

***CITY OF PHILOMATH, OREGON
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2010***

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CITY OF PHILOMATH, OREGON
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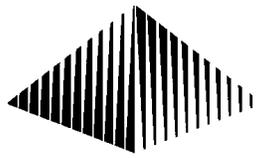
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GROVE, MUELLER & SWANK, P.C.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Philomath, Oregon as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Philomath, Oregon as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Philomath, Oregon's financial statements as a whole. The combining and individual fund statements and other supplementary information and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements and other supplementary information and schedules 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.

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

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

City of Philomath, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2010

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, 2010.

Financial Highlights

Following are the financial highlights of the City for the fiscal year ended June 30, 2010.

- The City's total assets exceeded its liabilities at the close of FY 2009-10 by \$15.8 million (net assets). Of this amount, \$12.4 million is invested in capital assets, net of related debt; \$1.5 million is restricted for construction projects, debt service and other commitments; and the balance of \$1.9 million is considered unrestricted.
- The City's governmental activities net assets were \$6.4 million with restricted net assets totaling \$1 million as of June 30, 2010.
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$268,163 or approximately 13 percent of total General Fund expenditures.
- The City's total liabilities decreased by \$745,000 or 9 percent during fiscal year 2009-10. The decrease is primarily due to the early payoff of the Bank of America sewer loan and scheduled debt repayments on long-term liabilities.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

- Water Utility
- Sewer Utility
- Storm Drain Utility

The government-wide financial statements can be found on pages 14 through 15 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations can be found on pages 17 and 19

in the basic financial statements.

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

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances for those funds that are considered significant (major) to the City taken as a whole. These financial statements report five major funds: General Fund, Community Development Fund, Urban Renewal Debt Fund, Land Building & Equipment Fund and Systems Development General Fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Summary fund data by fund-type for these nonmajor governmental funds is provided in the form of combining statements on pages 46 through 47 of this report. Individual fund data for each of these nonmajor governmental funds is provided as Supplementary Information on pages 46 through 48.

The City adopts an annual appropriated budget for all governmental funds. To demonstrate compliance with the budget, budgetary comparison statements have been provided for the General Fund and the major special revenue funds on pages 41 through 42.

Proprietary funds - Proprietary funds are used to account for activities where the emphasis is placed on net income determination. The City maintains only enterprise funds and has no internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements.

The City uses enterprise funds to account for its water utility, sewer utility and storm drain utility business funds. All enterprise funds are considered to be major funds of the City, and are reported separately as proprietary fund financial statements in the basic financial statements.

The City also adopts an annual appropriated budget for all proprietary funds. To demonstrate compliance with the budget, budgetary comparison statements have been provided for the enterprise funds as Supplementary Information on pages 51 through 53.

The proprietary fund financial statements can be found on pages 20 through 23 in the basic financial statements.

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

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information related to schedules of revenues, expenditures and changes in fund balance - budget and actual for the General Fund and major special revenue funds.

The combining statements for the nonmajor funds and schedules of revenues, expenditures and changes in fund balance - budget and actual for governmental funds not presented as required supplementary information and proprietary funds are presented following the required supplementary information. There are also other schedules to assist the reader in understanding financial statements following the budgetary information.

Government-Wide Financial Analysis

Table 1
Summary of Net Assets

	<i>June 30, 2010</i>		
	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total</i>
Cash and investments	\$ 1,994,261	4,486,022	\$ 6,480,283
Other assets	1,615,512	154,868	1,770,380
Capital assets	3,906,378	11,450,248	15,356,626
<i>Total Assets</i>	<u>7,516,151</u>	<u>16,091,138</u>	<u>23,607,289</u>
Other liabilities	176,282	159,040	335,322
Long-term liabilities	931,522	6,559,863	7,491,385
<i>Total Liabilities</i>	<u>1,107,804</u>	<u>6,718,903</u>	<u>7,826,707</u>
Net Assets			
Invested in capital assets, net of debt	3,636,378	8,732,923	12,369,301
Restricted	1,014,293	454,253	1,468,546
Unrestricted	1,757,676	185,059	1,942,735
<i>Total Net Assets</i>	<u>\$ 6,408,347</u>	<u>9,372,235</u>	<u>\$ 15,780,582</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$15,780,582 at the close of FY 2009-10.

The largest portion of the City's net assets reflects its investment of \$12,369,301 or 79 percent, in capital assets (e.g., land, buildings, improvements, equipment, and infrastructure, net of accumulated depreciation), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets \$1,468,546 or approximately 9 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net assets totaling \$1,942,735 or approximately 12 percent.

<i>June 30, 2009</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>
\$ 1,961,410	6,108,805	\$ 8,070,215	\$ 32,851	\$ (1,622,783)	\$ (1,589,932)
1,677,731	163,010	1,840,741	(62,219)	(8,142)	(70,361)
3,831,803	10,047,372	13,879,175	74,575	1,402,876	1,477,451
7,470,944	16,319,187	23,790,131	45,207	(228,049)	(182,842)
506,253	211,536	717,789	(329,971)	(52,496)	(382,467)
1,024,463	6,829,006	7,853,469	(92,941)	(269,143)	(362,084)
1,530,716	7,040,542	8,571,258	(422,912)	(321,639)	(744,551)
3,481,803	8,666,839	12,148,642	154,575	66,084	220,659
1,186,323	508,635	1,694,958	(172,030)	(54,382)	(226,412)
1,272,102	103,171	1,375,273	485,574	81,888	567,462
<u>\$ 5,940,228</u>	<u>9,278,645</u>	<u>\$ 15,218,873</u>	<u>\$ 468,119</u>	<u>\$ 93,590</u>	<u>\$ 561,709</u>

Table 2
Changes in Net Assets

	<i>Fiscal Year Ended June 30, 2010</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	\$ 578,856	\$ 1,551,642	\$ 2,130,498
Operating grants and contributions	383,844	-	383,844
Capital grants and contributions	(76,856)	260,592	183,736
<i>Total Program Revenues</i>	<u>885,844</u>	<u>1,812,234</u>	<u>2,698,078</u>
General Revenues			
Taxes	1,628,087	-	1,628,087
Franchise revenues	336,422	-	336,422
Other	240,562	46,523	287,085
<i>Total General Revenues</i>	<u>2,205,071</u>	<u>46,523</u>	<u>2,251,594</u>
<i>Total Revenues</i>	<u>3,090,915</u>	<u>1,858,757</u>	<u>4,949,672</u>
Transfers	36,641	(36,641)	-
Expenses (Net of Indirect Expenses)			
General governmental	1,035,798	-	1,035,798
Police	1,088,699	-	1,088,699
Streets	324,527	-	324,527
Public Works	160,854	-	160,854
Interest on long-term debt	49,559	-	49,559
Water	-	826,386	826,386
Sewer	-	852,634	852,634
Storm Drain	-	49,506	49,506
<i>Total Expenses</i>	<u>2,659,437</u>	<u>1,728,526</u>	<u>4,387,963</u>
Changes in Net Assets	468,119	93,590	561,709
Beginning Net Assets	<u>5,940,228</u>	<u>9,278,645</u>	<u>15,218,873</u>
Ending Net Assets	<u>\$ 6,408,347</u>	<u>\$ 9,372,235</u>	<u>\$ 15,780,582</u>

The City's overall net assets increased by \$561,709 during FY 2009-10. This increase is explained in the government and business-type activities as discussed below.

<i>Fiscal Year Ended June 30, 2009</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>
\$ 611,051	\$ 1,545,738	\$ 2,156,789	\$ (32,195)	\$ 5,904	\$ (26,291)
283,395	-	283,395	100,449	-	100,449
74,601	118,193	192,794	(151,457)	142,399	(9,058)
<u>969,047</u>	<u>1,663,931</u>	<u>2,632,978</u>	<u>(83,203)</u>	<u>148,303</u>	<u>65,100</u>
1,588,125	-	1,588,125	39,962	-	39,962
287,593	-	287,593	48,829	-	48,829
369,439	49,745	419,184	(128,877)	(3,222)	(132,099)
<u>2,245,157</u>	<u>49,745</u>	<u>2,294,902</u>	<u>(40,086)</u>	<u>(3,222)</u>	<u>(43,308)</u>
<u>3,214,204</u>	<u>1,713,676</u>	<u>4,927,880</u>	<u>(123,289)</u>	<u>145,081</u>	<u>21,792</u>
(922,891)	922,891	-	959,532	(959,532)	-
1,337,933	-	1,337,933	(302,135)	-	(302,135)
1,077,901	-	1,077,901	10,798	-	10,798
289,098	-	289,098	35,429	-	35,429
174,413	-	174,413	(13,559)	-	(13,559)
56,022	-	56,022	(6,463)	-	(6,463)
-	849,549	849,549	-	(23,163)	(23,163)
-	630,504	630,504	-	222,130	222,130
-	48,836	48,836	-	670	670
<u>2,935,367</u>	<u>1,528,889</u>	<u>4,464,256</u>	<u>(275,930)</u>	<u>199,637</u>	<u>(76,293)</u>
(644,054)	1,107,678	463,624	1,112,173	(1,014,088)	98,085
<u>6,584,282</u>	<u>8,170,967</u>	<u>14,755,249</u>	<u>(644,054)</u>	<u>1,107,678</u>	<u>463,624</u>
<u>\$ 5,940,228</u>	<u>\$ 9,278,645</u>	<u>\$ 15,218,873</u>	<u>\$ 468,119</u>	<u>\$ 93,590</u>	<u>\$ 561,709</u>

Governmental activities - Governmental activities increased the City's net assets by \$468,119. The key factor for this increase was that even though revenues decreased, the City was able to reduce expenditures by a greater amount.

Appropriation transfers totaling \$5,000 were made from contingency for the General Fund during the year.

Business-type activities - Business-type activities increased the City's net assets by \$93,590. The City can only use these net assets to finance the continuing operations of the water, sewer, and storm drain operations.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2010, the City had approximately \$15.4 million invested in a broad range of capital assets, including land, buildings and improvements, equipment, roads, water, sewer and storm drain lines.

Capital Assets at Year-End (Net of Depreciation) June 30, 2010

	<i>Governmental Activities</i>		<i>Total Percentage Change</i>
	<i>2010</i>	<i>2009</i>	<i>2009-2010</i>
Land	\$ 128,233	\$ 128,233	- %
Improvements	231,649	211,592	9.48
Buildings	1,700,788	1,728,216	(1.59)
Equipment	455,361	341,622	33.29
Infrastructure	1,390,347	1,422,140	(2.24)
<i>Total</i>	<u>\$ 3,906,378</u>	<u>\$ 3,831,803</u>	1.95 %

	<i>Business-type Activities</i>		<i>Total Percentage Change</i>
	<i>2010</i>	<i>2009</i>	<i>2009-2010</i>
Land	\$ 853,202	\$ 853,202	- %
Improvements	81,120	86,124	(5.81)
Buildings	245,159	254,483	(3.66)
Equipment	439,359	434,293	1.17
Infrastructure	9,831,408	8,419,270	16.77
<i>Total</i>	<u>\$ 11,450,248</u>	<u>\$ 10,047,372</u>	13.96 %

Major capital asset activities during the fiscal year included purchase of a transit bus, construction of two new neighborhood parks, retrofit of 30% of all city water meters and \$1.6 million of infrastructure improvements to upgrade the City's 1950 era sanitary sewer system.

Debt

At the end of the current fiscal year, the City had total debt outstanding of \$7,497,009. Of this amount, \$872,198 represents outstanding notes payable for the governmental funds. A note payable for \$602,198 is outstanding on the Lakeside Industrial property. Lakeside reimburses the city annually for principal and interest payments. The City has a lien on the Lakeside property for the amount of the loan. An Urban Renewal note payable in the amount of \$270,000 is paid from ad-valorem taxes but did not require voter approval.

The remainder of the City's debt is for business-type activities and includes two outstanding water notes payable, one sewer bond and one storm drain note payable. The total amount of water debt outstanding at June 30, 2010 is \$272,094. The notes payable are paid from net revenues of the water system. The sewer bonds payable which resulted from the sale of \$6.125 million in full faith and credit obligations during the previous fiscal year. The credit obligations will be paid over the next 24 years. The first principal payment will be due in June 2011. The sewer \$200,000 note payable was retired during the fiscal year. The original note called for final payment in June 2014. The sewer fund had available cash and the interest rate was 8.25%, so the note was paid in advance with no prepayment penalties. The sewer debt is paid from net revenues of the sewer system and sewer systems development charges. The amount of storm drain debt outstanding at June 30, 2010 is \$227,717. The note is paid from storm drain systems development charges.

	June 30, 2010		
	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total Government</i>
<i>Governmental</i>			
Bonds payable	\$ -	\$ 6,125,000	\$ 6,125,000
Urban Renewal bonds	270,000	-	270,000
Notes payable	602,198	499,811	1,102,009
	<hr/>	<hr/>	<hr/>
<i>Total Outstanding Debt</i>	<u>\$ 872,198</u>	<u>\$ 6,624,811</u>	<u>\$ 7,497,009</u>

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

June 30, 2009			Change		
<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total Government</i>	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total Government</i>
\$ -	\$ 6,125,000	\$ 6,125,000	\$ -	\$ -	\$ -
350,000	-	350,000	(80,000)	-	(80,000)
620,592	741,661	1,362,253	(18,394)	(241,850)	(260,244)
<u>\$ 970,592</u>	<u>\$ 6,866,661</u>	<u>\$ 7,837,253</u>	<u>\$ (98,394)</u>	<u>\$ (241,850)</u>	<u>\$ (340,244)</u>

Economic Factors and Next Year's Budgets and Rates

During the preparation of the budget for the ensuing fiscal year, the long-term impacts of the local economy were examined in conjunction with business decisions made by the City. The following are the major assumptions used in developing the FY 2010-11 budget:

- The City's population had grown steady at around 1.5% per year for the last several years. Growth slowed during the past year to around .7%.
- The major reason for the City's slow growth in the past year has been sluggish construction activity. Housing construction is expected to pick up slightly for FY 2010-11.
- Sluggish construction activity also affects the SDC revenue. If construction picks up slightly for FY 2010-11 SDC revenue should also be slightly higher than the previous fiscal year.
- The City's permanent tax rate of \$5.3005.
- The City has no projects scheduled for the foreseeable future that would require local option funding approval by the electorate.

- Assessed values, the basis of property tax revenues, have been growing at about 4.5% per year. The 2009-10 assessed values increased by 3.2%. Construction will not add significant value due to the downturn in housing construction.
- Interest rates on investments are expected to be between .5% and 1%.
- Water and sewer utility rates increase by 1.6%.
- Health benefit costs will increase by 10%.

The City's adopted budget for FY 2010-11 reflects total estimated resources of \$12,632,447 which exceeds total estimated expenditures by \$4,120,446.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF PHILOMATH, OREGON
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
ASSETS			
Cash and investments	\$ 1,994,261	\$ 4,486,022	\$ 6,480,283
Receivables			
Accounts	5,564	154,868	160,432
Property taxes	87,424	-	87,424
Special assessments/loans	72,640	-	72,640
Other receivables	179,145	-	179,145
Prepaid expenses	57,576	-	57,576
Loans receivable	1,213,163	-	1,213,163
Nondepreciable capital assets	128,233	853,202	981,435
Depreciable capital assets, net	3,778,145	10,597,046	14,375,191
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	7,516,151	16,091,138	23,607,289
LIABILITIES			
Accounts payable and other current liabilities	72,778	49,614	122,392
Noncurrent liabilities:			
Due within one year:			
Notes payable	103,504	109,426	212,930
Due in more than one year:			
Notes payable	768,694	390,385	1,159,079
Bonds payable	-	6,125,000	6,125,000
Accrued compensated absences	162,828	44,478	207,306
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	1,107,804	6,718,903	7,826,707
NET ASSETS			
Investment in capital assets, net of related debt	3,636,378	8,732,923	12,369,301
Restricted for:			
Community development	616,569	-	616,569
Construction	257,658	454,253	711,911
Debt service	34,315	-	34,315
Streets	98,638	-	98,638
Urban Renewal	7,113	-	7,113
Unrestricted	1,757,676	185,059	1,942,735
	<hr/>	<hr/>	<hr/>
<i>Total Net Assets</i>	<u>\$ 6,408,347</u>	<u>\$ 9,372,235</u>	<u>\$ 15,780,582</u>

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

CITY OF PHILOMATH, OREGON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

		<i>Program Revenues</i>	
	<i>Expenses</i>	<i>Fees, Fines, and Charges for Services</i>	<i>Operating Grants and Contributions</i>
FUNCTIONS/PROGRAMS			
<i>Governmental activities:</i>			
General government	\$ 975,363	\$ 513,817	\$ 190,484
Police	1,088,699	12,496	1,086
Streets	487,637	52,543	190,351
Public works	210,011	-	1,923
Interest on long-term debt	49,559	-	-
<i>Total governmental activities</i>	2,811,269	578,856	383,844
<i>Business-type activities:</i>			
Water	826,386	820,217	-
Sewer	852,634	708,584	-
Storm drain	49,506	22,841	-
<i>Total business-type activities</i>	1,728,526	1,551,642	-
Total primary government	\$ 4,539,795	\$ 2,130,498	\$ 383,844
<i>General Revenues:</i>			
Taxes and assessments			
Franchise fees			
Intergovernmental			
Gain on disposition of assets			
Miscellaneous			
<i>Total general revenues</i>			
<i>Transfers</i>			
<i>Change in net assets</i>			
<i>Net assets, July 1, 2009</i>			
<i>Net assets, June 30, 2010</i>			

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

<i>Capital Grants and Contributions</i>	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
\$ 11,777	\$ (259,285)	\$ -	\$ (259,285)
-	(1,075,117)	-	(1,075,117)
63,199	(181,544)	-	(181,544)
-	(208,088)	-	(208,088)
-	(49,559)	-	(49,559)
<u>74,976</u>	<u>(1,773,593)</u>	<u>-</u>	<u>(1,773,593)</u>
119,944	-	113,775	113,775
98,090	-	(45,960)	(45,960)
42,558	-	15,893	15,893
<u>260,592</u>	<u>-</u>	<u>83,708</u>	<u>83,708</u>
<u>\$ 335,568</u>	<u>(1,773,593)</u>	<u>83,708</u>	<u>(1,689,885)</u>
	1,628,087	-	1,628,087
	336,422	-	336,422
	95,598	-	95,598
	812	-	812
	<u>144,152</u>	<u>46,523</u>	<u>190,675</u>
	<u>2,205,071</u>	<u>46,523</u>	<u>2,251,594</u>
	<u>36,641</u>	<u>(36,641)</u>	<u>-</u>
	468,119	93,590	561,709
	5,940,228	9,278,645	15,218,873
	<u>\$ 6,408,347</u>	<u>\$ 9,372,235</u>	<u>\$ 15,780,582</u>

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

CITY OF PHILOMATH, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Community Development</u>	<u>Urban Renewal Debt</u>
ASSETS			
Cash and investments	\$ 198,960	\$ 111,999	\$ 1,850
Receivables			
Accounts	-	-	-
Property taxes	65,996	-	21,396
Special assessments/loans	19,879	-	-
Other receivables	40,857	-	-
Prepaid expenses	57,576	-	-
Loans receivable	708,593	504,570	-
	<u> </u>	<u> </u>	<u> </u>
<i>Total Assets</i>	<u>\$ 1,091,861</u>	<u>\$ 616,569</u>	<u>\$ 23,246</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 31,489	\$ -	\$ -
Other current liabilities	732	-	-
Deferred revenue	791,477	504,570	20,404
	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities</i>	823,698	504,570	20,404
Fund Balances			
Reserved for prepaids	57,576	-	-
Unreserved, reported in:			
General fund	210,587	-	-
Special revenue funds	-	111,999	2,842
Capital projects funds	-	-	-
Debt services funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
<i>Total Fund Balances</i>	<u>268,163</u>	<u>111,999</u>	<u>2,842</u>
	<u> </u>	<u> </u>	<u> </u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,091,861</u>	<u>\$ 616,569</u>	<u>\$ 23,246</u>

<i>Land Building & Equipment</i>	<i>Systems Development</i>	<i>Other Governmental Funds</i>	<i>Totals</i>
\$ 1,360,081	\$ 232,631	\$ 88,740	\$ 1,994,261
-	-	5,564	5,564
-	-	32	87,424
27,617	25,027	117	72,640
105,146	-	33,142	179,145
-	-	-	57,576
-	-	-	1,213,163
<u>\$ 1,492,844</u>	<u>\$ 257,658</u>	<u>\$ 127,595</u>	<u>\$ 3,609,773</u>
\$ 14,212	\$ -	\$ 10,775	\$ 56,476
-	-	-	732
27,617	25,027	149	1,369,244
<u>41,829</u>	<u>25,027</u>	<u>10,924</u>	<u>1,426,452</u>
-	-	-	57,576
-	-	-	210,587
-	-	98,638	213,479
1,451,015	232,631	-	1,683,646
-	-	18,033	18,033
<u>1,451,015</u>	<u>232,631</u>	<u>116,671</u>	<u>2,183,321</u>
<u>\$ 1,492,844</u>	<u>\$ 257,658</u>	<u>\$ 127,595</u>	<u>\$ 3,609,773</u>

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

CITY OF PHILOMATH, OREGON
RECONCILIATION TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

RECONCILIATION TO THE STATEMENT OF NET ASSETS

<i>Fund Balances</i>	\$ 2,183,321
The statement of net assets reports receivables at their net realizable value. However, receivables not available to pay for current-period expenditures are deferred in governmental funds.	1,369,244
Capital assets are not financial resources in governmental funds, but are reported in the statement of net assets at their net depreciable value.	
Cost	5,343,223
Accumulated depreciation	(1,436,845)
All liabilities are reported in the statement of net assets. However, if they are not due and payable in the current period, they are not recorded in governmental funds.	
Notes payable	(872,198)
Accrued compensated absences	(162,828)
Accrued interest payable	(15,570)
<i>Net Assets of Governmental Activities</i>	<u>\$ 6,408,347</u>

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

CITY OF PHILOMATH, OREGON**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Community Development</u>	<u>Urban Renewal Debt</u>
REVENUES			
Taxes and assessments	\$ 1,211,005	\$ -	\$ 394,020
Licenses and permits	294,848	-	-
Charges for services	232,720	-	-
Intergovernmental	182,109	-	-
Fines and forfeitures	234,491	-	-
Miscellaneous	39,239	8,779	1,033
	<hr/>	<hr/>	<hr/>
<i>Total Revenues</i>	2,194,412	8,779	395,053
EXPENDITURES			
Current operating:			
General government	886,538	3,355	-
Police	1,042,299	-	-
Streets	-	-	-
Public works	139,137	-	-
Capital outlay:			
General government	-	-	-
Police	-	-	-
Streets	-	-	-
Public works	-	-	-
Water	-	-	-
Sewer	-	-	-
Debt service:			
Principal	-	-	413,000
Interest	-	-	29,926
	<hr/>	<hr/>	<hr/>
<i>Total Expenditures</i>	2,067,974	3,355	442,926
REVENUES OVER (UNDER) EXPENDITURES	126,438	5,424	(47,873)
OTHER FINANCING SOURCES (USES)			
Interfund loan proceeds	-	-	-
Transfers in	-	-	-
Transfers out	(89,400)	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Other Financing Sources (Uses)</i>	(89,400)	-	-
NET CHANGE IN FUND BALANCES	37,038	5,424	(47,873)
FUND BALANCES, Beginning of year	231,125	106,575	50,715
	<hr/>	<hr/>	<hr/>
FUND BALANCES, End of year	\$ 268,163	\$ 111,999	\$ 2,842
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

<i>Land Building & Equipment</i>	<i>Systems Development General</i>	<i>Other Governmental Funds</i>	<i>Totals</i>
\$ -	\$ -	\$ 2	\$ 1,605,027
-	74,976	88,180	458,004
-	-	52,543	285,263
106,907	-	190,351	479,367
12,496	-	-	246,987
75,504	5,413	53,770	183,738
194,907	80,389	384,846	3,258,386
868	-	20,052	910,813
-	-	-	1,042,299
11,278	-	270,673	281,951
49,157	-	-	188,294
137,981	-	-	137,981
13,757	-	-	13,757
50,243	39,072	-	89,315
10,064	-	-	10,064
79,008	-	-	79,008
1,578,642	-	-	1,578,642
-	-	18,394	431,394
-	-	25,296	55,222
1,930,998	39,072	334,415	4,818,740
(1,736,091)	41,317	50,431	(1,560,354)
333,000	-	-	333,000
1,842,442	-	12,400	1,854,842
-	-	(73,200)	(162,600)
2,175,442	-	(60,800)	2,025,242
439,351	41,317	(10,369)	464,888
1,011,664	191,314	127,040	1,718,433
\$ 1,451,015	\$ 232,631	\$ 116,671	\$ 2,183,321

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

CITY OF PHILOMATH, OREGON

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

<i>Net change in fund balances - total governmental funds</i>	\$ 464,888
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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.</p>	
Change in deferred revenue	(145,195)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Collections on long-term receivables	(19,645)
<p>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.</p>	
Change in accrued interest payable	5,663
<p>The net effect of disposal of capital assets is to reduce net assets.</p>	
	(582)
<p>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.</p>	
	(10,562)
<p>Capital outlays are reported as expenditures in governmental funds. However, the statement of activities allocates the cost of capital outlay over their estimated useful lives as depreciation expense.</p>	
Capital outlay	1,908,767
Assets transferred to enterprise funds	(1,657,650)
Depreciation	(175,959)
<p>Proceeds from the issuance of long-term debt provide current financial resources to governmental funds and are reported as revenues. In the same way, repayments of long-term debt use current financial resources and are reported as expenditures in governmental funds. However, neither the receipt of debt proceeds nor the payment of debt principal affect the Statement of Activities, but are reported as increases and decreases in noncurrent liabilities in the Statement of Net Assets.</p>	
Debt principal paid	98,394
	<hr/>
<i>Change in net assets of governmental activities.</i>	<u>\$ 468,119</u>

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

CITY OF PHILOMATH, OREGON
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2010

	<i>Business-type Activities</i>		
	<i>Water</i>	<i>Sewer</i>	<i>Storm Drain</i>
ASSETS			
Cash and investments	\$ 60,270	\$ 3,940,642	\$ 22,888
Accounts receivable	77,790	74,125	2,953
Nondepreciable capital assets	219,594	633,608	-
Depreciable capital assets, net	3,234,164	6,227,340	1,135,542
<i>Total Assets</i>	3,591,818	10,875,715	1,161,383
LIABILITIES			
Accounts payable	15,830	25,806	9
Noncurrent liabilities			
Due within one year	33,590	65,000	-
Due in more than one year	238,504	6,060,000	-
Accrued compensated absences	25,701	18,777	-
<i>Total Liabilities</i>	313,625	6,169,583	9
NET ASSETS			
Investment in capital assets, net of related debt	3,181,664	4,643,434	1,135,542
Restricted for construction	-	-	-
Unrestricted	96,529	62,698	25,832
<i>Total Net Assets</i>	<u>\$ 3,278,193</u>	<u>\$ 4,706,132</u>	<u>\$ 1,161,374</u>

<i>System Development Business</i>	<i>Totals</i>
\$ 462,222	\$ 4,486,022
-	154,868
-	853,202
-	10,597,046
<hr/>	<hr/>
462,222	16,091,138
7,969	49,614
10,836	109,426
216,881	6,515,385
-	44,478
<hr/>	<hr/>
235,686	6,718,903
(227,717)	8,732,923
454,253	454,253
-	185,059
<hr/>	<hr/>
<u>\$ 226,536</u>	<u>\$ 9,372,235</u>

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

CITY OF PHILOMATH, OREGON**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010**

	<i>Business-type Activities</i>		
	<i>Water</i>	<i>Sewer</i>	<i>Storm Drain</i>
OPERATING REVENUES			
Charges for services	\$ 820,217	\$ 708,584	\$ 22,841
Miscellaneous	7,974	10,850	-
<i>Total Operating Revenues</i>	828,191	719,434	22,841
OPERATING EXPENSES			
Personal services	330,119	219,671	-
Materials and services	347,443	242,334	9,787
Depreciation	130,641	146,670	25,801
<i>Total Operating Expenses</i>	808,203	608,675	35,588
OPERATING INCOME (LOSS)	19,988	110,759	(12,747)
NONOPERATING REVENUES (EXPENSES)			
Investment revenue	506	712	164
Property lease	-	17,680	-
Interest expense	(18,183)	(243,959)	-
<i>Total Nonoperating Revenue (Expenses)</i>	(17,677)	(225,567)	164
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,311	(114,808)	(12,583)
Transfers in	79,008	250,000	49,471
Transfers out	(73,200)	(25,049)	(17,400)
Capital contributions	-	-	-
CHANGE IN NET ASSETS	8,119	110,143	19,488
NET ASSETS, Beginning of year	3,270,074	4,595,989	1,141,886
NET ASSETS, End of year	\$ 3,278,193	\$ 4,706,132	\$ 1,161,374

<i>System Development Business</i>	<i>Totals</i>
\$ -	\$ 1,551,642
-	18,824
-	1,570,466
-	549,790
-	599,564
-	303,112
-	1,452,466
-	118,000
8,637	10,019
-	17,680
(13,918)	(276,060)
(5,281)	(248,361)
(5,281)	(130,361)
-	378,479
(299,471)	(415,120)
260,592	260,592
(44,160)	93,590
270,696	9,278,645
<u>\$ 226,536</u>	<u>\$ 9,372,235</u>

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

CITY OF PHILOMATH, OREGON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	<u>Water</u>	<u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 835,026	\$ 717,825
Cash paid to employees for services	(327,289)	(217,220)
Cash paid to suppliers for goods and services	(351,072)	(323,142)
	<hr/>	<hr/>
<i>Net cash provided by (used for) operating activities</i>	156,665	177,463
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	-	250,000
Transfers out	(73,200)	(1,601,642)
Capital contributions	-	-
	<hr/>	<hr/>
<i>Net cash used for noncapital financing activities</i>	(73,200)	(1,351,642)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on notes, bonds, and certificates	(31,629)	(200,000)
Interest payments on notes, bonds, and certificates	(18,183)	(243,959)
	<hr/>	<hr/>
<i>Net cash used for capital and related financing activities</i>	(49,812)	(443,959)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue	506	712
Property lease	-	17,680
	<hr/>	<hr/>
<i>Net cash provided by (used for) investing activities</i>	506	18,392
NET INCREASE (DECREASE) IN CASH	34,159	(1,599,746)
CASH, beginning of year	26,110	5,540,388
	<hr/>	<hr/>
CASH, end of year	<u>\$ 60,269</u>	<u>\$ 3,940,642</u>

<i>Storm Drain</i>	<i>Systems Development Business</i>	<i>Totals</i>
\$ 24,841	\$ -	\$ 1,577,692
-	-	(544,509)
(10,061)	(358)	(684,633)
14,780	(358)	348,550
-	-	250,000
(17,400)	(299,471)	(1,991,713)
-	260,592	260,592
(17,400)	(38,879)	(1,481,121)
-	(10,223)	(241,852)
-	(13,918)	(276,060)
-	(24,141)	(517,912)
164	8,637	10,019
-	-	17,680
164	8,637	27,699
(2,456)	(54,741)	(1,622,784)
25,344	516,963	6,108,805
<u>\$ 22,888</u>	<u>\$ 462,222</u>	<u>\$ 4,486,021</u>

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

CITY OF PHILOMATH, OREGON

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)

YEAR ENDED JUNE 30, 2010

	<u>Water</u>	<u>Sewer</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ 19,988	\$ 110,759
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Gain on sale of assets	-	(916)
Depreciation	130,641	146,670
(Increase) decrease in accounts receivable	6,835	(693)
Increase (decrease) in accounts payable	(3,629)	(80,808)
Increase (decrease) in compensated absences payable	2,830	2,451
	<u>156,665</u>	<u>177,463</u>
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 156,665</u>	<u>\$ 177,463</u>
 NONCASH TRANSACTIONS		
Capital assets purchased in the Land, Building and Equipment Fund and Systems Development Business were transferred	<u>\$ 79,008</u>	<u>\$ 1,578,642</u>

<i>Storm Drain</i>	<i>Systems Development Business</i>	<i>Totals</i>
\$ (12,747)	\$ -	\$ 118,000
-	-	(916)
25,801	-	303,112
2,000	-	8,142
(274)	(358)	(85,069)
-	-	5,281
<u>\$ 14,780</u>	<u>\$ (358)</u>	<u>\$ 348,550</u>
<u>\$ 49,471</u>	<u>\$ -</u>	<u>\$ 1,707,121</u>

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Financial Reporting Entity

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

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

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

Basic Financial Statements

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

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

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

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

CITY OF PHILOMATH, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements (Continued)

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

Accounting standards 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. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the other supplementary information.

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

- Sewer
- Water
- Storm Drain
- Systems Development Business

Measurement Focus and Basis of Accounting

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

Enterprise funds distinguish between operating receipts and disbursements and nonoperating items. Operating receipts and disbursements result from providing services to customers in connection with ongoing utility operations. The principal operating receipts are charges to customers for service. Operating disbursements include payroll and related costs, materials and supplies, and capital outlay. All receipts not considered operating are reported as nonoperating items.

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

Governmental Fund Types

General Fund

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

Special Revenue Funds

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

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

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

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

Debt Service Funds

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

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

ORGANIZATION AND OPERATION (Continued)

Governmental Fund Types (Continued)

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

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

Capital Projects Funds

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

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

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

Proprietary Fund Types

Enterprise Funds

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

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenditures as of and for the year ended June 30, 2010. Actual results may differ from such estimates.

Cash and Investments

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

Receivables and Deferred Revenues

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

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

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

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

Amounts due from developers and others are recorded as other receivables. Revenue is recorded as principal payments are received. All notes receivable are offset by deferred revenue.

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

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

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.

Long-Term Obligations

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

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

Accrued Compensated Absences

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

Interfund Transactions

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

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

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget and Budgetary Accounting

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

Use of Restricted Assets

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

Internal Balances

During the year ended June 30, 2009, the Land, Building and Equipment Fund loaned \$550,000 to the Urban Renewal Agency fund. The Urban Renewal Agency Fund repaid \$333,000 during the year, leaving a balance at June 30, 2010 of \$135,000. The balance is due in one year. Amounts due to/due from other funds are required to be reported as internal balances on the government-wide statements. However, since both funds are governmental funds, no internal balance is shown on the government-wide Statement of Net Assets.

CASH AND INVESTMENTS

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

	<i>Carrying Value</i>	<i>Fair Value</i>
	<hr/>	<hr/>
Cash		
Cash on hand	\$ 525	\$ 525
Deposits with financial institutions	24,336	24,336
Investments		
Local Government Investment Pool	6,455,422	6,455,422
	<hr/>	<hr/>
	\$ 6,480,283	\$ 6,480,283
	<hr/> <hr/>	<hr/> <hr/>

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

CASH AND INVESTMENTS (Continued)

Deposits

At June 30, 2010, the City's deposits with various financial institutions had a bank value of \$99,022. All deposits not covered by FDIC insurance are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits with financial institutions up to \$250,000 each for the aggregate of all non-interest bearing accounts and the aggregate of all interest bearing accounts at each institution. The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2010, \$-0- of the City's bank balances were exposed to custodial credit risk as they were covered by FDIC insurance.

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. The LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-term Fund are available from the Oregon State Treasurer.

Interest Rate Risk

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

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

CASH AND INVESTMENTS (Continued)

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-load 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.

PROPERTY TAXES RECEIVABLE

<u>Fund Type</u>	<u>Receivable</u>	<u>Available</u>	<u>Deferred</u>
General Fund	\$ 65,996	\$ 2,991	\$ 63,005
City Economic Development Fund	32	-	32
Urban Renewal Debt Service Fund	21,396	992	20,404
<i>Total</i>	<u>\$ 87,424</u>	<u>\$ 3,983</u>	<u>\$ 83,441</u>

LOANS RECEIVABLE

Loans receivable on the governmental funds balance sheet in the Community Development Fund represent amounts due from property owners for Community Development Block Grant (CDBG) loans. These loans are secured by real estate and are generally due when the real estate is transferred. The balance of these notes at June 30, 2010 was \$504,570. The CDBG loans do not bear interest, and are due when the property securing the loans is transferred.

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

LOANS RECEIVABLE (Continued)

The following loans receivable are recorded in the General Fund.

Contract for sale of police building, monthly payments of \$603 including interest at 6.5% to begin March 1, 2010	\$ 106,395
Contract receivable from Lakeside Industrial Park, annual payments of approximately \$43,000, including interest from 3.0% to 4.5% (payments on receivable mirror the payments due on the loan to OECDD)	602,198
	<u>\$ 708,593</u>

CAPITAL ASSETS

The summary of capital assets for the business-type activities for the year ended June 30, 2010 is as follows:

	<i>Balances July 1, 2009</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balances June 30, 2010</i>
Nondepreciable:				
Land	\$ 853,202	\$ -	\$ -	\$ 853,202
Depreciable				
Improvements	132,308	-	-	132,308
Buildings	416,370	-	-	416,370
Equipment	1,097,304	64,826	(21,236)	1,140,894
Infrastructure	11,526,492	1,642,295	(328,175)	12,840,612
	<u>13,172,474</u>	<u>1,707,121</u>	<u>(349,411)</u>	<u>14,530,184</u>
Accumulated Depreciation:				
Improvements	(46,184)	(3,159)	-	(49,343)
Buildings	(161,887)	(9,323)	-	(171,210)
Equipment	(663,011)	(58,628)	20,103	(701,536)
Infrastructure	(3,107,222)	(232,002)	328,175	(3,011,049)
	<u>(3,978,304)</u>	<u>(303,112)</u>	<u>348,278</u>	<u>(3,933,138)</u>
Depreciable capital assets, net	<u>9,194,170</u>	<u>1,404,009</u>	<u>(1,133)</u>	<u>10,597,046</u>
	<u>\$ 10,047,372</u>	<u>\$ 1,404,009</u>	<u>\$ (1,133)</u>	<u>\$ 11,450,248</u>

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

CAPITAL ASSETS (Continued)

During the year ending June 30, 2009, the City issued \$6,125,000 of full faith and credit obligations to pay for various sewer-related construction projects. \$2,217,514 of the debt proceeds received and the construction costs paid were recorded in the Land, Building, and Equipment Fund. Bond issue costs paid and bond premiums received were also recorded in the Land, Building, and Equipment Fund. For GAAP purposes, sewer-related capital assets were recorded as transfers out of the Land, Building, and Equipment Fund and as capital assets and transfers in to the Sewer Fund. Unspent bond proceeds in the amount of \$3,907,486 were recorded in the Sewer Fund. The Sewer Fund investment in capital assets account at June 30, 2010 does not include debt equal to the unspent portion of bond proceeds.

Depreciation expense for the year was allocated as follows:

Water	\$	130,641
Sewer		146,670
Storm		25,801
	\$	<u>303,112</u>

The changes in the capital assets for governmental activities for the year ended June 30, 2010 are as follows:

	<i>Balances</i> <i>July 1,</i> <i>2009</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balances</i> <i>June 30,</i> <i>2010</i>
Nondepreciable:				
Land	\$ 128,233	\$ -	\$ -	\$ 128,233
Depreciable				
Improvements	352,759	36,758	-	389,517
Buildings	2,137,898	15,792	-	2,153,690
Equipment	893,498	198,567	(34,095)	1,057,970
Infrastructure	1,613,813	-	-	1,613,813
	<u>4,997,968</u>	<u>251,117</u>	<u>(34,095)</u>	<u>5,214,990</u>
Accumulated Depreciation:				
Improvements	(141,167)	(16,701)	-	(157,868)
Buildings	(409,682)	(43,220)	-	(452,902)
Equipment	(551,876)	(84,245)	33,512	(602,609)
Infrastructure	(191,673)	(31,793)	-	(223,466)
	<u>(1,294,398)</u>	<u>(175,959)</u>	<u>33,512</u>	<u>(1,436,845)</u>
Depreciable capital assets, net	<u>3,703,570</u>	<u>75,158</u>	<u>(583)</u>	<u>3,778,145</u>
	<u>\$ 3,831,803</u>	<u>\$ 75,158</u>	<u>\$ (583)</u>	<u>\$ 3,906,378</u>

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

CAPITAL ASSETS (Continued)

Depreciation expense for the year was allocated as follows:

General Government	\$	60,433
Police		40,072
Streets		53,430
Public works		22,024
		<u>175,959</u>
	\$	<u>175,959</u>

DEFERRED REVENUE

At June 30, 2010, deferred revenue on the balance sheet - governmental funds consisted of the following:

Property taxes	\$	83,441
Community Development Block Grant loans		1,213,163
Assesments		72,640
<i>Total</i>	\$	<u>1,369,244</u>

LONG-TERM DEBT

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

	<u>Outstanding July 1, 2009</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2010</u>	<u>Due within One year</u>
<i>Governmental activities</i>					
Urban Renewal Agency bonds, series 2004 with interest at 4.22% until June 1, 2008, then interest is calculated at 65% of LIBOR plus 3.35%.	\$ 350,000	\$ -	\$ (80,000)	\$ 270,000	\$ 85,000
OECCD Lakeside loan, annual payments including interest at 4.16% until 2029	<u>620,592</u>	<u>-</u>	<u>(18,394)</u>	<u>602,198</u>	<u>18,504</u>
	970,592	-	(98,394)	872,198	<u>\$ 103,504</u>
Accrued vacation	<u>152,265</u>	<u>10,563</u>	<u>-</u>	<u>162,828</u>	
	<u>\$ 1,122,857</u>	<u>\$ 10,563</u>	<u>\$ (98,394)</u>	<u>\$ 1,035,026</u>	

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

LONG-TERM DEBT (Continued)

	<u>Outstanding July 1, 2009</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2010</u>	<u>Due within One year</u>
<i>Business-type activities</i>					
Oregon Economic Development Department annual payments of \$32,511 with interest at 6.13% until 2013	\$ 112,321	\$ -	\$ (25,626)	\$ 86,695	\$ 27,197
Oregon Economic Development Department annual payments of \$18,444 with interest at 6.5% until 2021	191,401	-	(6,002)	185,399	6,393
Storm Drain SPWF loan, annual payments of \$24,499 including interest at 6% until 2024	237,939	-	(10,222)	227,717	10,836
1999 STP bonds, interest at 8.75% until 2014	200,000	-	(200,000)	-	-
Full Faith and Credit Obligations, Series 2009 annual debt service starting at \$324,000 increasing to \$601,000 average interest of 4.2% until 2033	6,125,000	-	-	6,125,000	65,000
	6,866,661	-	(241,850)	6,624,811	\$ 109,426
Accrued vacation	39,195	5,283	-	44,478	
	<u>\$ 6,905,856</u>	<u>\$ 5,283</u>	<u>\$ (241,850)</u>	<u>\$ 6,669,289</u>	

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

Future debt service requirements are as follows:

Governmental Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 103,504	\$ 36,092	\$ 139,596
2012	113,618	31,903	145,521
2013	118,745	27,315	146,060
2014	23,876	22,439	46,315
2015	24,012	21,603	45,615
2016-2020	127,390	94,635	222,025
2021-2025	162,267	66,401	228,668
2026-2030	198,786	27,644	226,430
	<u>\$ 872,198</u>	<u>\$ 328,032</u>	<u>\$ 1,200,230</u>

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

LONG-TERM DEBT (Continued)

Business-type Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 109,426	\$ 272,996	\$ 382,422
2012	122,159	268,313	390,472
2013	140,060	263,163	403,223
2014	129,275	257,382	386,657
2015	131,112	252,545	383,657
2016-2020	992,450	1,174,834	2,167,284
2021-2025	1,415,329	942,170	2,357,499
2026-2030	1,980,000	614,575	2,594,575
2031-2033	1,605,000	147,388	1,752,388
	\$ 6,624,811	\$ 4,193,362	\$ 10,818,173

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Plan Description

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

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

Funding Status

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

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (Continued)

Funding Status (Continued)

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

For OPSRP, all employers are included in a single pool, with separate rates assigned for police and fire participants and general service participants. Beginning July 1, 2009 PERS rates were set at 7.45% for Tier 1/Tier 2 and OPSRP rates were set at 8.57% for police and fire and 5.86% for general service employees.

Annual Pension Cost

The City's contributions to PERS for the years ended June 30, 2008, 2009 and 2010 were \$183,944, \$190,716, and \$166,700, respectively, which equaled the required contribution for the year.

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.

CITY OF PHILOMATH, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2010, as reported on the government-wide statement of activities, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 89,400
Street	12,400	73,200
Systems Development	49,471	299,471
Land, Building and Equipment	265,849	128,479
Water	79,008	73,200
Sewer	250,000	25,049
Storm Drain	49,471	17,400
	<u>\$ 706,199</u>	<u>\$ 706,199</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CONTINGENCIES

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

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

GASB PRONOUNCEMENTS ISSUED, NOT YET IN EFFECT

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

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

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

CITY OF PHILOMATH, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2010

SUBSEQUENT EVENTS

The City adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855), as of June 30, 2010. ASC 855 establishes new accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through August 30, 2010, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PHILOMATH, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2010

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 1,201,500	\$ 1,201,500	\$ 1,211,005	\$ 9,505
Licenses and permits	242,500	242,500	294,848	52,348
Charges for services	234,168	234,168	232,720	(1,448)
Intergovernmental	220,330	220,330	182,109	(38,221)
Fines and forfeitures	250,000	250,000	234,491	(15,509)
Miscellaneous	33,002	33,002	39,239	6,237
<i>Total Revenues</i>	<u>2,181,500</u>	<u>2,181,500</u>	<u>2,194,412</u>	<u>12,912</u>
EXPENDITURES				
Personnel services	1,429,974	1,434,974	1,345,149	89,825
Materials and services	789,126	789,126	722,825	66,301
Contingency	50,000	45,000	-	45,000
<i>Total Expenditures</i>	<u>2,269,100</u>	<u>2,269,100</u>	<u>2,067,974</u>	<u>201,126</u>
REVENUES OVER (UNDER) EXPENDITURES	(87,600)	(87,600)	126,438	214,038
OTHER FINANCING SOURCES (USES)				
Transfers out	(89,400)	(89,400)	(89,400)	-
NET CHANGE IN FUND BALANCE	<u>(177,000)</u>	<u>(177,000)</u>	<u>37,038</u>	<u>214,038</u>
FUND BALANCE, Beginning of year	<u>250,000</u>	<u>250,000</u>	<u>231,125</u>	<u>(18,875)</u>
FUND BALANCE, End of year	<u>\$ 73,000</u>	<u>\$ 73,000</u>	<u>\$ 268,163</u>	<u>\$ 195,163</u>

CITY OF PHILOMATH, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - COMMUNITY DEVELOPMENT 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	\$ 67,189	\$ 67,189	\$ 8,779	\$ (58,410)
EXPENDITURES				
Materials and services	180,189	180,189	3,355	176,834
Contingency	-	-	-	-
<i>Total Expenditures</i>	<u>180,189</u>	<u>180,189</u>	<u>3,355</u>	<u>176,834</u>
NET CHANGE IN FUND BALANCE	(113,000)	(113,000)	5,424	118,424
FUND BALANCE, Beginning of year	<u>113,000</u>	<u>113,000</u>	<u>106,575</u>	<u>(6,425)</u>
FUND BALANCE, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,999</u>	<u>\$ 111,999</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF PHILOMATH, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - URBAN RENEWAL DEBT 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				
Principal	420,000	420,000	413,000	7,000
Interest	29,560	29,560	29,926	(366)
<i>Total Expenditures</i>	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)

CITY OF PHILOMATH, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - LAND, BUILDING AND EQUIPMENT FUND (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 122,920	\$ 122,920	\$ 106,907	\$ (16,013)
Fines and forfeitures	13,500	13,500	12,496	(1,004)
Miscellaneous	110,652	110,652	75,504	(35,148)
<i>Total Revenues</i>	247,072	247,072	194,907	(52,165)
EXPENDITURES				
Capital outlay	2,938,300	2,938,300	1,930,998	1,007,302
REVENUES OVER (UNDER) EXPENDITURES	(2,691,228)	(2,691,228)	(1,736,091)	(1,059,467)
OTHER FINANCING SOURCES (USES)				
Interfund loan payment received	-	-	333,000	333,000
Transfers in	263,800	263,800	263,800	-
<i>Total Other Financing Sources (Uses)</i>	263,800	263,800	596,800	333,000
NET CHANGE IN FUND BALANCE	(2,427,428)	(2,427,428)	(1,139,291)	1,288,137
FUND BALANCE, Beginning of year	7,445,800	7,445,800	6,497,792	(948,008)
FUND BALANCE, End of year	<u>\$ 5,018,372</u>	<u>\$ 5,018,372</u>	\$ 5,358,501	<u>\$ 340,129</u>
<i>Amount related to Sewer fund borrowing</i>			<u>(3,907,486)</u>	
FUND BALANCE, End of year (GAAP)			<u>\$ 1,451,015</u>	

CITY OF PHILOMATH, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - SYSTEMS DEVELOPMENT FUND
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Licenses and permits	\$ 130,067	\$ 130,067	\$ 335,568	\$ 205,501
Miscellaneous	18,732	18,732	14,050	(4,682)
<i>Total Revenues</i>	<u>148,799</u>	<u>148,799</u>	<u>349,618</u>	<u>200,819</u>
EXPENDITURES				
Capital outlay	160,000	160,000	88,543	71,457
Debt service	24,499	24,499	24,499	-
<i>Total Expenditures</i>	<u>184,499</u>	<u>184,499</u>	<u>113,042</u>	<u>71,457</u>
REVENUES OVER (UNDER) EXPENDITURES	(35,700)	(35,700)	236,576	272,276
OTHER FINANCING SOURCES (USES)				
Transfers out	(250,000)	(250,000)	(250,000)	-
NET CHANGE IN FUND BALANCE	(285,700)	(285,700)	(13,424)	272,276
FUND BALANCE, Beginning of year	<u>669,300</u>	<u>669,300</u>	<u>708,277</u>	<u>38,977</u>
FUND BALANCE, End of year	<u>\$ 383,600</u>	<u>\$ 383,600</u>	<u>\$ 694,853</u>	<u>\$ 311,253</u>

CITY OF PHILOMATH, OREGON
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

	<i>Urban Renewal General</i>	<i>Economic Development</i>	<i>Street</i>	<i>Totals</i>
ASSETS				
Cash and investments	\$ 10,630	\$ 10,920	\$ 67,190	\$ 88,740
Receivables				
Accounts	-	-	5,564	5,564
Property taxes	-	32	-	32
Special assessments/loans	-	117	-	117
Other receivables	-	-	33,142	33,142
<i>Total Assets</i>	<u>\$ 10,630</u>	<u>\$ 11,069</u>	<u>\$ 105,896</u>	<u>\$ 127,595</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 3,517	\$ -	\$ 7,258	\$ 10,775
Deferred revenue	-	149	-	149
<i>Total Liabilities</i>	3,517	149	7,258	10,924
Fund Balances				
Unreserved, reported in:				
Special revenue funds	-	-	98,638	98,638
Debt services funds	7,113	10,920	-	18,033
<i>Total Fund Balances</i>	<u>7,113</u>	<u>10,920</u>	<u>98,638</u>	<u>116,671</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 10,630</u>	<u>\$ 11,069</u>	<u>\$ 105,896</u>	<u>\$ 127,595</u>

CITY OF PHILOMATH, OREGON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	<i>Urban Renewal General</i>	<i>Economic Development</i>	<i>Street</i>	<i>Totals</i>
REVENUES				
Taxes and assessments	\$ -	\$ 2	\$ -	\$ 2
Licenses and permits	-	-	88,180	88,180
Charges for services	-	-	52,543	52,543
Intergovernmental	-	-	190,351	190,351
Miscellaneous	134	43,815	9,821	53,770
<i>Total Revenues</i>	134	43,817	340,895	384,846
EXPENDITURES				
Current operating:				
General government	20,052	-	-	20,052
Streets	-	-	270,673	270,673
Debt service:				
Principal	-	18,394	-	18,394
Interest	-	25,296	-	25,296
<i>Total Expenditures</i>	20,052	43,690	270,673	334,415
REVENUES OVER (UNDER) EXPENDITURES	(19,918)	127	70,222	50,431
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	12,400	12,400
Transfers out	-	-	(73,200)	(73,200)
<i>Total Other Financing Sources (Uses)</i>	-	-	(60,800)	(60,800)
NET CHANGE IN FUND BALANCES	(19,918)	127	9,422	(10,369)
FUND BALANCES, Beginning of year	27,031	10,793	89,216	127,040
FUND BALANCES, End of year	\$ 7,113	\$ 10,920	\$ 98,638	\$ 116,671

CITY OF PHILOMATH, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - URBAN RENEWAL 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)
<i>Total Revenues</i>	850	850	134	(716)
EXPENDITURES				
Materials and services	13,350	29,350	20,052	9,298
Capital outlay	16,000	-	-	-
<i>Total Expenditures</i>	29,350	29,350	20,052	9,298
REVENUES OVER (UNDER) EXPENDITURES	(28,500)	(28,500)	(19,918)	8,582
FUND BALANCE, Beginning of year	43,500	43,500	27,031	(16,469)
FUND BALANCE, End of year	\$ 15,000	\$ 15,000	\$ 7,113	\$ (7,887)

CITY OF PHILOMATH, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - ECONOMIC DEVELOPMENT 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	\$ -	\$ -	\$ 2	\$ 2
Miscellaneous	43,890	43,890	43,815	(75)
<i>Total Revenues</i>	43,890	43,890	43,817	(73)
EXPENDITURES				
Debt service				
Principal	18,394	18,394	18,394	-
Interest	25,296	25,296	25,296	-
<i>Total Expenditures</i>	43,690	43,690	43,690	-
REVENUES OVER (UNDER) EXPENDITURES	200	200	127	(73)
FUND BALANCE, Beginning of year	10,800	10,800	10,793	(7)
FUND BALANCE, End of year	\$ 11,000	\$ 11,000	\$ 10,920	\$ (80)

CITY OF PHILOMATH, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - STREET 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				
Licenses and permits	\$ 92,700	\$ 92,700	\$ 88,180	\$ (4,520)
Charges for services	52,600	52,600	52,543	(57)
Intergovernmental	189,950	189,950	190,351	401
Miscellaneous	1,000	1,000	9,821	8,821
<i>Total Revenues</i>	<u>336,250</u>	<u>336,250</u>	<u>340,895</u>	<u>4,645</u>
EXPENDITURES				
Personnel services	123,537	128,537	127,116	1,421
Materials and services	186,913	186,913	143,557	43,356
Contingency	30,000	25,000	-	25,000
<i>Total Expenditures</i>	<u>340,450</u>	<u>340,450</u>	<u>270,673</u>	<u>69,777</u>
REVENUES OVER (UNDER) EXPENDITURES	(4,200)	(4,200)	70,222	74,422
OTHER FINANCING SOURCES (USES)				
Transfers in	12,400	12,400	12,400	-
Transfers out	(73,200)	(73,200)	(73,200)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(60,800)</u>	<u>(60,800)</u>	<u>(60,800)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(65,000)	(65,000)	9,422	74,422
FUND BALANCE, Beginning of year	<u>85,000</u>	<u>85,000</u>	<u>89,216</u>	<u>4,216</u>
FUND BALANCE, End of year	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 98,638</u>	<u>\$ 78,638</u>

CITY OF PHILOMATH, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - WATER FUND
YEAR ENDED JUNE 30, 2010

	<i>Budgeted Amounts</i>		<i>Budget</i>	<i>GAAP</i>
	<i>Original</i>	<i>Final</i>	<i>Basis</i>	<i>Basis</i>
REVENUES				
Charges for services	\$ 835,550	\$ 835,550	\$ 820,217	\$ 820,217
Miscellaneous	1,900	1,900	8,480	8,480
<i>Total Revenues</i>	837,450	837,450	828,697	828,697
EXPENSES				
Personnel services	343,372	343,372	327,288	330,119
Materials and services	371,922	371,922	347,443	347,443
Capital outlay/depreciation	10,000	10,000	-	130,641
Debt service	50,956	50,956	50,955	18,183
Contingency	35,000	35,000	-	-
<i>Total Expenses</i>	811,250	811,250	725,686	826,386
REVENUES OVER (UNDER)				
EXPENSES	26,200	26,200	103,011	2,311
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	79,008
Transfers out	(73,200)	(73,200)	(73,200)	(73,200)
<i>Total Other Financing Sources (Uses)</i>	(73,200)	(73,200)	(73,200)	5,808
NET CHANGE IN NET ASSETS	(47,000)	(47,000)	29,811	8,119
NET ASSETS, Beginning of year	47,000	47,000	102,549	3,270,074
NET ASSETS, End of year	\$ -	\$ -	\$ 132,360	\$ 3,278,193

CITY OF PHILOMATH, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - SEWER FUND
YEAR ENDED JUNE 30, 2010

	<i>Budgeted Amounts</i>		<i>Budget</i>	<i>GAAP</i>
	<i>Original</i>	<i>Final</i>	<i>Basis</i>	<i>Basis</i>
REVENUES				
Charges for services	\$ 714,250	\$ 714,250	\$ 708,584	\$ 708,584
Miscellaneous	19,080	19,080	28,326	29,242
<i>Total Revenues</i>	733,330	733,330	736,910	737,826
EXPENSES				
Personnel services	230,123	230,123	217,219	219,671
Materials and services	230,239	250,239	242,334	242,334
Capital outlay/depreciation	-	-	-	146,670
Debt service	525,968	525,968	525,388	243,959
Contingency	30,000	10,000	-	-
<i>Total Expenses</i>	1,016,330	1,016,330	984,941	852,634
REVENUES OVER (UNDER)				
EXPENSES	(283,000)	(283,000)	(248,031)	(114,808)
OTHER FINANCING SOURCES (USES)				
Transfers in	250,000	250,000	250,000	250,000
Transfers out	(23,000)	(23,000)	(23,000)	(25,049)
<i>Total Other Financing Sources (Uses)</i>	227,000	227,000	227,000	224,951
NET CHANGE IN NET ASSETS	(56,000)	(56,000)	(21,031)	110,143
NET ASSETS, Beginning of year	100,000	100,000	123,944	4,595,989
NET ASSETS, End of year	\$ 44,000	\$ 44,000	\$ 102,913	\$ 4,706,132

CITY OF PHILOMATH, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - STORM DRAIN FUND
YEAR ENDED JUNE 30, 2010

	<i>Budgeted Amounts</i>		<i>Budget Basis</i>	<i>GAAP Basis</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 21,270	\$ 21,270	\$ 22,841	\$ 22,841
Miscellaneous	400	400	164	164
<i>Total Revenues</i>	21,670	21,670	23,005	23,005
EXPENSES				
Materials and services	19,270	19,270	9,787	9,787
Capital outlay/depreciation	-	-	-	25,801
<i>Total Expenses</i>	19,270	19,270	9,787	35,588
REVENUES OVER (UNDER) EXPENSES	2,400	2,400	13,218	(12,583)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	49,471
Transfers out	(17,400)	(17,400)	(17,400)	(17,400)
<i>Total Other Financing Sources (Uses)</i>	(17,400)	(17,400)	(17,400)	32,071
NET CHANGE IN NET ASSETS	(15,000)	(15,000)	(4,182)	19,488
NET ASSETS, Beginning of year	25,000	25,000	30,014	1,141,886
NET ASSETS, End of year	\$ 10,000	\$ 10,000	\$ 25,832	\$ 1,161,374

CITY OF PHILOMATH, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2010

	<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>
<i>City of Philomath</i>					
2009-10	\$ -	\$ 1,263,360	\$ (33,165)	\$ (1,188,142)	\$ 42,053
2008-09	30,903	-	(974)	(16,918)	13,011
2007-08	10,113	-	(200)	(4,561)	5,352
2006-07	4,678	-	(148)	(2,115)	2,415
2005-06	2,071	-	(136)	(1,270)	665
2004-05	481	-	(108)	5	378
prior	2,310	-	(55)	(101)	2,154
	<u>\$ 50,556</u>	<u>\$ 1,263,360</u>	<u>\$ (34,786)</u>	<u>\$ (1,213,102)</u>	<u>\$ 66,028</u>
<i>Urban Renewal District</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>

CITY OF PHILOMATH, OREGON
SCHEDULE OF DEBT TRANSACTIONS
YEAR ENDED JUNE 30, 2010

	<u><i>Interest Rates</i></u>	<u><i>Fiscal Year of Maturity</i></u>
<i>PRINCIPAL TRANSACTIONS</i>		
Governmental activities		
Urban Renewal Agency bonds	4.22%	2012-13
OECDD Lakeside loan	4.16%	2028-29
 Business-type activities		
OECDD loan	6.13%	2012-13
OECDD loan (contact chamber)	6.50%	2020-21
SPWF loan	6.00%	2023-24
STP bonds	8.75%	2013-14
Full Faith & Credit Obligations, Series 2009	4.20%	2032-33
 <i>INTEREST TRANSACTIONS</i>		
Governmental activities		
Urban Renewal Agency bonds		
OECDD Lakeside loan		
 Business-type activities		
OECDD loan		
OECDD loan (contact chamber)		
SPWF loan		
STP bonds		
Full Faith & Credit Obligations, Series 2009		

<i>Outstanding July 1, 2009</i>	<i>Issued</i>	<i>Paid</i>	<i>Outstanding June 30, 2010</i>
\$ 350,000	\$ -	\$ (80,000)	\$ 270,000
620,592	-	(18,394)	602,198
<u>\$ 970,592</u>	<u>\$ -</u>	<u>\$ (98,394)</u>	<u>\$ 872,198</u>
\$ 112,321	\$ -	\$ (25,626)	\$ 86,695
191,401	-	(6,002)	185,399
237,939	-	(10,222)	227,717
200,000	-	(200,000)	-
6,125,000	-	-	6,125,000
<u>\$ 6,866,661</u>	<u>\$ -</u>	<u>\$ (241,850)</u>	<u>\$ 6,624,811</u>
\$ 38,016	\$ -	\$ (14,770)	\$ 23,246
330,081	-	(25,295)	304,786
<u>\$ 368,097</u>	<u>\$ -</u>	<u>\$ (40,065)</u>	<u>\$ 328,032</u>
\$ 17,724	\$ -	\$ (6,885)	\$ 10,839
99,097	-	(12,442)	86,655
129,544	-	(14,276)	115,268
51,975	-	(1,421)	-
4,304,568	-	(323,968)	3,980,600
<u>\$ 4,602,908</u>	<u>\$ -</u>	<u>\$ (358,992)</u>	<u>\$ 4,193,362</u>

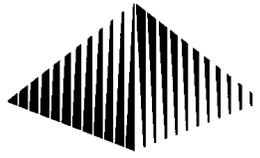
CITY OF PHILOMATH, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS
JUNE 30, 2010

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>OECD Lakeside</i>			<i>Series 2004 Bond</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2011	\$ 18,504	\$ 24,698	\$ 43,202	\$ 85,000	\$ 11,394	\$ 96,394
2012	23,618	24,096	47,714	90,000	7,807	97,807
2013	23,745	23,270	47,015	95,000	4,045	99,045
2014	23,876	22,439	46,315	-	-	-
2015	24,012	21,603	45,615	-	-	-
2016	24,152	20,763	44,915	-	-	-
2017	24,303	19,887	44,190	-	-	-
2018	24,464	18,976	43,440	-	-	-
2019	24,643	17,997	42,640	-	-	-
2020	29,828	17,012	46,840	-	-	-
2021	30,021	15,818	45,839	-	-	-
2022	30,222	14,618	44,840	-	-	-
2023	30,438	13,371	43,809	-	-	-
2024	35,669	12,077	47,746	-	-	-
2025	35,917	10,517	46,434	-	-	-
2026	36,176	8,945	45,121	-	-	-
2027	36,454	7,317	43,771	-	-	-
2028	41,744	5,677	47,421	-	-	-
2029	42,047	3,799	45,846	-	-	-
2030	42,365	1,906	44,271	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
	<u>\$ 602,198</u>	<u>\$ 304,786</u>	<u>\$ 906,984</u>	<u>\$ 270,000</u>	<u>\$ 23,246</u>	<u>\$ 293,246</u>

CITY OF PHILOMATH, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS (Continued)
JUNE 30, 2010

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>SPWF Loan</i>			<i>Series 2009 Bond</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2011	\$ 10,836	\$ 13,663	\$ 24,499	\$ 65,000	\$ 241,968	\$ 306,968
2012	11,486	13,013	24,499	75,000	240,018	315,018
2013	12,175	12,324	24,499	90,000	237,768	327,768
2014	12,906	11,593	24,499	100,000	235,068	335,068
2015	13,680	10,819	24,499	100,000	232,068	332,068
2016	14,501	9,998	24,499	130,000	229,568	359,568
2017	15,371	9,128	24,499	145,000	225,668	370,668
2018	16,293	8,206	24,499	160,000	221,318	381,318
2019	17,271	7,228	24,499	175,000	216,518	391,518
2020	18,307	6,192	24,499	195,000	211,268	406,268
2021	19,405	5,093	24,498	215,000	204,443	419,443
2022	20,570	3,929	24,499	235,000	195,843	430,843
2023	21,804	2,695	24,499	260,000	186,443	446,443
2024	23,112	1,387	24,499	285,000	176,043	461,043
2025	-	-	-	310,000	164,643	474,643
2026	-	-	-	335,000	152,243	487,243
2027	-	-	-	365,000	138,843	503,843
2028	-	-	-	395,000	124,243	519,243
2029	-	-	-	425,000	108,443	533,443
2030	-	-	-	460,000	90,805	550,805
2031	-	-	-	495,000	71,255	566,255
2032	-	-	-	535,000	49,970	584,970
2033	-	-	-	575,000	26,163	601,163
	<u>\$ 227,717</u>	<u>\$ 115,268</u>	<u>\$ 342,985</u>	<u>\$ 6,125,000</u>	<u>\$ 3,980,600</u>	<u>\$ 10,105,600</u>

<i>Totals</i>		
<i>Principal</i>	<i>Interest</i>	<i>Total</i>
\$ 212,930	\$ 309,088	\$ 522,018
235,777	300,216	535,993
258,805	290,478	549,283
153,151	279,821	432,972
155,124	274,148	429,272
187,219	268,853	456,072
204,446	262,001	466,447
221,815	254,532	476,347
239,340	246,407	485,747
267,020	237,678	504,698
289,864	227,007	516,871
285,792	214,390	500,182
312,242	202,509	514,751
343,781	189,507	533,288
345,917	175,160	521,077
371,176	161,188	532,364
401,454	146,160	547,614
436,744	129,920	566,664
467,047	112,242	579,289
502,365	92,711	595,076
495,000	71,255	566,255
535,000	49,970	584,970
575,000	26,163	601,163
<u>\$ 7,497,009</u>	<u>\$ 4,521,394</u>	<u>\$ 12,018,403</u>



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
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(503) 581-7788

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Board of Directors
City of Philomath, Oregon
Philomath, Oregon

We have audited the basic financial statements of the City of Philomath, Oregon as of and for the year ended June 30, 2010, and have issued our report thereon dated August 30, 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'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.**
- **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).**
- **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 City 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 City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 board of directors/council members/commissioners and management of the City of Philomath, Oregon 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