

***CITY OF PHILOMATH, OREGON  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2011***

**MAYOR**

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

**COUNCIL MEMBERS**

David Buddingh  
619 McCall Way  
Philomath, Oregon 97370

Michael McDonough  
3331 Brentwood Place  
Philomath, Oregon 97370

Charla Koepp  
2638 Applegate Street  
Philomath, Oregon 97370

Matthew Bierek  
2337 Applegate Street  
Philomath, Oregon 97370

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

Rocky Sloan  
575 Neabeack Hill Drive  
Philomath, Oregon 97370

**CITY MANAGER**

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

**FINANCE DIRECTOR**

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

**CITY OF PHILOMATH, OREGON**  
**TABLE OF CONTENTS**

---

**Page**

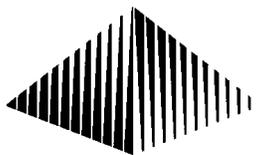
**FINANCIAL SECTION**

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-13
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements	
Balance Sheet - Governmental Funds	16
Reconciliation to the Statement of Net Assets	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Assets - Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22-23
Notes to Basic Financial Statements	24-39
Required Supplementary Information	
Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	
General Fund	40
Community Development Fund	41
Street Fund	42
Other Supplementary Information	
Major Governmental Funds	
Urban Renewal Debt Fund	43
Land, Building and Equipment Fund	44
Nonmajor Governmental Funds - Statements and Schedules	
Combining Balance Sheet	45
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	46
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Urban Renewal General Fund	47
Economic Development Fund	48
Systems Development Fund	49
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Proprietary Funds	
Water Fund	50
Sewer Fund	51
Storm Drain Fund	52

**CITY OF PHILOMATH, OREGON**  
*TABLE OF CONTENTS (Continued)*  
*JUNE 30, 2011*

---

	<b><u>Page</u></b>
<i>FINANCIAL SECTION (Continued)</i>	
Other Supplementary Information (Continued)	
Schedule of Property Tax Transactions	53
Schedule of Debt Transactions	54
Schedule of Future Debt Requirements	55-56
 <i>COMPLIANCE SECTION</i>	
Independent Auditor's Report Required by State of Oregon Regulations	57-58



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

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

### *INDEPENDENT AUDITOR'S REPORT*

Honorable Mayor and Members  
of the City Council  
City of Philomath  
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, 2011, 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, 2011, 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.

As described in the notes to the financial statements, during the year ended June 30, 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and the budgetary comparison information on pages 3 through 13 and 40 through 42 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 MD&A in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the

limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information is the responsibility of management and was 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 respected in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining financial statements, individual fund schedules and other financial schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining financial statements and individual fund 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. The other financial schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

By:   
Charles A. Swank, Shareholder  
December 2, 2011

City of Philomath, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2011

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, 2011.

**Financial Highlights**

Following are the financial highlights of the City for the fiscal year ended June 30, 2011.

- The City's total assets exceeded its liabilities at the close of FY 2010-11 by \$16 million (net assets). Of this amount, \$12.7 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 \$1.8 million is considered unrestricted.
- The City's governmental activities net assets were \$6.8 million with restricted net assets totaling \$1.1 million as of June 30, 2011.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$238,590 or approximately 12 percent of total General Fund expenditures.
- The City's total liabilities decreased by approximately \$242,000 or 3 percent during fiscal year 2010-11. The decrease is primarily due to the early pay down of the Key Bank Urban Renewal 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 Street Fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Summary fund data by fund-type for these nonmajor governmental funds is provided in the form of combining statements on pages 45 and 46 of this report. Individual fund data for each of these nonmajor governmental funds is provided as Supplementary Information on pages 47 through 49.

The City adopts an annual appropriated budget for all governmental funds. To demonstrate compliance with the budget, budgetary comparison statements have been provided for the General Fund and the major special revenue funds on pages 40 through 42.

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

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

The City also adopts an annual appropriated budget for all proprietary funds. To demonstrate compliance with the budget, budgetary comparison statements have been provided for the enterprise funds as Supplementary Information on pages 50 through 52.

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

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

*Required and Other Supplementary Information* - In addition to the basic financial statements and accompanying notes, this report also presents certain required and other supplementary information, including budgetary comparison schedules for all funds and combining statements for nonmajor governmental funds.

## Government-Wide Financial Analysis

**Table 1**  
**Statements of Net Assets**

	<i>June 30, 2011</i>		
	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total</i>
Cash and investments	\$ 2,210,727	3,810,329	\$ 6,021,056
Other assets	1,474,385	156,982	1,631,367
Capital assets	4,078,715	11,879,665	15,958,380
<i>Total Assets</i>	<u>7,763,827</u>	<u>15,846,976</u>	<u>23,610,803</u>
Other liabilities	219,513	172,684	392,197
Long-term liabilities	746,386	6,446,278	7,192,664
<i>Total Liabilities</i>	<u>965,899</u>	<u>6,618,962</u>	<u>7,584,861</u>
Net Assets			
Invested in capital assets, net of debt	4,035,715	8,629,778	12,665,493
Restricted	1,080,189	457,838	1,538,027
Unrestricted	1,682,024	140,398	1,822,422
<i>Total Net Assets</i>	<u>\$ 6,797,928</u>	<u>9,228,014</u>	<u>\$ 16,025,942</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 \$16,025,942 at the close of FY 2010-11.

The largest portion of the City's net assets reflects its investment of \$12,665,493 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 \$1,538,027 or approximately 10 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net assets totaling \$1,822,422 or approximately 11 percent.

<i>June 30, 2010</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>
\$ 1,994,261	4,486,022	\$ 6,480,283	\$ 216,466	\$ (675,693)	\$ (459,227)
1,615,512	154,868	1,770,380	(141,127)	2,114	(139,013)
3,906,378	11,450,248	15,356,626	172,337	429,417	601,754
<u>7,516,151</u>	<u>16,091,138</u>	<u>23,607,289</u>	<u>247,676</u>	<u>(244,162)</u>	<u>3,514</u>
176,282	159,040	335,322	43,231	13,644	56,875
931,522	6,559,863	7,491,385	(185,136)	(113,585)	(298,721)
<u>1,107,804</u>	<u>6,718,903</u>	<u>7,826,707</u>	<u>(141,905)</u>	<u>(99,941)</u>	<u>(241,846)</u>
3,636,378	8,732,923	12,369,301	399,337	(103,145)	296,192
1,014,293	454,253	1,468,546	65,896	3,585	69,481
1,757,676	185,059	1,942,735	(75,652)	(44,661)	(120,313)
<u>\$ 6,408,347</u>	<u>9,372,235</u>	<u>\$ 15,780,582</u>	<u>\$ 389,581</u>	<u>\$ (144,221)</u>	<u>\$ 245,360</u>

**Table 2**  
**Statement of Activities**

*Fiscal Year Ended June 30, 2011*

	<i>Governmental Activities</i>	<i>Business- Type Activities</i>	<i>Total</i>
<b>Revenues</b>			
<b>Program Revenues</b>			
Charges for services	\$ 759,219	\$ 1,561,541	\$ 2,320,760
Operating grants and contributions	280,258	-	280,258
Capital grants and contributions	39,146	84,953	124,099
<i>Total Program Revenues</i>	<u>1,078,623</u>	<u>1,646,494</u>	<u>2,725,117</u>
<b>General Revenues</b>			
Taxes	1,708,520	-	1,708,520
Franchise revenues	364,349	-	364,349
Other	209,871	27,760	237,631
<i>Total General Revenues</i>	<u>2,282,740</u>	<u>27,760</u>	<u>2,310,500</u>
<i>Total Revenues</i>	<u>3,361,363</u>	<u>1,674,254</u>	<u>5,035,617</u>
<b>Transfers</b>	2,755	(2,755)	-
<b>Expenses (Net of Indirect Expenses)</b>			
General governmental	1,195,463	-	1,195,463
Police	1,143,709	-	1,143,709
Streets	392,039	-	392,039
Public Works	209,235	-	209,235
Interest on long-term debt	34,091	-	34,091
Water	-	856,575	856,575
Sewer	-	914,842	914,842
Storm Drain	-	44,303	44,303
<i>Total Expenses</i>	<u>2,974,537</u>	<u>1,815,720</u>	<u>4,790,257</u>
<b>Changes in Net Assets</b>	389,581	(144,221)	245,360
<b>Beginning Net Assets</b>	<u>6,408,347</u>	<u>9,372,235</u>	<u>15,780,582</u>
<b>Ending Net Assets</b>	<u>\$ 6,797,928</u>	<u>\$ 9,228,014</u>	<u>\$ 16,025,942</u>

The City's overall net assets increased by \$245,360 during FY 2010-11.

<i>Fiscal Year Ended June 30, 2010</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>
\$ 578,856	\$ 1,551,642	\$ 2,130,498	\$ 180,363	\$ 9,899	\$ 190,262
383,844	-	383,844	(103,586)	-	(103,586)
(76,856)	260,592	183,736	116,002	(175,639)	(59,637)
885,844	1,812,234	2,698,078	192,779	(165,740)	27,039
1,628,087	-	1,628,087	80,433	-	80,433
336,422	-	336,422	27,927	-	27,927
240,562	46,523	287,085	(30,691)	(18,763)	(49,454)
2,205,071	46,523	2,251,594	77,669	(18,763)	58,906
3,090,915	1,858,757	4,949,672	270,448	(184,503)	85,945
36,641	(36,641)	-	(33,886)	33,886	-
1,035,798	-	1,035,798	159,665	-	159,665
1,088,699	-	1,088,699	55,010	-	55,010
324,527	-	324,527	67,512	-	67,512
160,854	-	160,854	48,381	-	48,381
49,559	-	49,559	(15,468)	-	(15,468)
-	826,386	826,386	-	30,189	30,189
-	852,634	852,634	-	62,208	62,208
-	49,506	49,506	-	(5,203)	(5,203)
2,659,437	1,728,526	4,387,963	315,100	87,194	402,294
468,119	93,590	561,709	(78,538)	(237,811)	(316,349)
5,940,228	9,278,645	15,218,873	468,119	93,590	561,709
<u>\$ 6,408,347</u>	<u>\$ 9,372,235</u>	<u>\$ 15,780,582</u>	<u>\$ 389,581</u>	<u>\$ (144,221)</u>	<u>\$ 245,360</u>

## **General Fund Budgetary Highlights**

Appropriation transfers of \$50,000 were made from contingency for the General Fund during the year.

## **Financial Analysis of the City's Funds**

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

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

At June 30, 2011, the City's governmental funds reported combined ending fund balances of \$ 2,189,825 , an increase of \$6,504 in comparison with prior year.

As detailed in the notes to the financial statements, the City adopted the provisions of GASB Statement #54 *Fund Balance Reporting and Governmental Fund Types Definitions*. Among the changes required is that Special Revenue Funds whose primary source of funding is transfers from the General Fund be reported as part of the General Fund.

*General Fund.* The General Fund is the primary operating fund of the City. As of June 30, 2011, unassigned fund balance was \$278,023 , an increase of \$9,860 during the current fiscal year. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 12% of the total of General Fund expenditures.

*Other Funds.* Both the Street and the Land, Building, and Equipment Funds had significant capital outlay expenditures during the year. Street Fund revenues exceeded expenditures by \$43,056 and Land, Building, and Equipment Fund expenditures were \$1,111,340 more than revenues. The Urban Renewal Debt Fund levied property taxes sufficient to cover scheduled debt service payments.

*Business-type activities* - Business-type activities decreased the City's net assets by \$144,221. The decrease is the result of a small operating profit of \$25,062 and net nonoperating expenses of \$251,481. Nonoperating expenses are primarily interest expense.

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, 2011, the City had approximately \$16 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, 2011**

	<i>Governmental Activities</i>		<i>Total Percentage Change</i>
	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Land	\$ 128,233	\$ 128,233	- %
Improvements	273,252	231,649	17.96
Buildings	1,843,311	1,700,788	8.38
Equipment	475,364	455,361	4.39
Infrastructure	1,358,555	1,390,347	(2.29)
<i>Total</i>	<u>\$ 4,078,715</u>	<u>\$ 3,906,378</u>	4.41 %

	<i>Business-type Activities</i>		<i>Total Percentage Change</i>
	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Land	\$ 853,202	\$ 853,202	- %
Improvements	79,807	81,120	(1.62)
Buildings	238,310	245,159	(2.79)
Equipment	501,344	439,359	14.11
Infrastructure	10,207,002	9,831,408	3.82
<i>Total</i>	<u>\$ 11,879,665</u>	<u>\$ 11,450,248</u>	3.75 %

Major capital asset activities during the fiscal year included \$642,000 engineering and environmental costs towards construction of a new sewer lagoon, \$124,000 for a new truck bay at the Public Works compound, \$63,000 storage room addition to City Hall, \$54,000 to complete retrofitting water meters on the west side of town and \$38,000 for covered parking at the Police Department.

*Long-Term Debt*

At the end of the current fiscal year, the City had total debt outstanding of \$7,142,077. Of this amount, \$626,694 represents outstanding notes payable for the governmental funds. A note payable for \$583,694 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 \$43,000 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, 2011 is \$238,503. The notes payable are paid from net revenues of the water system. The sewer bond payable at June 30, 2011 is \$6,060,000 which resulted from the sale of \$6.125 million in full faith and credit obligations in January 2009. The credit obligations will be paid over 24 years from net revenues of the sewer system and sewer systems development charges. The amount of storm drain debt outstanding at June 30, 2011 is \$216,880. The note is paid from storm drain systems development charges.

**June 30, 2011**

	<b><i>Governmental Activities</i></b>	<b><i>Business- Type Activities</i></b>	<b><i>Total Government</i></b>
Bonds payable	\$ -	\$ 6,060,000	\$ 6,060,000
Urban Renewal bonds	43,000	-	43,000
Notes payable	583,694	455,383	1,039,077
	<hr/>	<hr/>	<hr/>
<i>Total Outstanding Debt</i>	<u>\$ 626,694</u>	<u>\$ 6,515,383</u>	<u>\$ 7,142,077</u>

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

June 30, 2010			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	\$ -	\$ (65,000)	\$ (65,000)
270,000	-	270,000	(227,000)	-	(227,000)
602,198	499,811	1,102,009	(18,504)	(44,428)	(62,932)
<u>\$ 872,198</u>	<u>\$ 6,624,811</u>	<u>\$ 7,497,009</u>	<u>\$ (245,504)</u>	<u>\$ (109,428)</u>	<u>\$ (354,932)</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 2011-12 budget:

- The 2010 census reduced Philomath’s population from an estimated 4,710 to an actual population of 4,584. Prior to the census, the estimated population had grown steady at around 1.5% for the last several years.
- Growth is expected to be slow for the upcoming year due to sluggish construction activity. Building permit revenue and SDC revenue are expected to show no significant increases and be comparable to FY 2010-11 revenues.
- Assessed values, the basis of property tax revenues, have been growing at about 4.5% per year. The 2010-11 assessed values increased by 3%.
- 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.
- Interest rates on investments are expected to be between .5% and 1%.
- Water and Sewer utility rates increase by 6.3%. All other fees charged by the City will remain at their present levels.
- There will be no increase in the number of General Fund supported personnel.
- Health benefit costs will increase by 10%.

The City's adopted budget for FY 2011-12 reflects total estimated resources of \$11,443,008 which exceeds total estimated expenditures by \$1,956,312.

**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, 2011**

	<i><b>Governmental Activities</b></i>	<i><b>Business-type Activities</b></i>	<i><b>Total</b></i>
<b>ASSETS</b>			
Cash and investments	\$ 2,210,727	\$ 3,810,329	\$ 6,021,056
Receivables			
Accounts	5,374	156,982	162,356
Property taxes	93,117	-	93,117
Special assessments/loans	86,340	-	86,340
Other receivables	72,909	-	72,909
Prepaid expenses	39,433	-	39,433
Loans receivable	1,177,212	-	1,177,212
Nondepreciable capital assets	128,233	853,202	981,435
Depreciable capital assets, net	3,950,482	11,026,463	14,976,945
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	7,763,827	15,846,976	23,610,803
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	152,895	50,525	203,420
Noncurrent liabilities:			
Due within one year:			
Notes payable	66,618	122,159	188,777
Due in more than one year:			
Notes payable	560,076	408,224	968,300
Bonds payable	-	5,985,000	5,985,000
Accrued compensated absences	186,310	53,054	239,364
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	965,899	6,618,962	7,584,861
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	4,035,715	8,629,778	12,665,493
Restricted for:			
Community Development	617,158	-	617,158
Construction	289,650	457,838	747,488
Debt Service	73,302	-	73,302
Streets	89,194	-	89,194
Urban Renewal	10,885	-	10,885
Unrestricted	1,682,024	140,398	1,822,422
	<hr/>	<hr/>	<hr/>
<i>Total Net Assets</i>	\$ 6,797,928	\$ 9,228,014	\$ 16,025,942

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

**CITY OF PHILOMATH, OREGON**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

		<b>Program Revenues</b>	
		<b>Fees, Fines, and Charges for Services</b>	<b>Operating Grants and Contributions</b>
	<b>Expenses</b>		
<b>FUNCTIONS/PROGRAMS</b>			
<b>Governmental activities:</b>			
General government	\$ 1,195,463	\$ 694,153	\$ 50,808
Police	1,143,709	12,525	2,002
Streets	392,039	52,541	225,174
Public works	209,235	-	2,274
Interest on long-term debt	34,091	-	-
<i>Total governmental activities</i>	2,974,537	759,219	280,258
<b>Business-type activities:</b>			
Water	856,575	838,143	-
Sewer	914,842	702,140	-
Storm drain	44,303	21,258	-
<i>Total business-type activities</i>	1,815,720	1,561,541	-
Total primary government	\$ 4,790,257	\$ 2,320,760	\$ 280,258

**General Revenues:**

Taxes and assessments  
Franchise fees  
Intergovernmental  
Gain on disposition of assets  
Miscellaneous

*Total general revenues*

**Transfers**

**Change in net assets**

*Net assets, July 1, 2010*

*Net assets, June 30, 2011*

*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>
\$ -	\$ (450,502)	\$ -	\$ (450,502)
-	(1,129,182)	-	(1,129,182)
39,146	(75,178)	-	(75,178)
-	(206,961)	-	(206,961)
-	(34,091)	-	(34,091)
<u>39,146</u>	<u>(1,895,914)</u>	<u>-</u>	<u>(1,895,914)</u>
40,452	-	22,020	22,020
38,059	-	(174,643)	(174,643)
6,442	-	(16,603)	(16,603)
<u>84,953</u>	<u>-</u>	<u>(169,226)</u>	<u>(169,226)</u>
<u>\$ 124,099</u>	<u>(1,895,914)</u>	<u>(169,226)</u>	<u>(2,065,140)</u>
	1,708,520	-	1,708,520
	364,349	-	364,349
	99,180	-	99,180
	289	-	289
	<b>110,402</b>	27,760	138,162
	<u>2,282,740</u>	<u>27,760</u>	<u>2,310,500</u>
	<b>2,755</b>	<u>(2,755)</u>	<u>-</u>
	389,581	(144,221)	245,360
	<b>6,408,347</b>	9,372,235	15,780,582
	<u>\$ 6,797,928</u>	<u>\$ 9,228,014</u>	<u>\$ 16,025,942</u>

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

**CITY OF PHILOMATH, OREGON**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**

	<u>Special Revenue</u>		
	<u>General</u>	<u>Community Development</u>	<u>Street</u>
<b>ASSETS</b>			
Cash and investments	\$ 308,372	\$ 128,063	\$ 51,062
Receivables			
Accounts	-	-	5,374
Property taxes	69,804	-	-
Special assessments/loans	20,824	-	-
Other receivables	32,963	-	39,729
Prepaid expenses	39,433	-	-
Loans receivable	688,117	489,095	-
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	<u>\$ 1,159,513</u>	<u>\$ 617,158</u>	<u>\$ 96,165</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 97,759	\$ -	\$ 6,971
Other current liabilities	4,986	-	-
Deferred revenue	778,745	489,095	-
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	881,490	489,095	6,971
<b>Fund Balances</b>			
Nonspendable:	39,433	-	-
Restricted for:			
Community Development	-	128,063	-
Construction	-	-	-
Debt Service	-	-	-
Streets	-	-	89,194
Urban Renewal	-	-	-
Unassigned	238,590	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balances</i>	<u>278,023</u>	<u>128,063</u>	<u>89,194</u>
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,159,513</u>	<u>\$ 617,158</u>	<u>\$ 96,165</u>

<u>Debt Service</u>	<u>Capital Projects</u>		
<u>Urban</u>	<u>Land</u>	<u>Other</u>	
<u>Renewal</u>	<u>Building &amp;</u>	<u>Governmental</u>	
<u>Debt</u>	<u>Equipment</u>	<u>Funds</u>	<u>Totals</u>
\$ 38,905	\$ 1,414,549	\$ 269,776	\$ 2,210,727
-	-	-	5,374
23,287	-	26	93,117
-	22,372	43,144	86,340
-	217	-	72,909
-	-	-	39,433
-	-	-	1,177,212
<u>\$ 62,192</u>	<u>\$ 1,437,138</u>	<u>\$ 312,946</u>	<u>\$ 3,685,112</u>
\$ -	\$ 27,601	\$ 1,301	\$ 133,632
-	-	-	4,986
23,287	22,372	43,170	1,356,669
<u>23,287</u>	<u>49,973</u>	<u>44,471</u>	<u>1,495,287</u>
-	-	-	39,433
-	-	-	128,063
-	1,387,165	246,506	1,633,671
38,905	-	11,084	49,989
-	-	-	89,194
-	-	10,885	10,885
-	-	-	238,590
<u>38,905</u>	<u>1,387,165</u>	<u>268,475</u>	<u>2,189,825</u>
<u>\$ 62,192</u>	<u>\$ 1,437,138</u>	<u>\$ 312,946</u>	<u>\$ 3,685,112</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, 2011**

---

**RECONCILIATION TO THE STATEMENT OF NET ASSETS**

<i>Fund Balances</i>	\$ 2,189,825
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.	1,356,669
Capital assets are not financial resources in governmental funds, but are reported in the statement of net assets at their net depreciable value.	
Cost	5,638,797
Accumulated depreciation	(1,560,082)
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	(626,694)
Accrued compensated absences	(186,310)
Accrued interest payable	(14,277)
 <i>Net Assets of Governmental Activities</i>	 <u>\$ 6,797,928</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, 2011**

	<u>Special Revenue</u>		
	<u>General</u>	<u>Community Development</u>	<u>Street</u>
<b>REVENUES</b>			
Taxes and assessments	\$ 1,259,811	\$ -	\$ -
Licenses and permits	429,196	-	84,889
Charges for services	261,422	-	52,541
Intergovernmental	151,765	-	225,174
Fines and forfeitures	279,167	-	-
Miscellaneous	31,552	16,064	12,448
<i>Total Revenues</i>	<u>2,412,913</u>	<u>16,064</u>	<u>375,052</u>
<b>EXPENDITURES</b>			
Current operating:			
General government	1,040,953	-	-
Police	1,089,217	-	-
Streets	-	-	331,996
Public works	182,883	-	-
Capital outlay:			
General government	-	-	-
Police	-	-	-
Streets	-	-	-
Public works	-	-	-
Water	-	-	-
Sewer	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
<i>Total Expenditures</i>	<u>2,313,053</u>	<u>-</u>	<u>331,996</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	99,860	16,064	43,056
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund loan proceeds	-	-	-
Transfers in	-	-	13,800
Transfers out	(90,000)	-	(66,300)
<i>Total Other Financing Sources (Uses)</i>	<u>(90,000)</u>	<u>-</u>	<u>(52,500)</u>
<b>NET CHANGE IN FUND BALANCES</b>	9,860	16,064	(9,444)
<b>FUND BALANCES, Beginning of year</b>	<u>268,163</u>	<u>111,999</u>	<u>98,638</u>
<b>FUND BALANCES, End of year</b>	<u>\$ 278,023</u>	<u>\$ 128,063</u>	<u>\$ 89,194</u>

<i>Debt Service</i>	<i>Capital Projects</i>	<i>Other</i>	
<i>Urban</i>	<i>Land</i>	<i>Governmental</i>	
<i>Renewal</i>	<i>Building &amp;</i>	<i>Funds</i>	<i>Totals</i>
<i>Debt</i>	<i>Equipment</i>		
\$ 439,028	\$ -	\$ 5	\$ 1,698,844
-	-	24,857	538,942
-	-	-	313,963
-	2,274	-	379,213
-	12,525	-	291,692
1,721	48,850	44,907	155,542
440,749	63,649	69,769	3,378,196
-	-	28,257	1,069,210
-	-	-	1,089,217
-	-	-	331,996
-	-	-	182,883
-	136,458	12,499	148,957
-	85,815	-	85,815
-	2,890	-	2,890
-	173,181	-	173,181
-	103,033	-	103,033
-	673,612	-	673,612
362,000	-	18,504	380,504
10,686	-	24,698	35,384
372,686	1,174,989	83,958	4,276,682
68,063	(1,111,340)	(14,189)	(898,486)
-	135,000	-	135,000
-	912,490	32,000	958,290
(32,000)	-	-	(188,300)
(32,000)	1,047,490	32,000	904,990
36,063	(63,850)	17,811	6,504
2,842	1,451,015	250,664	2,183,321
\$ 38,905	\$ 1,387,165	\$ 268,475	\$ 2,189,825

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, 2011**

---

<i>Net change in fund balances - total governmental funds</i>	\$ 6,504
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds defer revenues that do not provide current financial resources. However, the statement of activities recognizes such revenues at their net realizable value when earned, regardless of when received.	7,901
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Collections on long-term receivables	(20,475)
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.	1,293
The net effect of disposal of capital assets is to reduce net assets.	(4,259)
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.	(23,482)
Capital outlays are reported as expenditures in governmental funds. However, the statement of activities allocates the cost of capital outlay over their estimated useful lives as depreciation expense. Capital outlay Assets transferred to enterprise funds Depreciation	1,148,583 (767,235) (204,753)
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. Debt principal paid Bonds and notes	245,504
<i>Change in net assets of governmental activities.</i>	<hr/> <u>\$ 389,581</u> <hr/>

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

**CITY OF PHILOMATH, OREGON**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**JUNE 30, 2011**

	<b>Business Activities - Enterprise</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Storm Drain</b>
<b>ASSETS</b>			
Cash and investments	\$ 53,766	\$ 3,277,975	\$ 13,159
Accounts receivable	82,892	71,393	2,697
Nondepreciable capital assets	219,594	633,608	-
Depreciable capital assets, net	3,206,956	6,709,856	1,109,651
<i>Total Assets</i>	3,563,208	10,692,832	1,125,507
<b>LIABILITIES</b>			
Accounts payable	18,284	24,541	109
Noncurrent liabilities			
Due within one year	35,673	75,000	-
Due in more than one year	202,830	5,985,000	-
Accrued compensated absences	30,489	22,565	-
<i>Total Liabilities</i>	287,276	6,107,106	109
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	3,188,047	4,548,960	1,109,651
Restricted for construction	-	-	-
Unrestricted	87,885	36,766	15,747
<i>Total Net Assets</i>	\$ 3,275,932	\$ 4,585,726	\$ 1,125,398

---

<i>Funds</i>	
<i>System Development Business</i>	<i>Totals</i>
\$ 465,429	\$ 3,810,329
-	156,982
-	853,202
-	11,026,463
<hr/>	<hr/>
465,429	15,846,976
7,591	50,525
11,486	122,159
205,394	6,393,224
-	53,054
<hr/>	<hr/>
224,471	6,618,962
(216,880)	8,629,778
457,838	457,838
-	140,398
<hr/>	<hr/>
\$ 240,958	\$ 9,228,014
<hr/> <hr/>	<hr/> <hr/>

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, 2011**

	<i>Business Activities - Enterprise</i>		
	<i>Water</i>	<i>Sewer</i>	<i>Storm Drain</i>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 838,143	\$ 702,140	\$ 21,258
Miscellaneous	2,884	5,206	-
<i>Total Operating Revenues</i>	<u>841,027</u>	<u>707,346</u>	<u>21,258</u>
<b>OPERATING EXPENSES</b>			
Personal services	352,496	240,787	-
Materials and services	353,898	250,653	5,128
Depreciation	134,031	181,685	25,891
<i>Total Operating Expenses</i>	<u>840,425</u>	<u>673,125</u>	<u>31,019</u>
<b>OPERATING INCOME (LOSS)</b>	602	34,221	(9,761)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment revenue	354	498	85
Property lease	-	15,980	-
Interest expense	(16,150)	(241,717)	-
<i>Total Nonoperating Revenue (Expenses)</i>	<u>(15,796)</u>	<u>(225,239)</u>	<u>85</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	(15,194)	(191,018)	(9,676)
Capital contributions	-	-	-
Transfers in	103,033	82,212	-
Transfers out	(90,100)	(11,600)	(26,300)
<b>CHANGE IN NET ASSETS</b>	(2,261)	(120,406)	(35,976)
<b>NET ASSETS, Beginning of year</b>	<u>3,278,193</u>	<u>4,706,132</u>	<u>1,161,374</u>
<b>NET ASSETS, End of year</b>	<u>\$ 3,275,932</u>	<u>\$ 4,585,726</u>	<u>\$ 1,125,398</u>

---

<i>Funds</i>	
<i>System</i>	
<i>Development</i>	<i>Totals</i>
<i>Business</i>	
\$ -	\$ 1,561,541
-	8,090
-	1,569,631
-	593,283
-	609,679
-	341,607
-	1,544,569
-	25,062
2,753	3,690
-	15,980
(13,284)	(271,151)
(10,531)	(251,481)
(10,531)	(226,419)
84,953	84,953
-	185,245
(60,000)	(188,000)
14,422	(144,221)
226,536	9,372,235
\$ 240,958	\$ 9,228,014

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, 2011**

	<b><i>Business Activities -</i></b>	
	<b><i>Water</i></b>	<b><i>Sewer</i></b>
<b><i>CASH FLOWS FROM OPERATING ACTIVITIES</i></b>		
Cash received from customers	\$ 835,925	\$ 710,078
Cash paid to employees for services	(347,708)	(236,998)
Cash paid to suppliers for goods and services	(351,445)	(251,918)
<i>Net cash provided by (used for) operating activities</i>	136,772	221,162
<b><i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</i></b>		
Transfers in	-	60,000
Transfers out	(90,100)	(11,600)
<i>Net cash provided by (used for) noncapital financing activities</i>	(90,100)	48,400
<b><i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</i></b>		
Capital contributions	-	-
Bond proceeds received	-	(641,990)
Principal payments on notes, bonds, and certificates	(33,590)	(65,000)
Interest payments on notes, bonds, and certificates	(16,150)	(241,717)
Acquisition and construction of capital assets	(3,789)	-
<i>Net cash provided by (used for) capital and related financing activities</i>	(53,529)	(948,707)
<b><i>CASH FLOWS FROM INVESTING ACTIVITIES</i></b>		
Interest revenue	354	498
Property lease	-	15,980
<i>Net cash provided by (used for) investing activities</i>	354	16,478
<b><i>NET INCREASE (DECREASE) IN CASH</i></b>	(6,503)	(662,667)
<b><i>CASH, beginning of year</i></b>	<b>60,269</b>	<b>3,940,642</b>
<b><i>CASH, end of year</i></b>	<b>\$ 53,766</b>	<b>\$ 3,277,975</b>

---

**Enterprise Funds**

<b><i>Storm Drain</i></b>	<b><i>Systems Development Business</i></b>	<b><i>Totals</i></b>
\$ 21,514	\$ -	\$ 1,567,517
-	-	(584,706)
(5,028)	(379)	(608,770)
<hr/>	<hr/>	<hr/>
16,486	(379)	374,041
-	-	60,000
(26,300)	(60,000)	(188,000)
<hr/>	<hr/>	<hr/>
(26,300)	(60,000)	(128,000)
-	84,953	84,953
-	-	(641,990)
-	(10,836)	(109,426)
-	(13,284)	(271,151)
-	-	(3,789)
<hr/>	<hr/>	<hr/>
-	60,833	(941,403)
85	2,753	3,690
-	-	15,980
<hr/>	<hr/>	<hr/>
85	2,753	19,670
<hr/>	<hr/>	<hr/>
(9,729)	3,207	(675,692)
22,888	462,222	4,486,021
<hr/>	<hr/>	<hr/>
\$ 13,159	\$ 465,429	\$ 3,810,329
<hr/>	<hr/>	<hr/>

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, 2011**

	<u>Business Activities -</u>	
	<u>Water</u>	<u>Sewer</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 602	\$ 34,221
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	134,031	181,685
(Increase) Decrease in accounts receivable	(5,102)	2,732
Increase (Decrease) in accounts payable	2,453	(1,265)
Increase (Decrease) in compensated absences payable	4,788	3,789
<i>Net cash Provided by (used for) Operating Activities</i>	<u>\$ 136,772</u>	<u>\$ 221,162</u>

---

***Enterprise Funds***

<b><i>Storm Drain</i></b>	<b><i>Systems Development Business</i></b>	<b><i>Totals</i></b>
\$ (9,761)	\$ -	\$ 25,062
25,891	-	341,607
256	-	(2,114)
100	(379)	909
-	-	8,577
<u>\$ 16,486</u>	<u>\$ (379)</u>	<u>\$ 374,041</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.

**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
- Street

The City reports the following major proprietary funds:

- Sewer
- Water
- Storm Drain
- Systems Development Business

*Fund Balance*

In the year ended June 30, 2011, the City adopted GASB Statement #54 *Fund Balance Reporting and Governmental Fund Types Definitions*. In the fund financial statements, the fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Although not a major impact on the financial statements, Governmental Fund type fund balances are now reported in the following classifications.

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Fund balance is reported as restricted when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Fund balance is reported as committed when the City Council takes formal action that places specific constraints on how the resources may be used.

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

*Fund Balance (Continued)*

The City Council can modify or rescind the commitment at any time through taking a similar formal action.

Resources that are constrained by the City's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the City Council approves which resources should be "reserved" during the adoption of the annual budget. The City's Finance Director uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the City's Annual Financial Report.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds. In addition, certain Special Revenue Funds are reported as part of the General Fund because their source of funds is primarily transfers from the General Fund.

*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).

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 December 20, 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 December 20, 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.

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

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.

*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.

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

*Governmental Fund Types (Continued)*

*Capital Projects Funds (Continued)*

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

*Proprietary Fund Types*

*Enterprise Funds*

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

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

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

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

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

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenditures as of and for the year ended June 30, 2011. 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.

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

*Receivables and Deferred Revenues*

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

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

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

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

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

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

*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.

**CITY OF PHILOMATH, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

---

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

*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.

*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.

**CITY OF PHILOMATH, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

---

**CASH AND INVESTMENTS**

Cash and investments are comprised of the following at June 30, 2011:

	<u>Carrying Value</u>	<u>Fair Value</u>
<b>Cash</b>		
Cash on hand	\$ 525	\$ 525
Deposits with financial institutions	19,821	19,821
<b>Investments</b>		
Local Government Investment Pool	6,000,710	6,000,710
	<u>\$ 6,021,056</u>	<u>\$ 6,021,056</u>

*Deposits*

At year end, the book balance of the City's bank deposits (checking accounts) was \$19,821 and the bank balance was \$58,954. The difference is due to transactions in process. Bank deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

*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 unlimited coverage for the aggregate of all non-interest bearing accounts and up to \$250,000 for the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon PFCP. 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, 2011, none 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

**CITY OF PHILOMATH, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

---

**CASH AND INVESTMENTS (Continued)**

*Investments (Continued)*

Investment Council (ORS 294.805 to 294.895). At June 30, 2011, the fair value of the position in the Oregon State Treasurer's Short-term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-term Fund is not subject to risk evaluation. The LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-term Fund are available from the Oregon State Treasurer.

*Interest Rate Risk*

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

*Custodial Risk - Investments*

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

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-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**

<i>Fund Type</i>	<i>Receivable</i>	<i>Available</i>	<i>Deferred</i>
General Fund	\$ 69,804	\$ -	\$ 69,804
City Economic Development Fund	26	-	26
Urban Renewal Debt Service Fund	23,287	-	23,287
<i>Total</i>	<i>\$ 93,117</i>	<i>\$ -</i>	<i>\$ 93,117</i>

**CITY OF PHILOMATH, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**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, 2011 was \$489,095. The CDBG loans do not bear interest, and are due when the property securing the loans is transferred.

The following loans receivable are recorded in the General Fund.

Contract for sale of police building, monthly payments of \$1,010 including interest at 6.5%	\$ 104,423
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)	583,694
	<u>\$ 688,117</u>

**CAPITAL ASSETS**

The summary of capital assets for the business-type activities for the year ended June 30, 2011 is as follows:

	<i>Balances July 1, 2010</i>	<i>Additions</i>	<i>Retirements</i>	<i>Balances June 30, 2011</i>
Nondepreciable:				
Land	\$ 853,202	\$ -	\$ -	\$ 853,202
Depreciable				
Improvements	132,308	-	-	132,308
Buildings	416,370	2,500	-	418,870
Equipment	1,140,894	124,702	-	1,265,596
Infrastructure	12,840,612	643,822	-	13,484,434
	<u>14,530,184</u>	<u>771,024</u>	<u>-</u>	<u>15,301,208</u>
Accumulated Depreciation:				
Improvements	(49,343)	(3,158)	-	(52,501)
Buildings	(171,210)	(9,350)	-	(180,560)
Equipment	(701,536)	(62,716)	-	(764,252)
Infrastructure	(3,011,049)	(266,383)	-	(3,277,432)
	<u>(3,933,138)</u>	<u>(341,607)</u>	<u>-</u>	<u>(4,274,745)</u>
Depreciable capital assets, net	<u>10,597,046</u>	<u>429,417</u>	<u>-</u>	<u>11,026,463</u>
	<u>\$ 11,450,248</u>	<u>\$ 429,417</u>	<u>\$ -</u>	<u>\$ 11,879,665</u>

**CITY OF PHILOMATH, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**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. \$2,859,504 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 \$3,265,496 were recorded in the Sewer Fund. The Sewer Fund investment in capital assets account at June 30, 2011 does not include debt equal to the unspent portion of bond proceeds.

Depreciation expense for the year was allocated as follows:

Water	\$	134,030
Sewer		181,686
Storm		25,891
		<u>341,607</u>
	\$	<u>341,607</u>

The changes in the capital assets for governmental activities for the year ended June 30, 2011 are as follows:

	<i><b>Balances July 1, 2010</b></i>	<i><b>Additions</b></i>	<i><b>Retirements</b></i>	<i><b>Balances June 30, 2011</b></i>
Nondepreciable:				
Land	\$ 128,233	\$ -	\$ -	\$ 128,233
Depreciable				
Improvements	389,517	60,301	(4,775)	445,043
Buildings	2,153,690	187,651	-	2,341,341
Equipment	1,057,970	133,396	(80,999)	1,110,367
Infrastructure	1,613,813	-	-	1,613,813
	<u>5,214,990</u>	<u>381,348</u>	<u>(85,774)</u>	<u>5,510,564</u>
Accumulated Depreciation:				
Improvements	(157,868)	(17,784)	3,861	(171,791)
Buildings	(452,902)	(45,128)	-	(498,030)
Equipment	(602,609)	(110,049)	77,655	(635,003)
Infrastructure	(223,466)	(31,792)	-	(255,258)
	<u>(1,436,845)</u>	<u>(204,753)</u>	<u>81,516</u>	<u>(1,560,082)</u>
Depreciable capital assets, net	<u>3,778,145</u>	<u>176,595</u>	<u>(4,258)</u>	<u>3,950,482</u>
	<u>\$ 3,906,378</u>	<u>\$ 176,595</u>	<u>\$ (4,258)</u>	<u>\$ 4,078,715</u>

**CITY OF PHILOMATH, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**CAPITAL ASSETS (Continued)**

Depreciation expense for the year was allocated as follows:

General Government	\$	81,135
Police		39,392
Streets		58,322
Public works		25,904
		<u>204,753</u>
	\$	<u>204,753</u>

**DEFERRED REVENUE**

At June 30, 2011, deferred revenue on the balance sheet - governmental funds consisted of the following:

Property taxes	\$	93,117
Community Development Block Grant loans		489,095
Other loans receivable		688,117
Assesments		86,340
<i>Total</i>		<u>\$ 1,356,669</u>

**LONG-TERM DEBT**

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

	<u>Outstanding July 1, 2010</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2011</u>	<u>Due within One year</u>
<i>Governmental activities</i>					
Urban Renewal Agency bonds, series 2004 with interest at 4.22% for 5 years, then variable rates until 2013	\$ 270,000	\$ -	\$ (227,000)	\$ 43,000	\$ 43,000
OECDL Lakeside loan, annual payments including interest at 4.16% until 2029	<u>602,198</u>	<u>-</u>	<u>(18,504)</u>	<u>583,694</u>	<u>23,618</u>
	872,198	-	(245,504)	626,694	\$ <u>66,618</u>
Accrued compensated absences	<u>162,828</u>	<u>23,482</u>	<u>-</u>	<u>186,310</u>	
	<u>\$ 1,035,026</u>	<u>\$ 23,482</u>	<u>\$ (245,504)</u>	<u>\$ 813,004</u>	

**CITY OF PHILOMATH, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**LONG-TERM DEBT (Continued)**

*Business-type activities*

Oregon Economic Development Department annual payments of \$32,511 with interest at 6.13%	\$ 86,695	\$ -	\$ (27,197)	\$ 59,498	\$ 28,864
Oregon Economic Development Department annual payments of \$18,444 with interest at 6.5%, starting December, 2006	185,399	-	(6,394)	179,005	6,809
Storm Drain SPWF loan, annual payments of \$24,499 including interest at 6%	227,717	-	(10,837)	216,880	11,486
Full Faith and Credit Obligations, Series 2009 annual debt service starting at \$324,000 increasing to \$601,000 average interest of 4.2%	6,125,000		(65,000)	6,060,000	75,000
	<u>6,624,811</u>	<u>-</u>	<u>(109,428)</u>	<u>6,515,383</u>	<u>\$ 122,159</u>
Accrued compensated absences	44,478	-	8,576	53,054	
	<u>\$ 6,669,289</u>	<u>\$ -</u>	<u>\$ (100,852)</u>	<u>\$ 6,568,437</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*

<b>Fiscal Year</b>			
<b>Ending</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	66,618	25,265	91,883
2013	23,745	23,270	47,015
2014	23,876	22,439	46,315
2015	24,012	21,603	45,615
2016	24,152	20,763	44,915
2017-2021	133,259	89,690	222,949
2022-2026	168,422	59,528	227,950
2027-2030	162,610	18,699	181,309
	<u>\$ 626,694</u>	<u>\$ 281,257</u>	<u>\$ 907,951</u>

**CITY OF PHILOMATH, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**LONG-TERM DEBT (Continued)**

*Business-type Activities*

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
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	163,067	248,090	411,157
2017-2021	1,089,225	1,137,933	2,227,158
2022-2026	1,490,485	883,224	2,373,709
2027-2031	2,140,000	533,588	2,673,588
2032-2033	1,110,000	76,133	1,186,133
	<u>\$ 6,515,383</u>	<u>\$ 3,920,367</u>	<u>\$ 10,435,750</u>

*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 \$135,000 during the year. The balance is fully paid at June 30, 2011.

**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.

**CITY OF PHILOMATH, OREGON**

*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*

*YEAR ENDED JUNE 30, 2011*

---

***PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (Continued)***

*Plan Description (Continued)*

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

*Funding Status*

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

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

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, 2009, 2010 and 2011 were \$190,716, \$166,700, and \$178,608, 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, 2011**

---

**INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2011 on the budgetary basis of accounting, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 90,000
Street	13,800	66,300
Urban Renewal - General	32,000	-
Urban Renewal - Debt	-	32,000
Systems Development	-	60,000
Land, Building and Equipment	270,500	-
Water	-	90,100
Sewer	60,000	11,600
Storm Drain	-	26,300
	<u>\$ 376,300</u>	<u>\$ 376,300</u>

\$641,990 was transferred from the Sewer Fund to the Land, Building and Equipment Fund for expenditures made from Sewer Fund bond proceeds.

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.

**SUBSEQUENT EVENTS**

The City follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855). ASC 855 establishes new accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through December 2, 2011, 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, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Taxes and assessments	\$ 1,243,000	\$ 1,243,000	\$ 1,259,811	\$ 16,811
Licenses and permits	312,000	312,000	429,196	117,196
Charges for services	259,964	259,964	261,422	1,458
Intergovernmental	216,000	216,000	151,765	(64,235)
Fines and forfeitures	260,000	260,000	279,167	19,167
Miscellaneous	24,024	24,024	31,552	7,528
<i>Total Revenues</i>	2,314,988	2,314,988	2,412,913	97,925
<b>EXPENDITURES</b>				
Personnel services	1,469,769	1,469,769	1,439,337	30,432
Materials and services	854,219	904,219	873,716	30,503
Contingency	50,000	-	-	-
<i>Total Expenditures</i>	2,373,988	2,373,988	2,313,053	60,935
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(59,000)	(59,000)	99,860	158,860
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(90,000)	(90,000)	(90,000)	-
<b>NET CHANGE IN FUND BALANCE</b>	(149,000)	(149,000)	9,860	158,860
<b>FUND BALANCE, Beginning of year</b>	296,000	296,000	268,163	(27,837)
<b>FUND BALANCE, End of year</b>	\$ 147,000	\$ 147,000	\$ 278,023	\$ 131,023

**CITY OF PHILOMATH, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - COMMUNITY DEVELOPMENT FUND  
YEAR ENDED JUNE 30, 2011**

---

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		<i>Favorable (Unfavorable)</i>
<b>REVENUES</b>				
Miscellaneous	\$ 66,052	\$ 66,052	\$ 16,064	\$ (49,988)
<b>EXPENDITURES</b>				
Materials and services	178,052	178,052	-	178,052
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(112,000)	(112,000)	16,064	128,064
<b>FUND BALANCE, Beginning of year</b>	112,000	112,000	111,999	(1)
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ 128,063	\$ 128,063

**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - STREET FUND**  
**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Licenses and permits	\$ 87,050	\$ 87,050	\$ 84,889	\$ (2,161)
Charges for services	52,800	52,800	52,541	(259)
Intergovernmental	229,800	229,800	225,174	(4,626)
Miscellaneous	500	500	12,448	11,948
<i>Total Revenues</i>	370,150	370,150	375,052	4,902
<b>EXPENDITURES</b>				
Personnel services	138,732	138,732	135,878	2,854
Materials and services	208,918	208,918	196,118	12,800
Contingency	30,000	30,000	-	30,000
<i>Total Expenditures</i>	377,650	377,650	331,996	45,654
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(7,500)	(7,500)	43,056	50,556
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	13,800	13,800	13,800	-
Transfers out	(66,300)	(66,300)	(66,300)	-
<i>Total Other Financing Sources (Uses)</i>	(52,500)	(52,500)	(52,500)	-
<b>NET CHANGE IN FUND BALANCE</b>	(60,000)	(60,000)	(9,444)	50,556
<b>FUND BALANCE, Beginning of year</b>	83,000	83,000	98,638	15,638
<b>FUND BALANCE, End of year</b>	\$ 23,000	\$ 23,000	\$ 89,194	\$ 66,194

***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, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Taxes and assessments	\$ 404,000	\$ 404,000	\$ 439,028	\$ 35,028
Miscellaneous	900	900	1,721	821
<i>Total Revenues</i>	404,900	404,900	440,749	35,849
<b>EXPENDITURES</b>				
Debt service				
Principal	360,000	360,000	362,000	(2,000)
Interest	13,900	13,900	10,686	3,214
<i>Total Expenditures</i>	373,900	373,900	372,686	1,214
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	31,000	31,000	68,063	37,063
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(32,000)	(32,000)	(32,000)	-
<b>NET CHANGE IN FUND BALANCE</b>	(1,000)	(1,000)	36,063	37,063
<b>FUND BALANCE, Beginning of year</b>	1,000	1,000	2,842	1,842
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ 38,905	\$ 38,905

**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, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Intergovernmental	\$ 107,320	\$ 107,320	\$ 2,274	\$ (105,046)
Fines and forfeitures	13,000	13,000	12,525	(475)
Miscellaneous	59,064	59,064	48,850	(10,214)
<i>Total Revenues</i>	179,384	179,384	63,649	(115,735)
<b>EXPENDITURES</b>				
Capital outlay	2,711,500	2,711,500	1,174,989	1,536,511
<i>Total Expenditures</i>	2,711,500	2,711,500	1,174,989	1,536,511
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(2,532,116)	(2,532,116)	(1,111,340)	(1,652,246)
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund loan payment received	-	-	135,000	135,000
Transfers in	288,300	288,300	270,500	(17,800)
<i>Total Other Financing Sources (Uses)</i>	288,300	288,300	405,500	117,200
<b>NET CHANGE IN FUND BALANCE</b>	(2,243,816)	(2,243,816)	(705,840)	1,537,976
<b>FUND BALANCE, Beginning of year</b>	5,566,000	5,566,000	5,358,501	(207,499)
<b>FUND BALANCE, End of year</b>	\$ 3,322,184	\$ 3,322,184	\$ 4,652,661	\$ 1,330,477
<i>Amount related to Sewer fund borrowing</i>			(3,265,496)	
<b>FUND BALANCE, End of year (GAAP)</b>			\$ 1,387,165	

**CITY OF PHILOMATH, OREGON**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
	<i>Urban Renewal General</i>	<i>Economic Development</i>	<i>Systems Development</i>	<i>Totals</i>
<b>ASSETS</b>				
Cash and investments	\$ 12,186	\$ 11,084	\$ 246,506	\$ 269,776
Receivables				
Property taxes	-	26	-	26
Special assessments/loans	-	-	43,144	43,144
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>Total Assets</i>	<u>\$ 12,186</u>	<u>\$ 11,110</u>	<u>\$ 289,650</u>	<u>\$ 312,946</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,301	\$ -	\$ -	\$ 1,301
Deferred revenue	-	26	43,144	43,170
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>Total Liabilities</i>	1,301	26	43,144	44,471
<b>Fund Balances</b>				
Restricted for:				
Construction	-	-	246,506	246,506
Debt Service	-	11,084	-	11,084
Urban Renewal	10,885	-	-	10,885
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>Total Fund Balances</i>	<u>10,885</u>	<u>11,084</u>	<u>246,506</u>	<u>268,475</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 12,186</u>	<u>\$ 11,110</u>	<u>\$ 289,650</u>	<u>\$ 312,946</u>

**CITY OF PHILOMATH, OREGON**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011**

	<u>Special Revenue</u> <i>Urban Renewal General</i>	<u>Debt Service</u> <i>Economic Development</i>	<u>Capital Projects</u> <i>Systems Development</i>	<u>Totals</u>
<b>REVENUES</b>				
Taxes and assessments	\$ -	\$ 5	\$ -	\$ 5
Licenses and permits	-	-	24,857	24,857
Miscellaneous	29	43,361	1,517	44,907
<i>Total Revenues</i>	29	43,366	26,374	69,769
<b>EXPENDITURES</b>				
Current operating:				
General government	28,257	-	-	28,257
Capital outlay:				
General government			12,499	12,499
Debt service:				
Principal	-	18,504	-	18,504
Interest	-	24,698	-	24,698
<i>Total Expenditures</i>	28,257	43,202	12,499	83,958
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(28,228)	164	13,875	(14,189)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	32,000	-	-	32,000
<b>NET CHANGE IN FUND BALANCES</b>	3,772	164	13,875	17,811
<b>FUND BALANCES, Beginning of year</b>	7,113	10,920	232,631	250,664
<b>FUND BALANCES, End of year</b>	<u>\$ 10,885</u>	<u>\$ 11,084</u>	<u>\$ 246,506</u>	<u>\$ 268,475</u>

**CITY OF PHILOMATH, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - URBAN RENEWAL GENERAL FUND  
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b>REVENUES</b>				
Miscellaneous	\$ 30	\$ 30	\$ 29	\$ (1)
<b>EXPENDITURES</b>				
Materials and services	<u>29,830</u>	<u>29,830</u>	<u>28,257</u>	<u>1,573</u>
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	(29,800)	(29,800)	(28,228)	1,572
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>32,000</u>	<u>32,000</u>	<u>32,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	2,200	2,200	3,772	1,572
<b>FUND BALANCE, Beginning of year</b>	<u>13,150</u>	<u>13,150</u>	<u>7,113</u>	<u>(6,037)</u>
<b>FUND BALANCE, End of year</b>	<u>\$ 15,350</u>	<u>\$ 15,350</u>	<u>\$ 10,885</u>	<u>\$ (4,465)</u>

**CITY OF PHILOMATH, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - ECONOMIC DEVELOPMENT FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Taxes and assessments	\$ -	\$ -	\$ 5	\$ 5
Miscellaneous	43,302	43,302	43,361	59
<i>Total Revenues</i>	43,302	43,302	43,366	64
<b>EXPENDITURES</b>				
Debt service				
Principal	18,504	18,504	18,504	-
Interest	24,698	24,698	24,698	-
<i>Total Expenditures</i>	43,202	43,202	43,202	-
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	100	100	164	64
<b>FUND BALANCE, Beginning of year</b>	10,900	10,900	10,920	20
<b>FUND BALANCE, End of year</b>	\$ 11,000	\$ 11,000	\$ 11,084	\$ 84

**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - SYSTEMS DEVELOPMENT FUND**  
**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Licenses and permits	\$ 188,000	\$ 188,000	\$ 109,810	\$ (78,190)
Intergovernmental	50,000	50,000	-	(50,000)
Miscellaneous	4,499	4,499	4,270	(229)
<i>Total Revenues</i>	242,499	242,499	114,080	(128,419)
<b>EXPENDITURES</b>				
Capital outlay	205,000	205,000	12,499	192,501
Debt service	24,499	24,499	24,499	-
<i>Total Expenditures</i>	229,499	229,499	36,998	192,501
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	13,000	13,000	77,082	64,082
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(60,000)	(60,000)	(60,000)	-
<b>NET CHANGE IN FUND BALANCE</b>				
	(47,000)	(47,000)	17,082	64,082
<b>FUND BALANCE, Beginning of year</b>				
	649,000	649,000	694,853	45,853
<b>FUND BALANCE, End of year</b>				
	\$ 602,000	\$ 602,000	\$ 711,935	\$ 109,935

**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -**  
**BUDGET AND ACTUAL - WATER FUND**  
**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Budget Basis</i>	<i>GAAP Basis</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Charges for services	\$ 859,810	\$ 859,810	\$ 838,143	\$ 838,143
Miscellaneous	1,950	1,950	3,238	3,238
<i>Total Revenues</i>	861,760	861,760	841,381	841,381
<b>EXPENSES</b>				
Personnel services	368,082	368,082	347,710	352,496
Materials and services	387,623	387,623	353,898	353,898
Capital outlay/depreciation	75,000	75,000	3,789	134,031
Debt service	50,955	50,955	50,955	16,150
Contingency	30,000	30,000	-	-
<i>Total Expenses</i>	911,660	911,660	756,352	856,575
<b>REVENUES OVER (UNDER) EXPENSES</b>	(49,900)	(49,900)	85,029	(15,194)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	103,033
Transfers out	(90,100)	(90,100)	(90,100)	(90,100)
<i>Total Other Financing Sources (Uses)</i>	(90,100)	(90,100)	(90,100)	12,933
<b>NET CHANGE IN NET ASSETS</b>	(140,000)	(140,000)	(5,071)	(2,261)
<b>NET ASSETS, Beginning of year</b>	140,000	140,000	132,360	3,278,193
<b>NET ASSETS, End of year</b>	\$ -	\$ -	\$ 127,289	\$ 3,275,932

**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -**  
**BUDGET AND ACTUAL - SEWER FUND**  
**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Budget Basis</i>	<i>GAAP Basis</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Charges for services	\$ 714,990	\$ 714,990	\$ 702,140	\$ 702,140
Miscellaneous	18,830	18,830	21,684	21,684
<i>Total Revenues</i>	733,820	733,820	723,824	723,824
<b>EXPENSES</b>				
Personnel services	249,674	249,674	236,999	240,787
Materials and services	251,778	251,778	250,653	250,653
Capital outlay/depreciation	30,000	30,000	-	181,685
Debt service	306,968	306,968	306,945	241,717
Contingency	30,000	30,000	-	-
<i>Total Expenses</i>	868,420	868,420	794,597	914,842
<b>REVENUES OVER (UNDER) EXPENSES</b>	(134,600)	(134,600)	(70,773)	(191,018)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	60,000	60,000	60,000	82,212
Transfers out	(29,400)	(29,400)	(11,600)	(11,600)
<i>Total Other Financing Sources (Uses)</i>	30,600	30,600	48,400	70,612
<b>NET CHANGE IN NET ASSETS</b>	(104,000)	(104,000)	(22,373)	(120,406)
<b>NET ASSETS, Beginning of year</b>	110,000	110,000	102,913	4,706,132
<b>NET ASSETS, End of year</b>	\$ 6,000	\$ 6,000	\$ 80,540	\$ 4,585,726

**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS -**  
**BUDGET AND ACTUAL - STORM DRAIN FUND**  
**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Budget Basis</i>	<i>GAAP Basis</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Charges for services	\$ 22,800	\$ 22,800	\$ 21,258	\$ 21,258
Miscellaneous	200	200	85	85
<i>Total Revenues</i>	23,000	23,000	21,343	21,343
<b>EXPENSES</b>				
Materials and services	20,200	20,200	5,128	5,128
Capital outlay/depreciation	-	-	-	25,891
<i>Total Expenses</i>	20,200	20,200	5,128	31,019
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENSES</b>	2,800	2,800	16,215	(9,676)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(26,300)	(26,300)	(26,300)	(26,300)
<b>NET CHANGE IN NET ASSETS</b>	(23,500)	(23,500)	(10,085)	(35,976)
<b>NET ASSETS, Beginning of year</b>	27,000	27,000	25,832	1,161,374
<b>NET ASSETS, End of year</b>	\$ 3,500	\$ 3,500	\$ 15,747	\$ 1,125,398

**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF PROPERTY TAX TRANSACTIONS**  
**YEAR ENDED JUNE 30, 2011**

	<i>Uncollected Balances July 1, 2010</i>	<i>2010-2011 Levy</i>	<i>Discounts &amp; Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balances June 30, 2011</i>
<i>City of Philomath</i>					
2010-11	\$ -	\$ 1,301,971	\$ (33,493)	\$ (1,236,760)	\$ 31,718
2009-10	42,053	-	(911)	(15,775)	25,367
2008-09	13,011	-	(567)	(5,635)	6,809
2007-08	5,352	-	(72)	(2,712)	2,568
2006-07	2,415	-	(85)	(1,526)	804
2005-06	665	-	(67)	(147)	451
prior	2,532	-	(167)	(252)	2,113
	<u>\$ 66,028</u>	<u>\$ 1,301,971</u>	<u>\$ (35,362)</u>	<u>\$ (1,262,807)</u>	<u>\$ 69,830</u>
<i>Urban Renewal District</i>					
2010-11	\$ -	\$ 454,201	\$ (11,684)	\$ (431,452)	\$ 11,065
2009-10	13,675	-	(296)	(5,130)	8,249
2008-09	4,400	-	(185)	(1,832)	2,383
2007-08	1,871	-	(25)	(948)	898
2006-07	871	-	(31)	(550)	290
2005-06	220	-	(22)	(49)	149
prior	360	-	(47)	(60)	253
	<u>\$ 21,396</u>	<u>\$ 454,201</u>	<u>\$ (12,290)</u>	<u>\$ (440,021)</u>	<u>\$ 23,287</u>

**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF DEBT TRANSACTIONS**  
**YEAR ENDED JUNE 30, 2011**

---

	<u><i>Interest Rates</i></u>	<u><i>Fiscal Year of Maturity</i></u>
<b><i>PRINCIPAL TRANSACTIONS</i></b>		
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
Full Faith & Credit Obligations, Series 2009	4.20%	2032-33

***INTEREST TRANSACTIONS***

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

<i>Outstanding July 1, 2010</i>	<i>Issued</i>	<i>Adjustment</i>	<i>Paid</i>	<i>Outstanding June 30, 2011</i>
\$ 270,000	\$ -	\$ -	\$ (227,000)	\$ 43,000
602,198	-	-	(18,504)	583,694
<u>\$ 872,198</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (245,504)</u>	<u>\$ 626,694</u>
\$ 86,695	\$ -	\$ -	\$ (27,197)	\$ 59,498
185,399	-	-	(6,394)	179,005
227,717	-	-	(10,837)	216,880
6,125,000	-	-	(65,000)	6,060,000
<u>\$ 6,624,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (109,428)</u>	<u>\$ 6,515,383</u>
\$ 23,210	\$ -	\$ (14,055)	\$ (7,986)	\$ 1,169
304,786	-	-	(24,698)	280,088
<u>\$ 327,996</u>	<u>\$ -</u>	<u>\$ (14,055)</u>	<u>\$ (32,684)</u>	<u>\$ 281,257</u>
\$ 10,839	\$ -	\$ -	\$ (5,314)	\$ 5,525
86,655	-	-	(12,051)	74,604
115,268	-	-	(13,663)	101,605
3,980,600	-	(22)	(241,945)	3,738,633
<u>\$ 4,193,362</u>	<u>\$ -</u>	<u>\$ (22)</u>	<u>\$ (272,973)</u>	<u>\$ 3,920,367</u>

**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF FUTURE DEBT REQUIREMENTS**  
**JUNE 30, 2011**

<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>
2012	\$ 23,618	\$ 24,096	\$ 47,714	\$ 43,000	\$ 1,169	\$ 44,169
2013	23,745	23,270	47,015	-	-	-
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>\$ 583,694</u>	<u>\$ 280,088</u>	<u>\$ 863,782</u>	<u>\$ 43,000</u>	<u>\$ 1,169</u>	<u>\$ 44,169</u>

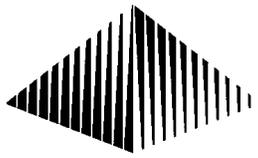


**CITY OF PHILOMATH, OREGON**  
**SCHEDULE OF FUTURE DEBT REQUIREMENTS (Continued)**  
**JUNE 30, 2011**

<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>
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	23,111	1,387	24,498	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>\$ 216,880</u>	<u>\$ 101,605</u>	<u>\$ 318,485</u>	<u>\$ 6,060,000</u>	<u>\$ 3,738,633</u>	<u>\$ 9,798,633</u>

---

<i>Totals</i>		
<i>Principal</i>	<i>Interest</i>	<i>Total</i>
\$ 188,777	\$ 293,578	\$ 482,355
163,805	286,433	450,238
153,151	279,821	432,972
155,124	274,148	429,272
187,219	268,853	456,072
204,446	262,001	466,447
221,814	254,532	476,346
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
343,780	189,507	533,287
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
\$ 7,142,077	\$ 4,201,624	\$ 11,343,701



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

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

### **INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS**

Board of Directors  
City of Philomath, Oregon  
Philomath, Oregon

We have audited the basic financial statements of the City of Philomath, Oregon as of and for the year ended June 30, 2011, and have issued our report thereon dated December 2, 2011. 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, except that the beginning fund balance for the first preceding year for the Land, Building, and Equipment Fund did not agree to the ending fund balance for the second preceding year.

**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 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. 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

We did issue a separate letter to management concerning control deficiencies.

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  
December 2, 2011