

**CITY OF TILLAMOOK  
TILLAMOOK COUNTY, OREGON**

**FOR THE YEAR ENDED JUNE 30, 2009**



12700 SW 72<sup>nd</sup> Ave.  
Tigard, OR 97223

**CITY OF TILLAMOOK  
TILLAMOOK COUNTY, OREGON**

**ANNUAL FINANCIAL REPORT**

Year Ended June 30, 2009

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CITY OF TILLAMOOK

OFFICERS AND MEMBERS OF GOVERNING BODY

June 30, 2009

*Mayor*

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Robert McPheeters	901 Stillwell Avenue	Tillamook, Oregon
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*Members of the City Council*

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Joseph Martin	511 Birch Avenue	Tillamook, Oregon
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Carolyn Decker	805 Manor Place	Tillamook, Oregon
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Suzanne Weber	314 Miller Avenue	Tillamook, Oregon
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Steven Forster	508 Linden Drive	Tillamook, Oregon
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John Sandusky	1704 12 <sup>th</sup> Street	Tillamook, Oregon
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Willard Berry	609 Spruce Avenue	Tillamook, Oregon
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*City Manager*

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Mark Gervasi	City Hall	Tillamook, Oregon
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*City Recorder-Treasurer*

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Bernadette Sorensen	City Hall	Tillamook, Oregon
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**PAULY, ROGERS AND CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

- 
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
  - (503) 620-2632 • FAX (503) 684-7523

December 31, 2009

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

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tillamook, Tillamook County, Oregon, as of and for the year ended June 30, 2009, 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the internal controls over financial reporting. Accordingly, we express no such opinion. 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.

The financial statements of Tillamook Urban Renewal Agency have not been audited, but were reviewed, and we were not engaged to audit the Agency's financial statements as part of our audit of the City's basic financial statements. The Agency's financial activities are included in the City's basic financial statements as a discretely presented component unit and represent all of the assets, net assets, and revenues of the component unit.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had Tillamook Urban Renewal Agency's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component unit for City of Tillamook, Oregon, as of June 30, 2009, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 31, 2009, on our consideration of City of Tillamook's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages i through v and the required supplementary information on page 36, as listed on the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tillamook's basic financial statements. The Schedule of Expenditures of Federal Awards, as listed in the table of contents, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The supplementary information (including the Schedule of Expenditures of Federal Awards), as listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



PAULY, ROGERS AND CO., P.C.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CITY OF TILLAMOOK, OREGON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

This section of the City of Tillamook's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2009. Please read it in conjunction with the City's financial statements and notes, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The City's total net assets were \$13,335,151 at June 30, 2009.
- During the year, the City's net assets increased by \$1,183,650.
- The City's governmental funds reported fund balances totaling \$139,616 at June 30, 2009 and the City's Enterprise Funds reported net assets totaling \$9,956,077 at June 30, 2009.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the city, reporting the operations in more detail than the government-wide statements. *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

This annual financial report also includes notes that explain some of the information in the basic financial statements and provide more detailed data. The notes to the financial statements are followed by a section of *required supplementary information* consisting of a schedule of funding progress for the City's PERS retirement plan and major governmental funds' budgetary schedules. The City's annual financial report also includes other supplementary information consisting of combining and individual fund statements and schedules for the City's nonmajor funds. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

## Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the net assets and how they have changed. Net assets represent the difference between the assets and liabilities and is one way to measure the financial health or position.

- Over time, increases or decreases in the net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities* and the *Business-Type activities*.

- *Governmental activities* - Most of the basic services are included here, such as general government, public safety, streets, parks and community development. Property and other taxes, licenses, permits and fees, and intergovernmental revenues finance most of these activities.
- *Business-Type activities* – These functions normally are intended to recover all or a significant portion of their costs through user charges and fees to external users of goods and services. The activities consist of the water system and the sewage disposal system.

## Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds* - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has the following kinds of funds:

- *Governmental funds* - Most of the basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provided additional information at the bottom of the governmental fund statements, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds* - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise fund activities are the same as the business-type activities we report in the government-wide statements but the enterprise fund statements provide more detail and additional information, such as cash flows.

# FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

## City of Tillamook's Net Assets

	Governmental Activities		Business-type Activities		Total	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Current and other assets	\$ 297,955	\$ 645,917	\$ 1,995,700	\$ 3,532,098	\$ 2,293,655	\$ 4,178,015
Capital assets, net	3,330,516	2,985,419	26,158,538	19,930,463	29,489,054	22,915,882
<b>Total assets</b>	<b>3,628,471</b>	<b>3,631,336</b>	<b>28,154,238</b>	<b>23,462,561</b>	<b>31,782,709</b>	<b>27,093,897</b>
Noncurrent liabilities	53,995	73,704	17,012,586	12,280,272	17,066,581	12,353,976
Other liabilities	195,402	214,401	1,185,575	2,374,018	1,380,977	2,588,419
<b>Total liabilities</b>	<b>249,397</b>	<b>288,105</b>	<b>18,198,161</b>	<b>14,654,290</b>	<b>18,447,558</b>	<b>14,942,395</b>
Net assets:						
Invested in capital assets, net of related debt	3,276,521	2,911,715	9,336,088	7,453,986	12,612,609	10,365,701
Restricted	9,269	(7,323)	842,899	816,790	852,168	809,467
Unrestricted	93,284	438,839	(222,910)	537,495	(129,626)	976,334
<b>Total net assets</b>	<b>\$ 3,379,074</b>	<b>\$ 3,343,231</b>	<b>\$ 9,956,077</b>	<b>\$ 8,808,271</b>	<b>\$ 13,335,151</b>	<b>\$ 12,151,502</b>

## City of Tillamook's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08
Revenues:						
Program revenues:						
Charges for services	\$ 488,722	\$ 537,069	\$ 2,643,687	\$ 2,652,734	\$ 3,132,409	\$ 3,189,803
Operating grants and contributions	374,615	934,895	-	-	374,615	934,895
Capital grants and contributions	-	116,500	1,148,312	373,309	1,148,312	489,809
General revenues:						
Property taxes	507,613	507,247	-	-	507,613	507,247
Other taxes	701,973	774,857	-	-	701,973	774,857
Grants and contributions not restricted to specific programs	104,732	93,708	-	-	104,732	93,708
Unrestricted investment earnings	8,115	25,574	36,561	71,678	44,676	97,252
Other	(1,257)	-	-	-	(1,257)	-
<b>Total revenues</b>	<b>2,184,513</b>	<b>2,989,850</b>	<b>3,828,560</b>	<b>3,097,721</b>	<b>6,013,073</b>	<b>6,087,571</b>
Expenses:						
General government	458,791	486,252	-	-	458,791	486,252
Public safety	1,084,786	1,098,644	-	-	1,084,786	1,098,644
Streets	362,571	329,025	-	-	362,571	329,025
Parks	33,195	31,197	-	-	33,195	31,197
Community development	207,273	329,205	-	-	207,273	329,205
Water operations	-	-	1,107,659	1,043,164	1,107,659	1,043,164
Sewer operations	-	-	1,572,094	976,093	1,572,094	976,093
Interest on long-term debt	3,054	3,203	-	-	3,054	3,203
<b>Total expenses</b>	<b>2,149,670</b>	<b>2,277,526</b>	<b>2,679,753</b>	<b>2,019,257</b>	<b>4,829,423</b>	<b>4,296,783</b>
Transfers	1,000	746	(1,000)	(746)	-	-
<b>Change in net assets</b>	<b>35,843</b>	<b>713,070</b>	<b>1,147,807</b>	<b>1,077,718</b>	<b>1,183,650</b>	<b>1,790,788</b>
Net assets - beginning	3,343,231	2,630,161	8,808,270	7,730,553	12,151,501	10,360,714
<b>Net assets - ending</b>	<b>\$ 3,379,074</b>	<b>\$ 3,343,231</b>	<b>\$ 9,956,077</b>	<b>\$ 8,808,271</b>	<b>\$ 13,335,151</b>	<b>\$ 12,151,502</b>

The City's total revenues were \$6,013,073. The Net Assets increased by \$1,183,650 indicating an increase in the City's financial position.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

Revenues from governmental fund types totaled \$2,184,618 in 2009 and \$2,988,895 in 2008. Governmental fund balances totaled \$139,616 at June 30, 2009 and \$452,818 at June 30, 2008. A summary of changes in governmental fund balances follows:

**City of Tillamook - Changes in Governmental Fund Balances**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Change</u>
General Fund	\$ 29,377	\$ 75,184	\$ (45,807)
Transient Room Tax	4,460	159,907	(155,447)
Other governmental funds	<u>105,779</u>	<u>217,727</u>	<u>(111,948)</u>
	<u>\$ 139,616</u>	<u>\$ 452,818</u>	<u>\$ (313,202)</u>

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The fund balance in the General Fund decreased by \$45,807 from the 2007-08 fiscal year. During the 2008-09 fiscal year, the City's revenues were approximately \$125,000 less than budgeted and the City's expenditures were approximately \$223,153 less than budgeted.

**CAPITAL ASSETS**

At June 30, 2009, the City had \$29,489,054 invested in capital assets, net of accumulated depreciation for its governmental and business-type activities. More detailed information about the City's capital assets is presented in the notes to the financial statements.

**LONG TERM DEBT**

At June 30, 2009, the City's debt outstanding totaled \$17,066,581. The largest debt outstanding consisted of sewer system loans payable of \$14,986,804 and water system bonds payable of \$2,025,782. More detailed information about the City's long term debt is presented in the notes to the financial statements.

## **ECONOMIC CONDITION AND OUTLOOK**

During the preparation of the budget for the fiscal year 2009-2010, the long-term impacts of the local economy were examined in conjunction with business decisions made by the City and its Urban Renewal District. The following is a list of assumptions used in developing the city and Urban Renewal District Agency budget for the fiscal year 2009.

- Due to a downturn in the economy, it is anticipated that interest rates on investments will decline from 5.0% to a low of possibly less than ½ of 1% this coming fiscal year.
- Property tax revenue is anticipated to increase 3%.
- Medical health benefit premiums paid for by the city for its employees are expected to increase by about 11%. Dental by 4%.
- The City is considering raising water rates by 10%.
- The City will apply for another \$25,000 Special City Allotment (SCA) grant from the Oregon Department of Transportation to fix city streets.
- The City will raise its wastewater rates by 3.75% based on a wastewater rate schedule developed by the city's financial consultant, Shaun Pigott Associates, LLC
- The City's Urban Renewal Agency is anticipating receiving \$190,456.08 in Tax Increment Revenue for the 2009-2010 fiscal year. Tax Increment Revenues are used by the Agency to fund Urban Renewal Projects.
- The City raised its franchise fee on electric power sold by the People's Utility District from five (5%) to (6%). The additional 1% will go to support the city's State Tax Street Fund. Estimated added revenue to go into the State Tax Street Fund from the 1%, about \$45,444.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

The City's financial report is designed to provide our taxpayers, with an overview of the City's finances. If you have any questions about this report or need any clarification of information please contact the City of Tillamook. Our address is: 210 Laurel Avenue, Tillamook, Oregon 97141.



Mark Gervasi  
City Manager

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## **BASIC FINANCIAL STATEMENTS**

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CITY OF TILLAMOOK

STATEMENT OF NET ASSETS

June 30, 2009

Assets	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Cash and investments	\$ 314,384	\$ 379,428	\$ 693,812	\$ 400,401
Restricted cash and investments	-	1,110,533	1,110,533	-
Receivables:				
Accounts	21,742	246,197	267,939	-
Property taxes	40,465	-	40,465	8,877
Assessments	51,364	-	51,364	-
Inventories	-	129,542	129,542	-
Internal balances	(130,000)	130,000	-	-
Capital assets:				
Land	671,769	233,620	905,389	-
Construction in progress	51,101	17,659,051	17,710,152	-
Buildings	2,230,151	-	2,230,151	-
Improvements	453,778	-	453,778	-
Infrastructure	434,798	-	434,798	-
Utility plant	-	15,489,949	15,489,949	-
Equipment	561,002	451,314	1,012,316	-
Less accumulated depreciation	(1,072,083)	(7,675,396)	(8,747,479)	-
<b>Total assets</b>	<b>3,628,471</b>	<b>28,154,238</b>	<b>31,782,709</b>	<b>409,278</b>
<b>Liabilities</b>				
Accounts payable and other current liabilities	74,491	619,720	694,211	-
Compensated absences payable	120,911	61,804	182,715	-
Accrued interest	-	426,553	426,553	-
Accrued interest payable from restricted assets	-	77,498	77,498	-
Noncurrent liabilities:				
Due within one year	20,995	375,544	396,539	175,000
Due within one year payable from restricted assets	-	190,136	190,136	-
Due in more than one year	33,000	16,446,906	16,479,906	-
<b>Total liabilities</b>	<b>249,397</b>	<b>18,198,161</b>	<b>18,447,558</b>	<b>175,000</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	3,276,521	9,336,088	12,612,609	-
Restricted for debt service	-	662,014	662,014	-
Restricted for system development	-	180,885	180,885	-
Restricted for streets	9,269	-	9,269	-
Unrestricted	93,284	(222,910)	(129,626)	234,278
<b>Total net assets</b>	<b>\$ 3,379,074</b>	<b>\$ 9,956,077</b>	<b>\$ 13,335,151</b>	<b>\$ 234,278</b>

The accompanying notes are an integral part of this statement.

CITY OF TILLAMOOK

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total	Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities		
Governmental activities:								
General government	\$ 458,791	\$ 117,999	\$ 5,000	\$ -	\$ (335,792)	\$ -	\$ (335,792)	
Public safety	1,084,786	204,493	15,800	-	(864,493)	-	(864,493)	
Streets	362,571	147,842	180,785	-	(33,944)	-	(33,944)	
Parks	33,195	2,797	6,500	-	(23,898)	-	(23,898)	
Community development	207,273	15,591	166,530	-	(25,152)	-	(25,152)	
Interest on long-term debt	3,054	-	-	-	(3,054)	-	(3,054)	
Total governmental activities	2,149,670	488,722	374,615	-	(1,286,333)	-	(1,286,333)	
Business-type activities:								
Water operations	1,107,659	1,139,925	-	16,839	-	49,105	49,105	
Sewer operations	1,572,094	1,503,762	-	1,131,473	-	1,063,141	1,063,141	
Total business-type activities	2,679,753	2,643,687	-	1,148,312	-	1,112,246	1,112,246	
Total primary government	\$ 4,829,423	\$ 3,132,409	\$ 374,615	\$ 1,148,312	(1,286,333)	1,112,246	(174,087)	
Component unit:								
Urban Renewal Agency	\$ 4,392	\$ -	\$ -	\$ -				\$ (4,392)
General revenues:								
Property taxes					507,613	-	507,613	152,226
Franchise taxes					409,578	-	409,578	-
Transient room taxes					292,395	-	292,395	-
Intergovernmental revenues from state available for general purposes								
					104,732	-	104,732	-
Gain (loss) on sale of capital assets					(1,257)	-	(1,257)	
Interest income					8,115	36,561	44,676	2,939
Transfers					1,000	(1,000)	-	-
Total general revenues					1,322,176	35,561	1,357,737	155,165
Change in net assets					35,843	1,147,807	1,183,650	150,773
Net assets - beginning					3,343,231	8,808,270	12,151,501	83,505
Net assets - ending					\$ 3,379,074	\$ 9,956,077	\$13,335,151	\$ 234,278

The accompanying notes are an integral part of this statement.

CITY OF TILLAMOOK

Balance Sheet  
GOVERNMENTAL FUNDS  
June 30, 2009

<u>Assets</u>	<u>General</u>	<u>Transient Room Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and investments	\$ 141,630	\$ 4,977	\$ 167,777	\$ 314,384
Accounts receivable	6,319	-	15,423	21,742
Property taxes receivable	40,465	-	-	40,465
Assessments receivable	-	-	51,364	51,364
Due from other funds	9,684	-	-	9,684
 Total assets	 <u>\$ 198,098</u>	 <u>\$ 4,977</u>	 <u>\$ 234,564</u>	 <u>\$ 437,639</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 21,411	\$ 517	\$ 7,737	\$ 29,665
Other liabilities	44,826	-	-	44,826
Due to other funds	70,000	-	69,684	139,684
Deferred revenue	32,484	-	51,364	83,848
 Total liabilities	 <u>168,721</u>	 <u>517</u>	 <u>128,785</u>	 <u>298,023</u>
Fund Balances:				
Unreserved	29,377	4,460	105,779	139,616
 Total liabilities and fund balances	 <u>\$ 198,098</u>	 <u>\$ 4,977</u>	 <u>\$ 234,564</u>	

Amounts reported for governmental activities in the statement of net assets (page 3) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	3,330,516
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds	83,848
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(53,995)
Other liabilities are not due and payable in the current period and, therefore, are not reported in the funds	<u>(120,911)</u>
 Net assets of governmental activities (page 3)	 <u>\$ 3,379,074</u>

The accompanying notes are an integral part of this statement.

CITY OF TILLAMOOK

Statement of Revenues, Expenditures and Changes in Fund Balances  
 GOVERNMENTAL FUNDS  
 Year Ended June 30, 2009

	General	Transient Room Tax	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 500,272	\$ -	\$ -	\$ 500,272
Motel taxes	-	292,395	-	292,395
Licenses, permits and fees	495,196	-	161,506	656,702
Fines and forfeitures	139,715	-	-	139,715
Charges for services	33,246	-	4,200	37,446
Intergovernmental	125,531	-	379,045	504,576
Assessment district collections	-	-	6,320	6,320
Interest income	2,809	1,771	3,535	8,115
All other	38,684	93	300	39,077
<b>Total revenues</b>	<b>1,335,453</b>	<b>294,259</b>	<b>554,906</b>	<b>2,184,618</b>
Expenditures:				
Current:				
General government	472,604	-	-	472,604
Public safety	1,035,400	-	-	1,035,400
Streets	-	-	410,068	410,068
Parks	8,757	-	9,521	18,278
Community development	-	246,078	279,432	525,510
Transfers to other agencies	-	-	25,230	25,230
Debt service	-	-	11,730	11,730
<b>Total expenditures</b>	<b>1,516,761</b>	<b>246,078</b>	<b>735,981</b>	<b>2,498,820</b>
Revenues over (under) expenditures	(181,308)	48,181	(181,075)	(314,202)
Other financing sources (uses):				
Transfers from other funds	135,501	-	86,327	221,828
Transfers to other funds	-	(203,628)	(17,200)	(220,828)
<b>Total other financing sources (uses)</b>	<b>135,501</b>	<b>(203,628)</b>	<b>69,127</b>	<b>1,000</b>
Changes in fund balances	(45,807)	(155,447)	(111,948)	(313,202)
Fund balances - beginning	75,184	159,907	217,727	452,818
Fund balances - ending	<u>\$ 29,377</u>	<u>\$ 4,460</u>	<u>\$ 105,779</u>	<u>\$ 139,616</u>

The accompanying notes are an integral part of this statement.

CITY OF TILLAMOOK

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

Amounts reported for governmental activities in the statement of activities  
(page 4) are different because:

Net change in fund balances - total governmental funds (page 6) \$ (313,202)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation during the year.

Capital outlays	\$ 462,455	
Depreciation expense	<u>(116,101)</u>	346,354

Loss on disposal of capital assets reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. (1,257)

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of long-term debt principal consumes current financial resources of governmental funds. However, neither transaction has any effect on net assets. This amount is the net effect of these differences.

Long-term debt principal repaid 19,709

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This is the effect of the change in certain receivables during the year.

Property taxes	7,341	
Assessments	<u>(6,189)</u>	1,152

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 the governmental funds. This is the effect of the change in certain liabilities during the year.

Compensated absences (16,913)

Change in net assets of governmental activities (page 4) \$ 35,843

The accompanying notes are an integral part of this statement.

CITY OF TILLAMOOK

Statement of Net Assets  
 ENTERPRISE FUNDS  
 June 30, 2009

	Water	Sewer	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 377,741	\$ 1,687	\$ 379,428
Restricted cash and investments	838,663	271,870	1,110,533
Accounts receivable	107,126	139,071	246,197
Inventories	129,542	-	129,542
Due from other funds	387,295	60,000	447,295
	<u>1,840,367</u>	<u>472,628</u>	<u>2,312,995</u>
Total current assets			
Capital assets:			
Land	-	233,620	233,620
Utility plant	8,822,502	6,667,447	15,489,949
Equipment	295,944	155,370	451,314
Construction in progress	22,226	17,636,825	17,659,051
Less accumulated depreciation	(3,709,538)	(3,965,858)	(7,675,396)
	<u>5,431,134</u>	<u>20,727,404</u>	<u>26,158,538</u>
Total capital assets (net of accumulated depreciation)			
Total assets	<u>7,271,501</u>	<u>21,200,032</u>	<u>28,471,533</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	26,950	449,021	475,971
Retainage payable	-	143,749	143,749
Accrued interest payable	77,498	426,553	504,051
Compensated absences payable	26,258	35,546	61,804
Due to other funds	-	317,295	317,295
Loans payable, current	-	279,739	279,739
Bonds payable, current	285,941	-	285,941
	<u>416,647</u>	<u>1,651,903</u>	<u>2,068,550</u>
Total current liabilities			
Noncurrent liabilities:			
Loans payable	-	14,707,065	14,707,065
Bonds payable	1,739,841	-	1,739,841
	<u>1,739,841</u>	<u>14,707,065</u>	<u>16,446,906</u>
Total noncurrent liabilities			
Total liabilities	<u>2,156,488</u>	<u>16,358,968</u>	<u>18,515,456</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,595,488	5,740,600	9,336,088
Restricted for debt service	390,144	271,870	662,014
Restricted for system development	180,885	-	180,885
Unrestricted	948,496	(1,171,406)	(222,910)
	<u>\$ 5,115,013</u>	<u>\$ 4,841,064</u>	<u>\$ 9,956,077</u>
Total net assets			

The accompanying notes are an integral part of this statement.

## CITY OF TILLAMOOK

Statement of Revenues, Expenses and Changes in Net Assets  
 ENTERPRISE FUNDS  
 Year Ended June 30, 2009

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 1,130,346	\$ 1,496,753	\$ 2,627,099
Other	<u>9,579</u>	<u>7,009</u>	<u>16,588</u>
Total operating revenues	<u>1,139,925</u>	<u>1,503,762</u>	<u>2,643,687</u>
Operating expenses:			
Personal services	474,204	418,399	892,603
Materials and services	343,069	641,391	984,460
Depreciation	<u>181,636</u>	<u>110,147</u>	<u>291,783</u>
Total operating expenses	<u>998,909</u>	<u>1,169,937</u>	<u>2,168,846</u>
Operating income	<u>141,016</u>	<u>333,825</u>	<u>474,841</u>
Nonoperating revenues (expenses):			
Interest revenue	13,564	22,997	36,561
Interest expense	<u>(108,750)</u>	<u>(402,157)</u>	<u>(510,907)</u>
Total nonoperating revenues (expenses)	<u>(95,186)</u>	<u>(379,160)</u>	<u>(474,346)</u>
Income-(loss) before contributions and transfers	45,830	(45,335)	495
Capital contributions:			
Capital grants	-	1,131,473	1,131,473
System development charges	<u>16,839</u>	<u>-</u>	<u>16,839</u>
Total capital contributions	<u>16,839</u>	<u>1,131,473</u>	<u>1,148,312</u>
Transfers out	<u>-</u>	<u>(1,000)</u>	<u>(1,000)</u>
Change in net assets	62,669	1,085,138	1,147,807
Total net assets - beginning	<u>5,052,344</u>	<u>3,755,926</u>	<u>8,808,270</u>
Total net assets - ending	<u>\$ 5,115,013</u>	<u>\$ 4,841,064</u>	<u>\$ 9,956,077</u>

The accompanying notes are an integral part of this statement.

## CITY OF TILLAMOOK

Statement of Cash Flows  
ENTERPRISE FUNDS  
Year Ended June 30, 2009

	Water	Sewer	Total
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 1,147,683	\$ 1,506,100	\$ 2,653,783
Cash payments to suppliers for goods and services	(356,046)	(649,380)	(1,005,426)
Cash payments to employees for services	(475,802)	(415,622)	(891,424)
Net cash provided by operating activities	<u>315,835</u>	<u>441,098</u>	<u>756,933</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfers to other funds	-	(1,000)	(1,000)
Advances from other funds	-	317,295	317,295
Advances to other funds	(387,295)	(60,000)	(447,295)
Net cash provided by (used in) noncapital financing activities	<u>(387,295)</u>	<u>256,295</u>	<u>(131,000)</u>
<b>Cash flows from capital and related financing activities:</b>			
Loan proceeds	-	5,196,066	5,196,066
Capital contributions	16,839	1,131,473	1,148,312
Purchase of capital assets	-	(7,988,439)	(7,988,439)
Debt principal payments	(271,633)	(246,468)	(518,101)
Debt interest payments	(118,488)	(62,580)	(181,068)
Net cash used in capital and related financing activities	<u>(373,282)</u>	<u>(1,969,948)</u>	<u>(2,343,230)</u>
<b>Cash flows from investing activities:</b>			
Interest on investments	<u>13,564</u>	<u>22,997</u>	<u>36,561</u>
Net decrease in cash and investments	(431,178)	(1,249,558)	(1,680,736)
Cash and investments - beginning	<u>1,647,582</u>	<u>1,523,115</u>	<u>3,170,697</u>
Cash and investments - ending	<u>\$ 1,216,404</u>	<u>\$ 273,557</u>	<u>\$ 1,489,961</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating income	<u>\$ 141,016</u>	<u>\$ 333,825</u>	<u>\$ 474,841</u>
<b>Adjustments to reconcile operating income to net cash provided by operating activities.</b>			
Depreciation	181,636	110,147	291,783
(Increase) decrease in:			
Accounts receivable	7,758	2,338	10,096
Inventories	(24,434)	-	(24,434)
Increase (decrease) in:			
Accounts payable	11,457	(7,989)	3,468
Compensated absences	(1,598)	2,777	1,179
Total adjustments	<u>174,819</u>	<u>107,273</u>	<u>282,092</u>
Net cash provided by operating activities	<u>\$ 315,835</u>	<u>\$ 441,098</u>	<u>\$ 756,933</u>
<b>Noncash investing, capital and financing activities:</b>			
Accrued interest added to loans payable	\$ -	\$ 54,349	\$ 54,349
Loans payable	-	(54,349)	(54,349)
Total noncash investing, capital and financing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

CITY OF TILLAMOOK

Statement of Fiduciary Assets and Liabilities  
AGENCY FUND  
June 30, 2009

Assets

Cash and investments	<u>\$ 6,215</u>
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Liabilities

Amounts held for others	<u>\$ 6,215</u>
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The accompanying notes are an integral part of this statement.

# CITY OF TILLAMOOK

## Notes to Financial Statements Year Ended June 30, 2009

### 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

#### (A) Organization and Operation

The City of Tillamook was incorporated February 28, 1891. The City operates under a charter adopted January 1, 1917 which has been amended by various acts. The City is governed by an elected mayor and the City Council consisting of six members elected from each of the City's wards. The City provides various services as authorized by its charter including police protection, street maintenance, sewer service and water service.

#### (B) Description of the Reporting Entity

As required by GAAP, these financial statements present the city and its component unit (Tillamook Urban Renewal Agency), an entity for which the city is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements. Financial accountability is determined in accordance with criteria set forth in GAAP, primarily on the basis of authority to appoint a voting majority of an organization's governing board, the ability to impose its will on that organization, the potential for that organization to provide specific financial benefits or impose specific financial burdens and that organization's fiscal dependency.

Tillamook Urban Renewal Agency – The Agency was formed to plan, direct, and manage certain projects within the City of Tillamook. Pursuant to ORS 457.035, two members of the City Council have been appointed part of the governing body of the Agency, the remaining members of the governing body are at-large positions.

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

(C) Government-wide and Fund Financial Statements

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which are primarily supported by intergovernmental revenues and taxes, are reported separately from *business-type activities*, which rely primarily upon fees charged to external parties. Eliminations have been made to minimize the double-counting of internal activities. Direct expenses are not eliminated from the various functional categories.

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

Fund Financial Statements:

Separate financial statements are provided for governmental funds, enterprise funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Remaining governmental funds are aggregated and reported as nonmajor funds.

Enterprise fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and provides essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

The minimum number of funds are maintained consistent with legal and managerial requirements.

There are the following major governmental funds:

CITY OF TILLAMOOK

Notes to Financial Statements  
Year Ended June 30, 2009

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

(C) Government-wide and Fund Financial Statements (Contd)

General Fund - This fund is used to account for general activities of the City. Primary sources of revenues are property taxes, licenses, permits and fees, fines and forfeitures and revenues from other government agencies. Primary expenditures are for general government and public safety.

Transient Room Tax Fund – This fund is used to account for the collections of the motel tax. Expenditures are for tourism related activities and transfers to the General Fund, the Property Purchase and Building Reserve Fund and the State Tax Street Fund.

The City reports the following major enterprise funds:

Water Fund - This fund is used to account for operations of the water system. Revenues consist primarily of user charges. Expenditures are for the repair, maintenance and operations of the water system, capital improvements and retirement of debt.

Sewer Fund - This fund is used to account for operations of the City's sewage disposal system. Revenues consist primarily of user charges. Expenditures are for the repair, maintenance and operations of the sewage disposal system and treatment plant, capital improvements and retirement of debt.

Additionally, the City reports the following fund:

Agency Fund - This fund accounts for the City's monies held for others and the City's role is purely custodial. The agency fund is used to account for the amounts collected for bail by the City's municipal court.

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

(D) Measurement Focus and Basis of Accounting

Government-wide and Enterprise Fund Financial Statements:

The government-wide and enterprise 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 at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, and entitlements. On an accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City applies all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, and does not apply FASB guidance issued subsequent to November 30, 1989 unless specifically adopted by the GASB.

Governmental Fund Financial Statements:

All governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other uses) in net current assets.

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 collectible within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. All transactions occurring in the governmental fund financial statements are recorded using the modified accrual basis of accounting, except for:

- Interfund transactions for goods and services which are recorded on the accrual basis
- Revenues from grants which are recorded as earned
- Principal and interest on general long-term debt which are recorded when due

# CITY OF TILLAMOOK

Notes to Financial Statements  
Year Ended June 30, 2009

## 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

### (D) Measurement Focus and Basis of Accounting (Contd)

Significant revenues that were measurable and available at June 30, 2009 under the modified accrual basis of accounting were as follows:

- Federal and state grants (to the extent that revenues are recorded as eligible expenditures are incurred)
- State, county and local shared revenues
- Property taxes collected within sixty days of year end

When program expenses are incurred for which both restricted and unrestricted net assets are available to finance a program, it is the City's policy to first apply restricted resources to such programs, followed by unrestricted resources.

### (E) Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers amounts of equity in pooled cash and investments as cash and cash equivalents. This is in conformity with Statement No. 9 of the Governmental Accounting Standards Board which states that deposits in cash management pools that have the general characteristics of demand deposit accounts are appropriately classified as cash.

### (F) Investments

Investments included in cash and investments are carried at fair value. The City invests in the State of Oregon Local Government Investment Pool and in U.S. Government agencies securities as authorized by Oregon Revised Statutes. Interest earned from pooled investments is allocated based on a fund's portion of the total investment balance. Oregon Revised Statutes requires deposits be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury, except the Local Government Investment Pool and except U.S. Government agencies securities which are exempt from statutes requiring such insurance.

### (G) Receivables

Property taxes receivable in the governmental funds, which have been collected within 60 days of year end, are considered measurable and available, and are recognized as revenues in the governmental fund financial statements. All other property taxes receivable in the governmental funds are offset by deferred revenue because they are not deemed available to finance operations of the current period. An allowance for doubtful accounts is not deemed necessary by management as uncollectable taxes become a lien on the property.

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

(G) Receivables (Contd)

Receivables for federal and state grants are recorded as revenue as earned. Accounts receivable of the enterprise funds are recorded as revenue when earned.

Assessments receivable pertain to improvements benefiting specific property owners. These receivables are offset by a deferred revenue account and are recorded as revenue in the governmental fund financial statements when they become measurable and available.

The City has elected to not accrue certain revenues, including fuel tax, hotel/motel tax, and franchise fees.

(H) Supply Inventories

Inventories, consisting of materials and supplies used in the water operations, are valued at the lower of cost (first-in, first-out) or market and are charged to expense when used.

(I) Capital Assets

Capital assets, which include property, water and sewer plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The City has elected to record infrastructure assets (i.e., streets, bridges, sidewalks, and similar items) added after July 1, 2003, as allowed by GASB 34.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	10 to 50
Infrastructure	40
Sewer system	10 to 50
Water system	10 to 50
Equipment	5 to 15

CITY OF TILLAMOOK

Notes to Financial Statements  
Year Ended June 30, 2009

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

(J) Long-Term Debt

All City long-term debt is included in the government-wide financial statements. Long-term debt directly related to and expected to be paid from the enterprise funds is also included in those funds.

(K) Compensated Absences

Accumulated vested compensated absences are accrued in the government-wide and enterprise fund financial statements as earned by employees. Sick pay, which does not vest, is recorded when leave is taken.

(L) Leases

Leases which meet certain criteria established by the Financial Accounting Standards Board are classified as capital leases and recorded in the government-wide financial statements. Leases which do not meet the criteria of a capital lease are classified as operating leases. Operating lease payments are expensed when paid.

(M) Property Tax Calendar

Ad valorem property taxes are levied on all taxable property as of July 1 of the beginning of the fiscal year. Property taxes become an enforceable lien on that date for real property and for personal property. Collection dates are November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Uncollected taxes, including delinquent amounts, are considered substantially collectible or recoverable through liens.

(N) Restricted Net Assets

Restricted net assets reported in the Statement of Net Assets represent amounts for which constraints were imposed by creditors, grantors, contributors or laws or regulations.

(O) Estimates

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

CITY OF TILLAMOOK

Notes to Financial Statements

Year Ended June 30, 2009

2 - CASH AND INVESTMENTS:

The City maintains a cash and investments pool that is available for use by all funds. In addition, cash and investments are separately held by some of the City's funds.

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

	City	Urban Renewal Agency
Cash on hand	\$ 260	\$ -
Deposits with financial institutions	903,557	175,074
Investments	906,743	225,327
Total cash and investments	<u>\$1,810,560</u>	<u>\$ 400,401</u>

Cash and investments are reflected in the basic financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 693,812
Restricted cash and investments	<u>1,110,533</u>
Total statement of net assets	1,804,345
Statement of Fiduciary Net Assets	
	<u>6,215</u>
Total cash and investments	<u>\$ 1,810,560</u>

Deposits with Financial Institutions

Deposits with financial institutions are bank demand deposits. The total bank balance, as shown on the bank's records at June 30, 2009, is \$1,098,658 for the City and \$175,310 for the Urban Renewal Agency. Of the City's deposits, \$250,000 is covered by federal depository insurance. The Urban Renewal Agency's deposits were fully covered by federal depository insurance.

Effective July 1, 2008, the Oregon State Treasurer became responsible for monitoring public funds held by bank depositories in excess of FDIC insured amounts, and for assuring that public funds on deposit are collateralized to the extent required by Oregon Revised Statutes (ORS) Chapter 295. ORS Chapter 295 requires depository banks to place and maintain on deposit with a third-party custodian bank securities having a value of 10%, 25% or 110% of public funds on deposit depending primarily on the capitalization level of the depository bank.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a policy for deposits custodial credit risk. As of June 30, 2009, all deposits are insured.

2 - CASH AND INVESTMENTS: (Contd)

Investments

State statutes authorize the City to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the Oregon Local Government Investment Pool, among others. The City has no investment policy that would further limit its investment choices.

At June 30, 2009 the City's investments consisted of the following:

	<u>City</u>	<u>Urban Renewal Agency</u>
Investment in Oregon Local Government Investment Pool (LGIP)	<u>\$ 906,743</u>	<u>\$ 225,327</u>

The Oregon Local Government Investment Pool is an open-ended, no-load diversified portfolio pool. As of June 30, 2009, the fair value of the position in the State Treasurer's Local Government Investment Pool is 99.11% of the value of the pool shares as reported in the Oregon Short Term Fund audited financial statements. The City's investment in the Oregon Local Government Investment Pool is 100% of total investments. The Urban Renewal Agency's investment in the Oregon Local Government Investment Pool is 100% of total investments.

The Oregon Local Government Investment Pool is an external investment pool which is part of the Oregon Short-Term Fund. Investment policies are governed by the Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council. Investments are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board. The Oregon Short-Term Fund does not receive credit quality ratings from nationally recognized statistical rating organizations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Oregon Short-Term Fund manages this risk by limiting the maturity of the investments held by the fund. Weighted average maturities of investments in the Oregon Short-Term Fund at June 30, 2009 were: 74% mature within 93 days, 12% mature from 94 days to one year, and 14% mature from one to three years.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

CITY OF TILLAMOOK

Notes to Financial Statements  
Year Ended June 30, 2009

2 - CASH AND INVESTMENTS: (Contd)

Restricted Cash and Investments

Amounts shown as restricted on the balance sheet consist of the following at June 30, 2009:

Bond reserve account:	
Water Bond No. 1	\$ 94,315
Water Bond No. 2	156,791
Water Bond No. 3	99,640
Water Bond No. 4	39,398
Bond debt service account:	
Water Bond No. 1	23,579
Water Bond No. 2	137,171
Water Bond No. 3	87,185
Water Bond No. 4	19,699
Systems development charges reserve account	180,885
Sewer loan reserve account	<u>271,870</u>
	<u>\$1,110,533</u>

The bond reserve account consists of amounts deposited in accordance with the requirements of the City's water bond agreement with the U.S. Department of Agriculture. The reserve requirement is equal to the annual debt service payment on the water bonds and is being funded over a ten year period in accordance with the bond agreement.

The bond debt service account consists of amounts required to be deposited monthly in accordance with the requirements of the City's water bond agreement with the U.S. Department of Agriculture in order to meet the annual debt service payments as they are due.

The systems development charges reserve account consists of fees that are restricted for specific purposes in accordance with state law.

The sewer loan reserve represents the portion of the State of Oregon Department of Environmental Quality loan reserve requirement that was funded at June 30, 2009. The reserve requirement for the six loans is \$688,798 at June 30, 2009.

CITY OF TILLAMOOK

Notes to Financial Statements  
Year Ended June 30, 2009

3 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 671,769	\$ -	\$ -	\$ 671,769
Construction in progress	<u>170,840</u>	<u>191,688</u>	<u>311,427</u>	<u>51,101</u>
Total capital assets not being depreciated	<u>842,609</u>	<u>191,688</u>	<u>311,427</u>	<u>722,870</u>
Capital assets being depreciated:				
Buildings	1,760,431	469,720	-	2,230,151
Other improvements	428,556	25,222	-	453,778
Infrastructure	347,546	87,252	-	434,798
Equipment	<u>627,197</u>	<u>-</u>	<u>66,195</u>	<u>561,002</u>
Total capital assets being depreciated	<u>3,163,730</u>	<u>582,194</u>	<u>66,195</u>	<u>3,679,729</u>
Less accumulated depreciation for:				
Buildings	389,208	48,544	-	437,752
Other improvements	172,913	16,249	-	189,162
Infrastructure	15,788	10,023	-	25,811
Equipment	<u>443,011</u>	<u>41,285</u>	<u>64,938</u>	<u>419,358</u>
Total accumulated depreciation	<u>1,020,920</u>	<u>116,101</u>	<u>64,938</u>	<u>1,072,083</u>
Total capital assets being depreciated, net	<u>2,142,810</u>	<u>466,093</u>	<u>1,257</u>	<u>2,607,646</u>
Governmental activities capital assets, net	<u>\$ 2,985,419</u>	<u>\$ 657,781</u>	<u>\$ 312,684</u>	<u>\$ 3,330,516</u>

CITY OF TILLAMOOK

Notes to Financial Statements  
Year Ended June 30, 2009

3 - CAPITAL ASSETS: (Contd)

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
<b>Business-type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 233,620	\$ -	\$ -	\$ 233,620
Construction in progress	11,184,253	6,482,298	7,500	17,659,051
Total capital assets not being depreciated	<u>11,417,873</u>	<u>6,482,298</u>	<u>7,500</u>	<u>17,892,671</u>
Capital assets being depreciated:				
Water utility plant	8,822,502	-	-	8,822,502
Sewer utility plant	6,667,447	-	-	6,667,447
Equipment	482,794	45,060	76,540	451,314
Total capital assets being depreciated	<u>15,972,743</u>	<u>45,060</u>	<u>76,540</u>	<u>15,941,263</u>
Less accumulated depreciation for:				
Water utility plant	3,318,088	162,152	-	3,480,240
Sewer utility plant	3,797,513	100,906	-	3,898,419
Equipment	344,552	28,725	76,540	296,737
Total accumulated depreciation	<u>7,460,153</u>	<u>291,783</u>	<u>76,540</u>	<u>7,675,396</u>
Total capital assets being depreciated, net	<u>8,512,590</u>	<u>(246,723)</u>	<u>-</u>	<u>8,265,867</u>
Business-type activities capital assets, net	<u>\$ 19,930,463</u>	<u>\$ 6,235,575</u>	<u>\$ 7,500</u>	<u>\$ 26,158,538</u>

Depreciation expense was charged to the functions of the City as follows:

<b>Governmental Activities:</b>	
General government	\$ 6,018
Public safety	24,555
Streets	31,774
Parks	14,918
Community development	38,836
Total depreciation expense, governmental activities	<u>\$ 116,101</u>
<b>Business-type Activities:</b>	
Water operations	\$ 181,636
Sewer operations	110,147
Total depreciation expense, business-type activities	<u>\$ 291,783</u>

CITY OF TILLAMOOK

Notes to Financial Statements  
Year Ended June 30, 2009

4 - LONG-TERM OBLIGATIONS:

Changes in long-term obligations for the year ended June 30, 2009 were as follows:

	Balance			Balance		
	July 1, 2008	Additions	Deletions	June 30, 2009	Due within One Year	Interest Matured and Paid
<b>Governmental Activities:</b>						
Loans payable:						
Linden Drive Project	\$ 52,000	\$ -	\$ 9,000	\$ 43,000	\$ 10,000	\$ 2,730
Animal Control Truck	21,704	-	10,709	10,995	10,995	324
Total governmental activities long-term obligations	<u>\$ 73,704</u>	<u>\$ -</u>	<u>\$ 19,709</u>	<u>\$ 53,995</u>	<u>\$ 20,995</u>	<u>\$ 3,054</u>
<b>Business-type Activities:</b>						
Sewer system loans payable	\$ 9,982,857	\$ 5,250,415	\$ 246,468	\$ 14,986,804	\$ 279,739	\$ 62,580
Water system bonds payable	2,297,415	-	271,633	2,025,782	285,941	118,488
Total business-type activities long-term obligations	<u>\$ 12,280,272</u>	<u>\$ 5,250,415</u>	<u>\$ 518,101</u>	<u>\$ 17,012,586</u>	<u>\$ 565,680</u>	<u>\$ 181,068</u>

Loans Payable

During 2000-01, the City entered into a loan agreement for \$110,000 for the Linden Drive Local Improvement District (LID) Project. The loan carries an interest rate of 5.25% and is payable in annual installments. The loan is payable primarily from assessment payments received by the City, and the City has pledged all amounts received from property which is assessed for costs of the Linden Drive LID Project, including payments of assessments and amounts received from foreclosing assessment liens.

Estimated annual debt service requirements as of June 30, 2009, are as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009-10	\$ 12,257	\$ 10,000	\$ 2,257
2010-11	11,732	10,000	1,732
2011-12	12,208	11,000	1,208
2012-13	12,630	12,000	630
Totals	<u>\$ 48,827</u>	<u>\$ 43,000</u>	<u>\$ 5,827</u>

CITY OF TILLAMOOK

Notes to Financial Statements  
Year Ended June 30, 2009

4 - LONG-TERM OBLIGATIONS: (Contd)

Loans Payable (Contd)

During 2007-08, the City entered into a loan agreement for \$21,704 to acquire an animal control truck. The loan is to be repaid over a 2-year period in annual installments of \$11,033, including interest at 3.00% per annum.

Estimated annual debt service requirements as of June 30, 2009, are as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009-10	<u>\$ 11,033</u>	<u>\$ 10,995</u>	<u>\$ 38</u>

During 2005-06, the City entered into a loan agreement for \$200,000 to purchase property for the Sewer Fund. The loan is to be repaid over a 20-year period in annual installments of \$15,175, including interest at 4.56% per annum.

Estimated annual debt service requirements as of June 30, 2009, are as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009-10	\$ 15,175	\$ 7,112	\$ 8,063
2010-11	15,175	7,437	7,738
2011-12	15,175	7,776	7,399
2012-13	15,175	8,130	7,045
2013-14	15,175	8,501	6,674
2014-15	15,175	8,889	6,286
2015-16	15,175	9,294	5,881
2016-17	15,175	9,718	5,457
2017-18	15,175	10,161	5,014
2018-19	15,175	10,624	4,551
2019-20	15,175	11,109	4,066
2020-21	15,175	11,616	3,559
2021-22	15,175	12,145	3,030
2022-23	15,175	12,699	2,476
2023-24	15,175	13,278	1,897
2024-25	15,175	13,884	1,291
2025-26	15,098	14,439	659
	<u>\$257,898</u>	<u>\$176,812</u>	<u>\$ 81,086</u>

CITY OF TILLAMOOK

Notes to Financial Statements  
Year Ended June 30, 2009

4 - LONG-TERM OBLIGATIONS: (Contd)

Loans Payable (Contd)

During 2007-08, the City entered into a loan agreement for \$1,000,000 to fund construction of sewer system improvements. In 2008-09, unpaid accrued interest of \$54,349 was added to the outstanding loan principal balance. The loan is to be repaid over a 25-year period in annual installments of \$73,604, including interest at 2% to 5% per annum.

Estimated annual debt service requirements as of June 30, 2009, are as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009-10	\$ 57,399	\$ 24,987	\$ 32,412
2010-11	73,604	25,486	48,118
2011-12	73,604	26,251	47,353
2012-13	73,604	27,301	46,303
2013-14	73,604	27,984	45,620
2014-15	73,604	29,103	44,501
2015-16	73,604	29,976	43,628
2016-17	73,604	31,475	42,129
2017-18	73,604	32,734	40,870
2018-19	73,604	34,370	39,234
2019-20	73,604	35,745	37,859
2020-21	73,604	37,533	36,071
2021-22	73,604	39,034	34,570
2022-23	73,604	40,985	32,619
2023-24	73,604	43,035	30,569
2024-25	73,604	45,186	28,418
2025-26	73,604	47,446	26,158
2026-27	73,604	49,818	23,786
2027-28	73,604	52,309	21,295
2028-29	73,604	54,924	18,680
2029-30	73,604	57,671	15,933
2030-31	73,604	60,554	13,050
2031-32	73,604	63,582	10,022
2032-33	73,604	66,761	6,843
2033-34	73,604	70,099	3,505
	<u>\$1,823,895</u>	<u>\$1,054,349</u>	<u>\$769,546</u>

CITY OF TILLAMOOK

Notes to Financial Statements  
 Year Ended June 30, 2009

4 - LONG-TERM OBLIGATIONS: (Contd)

Loans Payable (Contd)

During 1997-98, the City entered into a loan agreement with the State of Oregon Department of Environmental Quality (DEQ) for \$1,910,373 to fund construction of sewer system improvements. The loan is being paid in semi-annual installments of \$88,669, including interest at 3.77% per annum. The City paid a loan origination fee of 1.5 percent of the loan amount and is paying an annual servicing fee of 0.5 percent of the outstanding loan balance. The City has pledged net operating revenues from the sewage disposal system to pay the amounts due under the loan agreement. Additionally, the City is required to fund a loan reserve equal to 100 percent of the average annual debt service. The loan reserve requirement equals \$169,485 and had been fully funded as of June 30, 2009.

Estimated annual debt service requirements as of June 30, 2009, are shown as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>
2009-10	\$ 180,978	\$ 148,517	\$ 28,822	\$ 3,639
2010-11	180,221	154,168	23,171	2,882
2011-12	179,436	160,035	17,304	2,097
2012-13	178,620	166,126	11,213	1,281
2013-14	177,774	172,447	4,892	435
Totals	<u>\$ 897,029</u>	<u>\$ 801,293</u>	<u>\$ 85,402</u>	<u>\$ 10,334</u>

During 2002-2003, the City entered into a second loan agreement with the DEQ for \$500,000 to fund construction of sewer system improvements and has borrowed \$441,902 under the agreement. The loan will be repaid in semi-annual installments of \$15,810, including interest at 3.19% per annum. The agreement requires the City to pay an annual servicing fee of 0.5 percent of the outstanding loan balance. The City has pledged net operating revenues from the sewage disposal system to pay the amounts due under the loan agreement. Additionally, the City is required to fund a loan reserve equal to 100 percent of the average annual debt service. The loan reserve requirement equals \$31,589 and had been fully funded as of June 30, 2009.

CITY OF TILLAMOOK

Notes to Financial Statements  
Year Ended June 30, 2009

4 - LONG-TERM OBLIGATIONS: (Contd)

Loans Payable (Contd)

Estimated annual debt service requirements as of June 30, 2009 are as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>
2009-10	\$ 33,394	\$ 20,143	\$ 11,477	\$ 1,774
2010-11	33,292	20,791	10,829	1,672
2011-12	33,186	21,459	10,161	1,566
2012-13	33,077	22,149	9,471	1,457
2013-14	32,964	22,861	8,759	1,344
2014-15	32,848	23,597	8,023	1,228
2015-16	32,728	24,355	7,265	1,108
2016-17	32,605	25,139	6,481	985
2017-18	32,477	25,947	5,673	857
2018-19	32,345	26,780	4,840	725
2019-20	32,209	27,642	3,978	589
2020-21	32,069	28,531	3,089	449
2021-22	31,924	29,449	2,171	304
2022-23	31,774	30,395	1,225	154
2023-24	15,790	15,542	248	-
Totals	<u>\$ 472,682</u>	<u>\$ 364,780</u>	<u>\$ 93,690</u>	<u>\$ 14,212</u>

During 2002-2003, the City also entered into a loan agreement in the amount of \$304,499 with the State of Oregon Department of Environmental Quality to finance the creation of a wastewater facilities plan. The loan will be repaid in semi-annual installments of \$35,895, including interest at 2.40% per annum. The agreement requires the City to pay an annual servicing fee of 0.5 percent of the outstanding loan balance. The City has pledged net operating revenues from the sewage disposal system to pay the amounts due under the loan agreement. Additionally, the City is required to fund a loan reserve equal to 100 percent of the average annual debt service. The loan reserve requirement equals \$54,499 and had been fully funded as of June 30, 2009.

Estimated annual debt service payments as of June 30, 2009 are as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>
2009-10	<u>\$ 71,972</u>	<u>\$ 70,523</u>	<u>\$ 1,272</u>	<u>\$ 177</u>

Notes to Financial Statements  
Year Ended June 30, 2009

## 4 - LONG-TERM OBLIGATIONS: (Contd)

Loans Payable (Contd)

During 2005-2006, the City entered into a loan agreement in the amount of \$300,000 with the State of Oregon Department of Environmental Quality to fund construction of sewer system improvements and has borrowed \$178,679 under the agreement. The loan will be repaid in semi-annual installments of \$20,408, including interest at 1.11% per annum. The City has pledged net operating revenues from the sewage disposal system to pay the amounts due under the loan agreement. Additionally, the City is required to fund a loan reserve equal to 50 percent of the average annual debt service. The loan reserve requirement equals \$18,884 and had not been fully funded as of June 30, 2009.

Estimated annual debt service payments as of June 30, 2009 are as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009-10	\$ 5,168	\$ -	\$ 5,168
2010-11	40,816	38,940	1,876
2011-12	40,816	39,373	1,443
2012-13	40,816	39,812	1,004
2013-14	40,816	40,255	561
2014-15	20,412	20,299	113
Totals	<u>\$ 188,844</u>	<u>\$ 178,679</u>	<u>\$ 10,165</u>

During 2005-2006, the City entered into a second agreement with the DEQ for \$268,000 to fund construction of sewer system improvements and has borrowed \$191,072 under the agreement. The loan will be repaid in semi-annual installments of \$6,562, including interest at 2.81% per annum. The agreement requires the City to pay an annual servicing fee of 0.5 percent of the outstanding loan balance. The City has pledged net operating revenues from the sewage disposal system to pay the amounts due under the loan agreement. Additionally, the City is required to fund a loan reserve equal to 50 percent of the average annual debt service. The loan reserve requirement equals \$6,561 and had not been fully funded at June 30, 2009.

Notes to Financial Statements  
Year Ended June 30, 2009

## 4 - LONG-TERM OBLIGATIONS: (Contd)

Loans Payable (Contd)

Estimated annual debt service payments as of June 30, 2009 are as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>
2009-10	\$ 13,944	\$ 8,457	\$ 4,667	\$ 820
2010-11	13,901	8,696	4,428	777
2011-12	13,857	8,942	4,182	733
2012-13	13,812	9,195	3,929	688
2013-14	13,765	9,456	3,668	641
2014-15	13,717	9,723	3,401	593
2015-16	13,668	9,998	3,126	544
2016-17	13,617	10,281	2,843	493
2017-18	13,565	10,572	2,552	441
2018-19	13,511	10,871	2,253	387
2019-20	13,456	11,178	1,946	332
2020-21	13,400	11,495	1,629	276
2021-22	13,341	11,820	1,304	217
2022-23	13,281	12,155	969	157
2023-24	13,220	12,499	625	96
2024-25	13,163	12,859	272	32
Totals	<u>\$ 217,218</u>	<u>\$ 168,197</u>	<u>\$ 41,794</u>	<u>\$ 7,227</u>

During 2005-2006, the City entered into a third agreement with the DEQ for \$8,000,000, which was increased to \$9,800,000 during 2007-08, and to \$12,271,773 during 2008-2009, to fund construction of sewer system improvements and has borrowed \$12,172,171 under the agreement. The loan will be repaid in semi-annual installments of \$409,723, including interest at 2.87% per annum. The agreement requires the City to pay an annual servicing fee of 0.5 percent of the outstanding loan balance. The City has pledged net operating revenues from the sewage disposal system to pay the amounts due under the loan agreement. Additionally, the City is required to fund a loan reserve equal to 50 percent of the average annual debt service. The loan reserve requirement equals \$407,780 and had been fully funded at June 30, 2009.

Notes to Financial Statements  
Year Ended June 30, 2009

## 4 - LONG-TERM OBLIGATIONS: (Contd)

Loans Payable (Contd)

Estimated annual debt service payments as of June 30, 2009 are as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>
2010-11	\$ 802,584	\$ 235,052	\$ 506,671	\$ 60,861
2011-12	877,939	480,272	339,174	58,493
2012-13	875,504	494,155	325,291	56,058
2013-14	872,997	508,438	311,008	53,551
2014-15	870,419	523,135	296,311	50,973
2015-16	867,766	538,257	281,189	48,320
2016-17	865,036	553,816	265,630	45,590
2017-18	862,227	569,825	249,621	42,781
2018-19	859,337	586,296	233,150	39,891
2019-20	856,363	603,243	216,203	36,917
2020-21	853,304	620,681	198,765	33,858
2021-22	850,156	638,622	180,824	30,710
2022-23	846,917	657,083	162,363	27,471
2023-24	843,584	676,076	143,370	24,138
2024-25	840,155	695,618	123,828	20,709
2025-26	836,627	715,726	103,720	17,181
2026-27	832,997	736,414	83,032	13,551
2027-28	829,263	757,702	61,744	9,817
2028-29	825,420	779,604	39,842	5,974
2029-30	821,484	802,156	17,308	2,020
Totals	<u>\$ 16,990,079</u>	<u>\$12,172,171</u>	<u>\$4,139,044</u>	<u>\$ 678,864</u>

Bonds Payable

Bonds payable consist of revenue installment water bonds payable from revenues of the City's water operations. Bonds outstanding at June 30, 2009, are as follows:

CITY OF TILLAMOOK

Notes to Financial Statements  
Year Ended June 30, 2009

4 - LONG-TERM OBLIGATIONS: (Contd)

Bonds Payable (Contd)

Revenue Installment Water Bonds:

No. 1 payable to U.S. Department of Agriculture, annual payments of \$94,315, including interest at 5.75 percent	\$ 241,970
No. 2 payable to U.S. Department of Agriculture, annual payments of \$156,767, including interest at 5.125 percent	902,403
No. 3 payable to U.S. Department of Agriculture, annual payments of \$99,640, including interest at 5.125 percent	573,562
No. 4 payable to U.S. Department of Agriculture, annual payments of \$39,398, including interest at 4.75 percent	<u>307,847</u>
Totals	<u><u>\$2,025,782</u></u>

Estimated future maturities are as follows:

	Water Bond No. 1		Water Bond No. 2		Water Bond No. 3		Water Bond No. 4		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009-2010	\$ 80,402	\$ 13,913	\$ 110,519	\$ 46,248	\$ 70,245	\$ 29,395	\$ 24,775	\$ 14,623	\$ 285,941	\$ 104,179
2010-2011	85,025	9,290	116,183	40,584	73,845	25,795	25,952	13,446	301,005	89,115
2011-2012	76,543	4,401	122,137	34,630	77,630	22,010	27,185	12,213	303,495	73,254
2012-2013	-	-	128,397	28,370	81,608	18,032	28,476	10,922	238,481	57,324
2013-2018	-	-	425,167	44,262	270,234	28,133	164,002	32,988	859,403	105,383
2018-2019	-	-	-	-	-	-	37,457	1,779	37,457	1,779
	<u>\$241,970</u>	<u>\$ 27,604</u>	<u>\$ 902,403</u>	<u>\$ 194,094</u>	<u>\$ 573,562</u>	<u>\$123,365</u>	<u>\$307,847</u>	<u>\$ 85,971</u>	<u>\$2,025,782</u>	<u>\$ 431,034</u>

5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The composition of interfund balances as of June 30, 2009 is as follows:

Funds	Due from Other Funds	Due to Other Funds	Interfund Loan Receivable	Interfund Loan Payable	Transfers In	Transfers Out
<u>Governmental Funds:</u>						
General Fund	\$ 9,684	\$ -	\$ -	\$ 70,000	\$ 135,501	\$ -
Transient Room Tax Fund	-	-	-	-	-	203,628
Nonmajor governmental funds	-	9,684	-	60,000	86,327	17,200
<u>Proprietary Funds:</u>						
Water Fund	262,295	-	125,000	-	-	-
Sewer Fund	-	262,295	60,000	55,000	-	1,000
	<u>\$271,979</u>	<u>\$271,979</u>	<u>\$ 185,000</u>	<u>\$185,000</u>	<u>\$ 221,828</u>	<u>\$ 221,828</u>

5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS: (Contd)

The due to/from other funds balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, and when payments between funds are made.

Interfund Loan Receivable/Payable is the result of three separate loans. Two loans were a result of shortfalls in revenue; a loan from the Sewer Fund to the State Tax Street Fund for \$60,000, and a loan from the Water Fund to the General Fund for \$70,000. These loans shall be repaid, including interest at two percent, over a five year period. The third loan is from the Water Fund to the Sewer Fund for \$55,000 and is a result of cost over runs in the Wastewater Treatment Plan upgrade project.

Transfers are used to move revenues from the fund with collection authority to the fund authorized to make the expenditure, and to move unrestricted general fund revenues to finance various programs accounted for in other funds in accordance with budgetary authorization.

6 - RETIREMENT PLAN:

Plan Description

The City participates in the State of Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer pension plan which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The system is a statewide defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. PERS is administered under Oregon Revised Statutes Chapter 238 and Chapter 238A by the Public Employees Retirement Board. Participation by state government units, school districts, and community colleges is mandatory. Participation by most political subdivisions is optional but irrevocable if elected. A stand-alone financial report is not available for the City. However, the State of Oregon Public Employees Retirement System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, 11410 S.W. 68th Parkway, P.O. Box 23700, Tigard, Oregon 97281-3700 or by calling (503) 598-PERS.

6 - RETIREMENT PLAN: (Contd)

Funding Policy

PERS members are required to contribute 6% of their annual covered salary. The City is required to contribute an actuarially determined rate. The current rate is 11.58% of annual covered payroll for 2 member employees of the State and Local Government Rate Pool. The current rate is 10.30% of annual covered payroll for general service employees and 13.57% of annual covered payroll for police employees for member employees of the Oregon Public Service Retirement Plan. The City contributes the employer's portion and the employee's portion for all employees. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to PERS for the employer's portion for the years ending June 30, 2009, 2008 and 2007, totaled \$259,729, \$253,344 and \$259,160, respectively, equal to the required contributions.

7 - BUDGET:

Except for its Agency Fund, the City is required by State law to budget all funds. The Council annually authorizes appropriations for each fund which set the level by which expenditures cannot exceed appropriations. The level of control for General Fund appropriations is by department and appropriations for other funds are generally controlled by personal services, materials and services, capital outlay, debt service, other expenditures and transfers. The budget document contains more specific, detailed information for the aforementioned expenditure categories.

Unexpected resources and certain other changes may be made through use of a supplemental budget which requires publication in newspapers, public hearings and approval by the City Council. Management may modify original and supplemental budgets by the use of appropriation transfers between the levels of control within a fund. Such transfers require approval by the Council. During the year, the City adopted supplemental budgets and approved transfer resolutions. Appropriations lapse at year-end.

The City budgets on a cash basis which is legal, although not in accordance with generally accepted accounting principles.

8 - OVEREXPENDITURE OF APPROPRIATIONS:

During 2008-09, the City overexpended the State Tax Street Fund personal services appropriation by \$6,985, and the materials and services appropriation by \$476; and the Community Development Block Grant Fund materials and services appropriation by \$154, and the capital outlay appropriation by \$17,597; and the 9-1-1 Communications Fund materials and services appropriation by \$545; and the Sewage Disposal Fund materials and services appropriation by \$22,472; and the Water Fund debt service appropriation by \$1.

Notes to Financial Statements  
Year Ended June 30, 2009

9 - FUND EQUITY DEFICITS:

At June 30, 2009, the State Tax Street Fund had an equity deficit of \$57,743 and the Community Development Block Grant Fund had an equity deficit of \$3,398. The City made a \$60,000 interfund loan to the State Tax Street Fund after the year end in order to cover the fund deficit. The loan will be paid in equal annual payments through July 2013. The City also intends to make a transfer from the General Fund to the Community Development Block Grant Fund to cover the deficit.

10 - RISK MANAGEMENT:

There is exposure to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the City/County Insurance Services Trust and pays an annual premium to the Trust for its general and automobile liability, automobile physical damage and property coverage. Under the membership agreement with the Trust, the Trust is to be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits.

Commercial insurance is carried for other risks of loss including workers' compensation, boiler and machinery and public official bond. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

11 - COMMITMENTS:

As of June 30, 2009 the outstanding financial commitment for the Wastewater Treatment Plant Improvements construction contract to Big River Construction Inc. was \$458,259.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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CITY OF TILLAMOOK

Schedule of Funding Progress for Retirement Plan

	Actuarial Valuation Date		
	<u>12-31-07</u>	<u>12-31-06</u>	<u>12-31-05</u>
Actuarial value of assets (a)	\$11,021,751	\$ 10,424,233	\$ 9,474,082
Actuarial accrued liability (b)	<u>10,186,189</u>	<u>9,741,851</u>	<u>9,294,959</u>
Unfunded actuarial accrued liability (b-a)	<u>\$ (835,562)</u>	<u>\$ (682,382)</u>	<u>\$ (179,123)</u>
Funded ratio (a/b)	<u>108%</u>	<u>107%</u>	<u>102%</u>
Covered payroll (c)	<u>\$ 1,464,193</u>	<u>\$ 1,271,076</u>	<u>\$ 1,230,295</u>
Unfunded actuarial accrued liability as a percentage of covered payroll ((b-a)/c)	<u>(57)%</u>	<u>(54)%</u>	<u>(15)%</u>

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non GAAP Budgetary Basis) and Actual  
GENERAL FUND  
Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes:				
Current year's levy	\$ 500,000	\$ 500,000	\$ 478,989	\$ (21,011)
Prior years' levies	20,000	20,000	19,425	(575)
Total property taxes	520,000	520,000	498,414	(21,586)
Licenses, permits and fees:				
Franchise fees:				
Cable TV	28,500	28,500	28,743	243
Electricity	295,000	295,000	284,710	(10,290)
Telephone	43,000	43,000	43,476	476
Water/Sewer	57,200	57,200	52,649	(4,551)
Permits and fees:				
Business registration fees	35,000	35,000	38,514	3,514
Building permits	10,000	10,000	13,145	3,145
Planning permits	15,000	15,000	14,002	(998)
Miscellaneous permits	1,000	1,000	845	(155)
Miscellaneous fees	6,000	6,000	16,007	10,007
Licenses:				
Licenses	1,500	1,500	825	(675)
Animal licenses	2,250	2,250	2,280	30
Total licenses, permits and fees	494,450	494,450	495,196	746
Fines and forfeitures:				
Court	180,000	180,000	124,074	(55,926)
Parking	10,000	10,000	6,371	(3,629)
Vehicle impound	10,000	10,000	9,270	(730)
Total fines and forfeitures	200,000	200,000	139,715	(60,285)
Charges for services:				
Property Income	25,000	25,000	18,009	(6,991)
Parking meters/space rental	15,000	15,000	15,237	237
Other	5,100	5,100	-	(5,100)
Total charges for services	45,100	45,100	33,246	(11,854)

## CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget (Non GAAP Budgetary Basis) and Actual  
 GENERAL FUND  
 Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues: (Contd)				
Intergovernmental:				
Alcoholic beverage apportionment	\$ 57,600	\$ 57,600	\$ 60,765	\$ 3,165
Cigarette tax	7,600	7,600	8,062	462
State revenue sharing	35,000	35,000	36,581	1,581
Federal and state grants	5,000	25,000	20,800	(4,200)
Total intergovernmental	105,200	125,200	126,208	1,008
Interest income	7,000	7,000	2,809	(4,191)
All other	62,000	67,000	38,684	(28,316)
Total revenues	1,433,750	1,458,750	1,334,272	(124,478)
Other financing sources:				
Transfer from Transient Room Tax Fund	142,500	142,500	135,501	(6,999)
Total revenues and other financing sources	1,576,250	1,601,250	1,469,773	(131,477)
Expenditures:				
General government:				
Mayor and council	84,200	104,200 (1)	75,255	28,945
City recorder	118,390	118,390 (1)	116,883	1,507
Planning	87,794	87,794 (1)	84,276	3,518
Municipal court	57,398	57,398 (1)	54,130	3,268
City manager	61,367	61,367 (1)	56,425	4,942
City hall	103,000	103,000 (1)	73,894	29,106
Total general government	512,149	532,149	460,863	71,286
Public safety:				
Police department	1,157,203	1,162,203 (1)	1,036,892	125,311
Parks:				
Parks department	13,800	13,800 (1)	8,342	5,458
Contingency	21,098	21,098 (1)	-	21,098
Total expenditures	1,704,250	1,729,250	1,506,097	223,153

(1) Appropriation Level

## CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget (Non GAAP Budgetary Basis) and Actual  
 GENERAL FUND  
 Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other uses:				
Transfer to Water Fund	\$ 15,000	\$ 15,000 (1)	\$ -	\$ 15,000
Total expenditures and other uses	<u>1,719,250</u>	<u>1,744,250</u>	<u>1,506,097</u>	<u>238,153</u>
Changes in fund balance	(143,000)	(143,000)	(36,324)	106,676
Fund balance - beginning	<u>143,000</u>	<u>143,000</u>	<u>72,812</u>	<u>(70,188)</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,488</u>	<u>\$ 36,488</u>
Reconciliation to GAAP basis:				
Changes in fund balance - budgetary basis			\$ (36,324)	
Property taxes receivable and available - beginning			(6,123)	
Property taxes receivable and available - ending			7,981	
Accounts receivable - beginning			(6,996)	
Accounts receivable - ending			6,319	
Accounts payable - beginning			10,747	
Accounts payable - ending			<u>(21,411)</u>	
Changes in fund balance - GAAP basis			<u>\$ (45,807)</u>	

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non GAAP Budgetary Basis) and Actual  
TRANSIENT ROOM TAX FUND  
Year Ended June 30, 2009

	Original and Final Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Motel taxes	\$ 325,000		\$ 292,395	\$ (32,605)
Interest income	3,000		1,771	(1,229)
Miscellaneous	12,100		93	(12,007)
	<u>340,100</u>		<u>294,259</u>	<u>(45,841)</u>
Expenditures:				
Personal services	43,080	(1)	43,080	-
Materials and services	235,620	(1)	204,412	31,208
Capital outlay	15,000	(1)	-	15,000
	<u>293,700</u>		<u>247,492</u>	<u>46,208</u>
Other uses:				
Transfer to General Fund	142,500		135,501	6,999
Transfer to Property Purchase and Building Reserve Fund	60,000		46,527	13,473
Transfer to State Tax Street Fund	21,600		21,600	-
	<u>224,100</u>	(1)	<u>203,628</u>	<u>20,472</u>
Total expenditures and other uses	<u>517,800</u>		<u>451,120</u>	<u>66,680</u>
Changes in fund balance	(177,700)		(156,861)	20,839
Fund balance - beginning	<u>177,700</u>		<u>161,838</u>	<u>(15,862)</u>
Fund balance - ending	<u>\$ -</u>		<u>\$ 4,977</u>	<u>\$ 4,977</u>
(1) Appropriation Level				
Reconciliation to GAAP basis:				
Changes in fund balance - budgetary basis			\$ (156,861)	
Accounts payable - beginning			1,931	
Accounts payable - ending			<u>(517)</u>	
Changes in fund balance - GAAP basis			<u>\$ (155,447)</u>	

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**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

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## CITY OF TILLAMOOK

### NONMAJOR GOVERNMENTAL FUNDS (SPECIAL REVENUE FUNDS)

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Property Purchase and Building Reserve Fund - This fund was established to accumulate capital reserves for the purpose of purchasing and maintaining City property and buildings. Resources are provided by transfers from the Transient Room Tax Fund and interest income.

State Tax Street Fund - Gas tax apportionments received from the State of Oregon are recorded in this fund. Expenditures are for construction and maintenance of public streets.

Fuel Business License Fund - Collections of the City's gas tax are recorded in this fund. Expenditures are for construction and maintenance of public streets.

Bicycle/Pedways Fund - Accounts for a portion of the gas tax apportionment received from the state of Oregon earmarked for bicycle and pedways expenditures.

Equipment Reserve Fund - This fund was established to accumulate capital reserves for replacement and maintenance of equipment. Revenues are normally from assessment district collections, sale of equipment and interest earnings.

Economic Development Fund - This fund accounts for the City's economic development loan program.

Community Development Block Grant Fund – This fund accounts for the City's grant revenues used for the housing rehabilitation program.

Employee Health Fund - This fund is used to account for the City's healthwise program.

Carnahan Park Fund - Grants from the State of Oregon and collections from user fees at Carnahan Park are recorded in this fund. Expenditures are for maintenance, repair, ordinance enforcement and capital costs associated with Carnahan Park.

9-1-1 Communications Fund - The City's share of the State excise tax on telephones is recorded in this fund. The funds are turned over to the Countywide 9-1-1 system.

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CITY OF TILLAMOOK

Combining Balance Sheet  
 NONMAJOR GOVERNMENTAL (SPECIAL REVENUE) FUNDS  
 June 30, 2009

<u>Assets</u>	Property Purchase and Building Reserve	State Tax Street	Fuel Business License	Bicycle/ Pedways	Equipment Reserve	Economic Development	Community Development Block Grant	Employee Health	Carnahan Park	Totals
Cash and investments	\$ 33,634	\$ -	\$ 102,215	\$ 9,115	\$ 75	\$ 19,465	\$ -	\$ 64	\$ 3,209	\$ 167,777
Accounts receivable	-	12,488	2,781	154	-	-	-	-	-	15,423
Assessments receivable	-	-	51,364	-	-	-	-	-	-	51,364
<b>Total assets</b>	<b>\$ 33,634</b>	<b>\$ 12,488</b>	<b>\$ 156,360</b>	<b>\$ 9,269</b>	<b>\$ 75</b>	<b>\$ 19,465</b>	<b>\$ -</b>	<b>\$ 64</b>	<b>\$ 3,209</b>	<b>\$ 234,564</b>
 <u>Liabilities and Fund Balances</u>										
<b>Liabilities:</b>										
Accounts payable	\$ 200	\$ 3,945	\$ 1,299	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,293	\$ 7,737
Due to other funds	-	66,286	-	-	-	-	3,398	-	-	69,684
Deferred revenue	-	-	51,364	-	-	-	-	-	-	51,364
<b>Total liabilities</b>	<b>200</b>	<b>70,231</b>	<b>52,663</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,398</b>	<b>-</b>	<b>2,293</b>	<b>128,785</b>
<b>Fund balances-(deficit):</b>										
Unreserved	33,434	(57,743)	103,697	9,269	75	19,465	(3,398)	64	916	105,779
<b>Total liabilities and fund balances</b>	<b>\$ 33,634</b>	<b>\$ 12,488</b>	<b>\$ 156,360</b>	<b>\$ 9,269</b>	<b>\$ 75</b>	<b>\$ 19,465</b>	<b>\$ -</b>	<b>\$ 64</b>	<b>\$ 3,209</b>	<b>\$ 234,564</b>

CITY OF TILLAMOOK

Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances  
NONMAJOR GOVERNMENTAL (SPECIAL REVENUE) FUNDS  
Year Ended June 30, 2009

	Property Purchase and Building Reserve	State Tax Street	Fuel Business License	Bicycle/ Pedways	Equipment Reserve	Economic Development	Community Development Block Grant	Employee Health	Carahan Park	9-1-1 Communications	Totals
<b>Revenues</b>											
Licenses, permits and fees	\$ -	\$ 27,476	\$ 120,127	\$ -	\$ -	\$ 11,106	\$ -	\$ -	\$ 2,797	\$ -	\$161,506
Charges for services	-	-	-	-	-	-	4,200	-	-	-	4,200
Intergovernmental	-	146,356	32,621	1,808	-	-	166,530	-	6,500	25,230	379,045
Interest income	650	-	1,416	621	1	752	-	-	95	-	3,535
Assessment district collections	-	-	6,320	-	-	-	-	-	-	-	6,320
All other	-	-	108	-	-	192	-	-	-	-	300
<b>Total revenues</b>	<b>650</b>	<b>173,832</b>	<b>160,592</b>	<b>2,429</b>	<b>1</b>	<b>12,050</b>	<b>170,730</b>	<b>-</b>	<b>9,392</b>	<b>25,230</b>	<b>554,906</b>
<b>Expenditures</b>											
<b>Current</b>											
Streets	-	255,193	144,594	10,281	-	-	-	-	-	-	410,068
Parks	-	-	-	-	-	-	-	-	9,521	-	9,521
Community development	69,119	-	-	-	-	60,046	150,267	-	-	-	279,432
Transfers to other agencies	-	-	-	-	-	-	-	-	-	25,230	25,230
Debt service	-	-	11,730	-	-	-	-	-	-	-	11,730
<b>Total expenditures</b>	<b>69,119</b>	<b>255,193</b>	<b>156,324</b>	<b>10,281</b>	<b>-</b>	<b>60,046</b>	<b>150,267</b>	<b>-</b>	<b>9,521</b>	<b>25,230</b>	<b>735,981</b>
<b>Revenues over-(under) expenditures</b>	<b>(68,469)</b>	<b>(81,361)</b>	<b>4,268</b>	<b>(7,852)</b>	<b>1</b>	<b>(47,996)</b>	<b>20,463</b>	<b>-</b>	<b>(129)</b>	<b>-</b>	<b>(181,075)</b>
<b>Other financing sources (uses):</b>											
Transfer from other funds	46,527	39,800	-	-	-	-	-	-	-	-	86,327
Transfer to other funds	(5,150)	-	(9,600)	-	-	-	-	-	(2,450)	-	(17,200)
<b>Total other financing sources (uses)</b>	<b>41,377</b>	<b>39,800</b>	<b>(9,600)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,450)</b>	<b>-</b>	<b>69,127</b>
<b>Changes in fund balance</b>	<b>(27,092)</b>	<b>(41,561)</b>	<b>(5,332)</b>	<b>(7,852)</b>	<b>1</b>	<b>(47,996)</b>	<b>20,463</b>	<b>-</b>	<b>(2,579)</b>	<b>-</b>	<b>(111,948)</b>
<b>Fund balances-(deficit) - beginning</b>	<b>60,526</b>	<b>(16,182)</b>	<b>109,029</b>	<b>17,121</b>	<b>74</b>	<b>67,461</b>	<b>(23,861)</b>	<b>64</b>	<b>3,495</b>	<b>-</b>	<b>217,727</b>
<b>Fund balances-(deficit) - ending</b>	<b>\$ 33,434</b>	<b>\$ (57,743)</b>	<b>\$ 103,697</b>	<b>\$ 9,269</b>	<b>\$ 75</b>	<b>\$ 19,465</b>	<b>\$ (3,398)</b>	<b>\$ 64</b>	<b>\$ 916</b>	<b>\$ -</b>	<b>\$105,779</b>

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget (Non GAAP Budgetary Basis) and Actual  
 PROPERTY PURCHASE AND BUILDING RESERVE FUND  
 Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ 500	\$ 500	\$ 650	\$ 150
Other financing sources:				
Transfer from Transient Room Tax Fund	60,000	60,000	46,527	(13,473)
Total revenues and other financing sources	60,500	60,500	47,177	(13,323)
Expenditures:				
Materials and services	36,000	37,800 (1)	37,653	147
Capital outlay	50,435	48,635 (1)	32,815	15,820
Total expenditures	86,435	86,435	70,468	15,967
Other uses:				
Transfer to State Tax Street Fund	5,150	5,150 (1)	5,150	-
Total expenditures and other uses	91,585	91,585	75,618	15,967
Changes in fund balance	(31,085)	(31,085)	(28,441)	2,644
Fund balance - beginning	31,085	31,085	62,075	30,990
Fund balance - ending	\$ -	\$ -	33,634	\$ 33,634
(1) Appropriation Level				
Reconciliation to GAAP basis:				
Accounts payable			(200)	
Fund balance (GAAP basis) - ending			\$ 33,434	

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non GAAP Budgetary Basis) and Actual  
STATE TAX STREET FUND  
Year Ended June 30, 2009

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental:			
State gas tax apportionments	\$ 175,600	\$ 146,827	\$ (28,773)
Interest income	300	-	(300)
Miscellaneous	600	-	(600)
City sanitary franchise fee	<u>26,250</u>	<u>27,476</u>	<u>1,226</u>
Total revenues	<u>202,750</u>	<u>174,303</u>	<u>(28,447)</u>
Other financing sources:			
Transfer from Transient Room Tax Fund	21,600	21,600	-
Transfer from Fuel Business License Fund	9,600	9,600	-
Transfer from Sewage Disposal Fund	1,000	1,000	-
Transfer from Property Purchase and Building Reserve Fund	5,150	5,150	-
Transfer from Carnahan Park Fund	<u>2,450</u>	<u>2,450</u>	<u>-</u>
Total other financing sources	<u>39,800</u>	<u>39,800</u>	<u>-</u>
Total revenues and other financing sources	<u>242,550</u>	<u>214,103</u>	<u>(28,447)</u>
Expenditures:			
Personal services	208,320 (1)	215,305	(6,985)
Materials and services	<u>38,530 (1)</u>	<u>39,006</u>	<u>(476)</u>
Total expenditures	<u>246,850</u>	<u>254,311</u>	<u>(7,461)</u>
Changes in fund balance	(4,300)	(40,208)	(35,908)
Fund balance-(deficit) - beginning	<u>4,300</u>	<u>(26,078)</u>	<u>(30,378)</u>
Fund balance-(deficit) - ending	<u>\$ -</u>	<u>(66,286)</u>	<u>\$ (66,286)</u>
(1) Appropriation Level			
Reconciliation to GAAP basis:			
Accounts receivable		12,488	
Accounts payable		<u>(3,945)</u>	
Fund balance-(deficit) (GAAP basis) - ending		<u>\$ (57,743)</u>	

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non GAAP Budgetary Basis) and Actual  
FUEL BUSINESS LICENSE FUND  
Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Fuel business license fees	\$ 128,500	\$ 128,500	\$ 120,127	\$ (8,373)
Intergovernmental - federal and state grants	30,300	50,300	32,695	(17,605)
Assessment district collections	8,000	8,000	6,320	(1,680)
Interest income	2,000	2,000	1,416	(584)
Miscellaneous	200	200	108	(92)
Total revenues	<u>169,000</u>	<u>189,000</u>	<u>160,666</u>	<u>(28,334)</u>
Expenditures:				
Materials and services	157,003	157,003 (1)	145,410	11,593
Capital outlay	10,000	30,000 (1)	6,547	23,453
Debt service	<u>11,730</u>	<u>11,730</u> (1)	<u>11,730</u>	<u>-</u>
Total expenditures	178,733	198,733	163,687	35,046
Other uses:				
Transfer to State Tax Street Fund	<u>9,600</u>	<u>9,600</u> (1)	<u>9,600</u>	<u>-</u>
Total expenditures and other uses	<u>188,333</u>	<u>208,333</u>	<u>173,287</u>	<u>35,046</u>
Changes in fund balance	(19,333)	(19,333)	(12,621)	6,712
Fund balance - beginning	<u>24,333</u>	<u>24,333</u>	<u>114,836</u>	<u>90,503</u>
Fund balance - ending	<u>\$ 5,000</u>	<u>\$ 5,000</u>	102,215	<u>\$ 97,215</u>
(1) Appropriation Level				
Reconciliation to GAAP basis:				
Accounts receivable			2,781	
Assessments receivable			51,364	
Accounts payable			(1,299)	
Deferred revenues			<u>(51,364)</u>	
Fund balance (GAAP basis) - ending			<u>\$ 103,697</u>	

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget (Non GAAP Budgetary Basis) and Actual  
 BICYCLE/PEDWAYS FUND  
 Year Ended June 30, 2009

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
State gas tax apportionments	\$ 1,725	\$ 1,814	\$ 89
Interest income	400	621	221
Miscellaneous	<u>100</u>	<u>-</u>	<u>(100)</u>
Total revenues	2,225	2,435	210
Expenditures:			
Materials and services	<u>12,225 (1)</u>	<u>10,281</u>	<u>1,944</u>
Revenues over-(under) expenditures	(10,000)	(7,846)	2,154
Fund balance - beginning	<u>10,000</u>	<u>16,961</u>	<u>6,961</u>
Fund balance - ending	<u><u>\$ -</u></u>	9,115	<u><u>\$ 9,115</u></u>
(1) Appropriation Level			
Reconciliation to GAAP basis:			
Accounts receivable		<u>154</u>	
Fund balance (GAAP basis) - ending		<u><u>\$ 9,269</u></u>	

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget (Non GAAP Budgetary Basis) and Actual  
 EQUIPMENT RESERVE FUND  
 Year Ended June 30, 2009

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Interest income	\$ 1,000	\$ 1	\$ (999)
Expenditures:			
Materials and services	<u>1,000</u> (1)	<u>-</u>	<u>1,000</u>
Revenues over-(under) expenditures	-	1	1
Fund balance - beginning	<u>-</u>	<u>74</u>	<u>74</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 75</u> (2)	<u>\$ 75</u>

(1) Appropriation Level

(2) GAAP basis is same.

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget (Non GAAP Budgetary Basis) and Actual  
 ECONOMIC DEVELOPMENT FUND  
 Year Ended June 30, 2009

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Business registration surcharge	\$ 10,500	\$ 11,106	\$ 606
Interest income	500	752	252
Miscellaneous income	<u>100</u>	<u>192</u>	<u>92</u>
Total revenues	11,100	12,050	950
Expenditures:			
Materials and services	<u>69,100</u> (1)	<u>60,258</u>	<u>8,842</u>
Revenues over-(under) expenditures	(58,000)	(48,208)	9,792
Fund balance - beginning	<u>58,000</u>	<u>67,673</u>	<u>9,673</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ 19,465</u> (2)	<u>\$ 19,465</u>

(1) Appropriation Level

(2) GAAP basis is same.

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget (Non GAAP Budgetary Basis) and Actual  
 COMMUNITY DEVELOPMENT BLOCK GRANT FUND  
 Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 1,000	\$ 9,646	\$ 166,530	\$ 156,884
Charges for services	1,400	1,400	4,200	2,800
Interest income	1,200	1,200	-	(1,200)
Total revenues	<u>3,600</u>	<u>12,246</u>	<u>170,730</u>	<u>158,484</u>
Expenditures:				
Materials and services	2,400	2,400 (1)	2,554	(154)
Capital outlay	165,445	174,091 (1)	191,688	(17,597)
Total expenditures	<u>167,845</u>	<u>176,491</u>	<u>194,242</u>	<u>(17,751)</u>
Revenues over-(under) expenditures	(164,245)	(164,245)	(23,512)	140,733
Fund balance - beginning	<u>164,245</u>	<u>164,245</u>	<u>20,114</u>	<u>(144,131)</u>
Fund balance-(deficit) - ending	<u>\$ -</u>	<u>\$ -</u>	<u>(3,398)</u> (2)	<u>\$ (3,398)</u>

(1) Appropriation Level

(2) GAAP basis is same.

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget (Non GAAP Budgetary Basis) and Actual  
 EMPLOYEE HEALTH FUND  
 Year Ended June 30, 2009

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
Fund balance - beginning	<u>\$ -</u>	<u>\$ 64</u>	<u>\$ 64</u>
Fund balance - ending	<u><u>\$ -</u></u>	<u><u>\$ 64</u></u> (1)	<u><u>\$ 64</u></u>

(1) GAAP basis is same.

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget (Non GAAP Budgetary Basis) and Actual  
 CARNAHAN PARK FUND  
 Year Ended June 30, 2009

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:			
Licenses, permits and fees	\$ 3,500	\$ 2,797	\$ (703)
Intergovernmental - state grants	6,500	6,500	-
Interest income	300	95	(205)
	<u>10,300</u>	<u>9,392</u>	<u>(908)</u>
Total revenues			
Expenditures:			
Materials and services	8,150 (1)	7,167	983
Capital outlay	2,150 (1)	260	1,890
	<u>10,300</u>	<u>7,427</u>	<u>2,873</u>
Total expenditures			
Other uses:			
Transfer to State Tax Street Fund	2,450 (1)	2,450	-
	<u>12,750</u>	<u>9,877</u>	<u>2,873</u>
Total expenditures and other uses			
Changes in fund balance	(2,450)	(485)	1,965
Fund balance - beginning	<u>2,450</u>	<u>3,694</u>	<u>1,244</u>
Fund balance - ending	<u><u>\$ -</u></u>	<u>3,209</u>	<u><u>\$ 3,209</u></u>
Reconciliation to GAAP basis:			
Accounts payable		<u>(2,293)</u>	
Fund balance (GAAP basis) - ending		<u><u>\$ 916</u></u>	

(1) Appropriation Level

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
 Budget (Non GAAP Budgetary Basis) and Actual  
 9-1-1 COMMUNICATIONS FUND  
 Year Ended June 30, 2009

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental - telephone excise tax receipts	<u>\$ 24,685</u>	<u>\$ 25,230</u>	<u>\$ 545</u>
Expenditures:			
Materials and services	<u>24,685 (1)</u>	<u>25,230</u>	<u>(545)</u>
Revenues over-(under) expenditures	-	-	-
Fund balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u> (2)	<u>\$ -</u>

(1) Appropriation Level

(2) GAAP basis is same.

CITY OF TILLAMOOK

**ENTERPRISE FUNDS**

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The Enterprise Funds account for the operations of the City's water system and sewage disposal system. Revenues are primarily from water and sewer charges. Expenditures are for the operation and maintenance of the water system, sewage disposal system and capital improvements. The City budgets and reports the water and sewer activities in two funds.

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CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Equity -  
Budget (Non GAAP Budgetary Basis) and Actual  
SEWAGE DISPOSAL FUND  
Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Sewer charges	\$ 1,441,234	\$ 1,441,234	\$ 1,491,906	\$ 50,672
Connection fees	12,000	12,000	7,185	(4,815)
Intergovernmental - federal and state grants	1,134,113	1,134,113	1,131,473	(2,640)
Interest income	15,000	15,000	22,997	7,997
Miscellaneous	9,500	509,500	7,009	(502,491)
<b>Total revenues</b>	<b>2,611,847</b>	<b>3,111,847</b>	<b>2,660,570</b>	<b>(451,277)</b>
Other financing sources - loan proceeds	4,115,411	6,587,184	5,196,066	(1,391,118)
<b>Total revenues and other financing sources</b>	<b>6,727,258</b>	<b>9,699,031</b>	<b>7,856,636</b>	<b>(1,842,395)</b>
<b>Expenditures:</b>				
Personal services	386,280	417,280 (1)	415,622	1,658
Materials and services	658,072	627,072 (1)	649,544	(22,472)
Capital outlay	5,482,025	8,453,798 (1)	7,980,647	473,151
<b>Debt service:</b>				
Principal	310,566	310,566 (1)	246,468	64,098
Interest	144,813	144,813 (1)	62,580	82,233
Fees	13,637	13,637 (1)	7,628	6,009
Loan reserve	25,316	25,316 (1)	-	25,316
<b>Total expenditures</b>	<b>7,020,709</b>	<b>9,992,482</b>	<b>9,362,489</b>	<b>629,993</b>
<b>Other uses:</b>				
Transfer to Water Fund	10,000	10,000	-	10,000
Transfer to State Tax Street Fund	1,000	1,000	1,000	-
<b>Total other uses</b>	<b>11,000</b>	<b>11,000 (1)</b>	<b>1,000</b>	<b>10,000</b>
<b>Total expenditures and other uses</b>	<b>7,031,709</b>	<b>10,003,482</b>	<b>9,363,489</b>	<b>639,993</b>
<b>Changes in fund equity</b>	<b>(304,451)</b>	<b>(304,451)</b>	<b>(1,506,853)</b>	<b>(1,202,402)</b>
Fund equity - beginning	559,550	559,550	1,523,115	963,565
Fund equity - ending	\$ 255,099	\$ 255,099	16,262	\$ (238,837)
<b>Reconciliation to GAAP basis:</b>				
Accounts receivable			139,071	
Capital assets (net of accumulated depreciation)			20,727,404	
Current liabilities			(1,334,608)	
Noncurrent liabilities			(14,707,065)	
Fund balance (GAAP basis) - ending			\$ 4,841,064	

(1) Appropriation level

CITY OF TILLAMOOK

Schedule of Revenues, Expenditures and Changes in Fund Equity -  
Budget (Non GAAP Budgetary Basis) and Actual  
WATER FUND  
Year Ended June 30, 2009

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:			
Water charges	\$ 1,395,825	\$ 1,138,104	\$ (257,721)
Interest income	20,000	13,564	(6,436)
Miscellaneous	18,200	26,418	8,218
Total revenues	<u>1,434,025</u>	<u>1,178,086</u>	<u>(255,939)</u>
Other financing sources:			
Transfer from Sewage Disposal Fund	10,000	-	(10,000)
Transfer from General Fund	15,000	-	(15,000)
Total other financing sources	<u>25,000</u>	<u>-</u>	<u>(25,000)</u>
Total revenues and other financing sources	<u>1,459,025</u>	<u>1,178,086</u>	<u>(280,939)</u>
Expenditures:			
Personal services	524,578 (1)	475,802	48,776
Materials and services	1,049,217 (1)	300,150	749,067
Capital outlay	661,575 (1)	55,896	605,679
Debt service:			
Principal	271,633 (1)	271,633	-
Interest	118,487 (1)	118,488	(1)
Contingencies	8,000 (1)	-	8,000
Transfers	27,916 (1)	-	27,916
Total expenditures	<u>2,661,406</u>	<u>1,221,969</u>	<u>1,439,437</u>
Changes in fund equity	(1,202,381)	(43,883)	1,158,498
Fund equity - beginning	<u>1,650,769</u>	<u>1,647,582</u>	<u>(3,187)</u>
Fund equity - ending	<u>\$ 448,388</u>	1,603,699	<u>\$ 1,155,311</u>
Reconciliation to GAAP basis:			
Accounts receivable		107,126	
Inventories		129,542	
Capital assets (net of accumulated depreciation)		5,431,134	
Current liabilities		(416,647)	
Noncurrent liabilities		<u>(1,739,841)</u>	
Fund balance (GAAP basis) - ending		<u>\$ 5,115,013</u>	

(1) Appropriation level

CITY OF TILLAMOOK

**FIDUCIARY FUND**

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Agency Fund - This fund accounts for the amounts collected for bail by the City's municipal court.

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CITY OF TILLAMOOK

Schedule of Changes in Assets and Liabilities  
 AGENCY FUND  
 Year Ended June 30, 2009

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
<u>Assets</u>				
Cash and investments	<u>\$ 3,635</u>	<u>\$ 22,832</u>	<u>\$20,252</u>	<u>\$ 6,215</u>
<u>Liabilities</u>				
Amounts held for others	<u>\$ 3,635</u>	<u>\$ 22,832</u>	<u>\$20,252</u>	<u>\$ 6,215</u>

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CITY OF TILLAMOOK

**PROPERTY TAX SCHEDULE**

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CITY OF TILLAMOOK

Schedule of Property Tax Transactions  
Year Ended June 30, 2009

Tax Year	Uncollected Taxes 7/1/2008	2008-09 Levy	Adjustments and Corrections	Interest	Collections	Uncollected Taxes 6/30/2009
2008-09	\$ -	\$ 518,208	\$(12,523)	\$ 336	\$481,786	\$ 24,235
2007-08	19,664	-	(113)	663	10,322	9,892
2006-07	6,794	-	(19)	407	2,767	4,415
2005-06	3,528	-	(15)	625	2,825	1,313
2004-05	948	-	(11)	215	861	291
2003-04	85	-	(8)	-	1	76
2002-03	65	-	(4)	-	-	61
Prior years	182	-	-	-	-	182
Totals	<u>\$ 31,266</u>	<u>\$ 518,208</u>	<u>\$(12,693)</u>	<u>\$ 2,246</u>	<u>\$ 498,562</u>	<u>\$ 40,465</u>

RECONCILIATION OF REVENUE:

	GENERAL FUND
Cash Collections by County Treasurer Above	\$ 498,562
Accrual of Receivables:	
June 30, 2008	(6,107)
June 30, 2009	7,969
Other Taxes	<u>(152)</u>
Total Revenue	<u>\$ 500,272</u>

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**INDEPENDENT AUDITOR'S COMMENTS**  
(Disclosures and Comments Required by State Regulations)

Oregon Administrative Rules 162-010-0050 through 162-010-0320 incorporate the Minimum Standards for Audits of Oregon Municipal Corporations prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy. Such standards enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required financial statements and schedules are set forth in preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth following.

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# PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

- 
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  - (503) 620-2632 • FAX (503) 684-7523

December 31, 2009

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## 2008 -2009 AUDITORS' COMMENTS AND DISCLOSURES

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Oregon Administrative Rules 162-10-000 through 162-16-000 the Minimum Standards for Audits of Oregon Municipal Corporations enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required statements and schedules are set forth in preceding pages of this report. Required comments and disclosures related to our audit of such statements and schedules are set forth as follows:

### REPORT ON INTERNAL ACCOUNTING CONTROL

We have audited the basic financial statements of the City of Tillamook, Tillamook County, Oregon, for the year ended June 30, 2009 and have issued our report thereon dated December 31, 2009.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Basic Financial Statements are free of material misstatement.

The management of the City of Tillamook, Tillamook County, Oregon, is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

In planning and performing our audit of the basic financial statements of the City of Tillamook, Tillamook County, Oregon, for the year ended June 30, 2009, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

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

REPORT ON INTERNAL ACCOUNTING CONTROL (CONTINUED)

We noted matters involving the internal control structure and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, which are noted in the Schedule of Findings and Questioned Costs.

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

A material weakness is a significant deficiency in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the city council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ACCOUNTING RECORDS

The accounting records were adequate for audit.

BUDGET TRANSACTIONS

Expenditures of the various funds appeared to be within authorized appropriations except as noted on Page 34.

2008-2009 and 2009-2010 BUDGETS

The budgets adopted for the current and ensuing fiscal year were examined during the audit. Based on our testing, it was determined that budget preparation and adoption procedures followed appeared to be in compliance with the Oregon Local Budget Law.

STATE HIGHWAY FUNDS

Compliance with requirements of Article IX, Section 3a of the Oregon Constitution and ORS 294 and 373 was reviewed, and based upon our testing, we found compliance with the restrictions on the use of revenue from taxes on motor vehicle use and fuel.

COLLATERAL SECURING BANK DEPOSITS

Deposits throughout the year appeared to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury based upon our testing. Deposits in the State Local Government Investment Pool are not required to be collateralized.

INVESTMENTS

Investments for the year ending June 30, 2009, were reviewed and, based upon our testing, appeared to comply with the legal requirements pertaining to the investment of public funds contained in ORS 294.035.

PUBLIC CONTRACTS AND PURCHASING

The procedures for awarding public contracts were reviewed, and based upon our testing, we found no instances of non-compliance with ORS Chapter 279 during 2008-2009.

INSURANCE AND FIDELITY BONDS

We are not aware of any failure to comply with legal requirements relating to insurance and fidelity bonds, however, we are not competent by training and experience to comment on the adequacy of insurance coverage.

STATUTORY BONDED DEBT LIMITATION

The bonded debt outstanding appeared to be within the limitation established by Oregon Law.

PROGRAMS FUNDED FROM OUTSIDE SOURCES

We reviewed and tested, to the extent we considered necessary in the circumstances, transactions and reports relative to federal and state grant programs. Our reports concerning grant compliance and a schedule of federal assistance are contained in this report in the grant compliance review section.

INDEPENDENT ELECTED OFFICIALS

No elected officials collected or received funds on behalf of the City.

*Pauly, Rogers and Co. P.C.*  
PAULY, ROGERS AND CO., P.C.

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CITY OF TILLAMOOK  
TILLAMOOK COUNTY, OREGON

**GRANT COMPLIANCE REVIEW**

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CITY OF TILLAMOOK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2009

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	TOTAL AWARDS EXPENDED
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
Passed through Oregon Economic & Community Development Department:		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	\$ 1,115,523
ENVIRONMENTAL PROTECTION AGENCY		
Passed through Oregon Department of Environmental Quality:		
Capitalization Grants for Clean Water State Revolving Funds	66.458	3,406,862 (1)
GENERAL SERVICES ADMINISTRATION:		
Passed through Oregon Department of General Services:		
Donation of Federal Surplus Personal Property	39.003	18,725
		<u>\$ 4,541,110</u>

(1) Tested as Major Program.

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December 31, 2009

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

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

We have audited the financial statements of the City of Tillamook as of and for the year ended June 30, 2009, and have issued our report thereon dated December 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Tillamook's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Tillamook in the Schedule of Findings and Questioned Costs on page 65.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Council, federal awarding and pass through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Pauly, Rogers and Co. P.C.*  
PAULY, ROGERS AND CO., P.C.



**PAULY, ROGERS AND CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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  - (503) 620-2632 • FAX (503) 684-7523

December 31, 2009

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

**Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on  
Internal Control Over Compliance in Accordance With OMB Circular A-133**

**Compliance**

We have audited the compliance of the City of Tillamook with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Tillamook's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Tillamook's management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Tillamook's compliance with those requirements.

In our opinion, the City of Tillamook complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

**Internal Control Over Compliance**

The management of the City of Tillamook is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Tillamook's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the internal controls over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal controls that might be significant deficiencies or material weaknesses as defined below.

A *control deficiency* in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by internal controls.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, the Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Pauly, Rogers and Co. P.C.*  
PAULY, ROGERS AND CO., P.C.

CITY OF TILLAMOOK SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2009

Section I – Summary of Auditor’s Results

Financial Statements

Type of Auditor’s report issued: Unqualified
Internal control over financial reporting:
• Material weakness(es) identified? Yes No
• Significant deficiency(ies) identified that are not considered to be material weaknesses X Yes None reported
Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over financial reporting:
• Material weakness(es) identified? Yes No
• Significant deficiency(ies) identified that are not considered to be material weaknesses Yes X None reported
Type of auditor’s report issued on compliance for major programs: Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs

CFDA Number(s): 66.458

Name of Federal Program: Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000
Auditee qualified as low-risk auditee? X Yes No

Section II – Financial Statement Findings

2009-1

Condition: Incomplete documentation of internal controls.

Criteria: In applying SAS 112 the Council should adopt formal policies/procedures for all accounting areas.

Effect: Without adequate documentation of policies/procedures it is difficult for the board and management to ensure that assets are being properly safeguarded.

Cause: The Council has yet to adopt and implement a written internal control document.

Recommendations: We recommend development and implementation of an internal control document in accordance with SAS 112.

Response: This document is in the works, approximately 60% completed.

2009-2

Condition: Inadequate controls over the payroll process due to lack of segregation of duties.

Criteria: Proper segregation of duties should not allow any one employee to have access to both physical assets and the related accounting records or to all phases of the transaction.

Effect: Without controls or procedures in place to monitor the payroll function, there exists the likelihood of material misstatement in the financial statements.

Cause: Insufficient resources limit the number of available personnel who are both properly trained and pose an adequate level of competence to perform accounting functions. The payroll clerk has the ability to create new employees within the payroll system.

Recommendations: We recommend that the ability to create new employees be limited to the City Recorder / HR Director or that other mitigating controls be put in place.

Response: The recommendation is noted and will be followed in the future. A policy will detail the procedure.

2009-3

Condition: Inadequate controls over the check stock and signature stamp.

Criteria: Check stock and signature stamps should be kept in a secure location at all times where only authorized individuals may access them.

Effect: Without controls or procedures in place to safeguard the check stock and signature stamp, there exists the likelihood of material misstatement in the financial statements.

Cause: The City's check stock and the signature stamp are not kept in a secure location where only authorized individuals can access them.

Recommendations: We recommend that the check stock and the signature stamp be kept in a secure location where only authorized individuals may access them.

Response: This recommendation has been implemented as of July 2009.

2009-4

Condition: Adequate controls were not in place to ensure that bank reconciliations were reviewed.

Criteria: Bank reconciliations should be completed and reviewed in a timely manner in order to ensure that assets are safeguarded.

Effect: Without controls or procedures in place to monitor the bank accounts and reconciliations, the likelihood of an intentional error or irregularity existing and not being detected could result in a material misstatement of the financial statements.

Cause: Insufficient resources appeared to be allocated to the monitoring of the bank reconciliation process.

Recommendations: We recommend that all bank reconciliations be completed and reviewed within 30 days of receiving of the bank statement, and that the review be documented.

Response: This recommendation has been implemented as of September 2009.

2009-5

Condition: Inadequate controls over utility billings due to lack of segregation of duties.

Criteria: Proper segregation of duties should not allow any one employee to have access to both physical assets and the related accounting records or to all phases of the transaction.

Effect: Without controls or procedures in place to monitor the payroll function, there exists the likelihood of material misstatement in the financial statements.

Cause: Insufficient resources limit the number of available personnel who are both properly trained and pose an adequate level of competence to perform accounting functions. The utility clerk receives payments, creates receipts, posts payments to customer accounts and prepares the deposit.

Recommendations: We recommend that the City either change their control structure to remove certain key duties to obtain segregation of duties or implement mitigating controls.

Response: The City will implement a third party that does not receive payments or enter them into the accounting system to prepare deposits and balance cash drawers as of April 1, 2010.

2009-6

Condition: Adequate controls were not in place to ensure that bills were reviewed and approved prior to being paid.

Criteria: Proper controls should be in place and monitored to ensure bills are approved and accurate before checks are released.

Effect: Without controls or procedures in place to monitor the bills function, there exists the likelihood of material misstatement in the financial statements.

Cause: Insufficient resources appeared to be allocated to the monitoring of the bills process.

Recommendations: We recommend that someone independent of the accounts payable function review and approve invoices prior to releasing checks.

Response: This recommendation has been implemented as of beginning of the 2009-10 fiscal year.

### **Section III – Federal Award Findings and Question Costs**

None

#### **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

##### **1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Tillamook and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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