

PENDLETON DEVELOPMENT COMMISSION
(A Component Unit of the City of Pendleton, Oregon)

Annual Financial Report

For the Fiscal Year Ended June 30, 2013

PENDLETON DEVELOPMENT COMMISSION
(A Component Unit of the City of Pendleton, Oregon)

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PENDLETON DEVELOPMENT COMMISSION
(A Component Unit of the City of Pendleton, Oregon)

OFFICIALS OF THE AGENCY
JUNE 30, 2013

BOARD OF DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Term Expires</u> <u>December 31,</u>
Phillip Houk	707 NW 3 rd Street Pendleton, OR 97801	2016
Keith May	5 N.E. Despain Avenue Pendleton, OR 97801	2014
John Brenne	PO Box 1404 Pendleton, OR 97801	2014
Jane Hill	PO Box 339 Pendleton, OR 97801	2016
Becky Marks	PO Box 494 Pendleton, OR 97801	2016
Chuck Woods	414 NW 4th Avenue Pendleton, OR 97801	2016
Neil Brown	3305 S.W. Hailey Avenue Pendleton, OR 97801	2014
Al Plute	15 S.E. Emigrant Avenue Pendleton, OR 97801	2014
Tom Young	3304 S.W. Ladow Avenue Pendleton, OR 97801	2016

AGENCY ADDRESS

Administrative Offices
500 SW Dorion Avenue
Pendleton, OR 97801



Dickey and Tremper, LLP
Certified Public Accountants and Business Advisors

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P.O. Box 1533
Pendleton, OR 97801
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pendleton Development Commission
Pendleton, Oregon

We have audited the accompanying financial statements of the governmental activities and each major fund of Pendleton Development Commission (*a component unit of the City of Pendleton, Oregon*) as of and for the year ended, June 30, 2013, and the related notes to the financial statements which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair representation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluation the overall presentation of the financial statements.

A

INDEPENDENT AUDITOR'S REPORT (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Pendleton Development Commission (a component unit of the City of Pendleton, Oregon), as of June 30, 2013, the respective changes in financial position, and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding New Accounting Policy

As described in Note I.J, during the accounting year ended June 30, 2013, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages a through e be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pendleton Development Commission's basic financial statements. The supplemental budgetary schedule for the Debt Service Fund, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Pendleton Development Commission.

INDEPENDENT AUDITOR'S REPORT (Continued)

The budgetary schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statement as whole.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated January 14, 2014, on our consideration of the Pendleton Development Commissions' internal control over financial reporting and on tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-320. 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.

Dickey and Tremper, LLP

Dickey and Tremper, LLP
Certified Public Accountants
Pendleton, Oregon

January 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENTS DISCUSSION AND ANALYSIS

This discussion and analysis presents the highlights of financial activities and financial position for the Pendleton Development Commission Urban Renewal District (Agency) a component unit of the City of Pendleton for the year ended June 30, 2013. The analysis focuses on significant financial issues, major financial activities, budget changes and variances from the budget and specific issues related to funds and the economic factors affecting the Agency.

Management's Discussion and Analysis (MD&A) focuses on current year's activities. Please read it in conjunction with the City's financial statements and the Agency's financial statements which follow this discussion and analysis.

Financial Highlights

- FY13 was the eighth year of operations for the Agency. The facade reimbursement program continued with \$15,778 reimbursed to property owners for downtown facade restorations by June 30th.
- The liabilities of the Agency exceeded its assets at the close of the fiscal year by \$1,694,720 (net position).
- Through the Jump Start program which is designed to promote and assist businesses to locate downtown, loans were made to two companies for a total of \$84,000 in FY13. These loans are paid back over time to the PDC for principal and interest.
- The demolition program is in its third year. Property owners must agree to construct new building(s) with a minimum building permit value of three times the value of the property being demolished and rebuild within 18 months. There were several sites that began construction phase of the program in FY13.
- During the fiscal year, the Agency had expenses from governmental activities totaling \$464,800 and total governmental activity revenues of \$609,039.
- The Agency was indebted \$3,496,411 from authorized loans towards facade restoration projects, construction projects and expenses of the Agency.
- The Agency contributed \$7,500 to the City of Pendleton to assist financially in community cleanup program within the district overseen by a Resource Assistance for Rural Environments (RARE) student.
- The Agency also contributed \$25,000 the City of Pendleton for the Sundown and Motanic statues. \$20,000 was from grant sources.
- Taxes received for the seventh year were \$580,408. Incremental tax revenues provide the vehicle for repayment debt incurred by the Agency.

Overview of Financial Statements

Following the Management's Discussion and Analysis, this report is organized in three sections: basic financial statements including the notes to basic financial statements; supplementary information; and audit comments and disclosures. The Agency has two governmental funds. The two funds are the General Operating Fund and the Debt Service Fund. The Agency had no proprietary funds or business-type activity. The agency-wide statements include the statement of net position and the statement of activities.

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

The *statement of activities* focuses on gross and net costs of the Agency programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

The *notes to the financial statements* provide additional disclosure required by governmental accounting standards and provide information to assist the reader in understanding the Agency's financial condition.

This report presents *required supplementary information* concerning budgetary comparisons for the general funds, and the budget to GAAP reconciliation in the basic financial statements and accompanying notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This was the eighth fiscal year of operation for the Pendleton Downtown Commission Urban Renewal District

A. Analysis of Net Position

Table 1
Pendleton Development Commission
Summary of Net Position

	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>Change</u>
Governmental Activities			
Assets			
Current and other assets	\$1,014,046	\$1,519,381	505,335
Capital assets	234,696	37,559	(197,137)
Assets available for sale	<u>308,726</u>	<u>308,726</u>	<u>0</u>
Total Assets	<u>\$1,557,468</u>	<u>\$1,865,666</u>	<u>308,198</u>
Liabilities			
Long-term liabilities outstanding	\$3,353,676	\$3,496,411	142,735
Other liabilities	<u>42,751</u>	<u>63,975</u>	<u>21,224</u>
Total liabilities	<u>\$3,396,427</u>	<u>\$3,560,386</u>	<u>163,959</u>
Net Position			
Restricted for Debt Service	\$579,434	\$784,243	204,809
Unrestricted (deficit)	<u>(2,418,393)</u>	<u>(2,478,963)</u>	<u>(60,570)</u>
Total Net Position	<u><u>(\$1,838,959)</u></u>	<u><u>(\$1,694,720)</u></u>	<u><u>144,239</u></u>

As noted earlier, net position may serve as a useful indicator of a government's financial position. For the Agency however, tax dollars are required to be used for debt service only. The concept is to borrow dollars now

to increase the assessed values of the properties which in turn increase the tax base for the urban renewal agency in the future.

B. Statement of Changes in Net Activities

**Table 2
Pendleton Development Commission
Governmental Activities**

	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>Change</u>
Revenues			
<i>Program revenues:</i>			
Charges for services	\$0	\$0	\$0
Operating grants & contributions	0	0	0
Capital grants & contributions	225	20,000	19,775
<i>General revenues:</i>			
Property taxes	530,071	581,868	51,797
Investment earnings	2,790	7,171	4,381
Total Revenues	<u>\$533,086</u>	<u>\$609,039</u>	<u>\$75,953</u>
Expenses			
General Government	\$216,160	\$264,424	\$48,264
Interest on long-term debt	204,888	200,376	(4,512)
Total Expenses	<u>\$421,048</u>	<u>\$464,800</u>	<u>\$43,752</u>
Change in net position	112,038	144,239	32,201
Net position -- beginning	<u>(\$1,950,997)</u>	<u>(\$1,838,959)</u>	<u>\$112,038</u>
Net position -- ending	<u>(\$1,838,959)</u>	<u>(\$1,694,720)</u>	<u>\$144,239</u>

As noted above, the Pendleton Development Commission's overall net position increased by \$144,239 during FY2013. The Agency maintained programs but capital expenditures were not budgeted or spent. The eighth year saw the Agency tax revenue of \$581,868. The tax increment revenue is restricted to repayment of debt. Debt expense included interest and fee payments of \$200,376.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Agency's operating General Fund total appropriations were budgeted at \$626,500. The budget adopted was for \$365,000 for materials and services, \$50,000 for capital, and \$211,500 for contingency. The Budget was not amended during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

Major event that affected capital assets for the current fiscal was the transferring of River Parkway land to the City of Pendleton. There were no additional capital improvements made during the year.

Pendleton Development Commission Governmental Activities Capital Assets

Asset Category	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>Change</u>
Land	\$234,696	\$37,559	(\$197,137)
Construction in Progress	0	0	0
Assets Available for Resale	<u>308,726</u>	<u>308,726</u>	<u>0</u>
Total Assets	<u><u>\$543,422</u></u>	<u><u>\$346,285</u></u>	<u><u>(\$197,137)</u></u>

B. Debt Administration

As of June 30, 2013, the Agency had total debt outstanding of \$3,496,411.

The following table provides comparative information on the Agency's outstanding debt:

Table 3
Pendleton Development Commission
Outstanding Debt
Governmental Activities

Debt Category	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>Change</u>
Notes Payable	<u>\$ 3,353,671</u>	<u>\$3,496,411</u>	<u>\$142,735</u>
Total	<u><u>\$ 3,353,671</u></u>	<u><u>\$3,496,411</u></u>	<u><u>\$142,735</u></u>

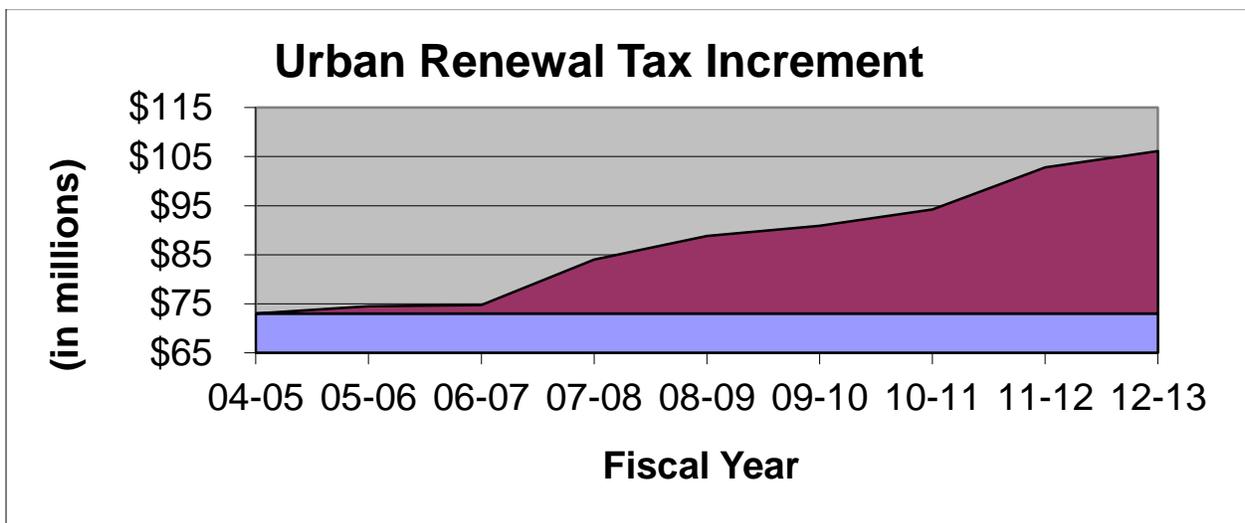
The Agency borrowed an additional \$325,000. The Agency has a fixed loan and made an annual principal payment of \$179,018. The Agency had an open loan at the beginning of the year to continue façade grants, capital construction, and other projects as approved by the Commission. That loan was converted a fixed loan for \$2.15 million and with a principal reduction of \$3,246 by year end. Total debt as of June 30th was \$3,496,411. Tax revenues will be used to payoff debt.

Additional information on the Agency's debt can be found in the notes to the basic financial statements.

ECONOMIC FACTORS

As an urban renewal agency, the Pendleton Development Commission receives tax increment revenues; calculated on the assessed value over the frozen base, which was set at the time the urban renewal district was formed. As the property values increase due to new development or improvements, the Agency will gain from that benefit then just the three percent tax increase allowed under Measure 50 which limited increased property tax revenues in future years to a maximum of three percent, with permitted allowances for increasing valuations based on new construction.

The following graph provides visual representation of assessed value increment of the Pendleton Development Commission's Urban Renewal Agency.



REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the government's finances. Questions concerning any of this information provided in this report or requests for additional financial information should be addressed to:

City of Pendleton
Linda Carter, Finance Director
500 SW Dorion Ave.
Pendleton, OR 97801

BASIC FINANCIAL STATEMENTS

PENDLETON DEVELOPMENT COMMISSION
(A Component Unit of the City of Pendleton, Oregon)

STATEMENT OF NET POSITION
June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,339,312
Receivables:	
Property taxes	41,752
Notes	138,317
Land	37,559
Assets available for sale	<u>308,726</u>
 Total assets	 <u>1,865,666</u>
DEFERRED OUTFLOWS OF RESOURCES	
	<u>-</u>
LIABILITIES	
Accounts payable and accrued liabilities	815
Accrued interest payable	63,160
Long-term obligations:	
Due within one year	384,406
Due in more than one year	<u>3,112,005</u>
 Total liabilities	 <u>3,560,386</u>
DEFERRED INFLOWS OF RESOURCES	
	<u>-</u>
NET POSITION	
Restricted for debt service	784,242
Unrestricted (deficit)	<u>(2,478,962)</u>
 Total net position (deficit)	 <u>\$ (1,694,720)</u>

The notes to the basic financial statements are an integral part of this statement.

PENDLETON DEVELOPMENT COMMISSION
(A Component Unit of the City of Pendleton, Oregon)

STATEMENT OF ACTIVITIES
For the fiscal year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 264,424	\$ -	\$ -	\$ 20,000	\$ (244,424)
Interest on long-term obligations	<u>200,376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,376)</u>
Total governmental activities	<u>\$ 464,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>(444,800)</u>
General revenues:					
Property taxes levied for:					
Debt service					
					581,868
Interest and investment earnings					
					<u>7,171</u>
Total general revenues					
					<u>589,039</u>
Change in net position					
					144,239
Net position (deficit), beginning					
					<u>(1,838,959)</u>
Net position (deficit), ending					
					<u>\$ (1,694,720)</u>

The notes to the basic financial statements are an integral part of this statement.

PENDLETON DEVELOPMENT COMMISSION
(A Component Unit of the City of Pendleton, Oregon)

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Urban Renewal District Debt Service	Totals
ASSETS			
Cash and cash equivalents	\$ 560,033	\$ 779,279	\$ 1,339,312
Receivables:			
Property taxes	-	41,752	41,752
Notes	138,317	-	138,317
Total assets	\$ 698,350	\$ 821,031	\$ 1,519,381
LIABILITIES			
Accounts payable and accrued liabilities	\$ 815	\$ -	\$ 815
Deferred revenue	138,317	36,789	175,106
Total liabilities	139,132	36,789	175,921
FUND BALANCE			
Restricted	-	784,242	784,242
Unassigned	559,218	-	559,218
Total fund balance	559,218	784,242	1,343,460
Total liabilities and fund balance	\$ 698,350	\$ 821,031	\$ 1,519,381

Amounts reported for governmental activities in the Statement of Net Positions are different because:

Fund balance above	\$ 1,343,460
Long-term assets that are not available to pay for current-period expenditures are deferred in the funds.	175,106
Capital assets purchased by governmental activities are not financial resources and are not reported in the funds.	346,285
Long-term liabilities, including notes payable and accrued interest are not due and payable in the current period and, therefore, are not reported in the funds.	(3,559,571)

Net position (deficit) of governmental activities \$ (1,694,720)

The notes to the basic financial statements are an integral part of this statement.

PENDLETON DEVELOPMENT COMMISSION
(A Component Unit of the City of Pendleton, Oregon)

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013**

	General Fund	Urban Renewal District Debt Service Fund	Totals
REVENUES			
Property taxes	\$ -	\$ 580,408	\$ 580,408
Loan repayments	12,662	-	12,662
Contributions	20,000	-	20,000
Interest on investments	1,165	1,631	2,796
TOTAL REVENUES	<u>33,827</u>	<u>582,039</u>	<u>615,866</u>
EXPENDITURES			
Current:			
General government:			
Materials and services	136,416	15,000	151,416
Debt service	-	362,231	362,231
TOTAL EXPENDITURES	<u>136,416</u>	<u>377,231</u>	<u>513,647</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(102,589)</u>	<u>204,808</u>	<u>102,219</u>
OTHER FINANCING SOURCES (USES)			
Issuance of debt	325,000	-	325,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>325,000</u>	<u>-</u>	<u>325,000</u>
NET CHANGE IN FUND BALANCE	222,411	204,808	427,219
FUND BALANCE, Beginning	<u>336,807</u>	<u>579,434</u>	<u>916,241</u>
FUND BALANCE, Ending	<u>\$ 559,218</u>	<u>\$ 784,242</u>	<u>\$ 1,343,460</u>

The notes to the basic financial statements are an integral part of this statement.

PENDLETON DEVELOPMENT COMMISSION
(A Component Unit of the City of Pendleton, Oregon)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
For the Fiscal Year Ended June 30, 2013

Net change in fund balance - governmental fund	\$ 427,219
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred revenues	77,302
Issuance of debt is a financial resource in the governmental fund, but the issuance increases long-term liabilities in the Statement of Net Position.	(325,000)
Repayment of long-term obligations principal is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position.	182,264
Accrued interest payable reported in the Statement of Activities does not require the use of current financial resources, and is not reported as an expenditure in the governmental funds.	(20,409)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities capital assets held for rehabilitation and sale are capitalized until disposed or contributed to the City.	<u>(197,137)</u>
Change in net position - governmental activities	<u><u>\$ 144,239</u></u>

PENDLETON DEVELOPMENT COMMISSION
(A Component Unit of the City of Pendleton, Oregon)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
REVENUES				
Loan repayments	\$ -	\$ -	\$ 12,662	\$ 12,662
Contributions	-	-	20,000	20,000
Interest on investments	1,500	1,500	1,165	(335)
TOTAL REVENUES	<u>1,500</u>	<u>1,500</u>	<u>33,827</u>	<u>32,327</u>
EXPENDITURES				
Current:				
General government:				
Materials and services	365,000	365,000	136,416	228,584
Capital outlay	50,000	50,000	-	50,000
Contingency	211,500	211,500	-	211,500
TOTAL EXPENDITURES	<u>626,500</u>	<u>626,500</u>	<u>136,416</u>	<u>490,084</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(625,000)</u>	<u>(625,000)</u>	<u>(102,589)</u>	<u>522,411</u>
OTHER FINANCING SOURCES (USES)				
Issuance of debt	300,000	300,000	325,000	25,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>300,000</u>	<u>300,000</u>	<u>325,000</u>	<u>25,000</u>
NET CHANGE IN FUND BALANCE	(325,000)	(325,000)	222,411	547,411
FUND BALANCE, Beginning	<u>325,000</u>	<u>325,000</u>	<u>336,807</u>	<u>11,807</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 559,218</u>	<u>\$ 559,218</u>

The notes to the basic financial statements are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

PENDLETON DEVELOPMENT COMMISSION
(A Component Unit of the City of Pendleton, Oregon)

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Pendleton Development Commission (the Agency), a component unit of the City of Pendleton, Oregon, is the urban renewal agency of and controlled by the City of Pendleton (the City). The governing body is composed of the Mayor and City Council of the City of Pendleton.

B. Inclusion of the Agency in Pendleton, Oregon, Comprehensive Annual Financial Report

All significant activities and organizations for which the City exercises oversight responsibility have been included in the City's combined financial statements. The following criteria from Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 and No. 61, regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

- Financial interdependency – the City receives financial support or provides financial benefit to the organization.
- Authoritative appointment of governing authority – Pendleton City Council is the organization's governing authority.

City management has determined that the Agency meets the criteria set forth above, and, therefore, is a blended component unit of the City. This report is issued solely to meet a State of Oregon, Department of Revenue interpretation of Oregon Revised Statutes that requires a separate audit report.

C. Agency-wide and Fund Financial Statements

The agency-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes and intergovernmental revenues.

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

Separate financial statements are provided for the governmental funds.

D. Measurement Focus, Basis of Accounting and Basis of Presentation

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

Governmental Funds are funded by a variety of resources, which include Restricted, Committed, Assigned, and Unassigned sources. Unless specifically tracked, expenditures are assumed to begin with Restricted, Committed, Assigned, and lastly, Unassigned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Significant revenues, which are susceptible to accrual under the modified accrual basis of accounting, include property taxes and federal and state grants. Other revenue items are considered to be measurable and available when received by the Agency. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment, are recorded only when payment is due.

The Agency reports the following major governmental funds:

The *General Fund* is the Agency's primary operation fund. It accounts for the urban renewal projects. Revenues are from issuance of debt, and expenditures are for elimination of blighted conditions and urban developments as defined in the City's Urban Renewal Plan.

The *Urban Renewal Debt Service Fund* accounts for payment of urban renewal loan principal and interest. The sources of revenues are ad valorem taxes and interest earnings.

E. Use of Estimates

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

F. Cash and Cash Equivalents

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in the Local Government Investment Pool, and short-term investments with original maturities of three months or less from the date of acquisition.

The investment policy of the Agency is to invest in the Local Government Investment Pool (LGIP), U.S. Government Obligations, and interest bearing demand deposits with local banks and to transfer resources to the general checking account as the need arises. This policy is in accordance with ORS 294.035, which specifies the types of investments, authorized for municipal corporations.

Investment in the LGIP are reported at amortized cost, which approximates fair value in accordance with GASB Statement Number 31, and are considered cash equivalents for financial reporting purpose. All other investments are reported at fair value.

G. Receivables and Payables

Receivables including property taxes, accounts, entitlements, and shared revenues are reported in accordance with the policies enumerated in paragraph D above.

H. Fund Equity

In the fund statements, fund balance is reported in classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications of fund balance are Nonspendable, Restricted, Committed, Assigned, and Unassigned. Nonspendable and Restricted fund balances represent the restricted classifications and Committed, Assigned, and Unassigned represent the unrestricted classifications.

Nonspendable fund balance includes amounts that cannot be spent due to the nature of the restrictions, such as inventory, notes receivable, principal amount in permanent funds, and land assets. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments, committed fund balance is self-imposed limitations imposed at the highest level of decision making authority, namely, the City Council. Formal actions, either by ordinance or regulation, are required by Council. Assigned fund balance represents limitation imposed by the City Manager and/or Finance Director. Unassigned fund balance represents the residual net resources in excess of the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance and any governmental fund can report a negative unassigned fund balance. Fund balances by classification for the year ended June 30, 2013 were as follows:

Fund Balances:	General	Urban Renewal District Debt Service	Total Governmental Funds
Restricted	\$ -	\$ 784,242	\$ 784,242
Unassigned	559,218	-	559,218
Total Fund Balances	\$ 559,218	\$ 784,242	\$ 1,343,460

I. Long-Term Obligations

In the agency-wide financial statements, long-term debt obligations are reported as liabilities in the Statement of Net Position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

J. Recently Issued and Adopted Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued Statement 62, *Codification of accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issues on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. The Agency adopted the GASB Statement 62 in the current year. The adoption of GASB 62 does not have any impact on the Agency's financial statements, except for the removal of a note disclosure describing the application of pre-November 30, 1989 guidance.

The GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and included four components assets, deferred outflows or resources, liabilities and deferred inflows of resources. The Agency adopted GASB Statement 63 in the current year. The adoption of GASB 63 does not have an impact on the Agency's financial statements, except for terminology changes to the statements.

K. Pending Accounting Pronouncements

The Government Accounting Standards Board (GASB) issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement restricts the use of the term "deferred" to only those items designed as deferred outflow or deferred inflow of resources by the standards. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

The GASB issued Statement 68, *Accounting and Financial Reporting for Pensions- an Amendment of GASB 27*. GASB 68 revises the existing standards of financial reporting for most pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for fiscal years beginning after June 15, 2014.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Generally, Oregon Local Budget Law requires annual budgets be adopted for all funds. The modified accrual basis of accounting is used for all budgets. All annual appropriations lapse at fiscal year-end.

The Agency begins its budgeting process by appointing Budget Committee members in the fall of each year. Budget recommendations are developed by management through early spring, with the Budget Committee meeting and approving the budget document in late spring. Public notices of the budget hearing are generally published in May or June and the hearing is held in June. The Board of Directors adopts the budget, makes appropriations, and declares the tax levy no later than June 30. Expenditure appropriations may not be legally over-expended, except in the case of grant receipts and bond sale proceeds which could not be reasonably estimated at the time the budget was adopted.

The resolution authorizing appropriations for each fund sets the level at which expenditures cannot legally exceed appropriations. The Agency established the levels of budgetary control at the materials and services, capital outlay, debt service, and all other requirement levels for all funds.

During the fiscal year ended June 30, 2013, no supplemental budgets were adopted. The Board of Directors must authorize all appropriation transfers and supplementary budgetary appropriations.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits. The Governmental Accounting Standards Board has adopted accounting principles generally accepted in the United States of America (GAAP), which includes standards to categorize deposits to give an indication of the level of custodial credit risk assumed by the Agency at June 30, 2013. If bank deposits at year end are not entirely insured or collateralized by the Agency or by its agent in the Agency's name, the Agency must disclose the custodial credit risk that exists. The Agency's deposits with financial institutions are comprised of bank demand deposits and certificates of deposit. For deposits in excess of federal depository insurance, Oregon Revised Statutes require that Public officials report to the Office of the State Treasurer (OST) all bank depositories in which they deposit public funds and bank depositories will then report financial information and total public funds deposits quarterly to OST. OST will then calculate the required collateral that must be pledged by the bank based on this information and the depository's FDIC assigned capitalization category. Bank depositories will then have a shared liability in the event of a bank loss. For the fiscal year ended June 30, 2013, the carrying amount of the Agency's deposits was \$782,637 and the bank balance was \$782,637. All deposits are held in the name of the Pendleton Development Commission (blended component unit). Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining \$282,637 was collateralized under ORS 295.

Investments. The Pendleton Development Commission has invested funds in the State Treasurer's Oregon Short-Term Fund Local Government Investment Pool during the year. The Oregon Short-Term Fund is the local government investment pool for local governments and was established by the State Treasurer. It was created to meet the

administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). Local Government Investment Pool (LGIP) is an unrated external investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. The amounts invested in the pool are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry as defined by GASB Statement No. 40.

In addition, The Oregon State Treasury LGIP distributes investment income on an amortized cost basis and the participant's equity in the pool is determined by the amount of participant deposits, adjusted for withdrawals and distributed income. Accordingly, the adjustment to fair value would not represent an expendable increase in the Commission's cash position.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Agency does not have a formal policy for custodial credit risk.

Credit risk. State statutes authorize the Agency to invest primarily in general obligations of the US Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial papers, and the State Treasurer's investment pool, among others. The Agency has no formal investment policy that further restricts its investment choices.

Concentration of Credit Risk. The Agency is required to provide information about the concentration of credit risk associated with its investments in one issuer that represents 5 percent or more of the total investments, excluding investments in external investment pools or those issued and explicitly guaranteed by the U.S. Government. The Agency has no such investments.

Interest Rate Risk. The Agency has no formal investment policy that explicitly limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

The Agency's cash and cash equivalents at June 30, 2013 are shown below:

Deposits with financial institutions	\$ 782,637
Local Government Investment Pool	<u>556,675</u>
Total cash and cash equivalents	<u>\$ 1,339,312</u>

B. Receivables

At June 30, 2013, the Agency's receivables are as follows:

Property taxes	\$ 41,752
Notes	<u>138,317</u>
Total	<u>\$ 180,069</u>

Property taxes are assessed and attach as an enforceable lien on property as of July 1. Taxes are levied on July 1 and are payable on November 15. They may be paid in installments due November 15, February 15, and May 15. Taxes are billed and collected by Umatilla County and remittance to the Agency is made at periodic intervals.

The Agency levied taxes at its maximum taxing authority. After reductions for offsets and additional taxes and penalties, this resulted in a net levy of \$594,347. Following is a summary of property tax transactions for the year ended June 30, 2013:

	Balances July 1, 2012	Levy	Adjustments Interest and (Discounts)	Collections	Balances June 30, 2013
2012-13	\$ -	\$ 594,347	(16,161)	\$ (557,019)	\$ 21,167
2011-12	23,848	-	570	(12,392)	12,026
2010-11	8,605	-	454	(3,802)	5,257
2009-10	5,149	-	589	(3,219)	2,519
2008-09	2,003	-	390	(1,877)	516
2007-08	322	-	12	(98)	236
2006-07	61	-	2	(32)	31
	<u>\$ 39,988</u>	<u>\$ 594,347</u>	<u>\$ (14,144)</u>	<u>\$ (578,439)</u>	<u>\$ 41,752</u>

C. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. The agency-wide financial statements report *deferred revenue* only for amounts that have been received, but not earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds included \$36,789 in unavailable property taxes and \$138,317 in unavailable Jump Start notes receivable.

D. Capital Assets

The Pendleton Development Commission purchased property in the Urban Renewal District for future development and for refurbishment and sale. A summary of the capital asset activity during the year is as follows:

Description	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 234,696	\$ -	\$ 197,137	\$ 37,559
Land available for sale	308,726	-	-	308,726
Total non-depreciable	<u>\$ 543,422</u>	<u>\$ -</u>	<u>\$ 197,137</u>	<u>\$ 346,285</u>

E. Long – Term Obligations

The Pendleton Development Commission established a non-revolving line of credit with Banner Bank which was negotiated into a long term loan fixed at 4.75% interest on March 31, 2013 for the outstanding balance of \$1,821,754 and borrowed an additional \$325,000. The loan is to be repaid by property taxes and the balance at June 30, 2013 was \$2,146,754. There is no prepayment penalty and property tax revenues are pledged to the loan.

Future maturities are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 194,047	\$ 81,018
2015	182,311	92,754
2016	190,971	84,094
2017	200,042	75,023
2018	209,544	65,521
2019-2023	1,169,840	168,504
	<u>\$ 2,146,755</u>	<u>\$ 566,914</u>

The Pendleton Development Commission refinanced the 2008 line of credit into permanent financing during the 2008-09 fiscal year in the amount of \$2,000,000. The note payable is payable in annual installments of \$280,752 for 10 years beginning January 28, 2010, which includes interest at a 6.6%. The loan is paid from property tax revenues. Future maturities are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 190,359	\$ 90,393
2015	203,097	77,655
2016	216,687	64,065
2017	231,052	49,700
2018	246,649	34,103
2019	261,812	17,598
	<u>\$ 1,349,656</u>	<u>\$ 333,514</u>

Changes in long-term obligations for the fiscal year ended June 30, 2013, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes payable	<u>\$ 3,353,675</u>	<u>\$ 325,000</u>	<u>\$ (182,264)</u>	<u>\$ 3,496,411</u>	<u>\$ 384,406</u>

F. Risk Management

The Agency is exposed to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; and natural disasters for which the Agency carries commercial insurance coverage in the name of the City.

G. Commitments and Contingencies

The Pendleton Development Commission has committed funds to various projects. Many of the projects are still in the planning stages.

H. Related Party Transactions

The Pendleton Development Commission paid the City of Pendleton \$15,000 for administrative services during the year. The Agency also contributed \$7,500 to the City to assist in community clean up and \$25,000 for the Sundown and Montanic Statues.

SUPPLEMENTAL INFORMATION

PENDLETON DEVELOPMENT COMMISSION
(A Component Unit of the City of Pendleton, Oregon)

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL**
URBAN RENEWAL DISTRICT DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 507,000	\$ 507,000	\$ 580,408	\$ 73,408
Interest on investments	2,000	2,000	1,631	(369)
TOTAL REVENUES	<u>509,000</u>	<u>509,000</u>	<u>582,039</u>	<u>73,039</u>
EXPENDITURES				
Current:				
General government:				
Materials and services	15,500	15,500	15,000	500
Debt service	<u>574,960</u>	<u>574,960</u>	<u>362,231</u>	<u>212,729</u>
TOTAL EXPENDITURES	<u>590,460</u>	<u>590,460</u>	<u>377,231</u>	<u>213,229</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(81,460)</u>	<u>(81,460)</u>	<u>204,808</u>	<u>286,268</u>
NET CHANGE IN FUND BALANCE	(81,460)	(81,460)	204,808	286,268
FUND BALANCE, Beginning	<u>561,000</u>	<u>561,000</u>	<u>579,434</u>	<u>18,434</u>
FUND BALANCE, Ending	<u>\$ 479,540</u>	<u>\$ 479,540</u>	<u>\$ 784,242</u>	<u>\$ 304,702</u>

See auditor's report.

AUDITOR'S COMMENTS AND REPORTS



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INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

To the Board of Directors
Pendleton Development Commission
Pendleton, Oregon

We have audited the basic financial statements of the Pendleton Development Commission as of and for the year ended June 30, 2013, and have issued our report thereon dated January 14, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

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

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

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

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

OAR 162-10-0230 Internal Control

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

We noted certain matters that we reported to management of the Agency, in a separate letter dated January 14, 2014.

This report is intended solely for the information and use of the board of directors/council members/commissioners and management of the Agency and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

Dickey and Tremper, LLP

Dickey and Tremper, LLP

January 14, 2014