

***CITY OF PHILOMATH  
URBAN RENEWAL AGENCY  
(A component unit of the  
City of Philomath, Oregon)  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2009***

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH**  
**(A Component Unit of the City of Philomath, Oregon)**  
**AGENCY OFFICIALS**  
**JUNE 30, 2009**

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***MAYOR***

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P.O. Box 400  
Philomath, Oregon 97370

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***CITY MANAGER***

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P.O. Box 400  
Philomath, Oregon 97370

***FINANCE DIRECTOR***

Joan Swanson  
P.O. Box 400  
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**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, 2009, 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, 2009 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. The schedule of revenues, expenditures and changes in fund balance - budget and actual - General Fund and other supplementary information are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of revenues, expenditures and changes in fund balance - budget and actual - General Fund and other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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  
October 26, 2009

**URBAN RENEWAL AGENCY OF THE CITY OF PHILOMATH, OREGON**  
**(A Component Unit of the City of Philomath, Oregon)**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

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**ASSETS**

Cash and investments	\$ 76,039
Property taxes receivable	16,618
	<hr/>
<i>Total Assets</i>	<u>92,657</u>

**LIABILITIES**

Accrued liabilities	6,167
Noncurrent liabilities:	
Due within one year:	
Bonds payable	80,000
Due in more than one year:	
Due to City of Philomath	468,000
Bonds payable	270,000
	<hr/>
<i>Total Liabilities</i>	<u>824,167</u>

**NET ASSETS**

Restricted for debt service	65,626
Unrestricted	(797,136)
	<hr/>
<i>Total Net Assets</i>	<u>\$ (731,510)</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, 2009**

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**Expenses:**

Urban Renewal	\$ 1,325,373
Interest on long-term debt	30,600

<i>Total Expenses</i>	<u>1,355,973</u>
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**General revenues:**

Property taxes	396,351
Miscellaneous	8,446

<i>Total Revenues</i>	<u>404,797</u>
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<b>Change in Net Assets</b>	<u>(951,176)</u>
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<b>Net Assets, July 1, 2008</b>	<u>219,666</u>
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<b>Net Assets, June 30, 2009</b>	<u><u>\$ (731,510)</u></u>
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*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, 2009**

	<i>General</i>	<i>Debt Service</i>	<i>Totals</i>
<b>ASSETS</b>			
Cash and investments	\$ 27,031	\$ 49,008	\$ 76,039
Property taxes receivable	-	16,618	16,618
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	<u>\$ 27,031</u>	<u>\$ 65,626</u>	<u>\$ 92,657</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Deferred revenue	\$ -	\$ 14,911	\$ 14,911
<b>Fund Balances</b>			
Unreserved, reported in:			
General fund	27,031	-	27,031
Debt service fund	-	50,715	50,715
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balances</i>	<u>27,031</u>	<u>50,715</u>	<u>77,746</u>
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 27,031</u>	<u>\$ 65,626</u>	<u>\$ 92,657</u>
Amounts reported in the statement of net assets are different because:			
Fund balances as above			\$ 77,746
A portion of property taxes receivable is not available to pay for current-period expenditures and, therefore, is deferred in the debt service fund			14,911
Some expenses do not require the use of current financial resources and are not reported as expenditures in the governmental funds			(6,167)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds			(350,000)
Interfund loan			(468,000)
1			<hr/>
Total net assets			<u>\$ (731,510)</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, 2009**

	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>
<b>REVENUES</b>			
Property taxes	\$ -	\$ 393,242	\$ 393,242
Miscellaneous	2,251	6,195	8,446
<i>Total Revenues</i>	2,251	399,437	401,688
<b>EXPENDITURES</b>			
Materials and services	31,753	-	31,753
Capital outlay	1,293,620	-	1,293,620
Debt service			
Principal	-	162,000	162,000
Interest	-	25,945	25,945
<i>Total Expenditures</i>	1,325,373	187,945	1,513,318
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(1,323,122)	211,492	(1,111,630)
<b>OTHER FINANCING SOURCES (USES)</b>			
Loan proceeds	550,000	-	550,000
Transfers in	560,000	-	560,000
Transfers out	-	(560,000)	(560,000)
<i>Total Other Financing Sources (Uses)</i>	1,110,000	(560,000)	550,000
<b>NET CHANGE IN FUND BALANCES</b>	(213,122)	(348,508)	(561,630)
<b>FUND BALANCES, Beginning of year</b>	240,153	399,223	639,376
<b>FUND BALANCES, End of year</b>	\$ 27,031	\$ 50,715	\$ 77,746

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, 2009**

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Amounts reported in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$ (561,630)
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.	3,109
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(4,655)
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.	
Issuance of debt	(550,000)
Debt principal paid	162,000
	<hr/>
Change in net assets	<u><u>\$ (951,176)</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, 2009

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

*Reporting Entity*

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

*Basic Financial Statements*

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

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

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

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

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

The Agency reports the following major governmental funds:

General Fund

Debt Service Fund

*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, 2009**

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**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, 2009**

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**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, 2009**

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**CASH AND INVESTMENTS**

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

***Investments***

Local Government Investment Pool	<u>\$ 76,039</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, 2009, the fair value of the position in the Oregon State Treasurer's Short-term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-term Fund is not subject to risk evaluation. 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, 2009

**PROPERTY TAXES RECEIVABLE**

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

**LONG-TERM DEBT**

	<i>Outstanding July 1, 2008</i>	<i>Issued</i>	<i>Matured/ Redeemed During Year</i>	<i>Outstanding June 30, 2009</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	\$ 430,000	\$ -	\$ (80,000)	\$ 350,000	\$ 80,000
City of Philomath loan to Urban Renewal Agency interest at 5% due November 2010	-	550,000	(82,000)	468,000	-
	<u>\$ 430,000</u>	<u>\$ 550,000</u>	<u>\$ (162,000)</u>	<u>\$ 818,000</u>	<u>\$ 80,000</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>
2010	\$ 80,000	\$ 14,770	\$ 94,770	\$ -	\$ 23,400	\$ 23,400
2011	85,000	11,394	96,394	468,000	13,967	481,967
2012	90,000	7,807	97,807	-	-	-
2013	95,000	4,009	99,009	-	-	-
	<u>\$ 350,000</u>	<u>\$ 37,980</u>	<u>\$ 387,980</u>	<u>\$ 468,000</u>	<u>\$ 37,367</u>	<u>\$ 505,367</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 (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2009**

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

***OTHER SUPPLEMENTARY INFORMATION***

**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 (BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2009**

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

***COMPLIANCE SECTION***

***CITY OF PHILOMATH URBAN RENEWAL AGENCY***  
***AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS***  
***YEAR ENDED JUNE 30, 2009***

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

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

*Significant Accounting Policies*

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

*Organization and Fund Structure*

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

*Internal Control Over Financial Reporting*

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**CITY OF PHILOMATH URBAN RENEWAL AGENCY**

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

**YEAR ENDED JUNE 30, 2009**

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*Adequacy of Accounting Records*

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

*Indebtedness*

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

*Adequacy of Collateral Securing Depository Balances*

The Agency has no deposit accounts.

*Investments*

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

*Budget Compliance*

The Agency appears to have complied with Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption and execution of its budget and tax levy for the year ended June 30, 2009, and the preparation and adoption of its budget for the year ending June 30, 2010.

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

*Insurance Policies and Fidelity Bonds*

The Agency is insured as a part of the City of Philomath

*Public Contracting and Purchasing*

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

*Programs Funded From Outside Sources*

We would have reviewed the Agency's compliance with appropriate laws, rules, and regulations pertaining to material programs funded wholly or partially by other governmental agencies. The Agency did not receive material funding from other governmental agencies.

*Financial Reporting Requirements*

We would have reviewed financial reports and other data relating to material programs funded wholly or partially by other governmental agencies. The Agency did not receive material funding from other governmental agencies.

**CITY OF PHILOMATH URBAN RENEWAL AGENCY**  
*AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS (Continued)*  
*YEAR ENDED JUNE 30, 2009*

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*Highway Funds*

The Agency received no highway funds under Article IX, Section 3a of the Oregon Constitution.

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

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

By:   
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Charles A. Swank, A Shareholder

October 26, 2009