

***CITY OF PHILOMATH
URBAN RENEWAL AGENCY
(A component unit of the
City of Philomath, Oregon)
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2010***

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH
(A Component Unit of the City of Philomath, Oregon)
AGENCY OFFICIALS
JUNE 30, 2010

MAYOR

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

COUNCIL MEMBERS

Scott Klain
1070 N 19th Street
Philomath, Oregon 97370

Jerry Jackson, Sr.
P.O. Box 395
Philomath, Oregon 97370

Charla Koeppe
2638 Applegate Street
Philomath, Oregon 97370

Matthew Bierek
2337 Applegate Street
Philomath, Oregon 97370

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

Rocky Sloan
575 Neabeack Hill Drive
Philomath, Oregon 97370

CITY MANAGER

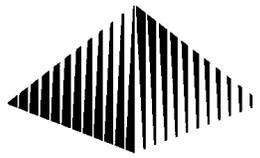
Randy Kugler
P.O. Box 400
Philomath, Oregon 97370

FINANCE DIRECTOR

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Urban Renewal Agency of the City of Philomath, Oregon (a Component Unit of the City of Philomath, Oregon) as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Urban Renewal Agency of the City of Philomath, Oregon as of June 30, 2010 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Urban Renewal Agency of the City of Philomath, Oregon's basic financial statements as a whole. The individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

By: 

Charles A. Swank, A Shareholder
August 30, 2010

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON
(A Component Unit of the City of Philomath, Oregon)
STATEMENT OF NET ASSETS
JUNE 30, 2010

ASSETS

Cash and investments	\$ 12,480
Property taxes receivable	21,396
	<hr/>
<i>Total Assets</i>	33,876

LIABILITIES

Accounts payable	4,467
Noncurrent liabilities:	
Due within one year:	
Bonds payable	85,000
Due in more than one year:	
Due to City of Philomath	135,000
Bonds payable	185,000
	<hr/>
<i>Total Liabilities</i>	409,467

NET ASSETS

Restricted for debt service	23,246
Unrestricted	(398,837)
	<hr/>
<i>Total Net Assets</i>	<u>\$ (375,591)</u>

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

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON
(A Component Unit of the City of Philomath, Oregon)
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

Expenses:

Urban Renewal	\$	20,052
Interest on long-term debt		24,709

Total Expenses 44,761

General Revenues:

Property taxes	399,513
Miscellaneous	1,167

Total Revenues 400,680

Change in Net Assets 355,919

Net Assets, July 1, 2009 (731,510)

Net Assets, June 30, 2010 \$ (375,591)

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

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON
(A Component Unit of the City of Philomath, Oregon)
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>
ASSETS			
Cash and investments	\$ 10,630	\$ 1,850	\$ 12,480
Property taxes receivable	-	21,396	21,396
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	<u>\$ 10,630</u>	<u>\$ 23,246</u>	<u>\$ 33,876</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 3,517	\$ -	\$ 3,517
Deferred revenue	-	20,404	20,404
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	3,517	20,404	23,921
Fund Balances			
Unreserved, reported in:			
General fund	7,113	-	7,113
Debt service fund	-	2,842	2,842
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balances</i>	7,113	2,842	9,955
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 10,630</u>	<u>\$ 23,246</u>	<u>\$ 33,876</u>

Amounts reported in the statement
of net assets are different because:

Fund balances as above	\$ 9,955
A portion of property taxes receivable is not available to pay for current-period expenditures and, therefore, is deferred in debt service	20,404
Some expenses do not require the use of current financial resources and are not reported as expenditures in the governmental funds	(950)
Long-term liabilities, are not due and payable in the current period and, 1 therefore, are not reported in the government funds	(270,000)
Interfund loan	(135,000)
	<hr/>
Total net assets	<u>\$ (375,591)</u>

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

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON
(A Component Unit of the City of Philomath, Oregon)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>
REVENUES			
Taxes and assessments	\$ -	\$ 394,020	\$ 394,020
Miscellaneous	134	1,033	1,167
<i>Total Revenues</i>	134	395,053	395,187
EXPENDITURES			
Materials and services	20,052	-	20,052
Debt service			
Principal	-	413,000	413,000
Interest	-	29,926	29,926
<i>Total Expenditures</i>	20,052	442,926	462,978
NET CHANGE IN FUND BALANCES	(19,918)	(47,873)	(67,791)
FUND BALANCES, Beginning of year	27,031	50,715	77,746
FUND BALANCES, End of year	<u>\$ 7,113</u>	<u>\$ 2,842</u>	<u>\$ 9,955</u>

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

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON

(A Component Unit of the City of Philomath, Oregon)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Amounts reported in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$ (67,791)
Governmental funds defer revenues that do not provide current financial resources. However, the statement of activities recognizes such revenues at the net realizable value when earned, regardless of when received.	
Change in deferred property tax revenue	5,493
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	
Change in accrued interest payable	5,217
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources. Neither transaction has any effect on net assets.	
Debt principal paid	<u>413,000</u>
Change in net assets	<u><u>\$ 355,919</u></u>

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

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON
(A Component Unit of the City of Philomath, Oregon)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Basic Financial Statements

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

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

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the Agency has two governmental (general and debt service) funds.

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

GAAP set forth minimum criteria (percentage of the assets, liabilities, revenues or expenses of either fund category or the government and enterprise combined) for the determination of major funds. Major individual funds are reported as separate columns in the fund financial statements.

The Agency reports the following major governmental funds:

- General Fund
- Debt Service Fund

Measurement Focus and Basis of Accounting

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

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON
(A Component Unit of the City of Philomath, Oregon)
NOTES TO FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Agency considers property taxes as available if they are collected within 30 days after year end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

Fund Accounting

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Receivables and Deferred Revenues

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

Property taxes receivable for the governmental fund types, which have been collected within 30 days subsequent to year end, are considered measurable and available and are recognized as revenues. All other property taxes are offset by deferred property tax revenues and, accordingly, have not been recorded as revenue. Real and personal property taxes are levied upon all taxable property within the 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.

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON
(A Component Unit of the City of Philomath, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

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

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

Cash and Investments

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

Budgetary Information

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

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

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

The Agency does not use encumbrances.

Use of Restricted Assets

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

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON
(A Component Unit of the City of Philomath, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2010:

Investments

Local Government Investment Pool	\$ <u>12,480</u>
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Investments

The State Treasurer of the State of Oregon maintains the Oregon Short-term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2010, the fair value of the position in the Oregon State Treasurer's Short-term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-term Fund is not subject to risk evaluation. Separate financial statements for the Oregon Short-term Fund are available from the Oregon State Treasurer.

Interest Rate Risk

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

Custodial Risk - Investments

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

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

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON
(A Component Unit of the City of Philomath, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

PROPERTY TAXES RECEIVABLE

	<i>Uncollected Balances July 1, 2009</i>	<i>2009-2010 Levy</i>	<i>Discounts & Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balances June 30, 2010</i>
2009-10	\$ -	\$ 410,830	\$ (10,785)	\$ (386,370)	\$ 13,675
2008-09	10,278	-	(318)	(5,560)	4,400
2007-08	3,535	-	(69)	(1,595)	1,871
2006-07	1,686	-	(53)	(762)	871
2005-06	687	-	(45)	(422)	220
2004-05	139	-	(31)	1	109
prior	293	-	(16)	(27)	250
	<u>\$ 16,618</u>	<u>\$ 410,830</u>	<u>\$ (11,317)</u>	<u>\$ (394,735)</u>	<u>\$ 21,396</u>

LONG-TERM DEBT

	<i>Outstanding July 1, 2009</i>	<i>Issued</i>	<i>Matured/ Redeemed During Year</i>	<i>Outstanding June 30, 2010</i>	<i>Due within One year</i>
Urban Renewal Agency bonds, series 2004 with interest at 4.22% for 5 years, then variable rates until 2013. Original issue amount of \$710,000	\$ 350,000	\$ -	\$ (80,000)	\$ 270,000	\$ 85,000
City of Philomath loan to Urban Renewal Agency interest at 5% due November 2010	468,000	-	(333,000)	135,000	135,000
	<u>\$ 818,000</u>	<u>\$ -</u>	<u>\$ (413,000)</u>	<u>\$ 405,000</u>	<u>\$ 220,000</u>

Future debt service requirements are as follows:

<i>Fiscal Year Ending June 30,</i>	<i>2004 General Obligation bonds</i>			<i>City of Philomath loan</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2011	\$ 85,000	\$ 11,394	\$ 96,394	\$ 135,000	\$ 13,967	\$ 148,967
2012	90,000	7,807	97,807	-	-	-
2013	95,000	4,045	99,045	-	-	-
	<u>\$ 270,000</u>	<u>\$ 23,246</u>	<u>\$ 293,246</u>	<u>\$ 135,000</u>	<u>\$ 13,967</u>	<u>\$ 148,967</u>

REQUIRED SUPPLEMENTARY INFORMATION

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON
(A Component Unit of the City of Philomath, Oregon)
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2010

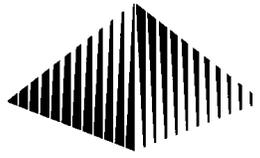
	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 850	\$ 850	\$ 134	\$ (716)
EXPENDITURES				
Materials and services	13,350	29,350	20,052	9,298
Capital outlay	16,000	-	-	-
<i>Total Expenditures</i>	<u>29,350</u>	<u>29,350</u>	<u>20,052</u>	<u>9,298</u>
NET CHANGE IN FUND BALANCE	(28,500)	(28,500)	(19,918)	8,582
FUND BALANCE, Beginning of year	<u>43,500</u>	<u>43,500</u>	<u>27,031</u>	<u>(16,469)</u>
FUND BALANCE, End of year	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 7,113</u>	<u>\$ (7,887)</u>

OTHER SUPPLEMENTARY INFORMATION

URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON
(A Component Unit of the City of Philomath, Oregon)
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2010

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 399,680	\$ 399,680	\$ 394,020	\$ (5,660)
Miscellaneous	2,030	2,030	1,033	(997)
<i>Total Revenues</i>	401,710	401,710	395,053	(6,657)
EXPENDITURES				
Debt service	449,560	449,560	442,926	6,634
NET CHANGE IN FUND BALANCE	(47,850)	(47,850)	(47,873)	(23)
FUND BALANCE, Beginning of year	52,370	52,370	50,715	(1,655)
FUND BALANCE, End of year	\$ 4,520	\$ 4,520	\$ 2,842	\$ (1,678)

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

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

We have audited the basic financial statements of the City of Philomath, Oregon Urban Renewal Agency as of and for the year ended June 30, 2010, and have issued our report thereon dated **, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

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

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

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials - no money was collected or received by elected officials.**

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

OAR 162-10-0230 Internal Control

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This report is intended solely for the information and use of the mayor, council members, and management of the City of Philomath, Oregon Urban Renewal Agency and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

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

By: 
Charles A. Swank, A Shareholder
August 30, 2010