal General Fund* - This fund is presented as a blended component unit of the City.

*Debt Service Funds*

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

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

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

**ORGANIZATION AND OPERATION (Continued)**

*Governmental Fund Types (Continued)*

*Capital Projects Funds*

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

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

*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. For budgetary comparison purposes, the components of this fund have been combined.

*Proprietary Fund Types*

*Enterprise Funds*

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

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

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

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

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

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenditures as of and for the year ended June 30, 2009. Actual results may differ from such estimates.

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

*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 and Deferred Revenues*

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

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

Property taxes receivable for the governmental fund types, 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 principal payments are received. All notes receivable are offset by deferred revenue.

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

*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

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

*Capital Assets (Continued)*

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.

*Long-Term Obligations*

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

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

*Accrued Compensated Absences*

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

*Interfund Transactions*

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

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 Fund Activity*

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 City enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service 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, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2009

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

*Budget and Budgetary Accounting*

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

*Use of Restricted Assets*

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

*Internal Balances*

During the year ended June 30, 2009, the Land, Building and Equipment Fund loaned \$550,000 to the Urban Renewal Agency fund. The Urban Renewal Agency Fund repaid \$82,000 during the year, leaving a balance at June 30, 2009 of \$468,000. The balance is due in two years. Amounts due to/due from other funds are required to be reported as internal balances on the government-wide statements. However, since both funds are governmental funds, no internal balance is shown on the government-wide Statement of Net Assets.

**CASH AND INVESTMENTS**

Cash and investments are comprised of the following at June 30, 2009:

	<u>Carrying Value</u>	<u>Fair Value</u>
<b>Cash</b>		
Cash on hand	\$ 525	\$ 525
Deposits with financial institutions	69,492	69,492
<b>Investments</b>		
Local Government Investment Pool	8,000,198	8,000,198
	<u>\$ 8,070,215</u>	<u>\$ 8,070,215</u>

*Deposits*

At year end, the book balance of the City's bank deposits (checking accounts) was \$69,492 and the bank balance was \$177,022. The difference is due to transactions in process. Deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

**CITY OF PHILOMATH, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2009

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**CASH AND INVESTMENTS (Continued)**

*Investments*

The State Treasurer of the State of Oregon maintains the Oregon Short-term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2009, the fair value of the position in the Oregon State Treasurer's Short-term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-term Fund is not subject to risk evaluation. The LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-term Fund are available from the Oregon State Treasurer.

*Interest Rate Risk*

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

*Custodial Risk - Investments*

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

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-loan diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

**CITY OF PHILOMATH, OREGON**  
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED JUNE 30, 2009

**PROPERTY TAXES RECEIVABLE**

<u>Fund Type</u>	<u>Receivable</u>	<u>Available</u>	<u>Deferred</u>
General Fund	\$ 50,522	\$ 5,086	\$ 45,436
City Economic Development Fund	34	-	34
Urban Renewal Debt Service Fund	16,618	1,707	14,911
<i>Total</i>	<u>\$ 67,174</u>	<u>\$ 6,793</u>	<u>\$ 60,381</u>

**LOANS RECEIVABLE**

Loans receivable on the governmental funds balance sheet in the Community Development Fund represent amounts due from property owners for Community Development Block Grant (CDBG) loans. These loans are secured by real estate and are generally due when the real estate is transferred. The balance of these notes at June 30, 2009 was \$518,711.

The following loans receivable are recorded in the General Fund.

Contract for sale of police building, monthly payments of \$957 including interest at 6.5% to begin February 2010	\$ 100,000
Contract receivable from Lakeside Industrial Park, annual payments of approximately \$43,000, including interest from 3.0% to 4.5% (payments on receivable mirror the payments due on the loan to OECDD)	<u>620,592</u>
	<u>\$ 720,592</u>

The CDBG loans do not bear interest, and are due when the property securing the loans is transferred. The terms of the loan between the Urban Renewal Agency and the Land, Building and Equipment Fund are disclosed in the footnote for long-term debt.

**CITY OF PHILOMATH, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2009**

**CAPITAL ASSETS**

The summary of capital assets for the business-type activities for the year ended June 30, 2009 is as follows:

	<i><b>Balances</b></i> <i><b>July 1,</b></i> <i><b>2008</b></i>	<i><b>Additions</b></i>	<i><b>Retirements</b></i>	<i><b>Balances</b></i> <i><b>June 30,</b></i> <i><b>2009</b></i>
Nondepreciable:				
Land	\$ 853,202	\$ -	\$ -	\$ 853,202
Depreciable:				
Improvements	107,652	24,656	-	132,308
Buildings	413,441	2,929	-	416,370
Equipment	1,080,665	70,310	(53,671)	1,097,304
Infrastructure	9,761,830	1,952,609	(187,947)	11,526,492
	<u>11,363,588</u>	<u>2,050,504</u>	<u>(241,618)</u>	<u>13,172,474</u>
Accumulated depreciation:				
Improvements	(43,105)	(3,079)	-	(46,184)
Buildings	(152,580)	(9,307)	-	(161,887)
Equipment	(662,838)	(53,844)	53,671	(663,011)
Infrastructure	(3,001,015)	(207,602)	101,395	(3,107,222)
	<u>(3,859,538)</u>	<u>(273,832)</u>	<u>155,066</u>	<u>(3,978,304)</u>
Depreciable capital assets, net	<u>7,504,050</u>	<u>1,776,672</u>	<u>(86,552)</u>	<u>9,194,170</u>
Capital assets, net	<u>\$ 8,357,252</u>	<u>\$ 1,776,672</u>	<u>\$ (86,552)</u>	<u>\$ 10,047,372</u>

During the current year the City issued \$6,125,000 of full faith and credit obligations to pay for various sewer-related construction projects. \$638,872 of the debt proceeds received and the construction costs paid were recorded in the Land, Building, and Equipment Fund. Bond issue costs paid and bond premiums received were also recorded in the Land, Building, and Equipment Fund. For GAAP purposes, sewer-related capital assets were recorded as transfers out of the Land, Building, and Equipment Fund and as capital assets and transfers in to the Sewer Fund. Unspent bond proceeds in the amount of \$5,486,128 were recorded in the Sewer Fund. The Sewer Fund investment in capital assets account at June 30, 2009 does not include debt equal to the unspent portion of bond proceeds.

Depreciation expense for the year was allocated as follows:

Water	\$ 132,576
Sewer	116,392
Storm Drain	24,865
	<u>\$ 273,833</u>

**CITY OF PHILOMATH, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2009**

**CAPITAL ASSETS (Continued)**

The changes in the capital assets for governmental activities for the year ended June 30, 2009 are as follows:

	<b>Balances July 1, 2008</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balances June 30, 2009</b>
Nondepreciable:				
Land	\$ 128,233	\$ -	\$ -	\$ 128,233
Depreciable:				
Improvements	316,453	36,676	(370)	352,759
Buildings	2,159,391	-	(21,493)	2,137,898
Equipment	863,250	83,780	(53,532)	893,498
Infrastructure	1,599,977	13,836	-	1,613,813
	<u>4,939,071</u>	<u>134,292</u>	<u>(75,395)</u>	<u>4,997,968</u>
Accumulated depreciation:				
Improvements	(127,558)	(13,609)	-	(141,167)
Buildings	(377,021)	(43,542)	10,881	(409,682)
Equipment	(527,921)	(77,343)	53,388	(551,876)
Infrastructure	(160,549)	(31,124)	-	(191,673)
	<u>(1,193,049)</u>	<u>(165,618)</u>	<u>64,269</u>	<u>(1,294,398)</u>
Depreciable capital assets, net	<u>3,746,022</u>	<u>(31,326)</u>	<u>(11,126)</u>	<u>3,703,570</u>
Capital assets ,net	<u>\$ 3,874,255</u>	<u>\$ (31,326)</u>	<u>\$ (11,126)</u>	<u>\$ 3,831,803</u>

Depreciation expense for the year was allocated as follows:

General government	\$ 57,745
Police	43,495
Streets	46,686
Public works	17,692
	<u>\$ 165,618</u>

**DEFERRED REVENUE**

At June 30, 2009, deferred revenue on the balance sheet - governmental funds consisted of the following:

Property taxes	\$ 60,381
CDBG and other loans	1,239,303
Assesments	226,754
	<u>\$ 1,526,438</u>

*Total*

**CITY OF PHILOMATH, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2009**

**LONG-TERM DEBT**

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

	<u>Outstanding July 1, 2008</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2009</u>	<u>Due within One year</u>
<i>Governmental activities</i>					
Urban Renewal Agency bonds, series 2004 with interest at 4.22% for 5 years, then variable rates until 2013	\$ 430,000	\$ -	\$ (80,000)	\$ 350,000	\$ 80,000
OECD Lakeside loan, annual payments including interest at 4.16% until 2029	638,883	-	(18,291)	620,592	18,394
	1,068,883	-	(98,291)	970,592	\$ 98,394
Accrued vacation	160,962	-	(8,697)	152,265	
	<u>\$ 1,229,845</u>	<u>\$ -</u>	<u>\$ (106,988)</u>	<u>\$ 1,122,857</u>	
	<u>Outstanding July 1, 2008</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2009</u>	<u>Due within One year</u>
<i>Business-type activities</i>					
Oregon Economic Development Department annual payments of \$32,511 with interest at 6.13% until 2013	\$ 136,467	\$ -	\$ (24,146)	\$ 112,321	\$ 25,626
Oregon Economic Development Department annual payments of \$18,444 with interest at 6.5% until 2021	197,038	-	(5,637)	191,401	6,003
Storm Drain SPWF loan, annual payments of \$24,499 including interest at 6% until 2024	247,583	-	(9,644)	237,939	10,222
1999 STP bonds, interest at 8.75% until 2014	230,000	-	(30,000)	200,000	35,000
Full Faith and Credit Obligations, Series 2009 annual debt service starting at \$324,000 increasing to \$601,000 average interest of 4.2% until 2033	-	6,125,000	-	6,125,000	-
	811,088	6,125,000	(69,427)	6,866,661	\$ 76,851
Accrued vacation	52,533	-	(13,338)	39,195	
	<u>\$ 863,621</u>	<u>\$ 6,125,000</u>	<u>\$ (82,765)</u>	<u>\$ 6,905,856</u>	

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

**CITY OF PHILOMATH, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2009**

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**LONG-TERM DEBT (Continued)**

Future debt service requirements are as follows:

*Governmental Activities*

<b><i>Fiscal Year Ending June 30,</i></b>	<b><i>Principal</i></b>	<b><i>Interest</i></b>	<b><i>Total</i></b>
2010	\$ 98,394	\$ 40,066	\$ 138,460
2011	103,504	36,092	139,596
2012	113,618	31,903	145,521
2013	118,745	27,315	146,060
2014	23,876	22,439	46,315
2015-2019	121,574	99,226	220,800
2020-2024	156,178	72,895	229,073
2025-2029	192,338	36,255	228,593
2030	42,365	1,906	44,271
	<b><u>\$ 970,592</u></b>	<b><u>\$ 368,097</u></b>	<b><u>\$ 1,338,689</u></b>

*Business-type Activities*

<b><i>Fiscal Year Ending June 30,</i></b>	<b><i>Principal</i></b>	<b><i>Interest</i></b>	<b><i>Total</i></b>
2010	\$ 76,851	\$ 374,070	\$ 450,921
2011	144,426	286,609	431,035
2012	162,159	279,038	441,197
2013	185,060	270,588	455,648
2014	174,275	261,094	435,369
2015-2019	886,370	1,206,713	2,093,083
2020-2024	1,342,520	998,194	2,340,714
2025-2029	1,830,000	688,413	2,518,413
2030-2033	2,065,000	238,193	2,303,193
	<b><u>\$ 6,866,661</u></b>	<b><u>\$ 4,602,908</u></b>	<b><u>\$ 11,469,569</u></b>

**CITY OF PHILOMATH, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2009

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**PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)**

*Plan Description*

The City is a participating employer in the Oregon Public Employees Retirement System (“OPERS”), a cost-sharing multiple-employer defined benefit pension plan. The 2003 legislature adopted certain changes in the Oregon Public Employee Retirement System, and created a new system for all people hired after August 29, 2003. The Public Employee Retirement System (PERS), which was established under Oregon Revised Statute (ORS) 238.600, applies to all employees who had established membership prior to August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), which was established under ORS 238A and went into effect on January 1, 2004, applies to all people who are first employed with a public employer after August 29, 2003. The Public Employees Retirement Board (PERB) governs and acts as a common investment and administrative agent for both plans which are the retirement plans for most public employers in the State of Oregon. Benefits are established by state statute, and employer contributions are made at the actuarially determined rate for each system as adopted by the PERB. The Oregon Public Employees Retirement System, a component unit of the State of Oregon, issues a comprehensive annual financial report, which may be obtained by writing to Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

Both PERS and OPSRP plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

*Funding Status*

Covered employees are required by state statute to contribute 6.0 percent of their salary to the plan which is invested in the Individual Account Program (IAP). Employers are permitted to pay employee contributions to the fund.

The City is required by statute to contribute actuarially computed amounts as determined by OPERS. OPERS completes an actuarial valuation as of December 31 of odd numbered years for new rates to be implemented July 1 of the next odd numbered year. Rates are subject to change as a result of subsequent actuarial valuations and the proportion of the system that is funded for each local government employer. For rate changes implemented July 1, 2005, the PERB voted to phase in the rate changes for PERS (for most employers a rate increase). On July 1, 2007 the City’s rate decreased to 3.43 percent based on the 2005 valuation.

For OPSRP, all employers are included in a single pool, with separate rates assigned for police and fire participants and general service participants. Beginning July 1, 2007 OPSRP rates were set at 9.49% for Tier 1/Tier 2, 13.31% for police and fire and 10.05% for general service employees based on the December 31, 2005 valuation.

*Annual Pension Cost*

The City's contributions to PERS for the years ended June 30, 2007, 2008 and 2009 were \$185,911, \$183,944, and \$190,716, respectively, which equaled the required contribution for the year.

**CITY OF PHILOMATH, OREGON**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
 YEAR ENDED JUNE 30, 2009

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**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.

**INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2009, as reported on the government-wide statement of activities, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 129,500
Street	13,000	65,900
Urban Renewal - General	560,000	-
Urban Renewal - Debt	-	560,000
Land, Building and Equipment	547,100	1,407,507
Water	47,934	105,000
Sewer	1,357,728	238,700
Storm Drain	1,845	21,000
	<u>\$ 2,527,607</u>	<u>\$ 2,527,607</u>

Transfers are for operating purposes and capital asset purchases as authorized by the City Council.

**CITY OF PHILOMATH, OREGON**

*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*

*YEAR ENDED JUNE 30, 2009*

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**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.

**GASB PRONOUNCEMENTS ISSUED, NOT YET IN EFFECT**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have future effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on future financial statements.

GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", issued June 30, 2004, will be effective for the City beginning with its year ending June 30, 2010. This Statement establishes standards for measurement, recognition, and display of other postemployment benefits, expenses,, and related liabilities or assets, note disclosures, and if applicable, required supplementary information in the financial reports.

GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions", issued February, 2009 will be effective for the City beginning with its fiscal year ending June 30, 2011. The Statement establishes new classifications for fund equity and new definitions for governmental fund types.

***REQUIRED SUPPLEMENTARY INFORMATION***

**CITY OF PHILOMATH, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
YEAR ENDED JUNE 30, 2009**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Taxes and assessments	\$ 1,152,480	\$ 1,152,480	\$ 1,181,836	\$ 29,356
Licenses and permits	283,200	283,200	245,694	(37,506)
Charges for services	245,880	245,880	245,098	(782)
Intergovernmental	203,060	203,060	201,842	(1,218)
Fines and forfeitures	265,000	265,000	250,697	(14,303)
Miscellaneous	38,100	38,100	46,105	8,005
<i>Total Revenues</i>	<u>2,187,720</u>	<u>2,187,720</u>	<u>2,171,272</u>	<u>(16,448)</u>
<b>EXPENDITURES</b>				
Personnel services	1,436,049	1,436,049	1,383,560	52,489
Materials and services	772,171	791,171	742,829	48,342
Contingency	30,000	11,000	-	11,000
<i>Total Expenditures</i>	<u>2,238,220</u>	<u>2,238,220</u>	<u>2,126,389</u>	<u>111,831</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(50,500)	(50,500)	44,883	95,383
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(129,500)	(129,500)	(129,500)	-
<b>NET CHANGE IN FUND BALANCE</b>	(180,000)	(180,000)	(84,617)	95,383
<b>FUND BALANCE, Beginning of year</b>	<u>280,000</u>	<u>280,000</u>	<u>315,742</u>	<u>35,742</u>
<b>FUND BALANCE, End of year</b>	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 231,125</u>	<u>\$ 131,125</u>

**CITY OF PHILOMATH, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - COMMUNITY DEVELOPMENT FUND  
YEAR ENDED JUNE 30, 2009**

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Miscellaneous	\$ 68,458	\$ 68,458	\$ 38,196	\$ (30,262)
<b>EXPENDITURES</b>				
Materials and services	176,958	176,958	41,529	135,429
Contingency	-	-	-	-
<i>Total Expenditures</i>	<u>176,958</u>	<u>176,958</u>	<u>41,529</u>	<u>135,429</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(108,500)	(108,500)	(3,333)	105,167
<b>FUND BALANCE, Beginning of year</b>	<u>108,500</u>	<u>108,500</u>	<u>109,908</u>	<u>1,408</u>
<b>FUND BALANCE, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,575</u>	<u>\$ 106,575</u>

**CITY OF PHILOMATH, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - URBAN RENEWAL GENERAL FUND (BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2009**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Miscellaneous	\$ 13,000	\$ 13,000	\$ 2,251	\$ (10,749)
<b>EXPENDITURES</b>				
Materials and services	33,700	33,700	31,753	1,947
Capital outlay	1,603,870	1,603,870	1,293,620	310,250
<i>Total Expenditures</i>	<u>1,637,570</u>	<u>1,637,570</u>	<u>1,325,373</u>	<u>312,197</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(1,624,570)	(1,624,570)	(1,323,122)	301,448
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund loan proceeds	798,870	798,870	550,000	(248,870)
Transfers in	560,000	560,000	560,000	-
<i>Total Other Financing Sources (Uses)</i>	<u>1,358,870</u>	<u>1,358,870</u>	<u>1,110,000</u>	<u>(248,870)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(265,700)	(265,700)	(213,122)	52,578
<b>FUND BALANCE, Beginning of year</b>	<u>265,700</u>	<u>265,700</u>	<u>240,153</u>	<u>(25,547)</u>
<b>FUND BALANCE, End of year (budget)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,031</u>	<u>\$ 27,031</u>

***OTHER SUPPLEMENTARY INFORMATION***

**CITY OF PHILOMATH, OREGON**

*SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -*

*BUDGET AND ACTUAL - LAND, BUILDING AND EQUIPMENT FUND (BUDGETARY BASIS)*

*YEAR ENDED JUNE 30, 2009*

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Intergovernmental	\$ 2,209,350	\$ 2,209,350	\$ 1,295,381	\$ (913,969)
Fines and forfeitures	14,000	14,000	14,322	322
Miscellaneous	59,492	59,492	92,987	33,495
<i>Total Revenues</i>	<u>2,282,842</u>	<u>2,282,842</u>	<u>1,402,690</u>	<u>(880,152)</u>
<b>EXPENDITURES</b>				
Capital outlay	4,653,270	4,653,270	2,108,461	2,544,809
Debt service	-	-	161,398	(161,398)
<i>Total Expenditures</i>	<u>4,653,270</u>	<u>4,653,270</u>	<u>2,269,859</u>	<u>2,383,411</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(2,370,428)	(2,370,428)	(867,169)	(3,263,563)
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund loan repayment received	-	-	82,000	82,000
Bond proceeds	1,600,000	1,600,000	6,125,000	4,525,000
Bond premium	-	-	34,454	34,454
Transfers in	547,100	547,100	547,100	-
Interfund loan disbursed	-	-	(550,000)	(550,000)
<i>Total Other Financing Sources (Uses)</i>	<u>2,147,100</u>	<u>2,147,100</u>	<u>6,238,554</u>	<u>4,091,454</u>
<b>NET CHANGE IN FUND BALANCE</b>	(223,328)	(223,328)	5,371,385	5,594,713
<b>FUND BALANCE, Beginning of year</b>	<u>1,149,000</u>	<u>1,149,000</u>	<u>1,126,407</u>	<u>(22,593)</u>
<b>FUND BALANCE, End of year (budget)</b>	<u>\$ 925,672</u>	<u>\$ 925,672</u>	<u>6,497,792</u>	<u>\$ 5,572,120</u>
<b>Amount related to Sewer funding borrowing</b>			<u>(5,486,128)</u>	
<b>FUND BALANCE, End of year (GAAP)</b>			<u>\$ 1,011,664</u>	

**CITY OF PHILOMATH, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - SYSTEMS DEVELOPMENT FUND  
YEAR ENDED JUNE 30, 2009**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Licenses and permits	\$ 333,450	\$ 333,450	\$ 161,746	\$ (171,704)
Miscellaneous	45,000	45,000	29,454	(15,546)
<i>Total Revenues</i>	378,450	378,450	191,200	(187,250)
<b>EXPENDITURES</b>				
Capital outlay	669,000	669,000	174,636	494,364
Debt service				
Principal	9,645	9,645	9,644	1
Interest	14,855	14,855	14,855	-
<i>Total Expenditures</i>	693,500	693,500	199,135	494,365
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(315,050)	(315,050)	(7,935)	307,115
<b>FUND BALANCE, Beginning of year</b>	708,100	708,100	716,212	8,112
<b>FUND BALANCE, End of year</b>	\$ 393,050	\$ 393,050	\$ 708,277	\$ 315,227

**CITY OF PHILOMATH, OREGON**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2009**

	<b><i>Urban Renewal Debt</i></b>	<b><i>Economic Development</i></b>	<b><i>Street</i></b>	<b><i>Totals</i></b>
<b><i>ASSETS</i></b>				
Cash and investments	\$ 49,008	\$ 10,793	\$ 56,149	\$ 115,950
Receivables				
Accounts	-	-	5,391	5,391
Property taxes	16,618	34	-	16,652
Special assessments/loans	-	164	-	164
Other receivables	-	-	31,399	31,399
<i>Total Assets</i>	<b><u>\$ 65,626</u></b>	<b><u>\$ 10,991</u></b>	<b><u>\$ 92,939</u></b>	<b><u>\$ 169,556</u></b>
<b><i>LIABILITIES AND FUND BALANCES</i></b>				
<b><i>Liabilities</i></b>				
Accounts payable	\$ -	\$ -	\$ 3,723	\$ 3,723
Deferred revenue	14,911	198	-	15,109
<i>Total Liabilities</i>	14,911	198	3,723	18,832
<b><i>Fund Balances</i></b>				
Unreserved, reported in:				
Special revenue funds	-	-	89,216	89,216
Debt services funds	50,715	10,793	-	61,508
<i>Total Fund Balances</i>	50,715	10,793	89,216	150,724
<i>Total Liabilities and Fund Balances</i>	<b><u>\$ 65,626</u></b>	<b><u>\$ 10,991</u></b>	<b><u>\$ 92,939</u></b>	<b><u>\$ 169,556</u></b>

**CITY OF PHILOMATH, OREGON****COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2009**

	<b>Urban Renewal Debt</b>	<b>Economic Development</b>	<b>Street</b>	<b>Totals</b>
<b>REVENUES</b>				
Taxes and assessments	\$ 393,242	\$ 8	\$ -	\$ 393,250
Licenses and permits	-	-	90,279	90,279
Charges for services	-	-	52,554	52,554
Intergovernmental	-	-	174,349	174,349
Miscellaneous	6,195	44,360	1,060	51,615
	<u>399,437</u>	<u>44,368</u>	<u>318,242</u>	<u>762,047</u>
<i>Total Revenues</i>				
<b>EXPENDITURES</b>				
Current operating:				
Streets	-	-	247,801	247,801
Capital outlay:				
Debt service:				
Principal	162,000	18,291	-	180,291
Interest	25,945	25,867	-	51,812
	<u>187,945</u>	<u>44,158</u>	<u>247,801</u>	<u>479,904</u>
<i>Total Expenditures</i>				
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	211,492	210	70,441	282,143
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	13,000	13,000
Transfers out	(560,000)	-	(65,900)	(625,900)
	<u>(560,000)</u>	<u>-</u>	<u>(52,900)</u>	<u>(612,900)</u>
<i>Total Other Financing Sources (Uses)</i>				
<b>NET CHANGE IN FUND BALANCES</b>	(348,508)	210	17,541	(330,757)
<b>FUND BALANCES, Beginning of year</b>	<u>399,223</u>	<u>10,583</u>	<u>71,675</u>	<u>481,481</u>
<b>FUND BALANCES, End of year</b>	<u>\$ 50,715</u>	<u>\$ 10,793</u>	<u>\$ 89,216</u>	<u>\$ 150,724</u>

**CITY OF PHILOMATH, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - URBAN RENEWAL DEBT FUND (BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2009**

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	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Taxes and assessments	\$ 397,700	\$ 397,700	\$ 393,242	\$ (4,458)
Miscellaneous	24,300	24,300	6,195	(18,105)
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Revenues</i>	422,000	422,000	399,437	(22,563)
<b>EXPENDITURES</b>				
Debt service				
Principal	170,000	170,000	162,000	8,000
Interest	20,000	20,000	25,945	(5,945)
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Expenditures</i>	190,000	190,000	187,945	2,055
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	232,000	232,000	211,492	(20,508)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(560,000)	(560,000)	(560,000)	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>NET CHANGE IN FUND BALANCE</b>	(328,000)	(328,000)	(348,508)	(20,508)
<b>FUND BALANCE, Beginning of year</b>	398,000	398,000	399,223	1,223
	<hr/>	<hr/>	<hr/>	<hr/>
<b>FUND BALANCE, End of year</b>	\$ 70,000	\$ 70,000	\$ 50,715	\$ (19,285)
	<hr/>	<hr/>	<hr/>	<hr/>

**CITY OF PHILOMATH, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - ECONOMIC DEVELOPMENT FUND  
YEAR ENDED JUNE 30, 2009**

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	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes and assessments	\$ -	\$ -	\$ 8	\$ 8
Miscellaneous	44,683	44,683	44,360	(323)
<i>Total Revenues</i>	44,683	44,683	44,368	(315)
<b>EXPENDITURES</b>				
Debt service				
Principal	18,291	18,291	18,291	-
Interest	25,867	25,867	25,867	-
<i>Total Expenditures</i>	44,158	44,158	44,158	-
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	525	525	210	(315)
<b>FUND BALANCE, Beginning of year</b>	10,575	10,575	10,583	8
<b>FUND BALANCE, End of year</b>	\$ 11,100	\$ 11,100	\$ 10,793	\$ (307)

**CITY OF PHILOMATH, OREGON****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - STREET FUND  
YEAR ENDED JUNE 30, 2009**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Licenses and permits	\$ 87,600	\$ 87,600	\$ 90,279	\$ 2,679
Charges for services	52,080	52,080	52,554	474
Intergovernmental	196,206	196,206	174,349	(21,857)
Miscellaneous	2,000	2,000	1,060	(940)
<i>Total Revenues</i>	<u>337,886</u>	<u>337,886</u>	<u>318,242</u>	<u>(19,644)</u>
<b>EXPENDITURES</b>				
Personnel services	129,742	129,742	126,174	3,568
Materials and services	185,244	185,244	121,627	63,617
Contingency	20,000	20,000	-	20,000
<i>Total Expenditures</i>	<u>334,986</u>	<u>334,986</u>	<u>247,801</u>	<u>87,185</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	2,900	2,900	70,441	67,541
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	13,000	13,000	13,000	-
Transfers out	(65,900)	(65,900)	(65,900)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(52,900)</u>	<u>(52,900)</u>	<u>(52,900)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(50,000)	(50,000)	17,541	67,541
<b>FUND BALANCE, Beginning of year</b>	<u>70,000</u>	<u>70,000</u>	<u>71,675</u>	<u>1,675</u>
<b>FUND BALANCE, End of year</b>	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 89,216</u>	<u>\$ 69,216</u>

**CITY OF PHILOMATH, OREGON****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - WATER FUND  
YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>GAAP Basis</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for services	\$ 829,184	\$ 829,184	\$ 793,150	\$ 793,150
Gain on the sale of assets	-	-	-	(86,552)
Miscellaneous	1,850	1,850	6,751	6,751
	<u>831,034</u>	<u>831,034</u>	<u>799,901</u>	<u>713,349</u>
<b>EXPENSES</b>				
Personnel services	323,372	323,372	316,936	310,577
Materials and services	357,706	357,706	299,750	299,750
Capital outlay/depreciation	8,000	8,000	4,125	132,576
Debt service	50,956	50,956	50,955	20,094
Contingency	30,000	-	-	-
	<u>770,034</u>	<u>740,034</u>	<u>671,766</u>	<u>762,997</u>
<b>REVENUES OVER (UNDER) EXPENSES</b>				
	61,000	91,000	128,135	(49,648)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	47,934
Transfers out	(105,000)	(105,000)	(105,000)	(105,000)
	<u>(105,000)</u>	<u>(105,000)</u>	<u>(105,000)</u>	<u>(57,066)</u>
<b>NET CHANGE IN NET ASSETS</b>				
	(44,000)	(14,000)	23,135	(106,714)
<b>NET ASSETS, Beginning of year</b>				
	<u>70,000</u>	<u>70,000</u>	<u>79,414</u>	<u>3,376,788</u>
<b>NET ASSETS, End of year</b>				
	<u>\$ 26,000</u>	<u>\$ 56,000</u>	<u>\$ 102,549</u>	<u>\$ 3,270,074</u>

**CITY OF PHILOMATH, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - SEWER FUND  
YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>GAAP Basis</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for services	\$ 714,197	\$ 714,197	\$ 710,082	\$ 710,082
Miscellaneous	19,480	19,480	21,657	21,657
<i>Total Revenues</i>	<u>733,677</u>	<u>733,677</u>	<u>731,739</u>	<u>731,739</u>
<b>EXPENSES</b>				
Personnel services	223,202	223,202	212,199	205,220
Materials and services	237,800	237,800	188,631	188,631
Capital outlay/depreciation	-	-	-	116,392
Debt service	48,975	48,975	48,975	120,261
Contingency	30,000	30,000	-	-
<i>Total Expenses</i>	<u>539,977</u>	<u>539,977</u>	<u>449,805</u>	<u>630,504</u>
<b>REVENUES OVER (UNDER) EXPENSES</b>	193,700	193,700	281,934	101,235
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	1,357,728
Transfers out	(238,700)	(238,700)	(238,700)	(238,700)
<i>Total Other Financing Sources (Uses)</i>	<u>(238,700)</u>	<u>(238,700)</u>	<u>(238,700)</u>	<u>1,119,028</u>
<b>NET CHANGE IN NET ASSETS</b>	(45,000)	(45,000)	43,234	1,220,263
<b>NET ASSETS, Beginning of year</b>	<u>75,000</u>	<u>75,000</u>	<u>80,710</u>	<u>3,375,726</u>
<b>NET ASSETS, End of year</b>	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 123,944</u>	<u>\$ 4,595,989</u>

**CITY OF PHILOMATH, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - STORM DRAIN FUND  
YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Budget</u>	<u>GAAP</u>
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	<u>Basis</u>
<b>REVENUES</b>				
Charges for services	\$ 42,200	\$ 42,200	\$ 42,506	\$ 42,506
Miscellaneous	500	500	380	380
<i>Total Revenues</i>	<u>42,700</u>	<u>42,700</u>	<u>42,886</u>	<u>42,886</u>
<b>EXPENSES</b>				
Materials and services	27,700	27,700	9,453	9,453
Capital outlay/depreciation	-	-	-	24,865
<i>Total Expenses</i>	<u>27,700</u>	<u>27,700</u>	<u>9,453</u>	<u>34,318</u>
<b>REVENUES OVER (UNDER) EXPENSES</b>	15,000	15,000	33,433	8,568
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	1,845
Transfers out	(21,000)	(21,000)	(21,000)	(21,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(21,000)</u>	<u>(21,000)</u>	<u>(21,000)</u>	<u>(19,155)</u>
<b>NET CHANGE IN NET ASSETS</b>	(6,000)	(6,000)	12,433	(10,587)
<b>NET ASSETS, Beginning of year</b>	<u>16,000</u>	<u>16,000</u>	<u>17,581</u>	<u>1,152,473</u>
<b>NET ASSETS, End of year</b>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 30,014</u>	<u>\$ 1,141,886</u>

**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF PROPERTY TAX TRANSACTIONS**  
**YEAR ENDED JUNE 30, 2009**

	<i>Uncollected Balances July 1, 2008</i>	<i>2008-2009 Levy</i>	<i>Discounts &amp; Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balances June 30, 2009</i>
<i>City of Philomath</i>					
2008-09	\$ -	\$ 1,223,149	\$ (30,246)	\$ (1,162,000)	\$ 30,903
2007-08	23,547	-	(638)	(12,796)	10,113
2006-07	7,709	-	(223)	(2,808)	4,678
2005-06	3,946	-	(113)	(1,762)	2,071
2004-05	2,103	-	(98)	(1,524)	481
2003-04	569	-	(28)	(178)	363
prior	2,221	-	(29)	(245)	1,947
	<u>\$ 40,095</u>	<u>\$ 1,223,149</u>	<u>\$ (31,375)</u>	<u>\$ (1,181,313)</u>	<u>\$ 50,556</u>

	<i>Uncollected Balances July 1, 2008</i>	<i>2008-2009 Levy</i>	<i>Discounts &amp; Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balances June 30, 2009</i>
2008-09	\$ -	\$ 406,791	\$ (10,059)	\$ (386,454)	\$ 10,278
2007-08	8,233	-	(224)	(4,474)	3,535
2006-07	2,779	-	(81)	(1,012)	1,686
2005-06	1,309	-	(37)	(585)	687
2004-05	608	-	(28)	(441)	139
2003-04	155	-	(8)	(48)	99
prior	267	-	(7)	(66)	194
	<u>\$ 13,351</u>	<u>\$ 406,791</u>	<u>\$ (10,444)</u>	<u>\$ (393,080)</u>	<u>\$ 16,618</u>

**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF DEBT TRANSACTIONS**  
**YEAR ENDED JUNE 30, 2009**

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	<u>Original Issue Amount</u>	<u>Interest Rates</u>	<u>Fiscal Year of Maturity</u>
<b>PRINCIPAL TRANSACTIONS</b>			
Governmental activities			
Urban Renewal Agency bonds	\$ 710,000	4.22%	2012-13
OECDD Lakeside loan	687,279	4.16%	2028-29
Business-type activities			
OECDD loan	369,000	6.13%	2012-13
OECDD loan (contact chamber)	207,000	6.50%	2020-21
SPWF loan	281,000	6.00%	2023-24
STP bonds	420,000	8.75%	2013-14
Full Faith & Credit Obligations, Series 2009	6,125,000	4.20%	2032-33

**INTEREST TRANSACTIONS**

Governmental activities	
Urban Renewal Agency bonds	
OECDD Lakeside loan	
Business-type activities	
OECDD loan	
OECDD loan (contact chamber)	
SPWF loan	
STP bonds	
Full Faith & Credit Obligations, Series 2009	

<i>Outstanding July 1, 2008</i>	<i>Issued</i>	<i>Paid</i>	<i>Outstanding June 30, 2009</i>
\$ 430,000	\$ -	\$ (80,000)	\$ 350,000
638,883	-	(18,291)	620,592
<u>\$ 1,068,883</u>	<u>\$ -</u>	<u>\$ (98,291)</u>	<u>\$ 970,592</u>
\$ 136,467	\$ -	\$ (24,146)	\$ 112,321
197,038	-	(5,637)	191,401
247,583	-	(9,644)	237,939
230,000	-	(30,000)	200,000
-	6,125,000	-	6,125,000
<u>\$ 811,088</u>	<u>\$ 6,125,000</u>	<u>\$ (69,427)</u>	<u>\$ 6,866,661</u>
\$ 56,126	\$ -	\$ (18,110)	\$ 38,016
355,948	-	(25,867)	330,081
<u>\$ 412,074</u>	<u>\$ -</u>	<u>\$ (43,977)</u>	<u>\$ 368,097</u>
\$ 26,090	\$ -	\$ (8,366)	\$ 17,724
111,904	-	(12,807)	99,097
144,399	-	(14,855)	129,544
70,950	-	(18,975)	51,975
-	4,304,568	-	4,304,568
<u>\$ 413,105</u>	<u>\$ 4,304,568</u>	<u>\$ (55,003)</u>	<u>\$ 4,602,908</u>

**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF FUTURE DEBT REQUIREMENTS**  
**JUNE 30, 2009**

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>OECD Lakeside</i>			<i>Series 2004 Bond</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2010	\$ 18,394	\$ 25,296	\$ 43,690	\$ 80,000	\$ 14,770	\$ 94,770
2011	18,504	24,698	43,202	85,000	11,394	96,394
2012	23,618	24,096	47,714	90,000	7,807	97,807
2013	23,745	23,270	47,015	95,000	4,045	99,045
2014	23,876	22,439	46,315	-	-	-
2015	24,012	21,603	45,615	-	-	-
2016	24,152	20,763	44,915	-	-	-
2017	24,303	19,887	44,190	-	-	-
2018	24,464	18,976	43,440	-	-	-
2019	24,643	17,997	42,640	-	-	-
2020	29,828	17,011	46,839	-	-	-
2021	30,021	15,818	45,839	-	-	-
2022	30,222	14,618	44,840	-	-	-
2023	30,438	13,371	43,809	-	-	-
2024	35,669	12,077	47,746	-	-	-
2025	35,917	10,517	46,434	-	-	-
2026	36,176	8,945	45,121	-	-	-
2027	36,454	7,317	43,771	-	-	-
2028	41,744	5,677	47,421	-	-	-
2029	42,047	3,799	45,846	-	-	-
2030	42,365	1,906	44,271	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
	<u>\$ 620,592</u>	<u>\$ 330,081</u>	<u>\$ 950,673</u>	<u>\$ 350,000</u>	<u>\$ 38,016</u>	<u>\$ 388,016</u>



**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF FUTURE DEBT REQUIREMENTS (Continued)**  
**JUNE 30, 2009**

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>SPWF Loan</i>			<i>1999 STP Land</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2010	\$ 10,222	\$ 14,276	\$ 24,498	\$ 35,000	\$ 16,500	\$ 51,500
2011	10,836	13,663	24,499	35,000	13,613	48,613
2012	11,486	13,013	24,499	40,000	10,725	50,725
2013	12,175	12,324	24,499	45,000	7,425	52,425
2014	12,906	11,593	24,499	45,000	3,712	48,712
2015	13,680	10,819	24,499	-	-	-
2016	14,501	9,998	24,499	-	-	-
2017	15,371	9,128	24,499	-	-	-
2018	16,293	8,206	24,499	-	-	-
2019	17,271	7,228	24,499	-	-	-
2020	18,307	6,192	24,499	-	-	-
2021	19,405	5,093	24,498	-	-	-
2022	20,570	3,929	24,499	-	-	-
2023	21,804	2,695	24,499	-	-	-
2024	23,112	1,387	24,499	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
	<u>\$ 237,939</u>	<u>\$ 129,544</u>	<u>\$ 367,483</u>	<u>\$ 200,000</u>	<u>\$ 51,975</u>	<u>\$ 251,975</u>

<i>Series 2009 Bond</i>			<i>Totals</i>		
<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
\$ -	\$ 323,968	\$ 323,968	\$ 175,245	\$ 414,136	\$ 589,381
65,000	241,968	306,968	247,930	322,701	570,631
75,000	240,018	315,018	275,777	310,941	586,718
90,000	237,768	327,768	303,805	297,903	601,708
100,000	235,068	335,068	198,151	283,533	481,684
100,000	232,068	332,068	155,124	274,148	429,272
130,000	229,568	359,568	187,219	268,853	456,072
145,000	225,668	370,668	204,446	262,001	466,447
160,000	221,318	381,318	221,815	254,532	476,347
175,000	216,518	391,518	239,340	246,407	485,747
195,000	211,268	406,268	267,019	237,677	504,696
215,000	204,443	419,443	289,864	227,008	516,872
235,000	195,843	430,843	285,792	214,390	500,182
260,000	186,443	446,443	312,242	202,509	514,751
285,000	176,043	461,043	343,781	189,507	533,288
310,000	164,643	474,643	345,917	175,160	521,077
335,000	152,243	487,243	371,176	161,188	532,364
365,000	138,843	503,843	401,454	146,160	547,614
395,000	124,243	519,243	436,744	129,920	566,664
425,000	108,443	533,443	467,047	112,242	579,289
460,000	90,805	550,805	502,365	92,711	595,076
495,000	71,255	566,255	495,000	71,255	566,255
535,000	49,970	584,970	535,000	49,970	584,970
575,000	26,163	601,163	575,000	26,163	601,163
<b>\$ 6,125,000</b>	<b>\$ 4,304,568</b>	<b>\$ 10,429,568</b>	<b>\$ 7,837,253</b>	<b>\$ 4,971,005</b>	<b>\$ 12,808,258</b>

## ***CITY OF PHILOMATH, OREGON***

### ***AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS***

***YEAR ENDED JUNE 30, 2009***

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Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to our audit of such statements and schedules are as follows.

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Philomath, Oregon (the City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

#### *Significant Accounting Policies*

The significant accounting policies followed in preparing the City's financial statements are summarized in the notes to the basic financial statements.

#### *Organization and Fund Structure*

The organization and fund structure of the City are documented on the title page and in the notes to the basic financial statements.

#### *Internal Control Over Financial Reporting*

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. The deficiencies in internal control over financial reporting that we identified were communicated to management in a separate letter dated October 26, 2009.

**CITY OF PHILOMATH, OREGON**

**AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS (Continued)**

**YEAR ENDED JUNE 30, 2009**

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*Adequacy of Accounting Records*

The City's accounting records were reasonably maintained and adequate to support our audit of the basic financial statements.

*Indebtedness*

The general obligation bonded debt of the City is in compliance with the limitation imposed by ORS 264.250 (3). We noted no defaults in principal, interest, sinking fund, or redemption provisions with respect to any of the City's liabilities, and no breach of the bond agreements, at June 30, 2009.

*Adequacy of Collateral Securing Depository Balances*

The City has complied with Oregon Revised Statutes Chapter 295 in relation to deposit accounts.

*Investments*

Our review of deposit and investment balances indicated that the City was in compliance with ORS 294, as it pertains to investment of public funds, during the year ended June 30, 2009.

*Budget Compliance*

The City appears to have complied with Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption and execution of its budget and tax levy for the year ended June 30, 2009, and the preparation and adoption of its budget for the year ending June 30, 2009.

A description of the budgeting process is included in the notes to the basic financial statements.

*Insurance Policies and Fidelity Bonds*

We have reviewed the City's insurance and fidelity bond coverage at June 30, 2009. We ascertained that such policies appeared to be in force and in compliance with legal requirements relating to insurance and fidelity bond coverage. We are not competent by training to comment on the adequacy of the insurance policies covering City property at June 30, 2009.

*Public Contracting and Purchasing*

Our review of the City's public contracting, purchasing procedures and construction of public improvement requirements (ORS 279) indicated that the City was in compliance.

*Programs Funded From Outside Sources*

We have reviewed the City's compliance with appropriate laws, rules, and regulations pertaining to material programs funded wholly or partially by other governmental agencies. The City is in compliance with the guidelines in all material aspects.

**CITY OF PHILOMATH, OREGON**

*AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS (Continued)*

*YEAR ENDED JUNE 30, 2009*

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*Financial Reporting Requirements*

We have reviewed financial reports and other data relating to material programs funded wholly or partially by other governmental agencies. This data, filed with other governmental agencies, is in agreement with and supported by the accounting records.

*Highway Funds*

The City complied with the legal requirements, Article IX, Section 3a of the Oregon Constitution pertaining to the use of revenue from taxes on motor vehicle fuel, and the statutory requirements of ORS 368 and 373 as they pertain to the use of road funds.

This report is intended solely for the information and use of the Board of Directors and management of the City of Philomath, Oregon, the Oregon Secretary of State Audis Division, and is not intended to be and should not be used by anyone other than these specified parties.

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



By: \_\_\_\_\_

Charles A. Swank, A Shareholder  
October 26, 2009