

CITY OF PHILOMATH
BENTON COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016



12700 SW 72nd Ave.
Tigard, OR 97223

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

For the Year Ended June 30, 2016

ANNUAL FINANCIAL REPORT

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CITY OF PHILOMATH
BENTON COUNTY, OREGON

CITY COUNCIL

TERM EXPIRES

Rocky Sloan, Mayor

December 31, 2016

Doug Edmonds

December 31, 2016

Angie Baca

June 30, 2016

Charla Koeppe

December 31, 2016

Sean Manning

December 31, 2016

Eric Niemann

December 31, 2016

Jason Leonard

December 31, 2016

All council members receive mail at the address listed below.

ADMINISTRATION
Chris Workman, City Manager
City Hall
P.O. Box 400
Philomath, OR 97370

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BENTON COUNTY, OREGON
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BENTON COUNTY, OREGON
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PAULY, ROGERS AND Co., P.C.
12700 SW 72nd Ave. ♦ Tigard, OR 97223
(503) 620-2632 ♦ (503) 684-7523 FAX
www.paulyrogersandcocpas.com

October 10, 2016

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Philomath, Oregon, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Philomath, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The City adopted the provisions of GASB Statement No. 72, Fair Value Measurement and Application during the year ended June 30, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison schedules presented as Required Supplementary Information, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other and Supplementary Information

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

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

The listing of elected officials containing their term expiration dates, located before the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated October 10, 2016, on our consideration of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



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

City of Philomath, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

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, 2016.

Financial Highlights

Following are the financial highlights of the City for the fiscal year ended June 30, 2016.

- The City's total assets exceeded its liabilities at the close of FY 2015-16 by \$18.3 million (net position). Of this amount, \$13.3 million is invested in capital assets, net of related debt; \$5.3 million is restricted for construction projects, debt service and other commitments; and the balance of negative \$.3 million is considered unrestricted.
- The City's net position decreased by \$22,032. The decrease is largely due to the GASB 68 pension expense of \$765,354.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$4.1 million, an increase of \$.9 million.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$87,404 or approximately 3 percent of total General Fund expenditures.
- The City's total liabilities increased by approximately \$811,390 or 3 percent during fiscal year 2015-16. The increase is due to net Pension liability of \$950,931 posted this fiscal year.

Overview of the Financial Statements

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

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

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

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

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only 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

Government-wide financial statements can be found on pages 15 and 16 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar

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

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

The City maintains seven 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 six major funds; General Fund, Community Development Fund, Street Fund, Urban Renewal Fund, Land Building & Equipment Fund and Systems Development Capital Projects. The Economic Development Fund is a nonmajor fund, but is combined in the statements with the major funds.

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 governmental funds on pages 46 through 52.

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 54 through 57.

The proprietary fund financial statements can be found on pages 21 through 23 in the basic financial statements.

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

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

Government-Wide Financial Analysis

Table 1
Summary of Net Position

	<i>June 30, 2016</i>		
	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total</i>
Cash and investments	\$ 4,130,469	765,290	\$ 4,895,759
Other assets	1,233,721	219,647	1,453,368
Capital assets	4,505,025	14,943,483	19,448,508
<i>Total Assets</i>	9,869,215	15,928,420	25,797,635
Deferred Outflows of Resources			
<i>Net Pension Related Deferrals</i>	35,994	10,935	46,929
Other liabilities	121,132	51,421	172,553
Long-term liabilities	1,397,063	6,011,283	7,408,346
<i>Total Liabilities</i>	1,518,195	6,062,704	7,580,899
Deferred Inflows of Resources			
<i>Net Pension Related Deferrals</i>	-	-	-
Net Position			
Net Investment in Capital Assets	4,040,734	9,226,350	13,267,084
Restricted	4,952,246	375,013	5,327,259
Unrestricted	(605,966)	275,288	(330,678)
<i>Total Net Position</i>	<u>\$ 8,387,014</u>	<u>9,876,651</u>	<u>\$ 18,263,665</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$18,263,665 at the close of FY 2015-16.

The largest portion of the City's net position reflects its investment of \$13,267,084 or 73 percent, in capital assets (e.g., land, buildings, improvements, equipment, and infrastructure, net of accumulated depreciation); less any related outstanding debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

<i>June 30, 2015</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>
\$ 3,156,922	504,568	\$ 3,661,490	\$ 973,547	\$ 260,722	\$ 1,234,269
1,661,621	308,231	1,969,852	(427,900)	(88,584)	(516,484)
4,716,275	15,252,203	19,968,478	(211,250)	308,720)	(519,970)
9,534,818	16,065,002	25,599,820	334,397	(136,582)	197,815
-	-	-	35,994	10,935	46,929
70,738	52,152	122,890	50,394	(731)	49,663
687,959	5,958,660	6,646,619	709,104	52,623	761,727
758,697	6,010,832	6,769,509	759,498	51,892	811,390
418,993	125,601	544,594	418,993)	(125,601)	(544,594)
4,227,832	9,362,569	13,590,401	(187,098)	(136,219)	(323,317)
4,111,007	218,161	4,329,168	841,239	156,852	998,091
18,289	347,839	366,128	(624,255)	(72,551)	(696,806)
<u>\$ 8,357,128</u>	<u>9,928,569</u>	<u>\$ 18,285,697</u>	<u>\$ 29,886</u>	<u>\$ (51,918)</u>	<u>\$ (22,032)</u>

An additional portion of the City's net position \$5,327,259 or approximately 29 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is (\$330,678).

Table 2
Statement of Activities

	<i>Fiscal Year Ended June 30, 2016</i>		
	<i>Governmental</i>	<i>Business-</i>	
	<i>Activities</i>	<i>Type</i>	<i>Total</i>
	<i>Activities</i>	<i>Activities</i>	
Revenues			
Program Revenues			
Charges for services	\$ 736,358	\$ 2,103,922	\$ 2,840,280
Operating grants and contributions	279,689	-	279,689
Capital grants and contributions	66,667	236,343	303,010
<i>Total Program Revenues</i>	<u>1,082,714</u>	<u>2,340,265</u>	<u>3,422,979</u>
General Revenues			
Property taxes	1,906,375	-	1,906,375
Franchise taxes	396,369	-	396,369
Other	241,028	98,570	339,598
<i>Total General Revenues</i>	<u>2,543,772</u>	<u>98,570</u>	<u>2,642,342</u>
<i>Total Revenues</i>	<u>3,626,486</u>	<u>2,438,835</u>	<u>6,065,321</u>
Expenses (Net of Indirect Expenses)			
General governmental	1,449,111	-	1,449,111
Police	1,769,082	-	1,769,082
Streets	469,434	-	469,434
Public Works	263,979	-	263,979
Interest on long-term debt	20,177	-	20,177
Other	-	-	-
Water	-	951,373	951,373
Sewer	-	1,116,094	1,116,094
Storm Drain	-	48,103	48,103
<i>Total Expenses</i>	<u>3,971,783</u>	<u>2,115,570</u>	<u>6,087,353</u>
Transfers	<u>375,183</u>	<u>(375,183)</u>	<u>-</u>
Changes in Net Position	29,886	(51,918)	(22,032)
Beginning Net Position	8,357,128	9,928,569	18,285,697
Ending Net Position	<u>\$ 8,387,014</u>	<u>\$ 9,876,651</u>	<u>\$ 18,263,665</u>

The City's overall net position decreased by \$22,032 during FY 2015-16. The biggest factor in the decrease was the GAB 68 pension expense posted this fiscal year. \$586,699 was posted to Governmental Activities and \$178,655 was posted to Business-type Activities for a total of \$765,354.

Governmental activities - Governmental activities increased the City's net position by \$29,886. Although revenues exceeded expenditures by \$414,201 and transfers from the Business-type activities of \$375,183 increased the Governmental activities net position, the pension expense noted above was a significant factor in reducing the change in net position for the fiscal year.

<i>Fiscal Year Ended June 30, 2015</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>
\$ 686,540	\$ 1,962,435	\$ 2,648,975	\$ 49,818	\$ 141,487	\$ 191,305
277,270	-	277,270	2,419	-	2,419
82,839	146,287	229,126	(16,172)	90,056	73,884
<u>1,046,649</u>	<u>2,108,722</u>	<u>3,155,371</u>	<u>36,065</u>	<u>231,543</u>	<u>267,608</u>
1,899,928	-	1,899,928	6,447	-	6,447
393,156	-	393,156	3,213	-	3,213
207,679	43,362	251,041	33,349	55,208	88,557
<u>2,500,763</u>	<u>43,362</u>	<u>2,544,125</u>	<u>43,009</u>	<u>55,208</u>	<u>98,217</u>
3,547,412	2,152,084	5,699,496	79,074	286,751	365,825
821,340	-	821,340	627,771	-	627,771
1,360,609	-	1,360,609	408,473	-	408,473
396,655	-	396,655	72,779	-	72,779
231,340	-	231,340	32,639	-	32,639
21,020	-	21,020	(843)	-	(843)
-	835,609	835,609	-	115,764	115,764
-	981,540	981,540	-	134,554	134,554
-	52,052	52,052	-	(3,949)	(3,949)
<u>2,830,964</u>	<u>1,869,201</u>	<u>4,700,165</u>	<u>1,140,819</u>	<u>246,369</u>	<u>1,387,188</u>
<u>47,567</u>	<u>(47,567)</u>	<u>-</u>	<u>327,616</u>	<u>(327,616)</u>	<u>-</u>
764,015	235,316	999,331	(734,129)	(287,234)	(1,021,363)
7,593,113	9,693,253	17,286,366	764,015	235,316	999,331
<u>\$ 8,357,128</u>	<u>\$ 9,928,569</u>	<u>\$ 18,285,697</u>	<u>\$ 29,886</u>	<u>\$ (51,918)</u>	<u>\$ (22,032)</u>

Business-type activities - Business-type activities decreased the City's net position by \$51,918. Operating revenue for the enterprise funds was up almost 10% from the previous fiscal year. Increased transfers to the Governmental Activities for future capital purchases combined with the \$178,655 GASB pension expense were the major causes of this year's decrease in net position.

General Fund Budgetary Highlights

Appropriation transfers of \$50,000 were made from the General Fund contingencies during the year. The transfers were used to pay additional planning and police personnel costs.

Financial Analysis of the City's Funds

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

Governmental Funds. The focus of the City's governmental funds is to provide information on relatively short-term cash flow and funding for future basic services on a fund basis. Such information is useful in assessing the City's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

At June 30, 2016, the City's governmental funds reported combined ending fund balances of 4,107,005, an increase of \$909,401.

General Fund. The General Fund is the primary operating fund of the City. Property taxes are the major source of revenue for the General Fund. Property tax revenue was up 3% from the prior year. As of June 30, 2016, the General Fund balance was \$87,904.

Community Development Fund. The Community Development Fund administers Federal low-income housing rehabilitation grant money that the City received in past years. The City received loan payments totaling \$20,193. A transfer of \$6,000 was made to the Land, Building & Equipment Fund to help pay final construction costs for the Randy Kugler shelter at City Park. The 1992 repaid loan funds have no restrictions attached and can be used for any purpose. As of June 30, 2016 there was \$20,756 remaining in repaid 1992 loan funds.

Street Fund. The Street Fund is funded primarily by the City's portion of state gasoline taxes and franchise fees. The primary function is to maintain the City's transportation network. Revenues exceeded expenditures by \$78,157, after transfers the net fund balance increase was \$18,257.

Urban Renewal Fund. The Urban Renewal Fund incurred engineering costs this fiscal year in preparation of water and sewer utility upgrades on Main Street. The project is expected to cost \$5million and begin early in 2017. It is anticipated that the City will seek approximately \$3.4 million in bond financing for the project. At June 30, 2016 the fund balance was \$1,883,977.

Land, Building & Equipment Reserve Fund. The Land, Building and Equipment Reserve Fund was established to accumulate funds for future capital projects. Small capital improvement projects during the year totaled \$189,190. Transfers in exceeded expenditures by \$444,692. Ending fund balance was \$1,741,772.

Systems Development Capital Projects Fund. This fund was established to collect Systems Development Charges and to accumulate funds for future capital projects. There were no capital projects funded from the Systems Development Fund in 2015-16. Fund balance increased by \$79,921 to \$208,046.

Business-type activities –

Water Fund. The Water Fund activity includes the operation and maintenance of the City's water system. Net income before transfers was \$203,674. Net transfers for future capital expenditures were \$260,502 which resulted in a decrease in net position of \$56,828.

Sewer Fund. The Sewer Fund activity includes operating and maintenance of the City's sewer system. Net income before transfers was negative \$117,484. GASB 68 pension expense of \$81,360 contributed to the negative income. For FY 2015-16 \$70,000 was transferred in from the SDC fund to help pay for the 2009 Sewer Bonds. The total change in net position was negative \$139,465.

Storm Drain Fund. The Storm Drain Fund was established to reduce the potential of neighborhood flooding during periods of high water. It is funded mainly by storm drain fees paid by the City's utility customers. Net income before transfers was \$4,722. After net transfers out of \$31,700, net position decreased for the year by \$26,978.

System Development Business Fund. The System Development Business fund is used to account for the business portion of systems development charges. Capital contributions of \$236,343 contributed to the increase in net position of \$171,353.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2016, the City had approximately \$19.4 million invested in a broad range of capital assets, including land, buildings and improvements, equipment, roads, water, sewer and storm drain lines. There were no major capital asset purchased during the fiscal year.

(Net of Depreciation)
June 30, 2016

	<i>Governmental Activities</i>		<i>Percentage Change</i>	
	<u>2016</u>	<u>2015</u>		
Land	\$ 130,933	\$ 130,933	0.00	%
Improvements	213,992	234,271	(8.66)	
Buildings	1,797,161	1,848,718	(2.79)	
Equipment	212,749	296,558	(28.26)	
Infrastructure	2,150,190	2,205,795	(2.52)	
<hr/>				
<i>Total Governmental Activities</i>	<u>\$ 4,505,025</u>	<u>\$ 4,716,275</u>	<u>(4.48)</u>	<u>%</u>
	<i>Business-type Activities</i>		<i>Percentage Change</i>	
	<u>2016</u>	<u>2015</u>		
Land	\$ 853,202	\$ 853,202	0.00	%
Improvements	23,646	25,698	(7.99)	
Buildings	191,710	200,960	(4.60)	
Equipment	507,462	521,401	(2.67)	
Infrastructure	13,367,463	13,650,942	(2.08)	
<hr/>				
<i>Total Business-type Activities</i>	<u>\$ 14,943,483</u>	<u>\$ 15,252,203</u>	<u>(2.02)</u>	<u>%</u>
<i>Total Capital Assets</i>	<u>\$ 19,448,508</u>	<u>\$ 19,968,478</u>	<u>(2.60)</u>	<u>%</u>

Long-Term Debt

	June 30, 2016		
	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total Government</i>
<i>Governmental</i>			
Bonds payable	\$ -	\$ 5,565,000	\$ 5,565,000
Notes payable	464,291	152,133	616,424
	<u>\$ 464,291</u>	<u>\$ 5,717,133</u>	<u>\$ 6,181,424</u>
<i>Total Outstanding Debt</i>			

At the end of the current fiscal year, the City had total debt outstanding of \$6,181,424. Of this amount, \$464,291 represents an outstanding note payable from the governmental funds. This note is on the Lakeside Industrial property. Lakeside reimburses the city annually for principal and interest payments. The City has a lien on the Lakeside property for the amount of the loan.

The remainder of the City's debt is for business-type activities. At the end of last fiscal year there was one sewer bond, one storm drain note, and one water fund note payable. The final payment on the Water Fund debt was paid this fiscal year. Additional principal payments have been made on this note for each of the last 3 years, which resulted in the note being paid off 5 years in advance. The note was paid from net revenues of the water system.

The sewer bond payable at June 30, 2016 is \$5,565,000 which resulted from the sale of \$6.125 million in full faith and credit obligations in January 2009. The credit obligations will be paid over the next 17 years from net revenues of the sewer system and sewer systems development charges.

The amount of storm drain debt outstanding at June 30, 2016 is \$152,133. The note is paid from storm drain systems development charges.

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 2016-17 budget:

- The July 2015 (the most current) population was 4,650. In the last few years population growth has been almost flat.
- Residential and commercial building is starting to show some signs of recovery. Several projects are completing the planning phase and should start construction within the next year. There is also an annexation on the November ballot that could add 660 new homes to Philomath if it is passed by the voters.
- Assessed values, the basis of property tax revenues, grew by 3.1% for both FY 2014-15 and 2015-16.
- 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.
- The City is planning on selling Full Faith and Credit bonds in late 2016. The total bond issue would be approximately \$9 million. This would be a combined issue of \$3.4 million Urban Renewal and \$5.6 million to refinance the 2009 Sewer Bonds. The 2009 Sewer bonds currently have an average interest rate of approx. 4.2%. By refinancing the Sewer bonds the City should be able to realize a 1.5% interest savings.
- Interest rates on investments are expected to remain under 1%.
- Combined water and sewer utility rates increased by 6.8%. All other fees charged by the City will remain at their present levels.
- There will be no increase in the number of General Fund supported personnel.
- Health benefit costs will increase by 2.5% starting January 2017.

The City's adopted budget for FY 2016-17 reflects total estimated resources of \$10,361,493 which exceeds total estimated expenditures by \$2,219,695.

Requests for Information

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

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

BASIC FINANCIAL STATEMENTS

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**STATEMENT OF NET POSITION
June 30, 2016**

ASSETS	GOVERNMENTAL	BUSINESS- TYPE	TOTAL
Current:			
Cash and Investments	\$ 4,130,469	\$ 765,290	\$ 4,895,759
Receivables:			
Accounts	5,087	219,647	224,734
Property Taxes	135,273	-	135,273
Special Assessments	58,840	-	58,840
Other	80,809	-	80,809
Prepaid Items	500	-	500
Total Current Assets	<u>4,410,978</u>	<u>984,937</u>	<u>5,395,915</u>
Non-Current:			
Loans Receivable	953,212	-	953,212
Nondepreciable Capital Assets	130,933	853,202	984,135
Depreciable Capital Assets	4,374,092	14,090,281	18,464,373
Total Non-Current Assets	<u>5,458,237</u>	<u>14,943,483</u>	<u>20,401,720</u>
Total Assets	<u>9,869,215</u>	<u>15,928,420</u>	<u>25,797,635</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	<u>240,010</u>	<u>72,911</u>	<u>312,921</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	83,776	51,421	135,197
Other Current Liabilities	37,356	-	37,356
Total Current Liabilities	<u>121,132</u>	<u>51,421</u>	<u>172,553</u>
Noncurrent Liabilities:			
Due within one year			
Notes Payable	24,303	15,371	39,674
Bonds Payable	-	145,000	145,000
Due in more than one year			
Notes Payable	439,988	136,762	576,750
Bonds Payable	-	5,420,000	5,420,000
Accrued Compensated Absences	203,408	72,583	275,991
Net Pension Liability	729,364	221,567	950,931
Total Long Term Liabilities	<u>1,397,063</u>	<u>6,011,283</u>	<u>7,408,346</u>
Total Liabilities	<u>1,518,195</u>	<u>6,062,704</u>	<u>7,580,899</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	<u>204,016</u>	<u>61,976</u>	<u>265,992</u>
NET POSITION			
Net Investments in Capital Assets	4,040,734	9,226,350	13,267,084
Restricted	4,952,246	375,013	5,327,259
Unrestricted	(605,966)	275,288	(330,678)
TOTAL NET POSITION	<u>\$ 8,387,014</u>	<u>\$ 9,876,651</u>	<u>\$ 18,263,665</u>

See accompanying notes to the basic financial statements

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

Functions/Programs	Program Revenues				Net Revenues (Expenses) and Changes in Net Position		Total
	Expenses	Fines and Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
General Government	\$ 1,449,111	\$ 673,716	\$ -	12,444	\$ (762,951)	\$ -	\$ (762,951)
Police	1,769,082	9,407	5,106		(1,754,569)	-	(1,754,569)
Streets	469,434	53,235	271,837	54,223	(90,139)	-	(90,139)
Public Works	263,979	-	2,746	-	(261,233)	-	(261,233)
Interest on long-term debt	20,177	-	-	-	(20,177)	-	(20,177)
Total Governmental Activities	3,971,783	736,358	279,689	66,667	(2,889,069)	-	(2,889,069)
Business-Type Activities							
Water	951,373	1,106,769	-	115,141	-	270,537	270,537
Sewer	1,116,094	953,877	-	101,222	-	(60,995)	(60,995)
Storm Drain	48,103	43,276	-	19,980	-	15,153	15,153
Total Business-Type Activities	2,115,570	2,103,922	-	236,343	-	224,695	224,695
Total Primary Government	\$ 6,087,353	\$ 2,840,280	\$ 279,689	\$ 303,010	\$ (2,889,069)	\$ 224,695	\$ (2,664,374)

General Revenues

Property Taxes	1,906,375	-	1,906,375
Franchise Fees	396,369	-	396,369
Intergovernmental	115,883	-	115,883
Gain/Loss on Sale of Capital Assets	6,001	-	6,001
Interest and Miscellaneous	119,144	98,570	217,714
Transfers	375,183	(375,183)	-
Total General Revenues	2,918,955	(276,613)	2,642,342
Change in Net Position	29,886	(51,918)	(22,032)
Beginning Net Position	8,357,128	9,928,569	18,285,697
Ending Net Position	\$ 8,387,014	\$ 9,876,651	\$ 18,263,665

See accompanying notes to the basic financial statements

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	<u>GENERAL</u>	<u>COMMUNITY DEVELOPMENT</u>	<u>STREET</u>
ASSETS			
Cash and Investments	\$ 126,520	\$ 20,756	\$ 131,017
Receivables:			
Accounts	-	-	5,087
Property Taxes	100,933	-	-
Special Assessments	13,956	-	-
Other	48,801	-	30,880
Prepaid Items	500	-	-
Loans Receivable	537,309	415,903	-
Total Assets	<u>\$ 828,019</u>	<u>\$ 436,659</u>	<u>\$ 166,984</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 61,833	\$ -	\$ 13,828
Other Liabilities	26,084	-	-
Total Liabilities	<u>87,917</u>	<u>-</u>	<u>13,828</u>
Deferred Inflows of Resources:			
Unavailable Revenue - Special Assessments	13,956	-	-
Unavailable Revenue - Loans Receivable	537,309	415,903	-
Unavailable Revenue - Property Taxes	100,933	-	-
Total Deferred Inflows of Resources	<u>652,198</u>	<u>415,903</u>	<u>-</u>
Fund Balances			
Non-Spendable	500	-	-
Restricted For:			
Community Development	-	20,756	-
Construction	-	-	-
Debt Service	-	-	-
Streets	-	-	153,156
Urban Renewal	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	87,404	-	-
Total Fund Balances	<u>87,904</u>	<u>20,756</u>	<u>153,156</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 828,019</u>	<u>\$ 436,659</u>	<u>\$ 166,984</u>

See accompanying notes to the basic financial statements

<u>URBAN RENEWAL</u>	<u>ECONOMIC DEVELOPMENT</u>	<u>LAND, BUILDING & EQUIPMENT</u>	<u>SYSTEMS DEVELOPMENT CAPITAL PROJECTS</u>	<u>TOTAL</u>
\$ 1,891,208	\$ 11,394	\$ 1,741,528	\$ 208,046	\$ 4,130,469
-	-	-	-	5,087
34,333	7	-	-	135,273
-	-	16,031	28,853	58,840
884	-	244	-	80,809
-	-	-	-	500
-	-	-	-	953,212
<u>\$ 1,926,425</u>	<u>\$ 11,401</u>	<u>\$ 1,757,803</u>	<u>\$ 236,899</u>	<u>\$ 5,364,190</u>
\$ 8,115	\$ -	\$ -	\$ -	\$ 83,776
-	-	-	-	26,084
<u>8,115</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,860</u>
-	-	16,031	28,853	58,840
-	-	-	-	953,212
34,333	7	-	-	135,273
<u>34,333</u>	<u>7</u>	<u>16,031</u>	<u>28,853</u>	<u>1,147,325</u>
-	-	-	-	500
-	-	-	208,046	228,802
-	-	1,741,772	-	1,741,772
-	11,394	-	-	11,394
-	-	-	-	153,156
1,883,977	-	-	-	1,883,977
-	-	-	-	-
-	-	-	-	-
-	-	-	-	87,404
<u>1,883,977</u>	<u>11,394</u>	<u>1,741,772</u>	<u>208,046</u>	<u>4,107,005</u>
<u>\$ 1,926,425</u>	<u>\$ 11,401</u>	<u>\$ 1,757,803</u>	<u>\$ 236,899</u>	<u>\$ 5,364,190</u>

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
June 30, 2016**

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

Fund Balances		\$	4,107,005
<p>The statement of net position reports receivables at their net realizable value. However, receivables not available to pay for current-period expenditures are deferred in governmental funds.</p>			
			1,147,325
<p>The cost of capital assets (land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress) is reported as an expenditure in governmental funds. The statement of net position includes those capital assets among the assets of the City as a whole.</p>			
Net Capital Assets			4,505,025
<p>Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.</p>			
Notes Payable			(464,291)
Accrued Compensated Absences			(203,408)
Accrued Interest Payable			(11,272)
<p>Deferred inflows and outflows of resources related to the pension plan include differences between expected and actual experience, changes of assumptions, differences between projects and actual earnings, and contributions subsequent to the measurement date.</p>			
Deferred Inflows	(204,016)		
Deferred Outflows	240,010		
Net Pension Related Deferrals			35,994
<p>The Net Pension Asset (Liability) is the difference between the total pension liability and the assets set aside to pay benefits earned to past and current employees and beneficiaries.</p>			
Pension Liability			(729,364)
Total Net Position		\$	<u>8,387,014</u>

See accompanying notes to the basic financial statements

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016**

	<u>GENERAL</u>	<u>COMMUNITY DEVELOPMENT</u>	<u>STREET</u>	<u>URBAN RENEWAL</u>
Revenue				
Property Taxes	\$ 1,439,634	\$ -	\$ -	\$ 499,137
Licenses and Permits	109,549	-	-	-
Charges for Services	302,556	-	53,235	-
Franchise Fees	299,966	-	96,403	-
Intergovernmental	120,989	-	271,837	-
Fines and Forfeitures	261,611	-	-	-
Interest and Miscellaneous	56,973	20,260	840	30,528
Total Revenue	<u>2,591,278</u>	<u>20,260</u>	<u>422,315</u>	<u>529,665</u>
Expenditures				
Current:				
General Government	1,002,884	-	-	61,553
Police	1,397,670	-	-	-
Streets	-	-	344,158	-
Public Works	209,719	-	-	-
Capital Outlay:				
General Government	-	-	-	-
Police	-	-	-	-
Public Works	-	-	-	-
Water	-	-	-	37,588
Sewer	-	-	-	32,019
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	<u>2,610,273</u>	<u>-</u>	<u>344,158</u>	<u>131,160</u>
Excess Revenue Over/Under Expenditures	(18,995)	20,260	78,157	398,505
Other Financing Sources, -Uses				
Loan Proceeds	-	-	-	-
Sale of Capital Assets	-	-	-	-
Transfers In	-	-	17,700	-
Transfers Out	(27,300)	(6,000)	(77,600)	-
Total Other Financing Sources, -Uses	<u>(27,300)</u>	<u>(6,000)</u>	<u>(59,900)</u>	<u>-</u>
Net Change in Fund Balance	(46,295)	14,260	18,257	398,505
Beginning Fund Balance	134,199	6,496	134,899	1,485,472
Ending Fund Balance	<u>\$ 87,904</u>	<u>\$ 20,756</u>	<u>\$ 153,156</u>	<u>\$ 1,883,977</u>

See accompanying notes to the basic financial statements

ECONOMIC DEVELOPMENT	LAND, BUILDING & EQUIPMENT	SYSTEMS DEVELOPMENT CAPITAL PROJECT	TOTAL
\$ 1	\$ -	\$ -	\$ 1,938,772
-	-	76,808	186,357
-	-	-	355,791
-	-	-	396,369
-	2,746	-	395,572
-	9,407	-	271,018
44,975	33,329	3,113	190,018
44,976	45,482	79,921	3,733,897
-	-	-	1,064,437
-	-	-	1,397,670
-	-	-	344,158
-	-	-	209,719
-	31,243	-	31,243
-	10,494	-	10,494
-	6,645	-	6,645
-	50,410	-	87,998
-	90,398	-	122,417
24,152	-	-	24,152
20,763	-	-	20,763
44,915	189,190	-	3,319,696
61	(143,708)	79,921	414,201
-	-	-	-
-	-	-	-
-	588,400	-	606,100
-	-	-	(110,900)
-	588,400	-	495,200
61	444,692	79,921	909,401
11,333	1,297,080	128,125	3,197,604
\$ 11,394	\$ 1,741,772	\$ 208,046	\$ 4,107,005

See accompanying notes to the basic financial statements

CITY OF PHILOMATH
BENTON COUNTY, OREGON

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - TO STATEMENT OF ACTIVITIES**
For the Year Ended June 30, 2016

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

Excess of Revenue over Expenditures	\$ 909,401
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.	(71,139)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Collection on long-term receivables	(31,273)
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.	586
The net effect of disposal of capital assets is to reduce net assets.	(4,999)
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.	(3,892)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as an expenditure. This is the amount by which capital outlays exceeded depreciation in the current period.	
Purchases of Capital Assets	23,442
Depreciation	(229,693)
Changes in Bonds Payable have an effect on net income in the governmental funds. On the government wide statements, however, changes are posted to the liability account on the balance sheet.	24,152
The Pension Expense represents the changes in Net Pension Asset (Liability) from year to year due to changes in total pension liability and the fair value of pension plan net position available to pay pension benefits.	
Pension Expense	<u>(586,699)</u>
Change in Net Position	<u>\$ 29,886</u>

See accompanying notes to the basic financial statements

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016**

	Water Fund	Sewer Fund	Storm Drain Fund	System Development Fund	Total
ASSETS:					
Current Assets					
Cash and Investments	\$ 286,776	\$ 85,295	\$ 12,881	\$ 380,338	\$ 765,290
Accounts Receivable	120,694	94,967	3,986	-	219,647
Total Current Assets	407,470	180,262	16,867	380,338	984,937
Noncurrent Assets					
Nondepreciable Capital Assets	219,594	633,608	-	-	853,202
Depreciable Capital Assets, net	3,511,198	9,345,555	1,233,528	-	14,090,281
Total Noncurrent Assets	3,730,792	9,979,163	1,233,528	-	14,943,483
Total Assets	4,138,262	10,159,425	1,250,395	380,338	15,928,420
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related Deferred Outflows	39,741	33,170	-	-	72,911
LIABILITIES:					
Current Liabilities					
Accounts Payable and Other Liabilities	17,094	28,470	532	5,325	51,421
Noncurrent Liabilities					
Due within one year	-	145,000	-	15,371	160,371
Due in more than one year	-	5,420,000	-	136,762	5,556,762
Accrued Compensated Absences	40,190	32,393	-	-	72,583
Net Pension Liability	120,768	100,799	-	-	221,567
Total Noncurrent Liabilities	160,958	5,698,192	-	152,133	6,011,283
Total Liabilities	178,052	5,726,662	532	157,458	6,062,704
DEFERRED INFLOWS OF RESOURCES					
Pension Related Deferred Inflows	33,781	28,195	-	-	61,976
NET POSITION:					
Net Investment in Capital Assets	3,730,792	4,414,163	1,233,528	(152,133)	9,226,350
Restricted for Construction	-	-	-	375,013	375,013
Unrestricted	235,378	23,575	16,335	-	275,288
Total Net Position	\$ 3,966,170	\$ 4,437,738	\$ 1,249,863	\$ 222,880	\$ 9,876,651

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2016**

	Water Fund	Sewer Fund	Storm Drain Fund	System Development Fund	Total
OPERATING Revenue					
Charges for Services	\$ 1,106,769	953,877	43,276	-	2,103,922
Miscellaneous	46,728	26,556	-	-	73,284
Total Operating Revenue	1,153,497	980,433	43,276	-	2,177,206
OPERATING Expenditures					
Personal Services	428,103	358,352	-	-	786,455
Materials and Services	370,665	284,484	5,987	-	661,136
Depreciation	151,966	244,145	32,625	-	428,736
Total Operating Expenditures	950,734	886,981	38,612	-	1,876,327
Operating Income/(Loss)	202,763	93,452	4,664	-	300,879
NONOPERATING Revenue (Expenditures)					
Investment Revenue	1,550	777	58	5,501	7,886
Property Lease	-	17,400	-	-	17,400
Interest Expense	(639)	(229,113)	-	(9,491)	(239,243)
Gain (Loss) on Sale of Capital Assets	-	-	-	-	-
Total NonOperating Revenue	911	(210,936)	58	(3,990)	(213,957)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	203,674	(117,484)	4,722	(3,990)	86,922
Capital Contributions	-	-	-	236,343	236,343
Transfers In	87,998	102,019	-	9,000	199,017
Transfers Out	(348,500)	(124,000)	(31,700)	(70,000)	(574,200)
Change in Net Position	(56,828)	(139,465)	(26,978)	171,353	(51,918)
Beginning Net Position	4,022,998	4,577,203	1,276,841	51,527	9,928,569
Ending Net Position	\$ 3,966,170	\$ 4,437,738	\$ 1,249,863	\$ 222,880	\$ 9,876,651

See accompanying notes to the basic financial statement:

CITY OF PHILOMATH
BENTON COUNTY, OREGON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2016

	Water Fund	Sewer Fund	Storm Drain Fund	System Development Fund	Total
Cash Flows from Operating Activities:					
Cash Received from Customers	\$ 1,152,307	\$ 976,397	\$ 43,413	\$ -	\$ 2,172,117
Cash Paid to Suppliers	(371,054)	(283,185)	(5,455)	-	(659,694)
Cash Paid to Employees	(328,708)	(275,535)	-	-	(604,243)
Net Cash Provided -Used by Operating Activities:	<u>452,545</u>	<u>417,677</u>	<u>37,958</u>	<u>-</u>	<u>908,180</u>
Cash Flows from Noncapital Financing Activities:					
Transfers	(348,500)	(54,000)	(31,700)	(61,000)	(495,200)
Net Cash Provided -Used by Noncapital Financing Activities:	<u>(348,500)</u>	<u>(54,000)</u>	<u>(31,700)</u>	<u>(61,000)</u>	<u>(495,200)</u>
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	-	-	-	236,343	236,343
Principal Payments on Long-Term Debt	(28,000)	(130,000)	-	(14,501)	(172,501)
Interest Payments on Long-Term Debt	(1,820)	(229,568)	-	(9,998)	(241,386)
Additions/Deletions to Capital Assets	-	-	-	-	-
Net Cash Provided -Used by Capital and Related Financing Activities:	<u>(29,820)</u>	<u>(359,568)</u>	<u>-</u>	<u>211,844</u>	<u>(177,544)</u>
Cash Flows from Investing Activities:					
Property Lease	-	17,400	-	-	17,400
Interest on Investments	1,550	777	58	5,501	7,886
Net Increase -Decrease in Cash and Cash Equivalents	<u>75,775</u>	<u>22,286</u>	<u>6,316</u>	<u>156,345</u>	<u>260,722</u>
Cash and Investments at Beginning of Year	<u>211,001</u>	<u>63,009</u>	<u>6,565</u>	<u>223,993</u>	<u>504,568</u>
Cash and Investments at End of Year	<u>\$ 286,776</u>	<u>\$ 85,295</u>	<u>\$ 12,881</u>	<u>\$ 380,338</u>	<u>\$ 765,290</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income, -Loss	\$ 202,763	\$ 93,452	\$ 4,664	\$ -	\$ 300,879
Noncash Items Included in Income:					
Depreciation	151,966	244,145	32,625	-	428,736
Pension Expense	97,295	81,360	-	-	178,655
Decrease -Increase in Accounts Receivable	(1,140)	(4,036)	137	-	(5,039)
Increase -Decrease in Accounts Payable	(389)	1,299	532	-	1,442
Increase -Decrease in Deposits	(50)	-	-	-	(50)
Increase -Decrease in Compensated Absences	2,100	1,457	-	-	3,557
Net Cash Provided -Used by Operating Activities	<u>\$ 452,545</u>	<u>\$ 417,677</u>	<u>\$ 37,958</u>	<u>\$ -</u>	<u>\$ 908,180</u>

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See accompanying notes to the basic financial statements

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

THE FINANCIAL REPORTING ENTITY

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

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

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

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

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

There are the following *major governmental funds*:

General Fund – This is the primary operating fund. It accounts for all the financial operations except those required to be accounted for in another fund. Principal sources of revenue are property taxes, franchise taxes, and state and county shared revenues. Primary expenditures are for police protection and general government.

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

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

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

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Urban Renewal General Fund - This fund accounts for the activities of the Urban Renewal Agency.

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

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

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

There are the following *major proprietary funds*:

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

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

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

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

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

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

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

BUDGETS

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

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

LEVEL OF CONTROL

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

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

Budget amounts shown in the basic financial statements reflect the original budget amount and appropriation transfers. All expenditures were within appropriations for the year ended June 30, 2016.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

Cash and Investments

Investments, included in cash and investments, are carried at cost which approximates fair value. For purposes of the statement of cash flows, the proprietary funds consider cash and cash equivalents to include the cash and investment common pool. These amounts have the general characteristics of demand deposit accounts in that all funds may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty.

Cash and cash equivalents

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Fair Value Inputs and Methodologies and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based up on the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

Level 1 – unadjusted price quotations in active markets/exchanges for identical assets or liabilities that each Fund has the ability to access

Level 2 – other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market–corroborated inputs)

Level 3 – unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including each Fund’s own assumptions used in determining the fair value of investments)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Receivables

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

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes receivable for the governmental fund types, which have been collected within 30 days subsequent to year end, are considered measurable and available and are recognized as revenues. All other property taxes are offset by deferred property tax revenues and, accordingly, have not been recorded as revenue. Real and personal property taxes are levied upon all taxable property within the City and become liens against the property as of July 1 of each year and are payable in three installments which are due on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent. Property taxes receivable by the City represent the City's allocated share of delinquent property taxes and other amounts to be collected from property owners.

Assessment liens in the governmental fund types are recognized as receivables at the time property owners are assessed for property improvements. All assessments receivable are offset by a deferred revenue account and, accordingly, have not been recorded as revenue.

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net positions that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Net pension Related Deferrals of resources related to the pension plan include differences between expected and actual experience, changes of assumptions, differences between projects and actual earning, and contributions subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, special assessments and loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Net pension Related Deferrals of resources related to the pension plan include differences between expected and actual experience, changes of assumptions, differences between projects and actual earning, and contributions subsequent to the measurement date.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets

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

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

Normal maintenance and repairs are charged to operations as incurred. Major additions, improvements and replacements are capitalized. Gains or losses from sales or retirements of fixed assets are included in operations.

Accrued Compensated Absences

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

Long-term obligations

In the government-wide financial statements, and in proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type Statement of Net Position. 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.

Retirement Plans

Substantially all of the City's employees are participants in the State of Oregon Public Employees Retirement System (PERS). For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of PERS and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB Statements 68 and 71 have been implemented as of July 1, 2015.

CITY OF PHILOMATH
BENTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position/Fund Balance

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

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

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

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

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

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

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position/Fund Equity (continued)

There are no assigned or committed fund balances reported.

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

2. CASH AND INVESTMENTS

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

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

Cash and Investments (recorded at cost) consisted of:

Deposits with Financial Institutions:	
Petty Cash	\$ 500
Demand Deposits	52,376
Investments	<u>4,842,883</u>
 Total Cash and Investments	 <u>\$ 4,895,759</u>
 Reconciliation of Cash Reported in:	
Governmental	\$ 4,130,469
Business Type	<u>765,290</u>
 Total Cash and Investments	 <u>\$ 4,895,759</u>

Deposits

Deposits with financial institutions consist of bank demand deposits. The total bank balance per the bank statements for all pooled cash is \$85,158, all of which is covered by Federal Depository Insurance.

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

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned. There is no deposit policy for custodial credit risk. As of June 30, 2016, none of the bank balance was exposed to custodial credit risk because it was insured or collateralized.

Investments

State statutes authorize investment in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial papers and the State Treasurer's Investment Pool, among others. As of June 30, 2016 the fair value of the position in the LGIP approximates fair value of the Pool shares as reported in the Oregon Short Term Fund audited financial statements.

As of June 30, 2016, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in months)		
		Less than 3	3-17	18-19
State Treasurer's Investment Pool	\$ 4,842,883	\$ 4,842,883	\$ -	\$ -
Total	<u>\$ 4,842,883</u>	<u>\$ 4,842,883</u>	<u>\$ -</u>	<u>\$ -</u>

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

Investments in the Local Government Investment Pool (LGIP) are included in the Oregon Short-Term Fund, which is an external investment pool that is not a 2a-7-like external investment pool, and is not registered with the U.S. Securities and Exchange Commission as an investment company. Fair value of the LGIP is calculated at the same value as the number of pool shares owned. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund appears to be in compliance with all portfolio guidelines at June 30, 2016. The LGIP seeks to exchange shares at \$1.00 per share; an investment in the LGIP is neither insured nor guaranteed by the FDIC or any other government agency. Although the LGIP seeks to maintain the value of share investments at \$1.00 per share, it is possible to lose money by investing in the pool. We intend to measure these investments at book value since it approximates fair value. The pool is comprised of a variety of investments. These investments are characterized as a level 2 fair value measurement in the Oregon Short Term Fund's audited financial report. As of June 30, 2016, the fair value of the position in the LGIP is 100.6% of the value of the pool shares as reported in the Oregon Short Term Fund audited financial statements. Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized.

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

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Custodial Credit Risk

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

Concentration Risk

Concentration risk is the risk of loss due to a large portion of investments with a single issuer. To avoid incurring unreasonable risks inherent to over-investing in specific instruments or in individual financial institutions, the investment policy sets maximum limits on the percentage of the portfolio that can be invested in any one type of security. At June 30, 2016, all percentage restrictions were complied with. Oregon Revised Statutes require no more than 25 percent of the moneys of local government to be invested in bankers' acceptances of any qualified financial institution. Amounts in the State Treasurer's Local Government Investment Pool are not required by law to be collateralized. State statutes do not limit the percentage of investments in this instrument.

3. PROPERTY TAXES RECEIVABLE

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

4. LOANS RECEIVABLE

Loans receivable on the governmental funds balance sheet in the Community Development Fund represent amounts due from property owners for Community Development Block Grant (CDBG) loans. These loans are secured by real estate and are generally due when the real estate is transferred. The balance of these notes at June 2016 was \$415,903. The CDBG loans do not bear interest, and are due when the property securing the loans is transferred.

The following loans receivable are recorded in the General Fund:

Contract for sale of police building, monthly payments of \$1,010 including interest at 6%.	\$73,018
Contract receivable from Lakeside Industrial Park, annual payments of approximately \$43,000, including interest from 3% to 4.5% (payments on receivable mirror the payments due on the loan to OECD)	464,291

The Following loans receivable are recorded in the Community Development Fund

Community Development Block Grant (CDBG) loans	<u>415,903</u>
	<u>\$ 953,212</u>

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS

Capital asset activity for governmental activities of the primary government for the year ended June 30, 2016 was as follows:

GOVERNMENTAL ACTIVITIES CAPITAL ASSETS				
Description	June 30, 2015	Additions	Disposals	June 30, 2016
Capital assets not being depreciated				
Land	\$ 130,933	\$ -	\$ -	\$ 130,933
Capital assets being depreciated				
Improvements	493,810	-	-	493,810
Buildings	2,541,448	-	-	2,541,448
Equipment	1,205,998	23,442	(64,753)	1,164,687
Infrastructure	2,804,402	-	-	2,804,402
Total other Capital Assets	7,045,658	23,442	(64,753)	7,004,347
Less Accumulated Depreciation				
Improvements	259,199	20,279	-	279,478
Buildings	692,730	51,557	-	744,287
Equipment	909,193	102,252	(59,754)	951,691
Infrastructure	599,194	55,605	-	654,799
Total Accumulated Depreciation	2,460,316	229,693	(59,754)	2,630,255
Total Governmental Activities	\$ 4,716,275	\$ (206,251)	\$ (4,999)	\$ 4,505,025

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

Function	Governmental Funds
General Government	\$ 82,550
Police	41,528
Streets	72,355
Public Works	33,260
Total	\$ 229,693

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS (CONTINUED)

Capital asset activity for business type activities for the year ended June 30, 2016 was as follows:

Description	June 30, 2015	Additions	Disposals	June 30, 2016
Capital assets not being depreciated				
Land	\$ 853,202	\$ -	\$ -	\$ 853,202
Capital assets being depreciated				
Improvements	79,090	-	-	79,090
Buildings	418,870	-	-	418,870
Equipment	1,341,154	38,799	-	1,379,953
Infrastructure	18,475,704	81,218	-	18,556,922
Total other Capital Assets	20,314,818	120,017	-	20,434,835
Less Accumulated Depreciation				
Improvements	53,391	2,051	-	55,442
Buildings	217,910	9,250	-	227,160
Equipment	819,754	52,738	-	872,492
Infrastructure	4,824,763	364,697	-	5,189,460
Total Accumulated Depreciation	5,915,818	428,736	-	6,344,554
Total Governmental Activities	<u>\$ 15,252,202</u>	<u>\$ (308,719)</u>	<u>\$ -</u>	<u>\$ 14,943,483</u>

6. DEFERRED INFLOWS OF RESOURCES

At June 30, 2016, deferred inflows of resources on the balance sheet - governmental funds consisted of the following:

Property taxes	\$ 135,273
Community Development Block Grant Loans	415,903
Other loans receivable	537,309
Assessments	<u>58,840</u>
	<u>\$ 1,147,325</u>

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

7. EMPLOYEE RETIREMENT PLAN

PENSION PLAN

Plan Description – The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple-employer defined benefit plan. All benefits of the system are established by the legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. Oregon PERS produces an independently audited Comprehensive Annual Financial Report which can be found at:

http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

If the link is expired please contact Oregon PERS for this information.

- a. **PERS Pension (Chapter 238).** The ORS Chapter 238 Defined Benefit Plan is closed to new members hired on or after August 29, 2003.
 - i. **Pension Benefits.** The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, and 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefits results.
 - ii. **Death Benefits.** Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided on or more of the following contributions are met:
 - member was employed by PERS employer at the time of death,
 - member died within 120 days after termination of PERS covered employment,
 - member died as a result of injury sustained while employed in a PERS-covered job, or
 - member was on an official leave of absence from a PERS-covered job at the time of death.
 - iii. **Disability Benefits.** A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.
 - iv. **Benefit Changes After Retirement.** Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA will vary based on the amount of the annual benefit.
- b. **OPSRP Pension Program (OPSRP DB).** The ORS Chapter 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

7. EMPLOYEE RETIREMENT PLAN (CONTINUED)

- i. **Pension Benefits.** This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:
Police and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.
General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.
A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.
- ii. **Death Benefits.** Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.
- iii. **Disability Benefits.** A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.
- iv. **Benefit Changes After Retirement.** Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA will vary based on the amount of the annual benefit.

Contributions – PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation, which became effective July 1, 2015. The state of Oregon and certain schools, community colleges, and political subdivision have made unfunded actuarial liability payments and their rates have been reduced. Employer contributions for the year ended June 30, 2016 were \$261,642, excluding amounts to fund employer specific liabilities.

Pension Asset or Liability - At June 30, 2016, the City reported a net pension liability of \$950,931 for its proportionate share of the net pension asset. The pension asset was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2013, the City's proportion was .02 percent.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

7. EMPLOYEE RETIREMENT PLAN (CONTINUED)

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ 51,279	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	199,337
Changes in proportion and differences between District contributions and proportionate share of contributions	-	66,655
District contributions subsequent to measuring date	261,642	-
Deferred outflow (inflow) of resources	\$ 312,921	\$ 265,992
Net Pension Related Deferrals before current contributions		\$ (214,713)

Amounts reported as deferred outflows or inflow of resources related to pension will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2017	\$ (99,498)
2018	(99,498)
2019	(99,498)
2020	83,572
2021	209
Total	\$ (214,713)

All assumptions, methods and plan provisions used in these calculations are described in the Oregon PERS system-wide GASB 68 reporting summary dated May 23, 2016. Oregon PERS produces an independently audited CAFR which can be found at:

http://www.oregon.gov/pers/Pages/section/financial_reports/financial.aspx.

Actuarial Valuations – The employer contribution rates effective July 1, 2015 through June 30, 2017, were set using the entry age normal actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (estimated amount necessary to finance benefits earned by employees during the current service year), (2) an amount for the amortization unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial liabilities being amortized over 20 years.

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an actuarially determined amount for funding a disability benefit component, and (c) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

7. EMPLOYEE RETIREMENT PLAN (CONTINUED)

Actuarial Methods and Assumptions:

Valuation date	December 31, 2013 rolled forward to June 30, 2015
Experience Study Report	2014, Published September 2015
Actuarial cost method	Entry Age Normal
Amortization method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years
Asset valuation method	Market value of assets
Inflation rate	2.75 percent
Investment rate of return	7.75 percent
Projected salary increase	3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service. For COLA, a blend of 2% COLA and graded COLA (1.25%/0.15%) in accordance with Moro decision, blend based on service.
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (65% for males and 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The method and assumptions shown are based on the 2014 Experience Study which is reviewed for the four-year period ending December 31, 2013.

Discount Rate – The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from the plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s proportionate share of the net pension liability to changes in the discount rate – The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

7. EMPLOYEE RETIREMENT PLAN (CONTINUED)

	(6.75%)	(7.75%)	(8.75%)
District's proportionate share of the net pension liability	\$ 2,295,037	\$ 950,931	\$ (181,797)

Since the December 31, 2013 actuarial valuation, the system-wide actuarial accrued liability has increased primarily due to the Moro decision and assumption changes, along with interest on the liability as current active members get closer to retirement. The Oregon Supreme Court decision in *Moro v. State of Oregon*, issued on April 30, 2015, reversed a significant portion of the reductions the 2013 Oregon Legislature made to future system Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the benefits projected to be paid by Employers compared to those developed in the prior actuarial valuation, and consequently increased plan liabilities. The employers' projected long-term contribution effort has been adjusted for the estimated impact of the Moro Decision. In accordance with statute, a biennial review of actuarial methods and assumptions was completed in 2015 to be used for the December 31, 2014 actuarial valuation. After completion of this review and subsequent to the measurement date, the PERS Board adopted several assumption changes, including lowering the investment return assumption to 7.50%, which will be effective January 1, 2016 and will be included in the next update.

A deferred compensation plan is available to 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. The assets of the plan are held by the administrator for the sole benefit of the plan participants and are not considered assets or liabilities of the City.

Individual Account Program - In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for OPERS. The Oregon Public Service Retirement Plan (OPSRP) is effective for all new employees hired on or after August 29, 2003, and applies to any inactive OPERS members who return to employment following a six month or greater break in service. The new plan consists of the defined benefit pension plans and a defined contribution pension plan (the Individual Account Program or IAP). Beginning January 1, 2004, all OPERS member contributions go into the IAP portion of OPSRP. OPERS' members retain their existing OPERS accounts, but any future member contributions are deposited into the member's IAP, not the member's OPERS account. Those employees who had established an OPERS membership prior to the creation of OPSRP will be members of both the OPERS and OPSRP system as long as they remain in covered employment. Members of OPERS and OPSRP are required to contribute six percent of their salary covered under the plan which is invested in the IAP. The City makes this contribution on behalf of its employees.

Additional disclosures related to Oregon PERS not applicable to specific employers are available online, or by contacting PERS at the following address: PO BOX 23700 Tigard, OR 97281-3700.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

8. DEFERRED COMPENSATION

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

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

9. LONG TERM DEBT

Changes in Long-Term Liabilities: During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2016</u>	<u>Due in One Year</u>
Governmental activities					
OECDL Lakeside Loan, 2004	\$ 488,443	\$ -	\$ (24,152)	\$ 464,291	\$ 24,303
Compensated absences	<u>199,516</u>	<u>203,408</u>	<u>(199,516)</u>	<u>203,408</u>	<u>-</u>
Total Governmental activities	<u>\$ 687,959</u>	<u>\$ 203,408</u>	<u>\$ (223,668)</u>	<u>\$ 667,699</u>	<u>\$ 24,303</u>
Business-type activities					
OECDL, 2006	\$ 28,000	\$ -	\$ (28,000)	\$ -	\$ -
Storm Drain SPWF Loan	166,634	-	(14,501)	152,133	15,371
Full Faith and Credit Obligations, 2009	5,695,000	-	(130,000)	5,565,000	145,000
Compensated absences	<u>69,026</u>	<u>72,583</u>	<u>(69,026)</u>	<u>72,583</u>	<u>-</u>
Total Business-type activities	<u>\$ 5,958,660</u>	<u>\$ 72,583</u>	<u>\$ (241,527)</u>	<u>\$ 5,789,716</u>	<u>\$ 160,371</u>

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

9. LONG TERM DEBT (CONTINUED)

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

Future debt service requirements are as follows:

Government Activities

<u>Fiscal Year Eanding</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-17	\$ 24,303	\$ 19,887	\$ 44,190
2017-18	24,464	18,976	43,440
2018-19	24,643	17,997	42,640
2019-20	29,828	17,011	46,839
2020-21	30,021	15,818	45,839
2021-26	168,422	59,528	227,950
2026-31	162,610	18,699	181,309
	<u>\$ 464,291</u>	<u>\$ 167,917</u>	<u>\$ 632,208</u>

Business-type Activities

<u>Fiscal Year Eanding</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-17	\$ 160,371	\$ 234,796	\$ 395,167
2017-18	176,293	229,524	405,817
2018-19	192,271	223,746	416,017
2019-20	213,307	217,460	430,767
2020-21	234,405	209,536	443,941
2021-26	1,490,486	884,877	2,375,363
2026-31	2,140,000	533,588	2,673,588
2031-33	1,110,000	76,132	1,186,132
	<u>\$ 5,717,133</u>	<u>\$ 2,609,656</u>	<u>\$ 8,326,789</u>

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

10. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2016 on the budgetary basis of accounting, consisted of the following:

Fund	Transfers In	Transfers Out
General	-	27,300
Street	17,700	77,600
Community Development	-	6,000
Urban Renewal - General	-	-
Land, Building and Equipment	588,400	-
Systems Development	9,000	70,000
Water	-	348,500
Sewer	70,000	124,000
Storm Drain	-	31,700
	<u>\$ 685,100</u>	<u>\$ 685,100</u>

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

11. PROPERTY TAX LIMITATIONS

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

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

12. RISK MANAGEMENT

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

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

13. CONTINGENCIES

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

From time to time, the City is a defendant in various litigation proceedings. Management believes any losses arising from these actions will not materially affect the City's financial position.

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2016**

<u>GENERAL FUND</u>				VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
Revenue				
Property Taxes	\$ 1,454,200	\$ 1,454,200	\$ 1,439,634	\$ (14,566)
Licenses and Permits	85,000	85,000	109,549	24,549
Charges for Services	303,124	303,124	302,556	(568)
Franchise Fees	303,500	303,500	299,966	(3,534)
Intergovernmental	138,490	138,490	120,989	(17,501)
Fines and Forfeitures	310,000	310,000	261,611	(48,389)
Interest and Miscellaneous	25,186	25,186	56,973	31,787
Total Revenue	<u>2,619,500</u>	<u>2,619,500</u>	<u>2,591,278</u>	<u>(28,222)</u>
Expenditures				
Personal Services	1,750,630	1,804,630 (1)	1,767,106	37,524
Materials and Services	865,070	861,070 (1)	843,167	17,903
Contingency	50,000	- (1)	-	-
Total Expenditures	<u>2,665,700</u>	<u>2,665,700</u>	<u>2,610,273</u>	<u>55,427</u>
Excess of Revenue Over, -Under Expenditures	(46,200)	(46,200)	(18,995)	27,205
Other Financing Sources, -Uses				
Transfers Out	(27,300)	(27,300) (1)	(27,300)	-
Total Other Financing Sources, -Uses	<u>(27,300)</u>	<u>(27,300)</u>	<u>(27,300)</u>	<u>-</u>
Net Change in Fund Balance	(73,500)	(73,500)	(46,295)	27,205
Beginning Fund Balance	<u>130,500</u>	<u>130,500</u>	<u>134,199</u>	<u>3,699</u>
Ending Fund Balance	<u>\$ 57,000</u>	<u>\$ 57,000</u>	<u>\$ 87,904</u>	<u>\$ 30,904</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2016**

COMMUNITY DEVELOPMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Revenue				
Interest and Miscellaneous	\$ 15,000	\$ 15,000	\$ 20,260	\$ 5,260
Total Revenue	15,000	15,000	20,260	5,260
Expenditures				
Materials and Services	15,500	15,500 (1)	-	15,500
Contingency	-	- (1)	-	-
Total Expenditures	15,500	15,500	-	15,500
Excess of Revenues Over -Under Expenditures	(500)	(500)	20,260	20,760
OTHER FINANCING SOURCES				
Transfers Out	(6,000)	(6,000) (1)	(6,000)	-
Net Change in Fund Balance	(6,500)	(6,500)	14,260	20,760
Beginning Fund Balance	6,500	6,500	6,496	(4)
Ending Fund Balance	\$ -	\$ -	\$ 20,756	\$ 20,756

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2016**

<u>STREET FUND</u>				VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
Revenue				
Charges for Services	\$ 53,100	\$ 53,100	\$ 53,235	\$ 135
Franchise Fees	94,800	94,800	96,403	1,603
Intergovernmental	264,300	264,300	271,837	7,537
Interest and Miscellaneous	850	850	840	(10)
Total Revenue	<u>413,050</u>	<u>413,050</u>	<u>422,315</u>	<u>9,265</u>
Expenditures				
Personal Services	176,822	176,822 (1)	167,933	8,889
Materials and Services	225,228	225,228 (1)	176,225	49,003
Contingency	35,000	35,000 (1)	-	35,000
Total Expenditures	<u>437,050</u>	<u>437,050</u>	<u>344,158</u>	<u>92,892</u>
Excess of Revenue Over, -Under Expenditures	(24,000)	(24,000)	78,157	102,157
Other Financing Sources, -Uses				
Transfers In	17,700	17,700	17,700	-
Transfers Out	(77,600)	(77,600) (1)	(77,600)	-
Total Other Financing Sources, -Uses	<u>(59,900)</u>	<u>(59,900)</u>	<u>(59,900)</u>	<u>-</u>
Net Change in Fund Balance	(83,900)	(83,900)	18,257	102,157
Beginning Fund Balance	<u>130,900</u>	<u>130,900</u>	<u>134,899</u>	<u>3,999</u>
Ending Fund Balance	<u>\$ 47,000</u>	<u>\$ 47,000</u>	<u>\$ 153,156</u>	<u>\$ 106,156</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2016**

	<u>URBAN RENEWAL</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
Revenue				
Property Taxes	\$ 499,200	\$ 499,200	\$ 499,137	\$ (63)
Interest and Miscellaneous	21,200	21,200	30,528	9,328
Total Revenue	<u>520,400</u>	<u>520,400</u>	<u>529,665</u>	<u>9,265</u>
Expenditures				
Materials and Services	323,400	323,400 (1)	61,553	261,847
Capital Outlay	500,000	500,000 (1)	69,607	430,393
Debt Service	391,000	391,000 (1)	-	391,000
Total Expenditures	<u>1,214,400</u>	<u>1,214,400</u>	<u>131,160</u>	<u>1,083,240</u>
Excess of Revenue Over, -Under Expenditures	(694,000)	(694,000)	398,505	1,092,505
Other Financing Sources, -Uses				
Loan Proceeds	<u>4,000,000</u>	<u>4,000,000</u>	<u>-</u>	<u>(4,000,000)</u>
Total Other Financing Sources, -Uses	<u>4,000,000</u>	<u>4,000,000</u>	<u>-</u>	<u>(4,000,000)</u>
Net Change in Fund Balance	3,306,000	3,306,000	398,505	(2,907,495)
Beginning Fund Balance	<u>1,494,000</u>	<u>1,494,000</u>	<u>1,485,472</u>	<u>(8,528)</u>
Ending Fund Balance	<u>\$ 4,800,000</u>	<u>\$ 4,800,000</u>	<u>\$ 1,883,977</u>	<u>\$ (2,916,023)</u>

(1) Appropriation Level

CITY OF PHILOMATH
BENTON COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

For the fiscal year ended June 30, 2016

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year Ended June 30,	(a) Employer's proportion of the net pension liability (NPA)	(b) Employer's proportionate share of the net pension liability (NPA)	(c) City's covered payroll	(b/c) NPL as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.02 %	\$ 950,931	\$ 1,493,911	63.7 %	91.9 %
2015	0.02	(405,946)	1,549,340	(26.2)	103.6
2014	0.02	913,923	1,568,037	58.3	92.0

The amounts presented for each fiscal year were actuarial determined at 12/31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

SCHEDULE OF CONTRIBUTIONS

Year	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percent of covered payroll
2016	\$ 261,642	\$ 261,642	\$ -	\$ 1,562,205	16.7 %
2015	238,717	238,717	-	1,493,911	16.0
2014	224,085	224,085	-	1,549,340	14.5

The amounts presented for each fiscal year were actuarial determined at 12/31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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CITY OF PHILOMATH
BENTON COUNTY, OREGON
SUPPLEMENTARY INFORMATION

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**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2016**

ECONOMIC DEVELOPMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Revenue				
Property Taxes	\$ -	\$ -	\$ 1	\$ 1
Interest and Miscellaneous	44,955	44,955	44,975	20
Total Revenue	44,955	44,955	44,976	21
Expenditures				
Debt Service	44,915	44,915 (1)	44,915	-
Total Expenditures	44,915	44,915	44,915	-
Excess of Revenue Over, -Under Expenditures	40	40	61	21
Net Change in Fund Balance	40	40	61	21
Beginning Fund Balance	11,330	11,330	11,333	3
Ending Fund Balance	\$ 11,370	\$ 11,370	\$ 11,394	\$ 24

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2016**

LAND BUILDING AND EQUIPMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Revenue				
Intergovernmental	\$ 2,670	\$ 2,670	\$ 2,746	\$ 76
Fines and Forfeitures	7,300	7,300	9,407	2,107
Interest and Miscellaneous	15,930	15,930	33,329	17,399
Total Revenue	<u>25,900</u>	<u>25,900</u>	<u>45,482</u>	<u>19,582</u>
Expenditures				
Capital Outlay	263,300	263,300 (1)	189,190	74,110
Total Expenditures	<u>263,300</u>	<u>263,300</u>	<u>189,190</u>	<u>74,110</u>
Excess of Revenue Over, -Under Expenditures	(237,400)	(237,400)	(143,708)	93,692
Other Financing Sources, -Uses				
Transfers In	588,400	588,400	588,400	-
Total Other Financing Sources, -Uses	<u>588,400</u>	<u>588,400</u>	<u>588,400</u>	<u>-</u>
Net Change in Fund Balance	351,000	351,000	444,692	93,692
Beginning Fund Balance	1,299,000	1,299,000	1,297,080	(1,920)
Ending Fund Balance	<u>\$ 1,650,000</u>	<u>\$ 1,650,000</u>	<u>\$ 1,741,772</u>	<u>\$ 91,772</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2016**

SYSTEMS DEVELOPMENT FUND (CAPITAL PROJECTS)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Revenue				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	52,300	52,300	76,808	24,508
Interest and Miscellaneous	415	415	3,113	2,698
Total Revenue	<u>52,715</u>	<u>52,715</u>	<u>79,921</u>	<u>27,206</u>
Expenditures				
Capital Outlay	5,000	5,000 (1)	-	5,000
Total Expenditures	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Excess of Revenue Over, -Under Expenditures	47,715	47,715	79,921	32,206
Net Change in Fund Balance	47,715	47,715	79,921	32,206
Beginning Fund Balance	<u>127,200</u>	<u>127,200</u>	<u>128,125</u>	<u>925</u>
Ending Fund Balance	<u>\$ 174,915</u>	<u>\$ 174,915</u>	<u>\$ 208,046</u>	<u>\$ 33,131</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2016**

WATER FUND

	ORIGINAL BUDGET	FINAL BUDGET	BUDGET BASIS	GAAP BASIS
Revenue				
Charges for Services	\$ 1,050,000	\$ 1,050,000	\$ 1,106,769	\$ 1,106,769
Interest and Miscellaneous	53,400	53,400	48,278	48,278
Total Revenue	1,103,400	1,103,400	1,155,047	1,155,047
Expenditures				
Personal Services	352,095	352,095 (1)	328,708	428,103
Materials and Services	462,805	462,805 (1)	370,665	370,665
Capital Outlay/Depreciation	50,000	50,000 (1)	-	151,966
Debt Service	30,000	30,000 (1)	29,820	639
Contingency	50,000	50,000 (1)	-	-
Total Expenditures	944,900	944,900	729,193	951,373
Excess of Revenue Over -Under Expenditures	158,500	158,500	425,854	203,674
OTHER FINANCING SOURCES				
Transfers In	-	-	-	87,998
Transfers Out	(348,500)	(348,500) (1)	(348,500)	(348,500)
Total Other Financing Sources -Uses	(348,500)	(348,500)	(348,500)	(260,502)
Net Change in Fund Balance	(190,000)	(190,000)	77,354	(56,828)
Beginning Fund Balance	260,000	260,000	313,022	4,022,998
Ending Fund Balance	<u>\$ 70,000</u>	<u>\$ 70,000</u>	<u>390,376</u>	<u>\$ 3,966,170</u>

Reconciliation to the Statement of Proprietary Net Position

Net Capital Assets	\$ 3,730,792
Pension Related Deferred Outflows	39,741
Pension Related Deferred Inflows	(33,781)
Compensated Absences	(40,190)
Net Pension Liability	(120,768)
Long Term Debt	-
Net Position	<u>\$ 3,966,170</u>

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2016**

SEWER FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	GAAP BASIS
Revenue				
Charges for Services	\$ 950,000	\$ 950,000	\$ 953,877	\$ 953,877
Lease of Land	17,700	17,700	17,400	17,400
Interest and Miscellaneous	36,220	36,220	27,333	27,333
Total Revenue	<u>1,003,920</u>	<u>1,003,920</u>	<u>998,610</u>	<u>998,610</u>
Expenditures				
Personal Services	292,978	292,978 (1)	275,535	358,352
Materials and Services	354,374	354,374 (1)	284,484	284,484
Capital Outlay/Depreciation	-	- (1)	-	244,145
Debt Service	359,568	359,568 (1)	359,568	229,113
Contingency	35,000	35,000 (1)	-	-
Total Expenditures	<u>1,041,920</u>	<u>1,041,920</u>	<u>919,587</u>	<u>1,116,094</u>
Excess of Revenue Over				
-Under Expenditures	(38,000)	(38,000)	79,023	(117,484)
OTHER FINANCING SOURCES				
Transfers In	70,000	70,000	70,000	102,019
Transfers Out	(124,000)	(124,000) (1)	(124,000)	(124,000)
Total Other Financing Sources				
-Uses	(54,000)	(54,000)	(54,000)	(21,981)
Net Change in Fund Balance	(92,000)	(92,000)	25,023	(139,465)
Beginning Fund Balance	<u>132,000</u>	<u>132,000</u>	<u>146,247</u>	<u>4,577,203</u>
Ending Fund Balance	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>171,270</u>	<u>\$ 4,437,738</u>
Reconciliation to the Statement of Proprietary Net Position				
Net Capital Assets			\$ 9,979,163	
Pension Related Deferred Outflows			33,170	
Pension Related Deferred Inflows			(28,195)	
Compensated Absences			(32,393)	
Net Pension Liability			(100,799)	
Long Term Debt			(5,565,000)	
Net Position			<u>\$ 4,457,216</u>	

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2016**

STORM DRAIN FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	GAAP BASIS
Revenue				
Charges for Services	\$ 42,960	\$ 42,960	\$ 43,276	\$ 43,276
Interest and Miscellaneous	140	140	58	58
Total Revenue	43,100	43,100	43,334	43,334
Expenditures				
Materials and Services	16,400	16,400 (1)	5,987	5,987
Capital Outlay/Depreciation	-	- (1)	-	32,625
Total Expenditures	16,400	16,400	5,987	38,612
Excess of Revenue Over -Under Expenditures	26,700	26,700	37,347	4,722
OTHER FINANCING SOURCES				
Transfers In	-	-	-	-
Transfers Out	(31,700)	(31,700) (1)	(31,700)	(31,700)
Total Other Financing Sources -Uses	(31,700)	(31,700)	(31,700)	(31,700)
Net Change in Fund Balance	(5,000)	(5,000)	5,647	(26,978)
Beginning Fund Balance	9,000	9,000	10,688	1,276,841
Ending Fund Balance	\$ 4,000	\$ 4,000	16,335	\$ 1,249,863
Reconciliation to the Statement of Proprietary Net Position				
Net Capital Assets			\$ 1,233,528	
Net Position			\$ 1,249,863	

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2016**

SYSTEM DEVELOPMENT FUND (PROPRIETARY)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	GAAP BASIS
Revenue				
Charges for Services	\$ 163,200	\$ 163,200	\$ 236,343	\$ 236,343
Interest and Miscellaneous	784	784	5,501	5,501
Total Revenue	163,984	163,984	241,844	241,844
Expenditures				
Capital Outlay	-	-	-	-
Debt Service	24,499	24,499 (1)	24,499	9,491
Total Expenditures	24,499	24,499	24,499	9,491
Excess of Revenue Over -Under Expenditures	139,485	139,485	217,345	232,353
OTHER FINANCING SOURCES				
Transfers In	9,000	9,000	9,000	9,000
Transfers Out	(70,000)	(70,000) (1)	(70,000)	(70,000)
Total Other Financing Sources, -Uses	(61,000)	(61,000)	(61,000)	(61,000)
Net Change in Fund Balance	78,485	78,485	156,345	171,353
Beginning Fund Balance	237,400	237,400	223,993	51,527
Ending Fund Balance	\$ 315,885	\$ 315,885	380,338	\$ 222,880
Reconciliation to the Statement of Proprietary Net Position				
Long Term Debt			\$ (152,133)	
Accrued Interest Payable			(5,325)	
Net Position			\$ 222,880	

(1) Appropriation Level

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED - GENERAL FUND
For the Year Ended June 30, 2016**

TAX YEAR	IMPOSED LEVY OR UNCOLLECTED AT 7-1-15	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED AT 6-30-16
CURRENT:						
2015-16	\$ 1,496,146	\$ 41,305	\$ -	\$ -	\$ 1,415,806	\$ 39,035
PRIOR YEARS:						
2014-15	48,986	-	(10,343)	-	12,731	25,912
2013-14	28,469	-	(4,743)	-	5,639	18,087
2012-13	25,073	-	(12,252)	-	3,324	9,497
2011-12	8,586	-	(98)	-	1,571	6,917
Prior	14,436	-	(12,388)	-	563	1,485
Total	<u>\$ 1,621,696</u>	<u>\$ 41,305</u>	<u>\$ (39,824)</u>	<u>\$ -</u>	<u>\$ 1,439,634</u>	<u>\$ 100,933</u>

RECONCILIATION TO REVENUE

Cash Collections by County Treasurer Above	\$ 1,439,634
Total Revenue	\$ 1,439,634

**CITY OF PHILOMATH
BENTON COUNTY, OREGON**

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED - URBAN RENEWAL FUND
For the Year Ended June 30, 2016**

TAX YEAR	IMPOSED LEVY OR UNCOLLECTED AT 7-1-15	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED AT 6-30-16
CURRENT:						
2015-16	\$ 518,948	\$ 14,327	\$ -	\$ -	\$ 491,082	\$ 13,539
PRIOR YEARS:						
2014-15	16,672	-	(3,520)	-	4,333	8,819
2013-14	9,777	-	(1,629)	-	1,937	6,211
2012-13	8,318	-	(4,064)	-	1,102	3,152
2011-12	2,736	-	(31)	-	501	2,204
Prior	4,618	-	(4,028)	-	182	408
Total	<u>\$ 561,069</u>	<u>\$ 14,327</u>	<u>\$ (13,272)</u>	<u>\$ -</u>	<u>\$ 499,137</u>	<u>\$ 34,333</u>

RECONCILIATION TO REVENUE

Cash Collections by County Treasurer Above	<u>\$ 499,137</u>
Total Revenue	<u>\$ 499,137</u>

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CITY OF PHILOMATH
BENTON COUNTY, OREGON

REPORTS ON LEGAL AND OTHER
REGULATORY REQUIREMENTS

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PAULY, ROGERS AND Co., P.C.
12700 SW 72nd Ave. ♦ Tigard, OR 97223
(503) 620-2632 ♦ (503) 684-7523 FAX
www.paulyrogersandcocpas.com

October 10, 2016

Independent Auditor's Report Required by Oregon State Regulations

We have audited the basic financial statements of the City of Philomath, Oregon as of and for the year ended June 30, 2016, and have issued our report thereon dated October 10, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295)**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Highway revenues used for public highways, roads, and streets.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

In connection with our testing nothing came to our attention that caused us to believe the City of Philomath, Oregon was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

OAR 162-10-0230 Internal Control

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

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



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