

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

Annual Financial Report

For the Fiscal Year Ended June 30, 2006

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

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For the Fiscal Year Ended June 30, 2006

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

OFFICIALS OF THE AGENCY
JUNE 30, 2006

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 | 2008 |
| Steven Bjerke | PO Box 1537 Pendleton, OR 97801 | 2006 |
| Steve Taylor | 609 SW Nye Avenue Pendleton, OR 97801 | 2006 |
| Cheryl Marier | 213 NW 6th Pendleton, OR 97801 | 2008 |
| Cheryl Beck | 1555 SE Isaac Pendleton, OR 97801 | 2008 |
| John Brenne | PO Box 1404 Pendleton, OR 97801 | 2006 |
| Marjorie Iburg | 404 NW Horn Avenue Pendleton, OR 97801 | 2008 |
| Dan Ceniga | 2130 SW Quinney Avenue Pendleton, OR 97801 | 2008 |
| Ron Hughes | 1850 SW 18th Pendleton, OR 97801 | 2006 |

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
Phone: (541) 276-6862
Toll Free: 1-800-332-6862
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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 the major fund of the Pendleton Development Commission (*a component unit of the City of Pendleton, Oregon*) as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Pendleton Development Commission, as of June 30, 2006, the respective changes in financial position, and the budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages *a* through *d* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

A

INDEPENDENT AUDITOR'S REPORT (Continued)

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 Auditor's Comments and Reports, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dickey and Tremper, LLP

Dickey and Tremper, LLP

Certified Public Accountants and Consultants

September 26, 2006

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, 2006. 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

- FY06 was the first year of operations for the Agency. The facade reimbursement program began with \$12,000 reimbursed to property owners for downtown facade restorations by June 30th.
- The assets of the Agency exceeded its liabilities at the close of the fiscal year by \$29,108 (net assets).
- During the fiscal year, the Agency had expenses from governmental activities totaling \$17,995 and total revenues of \$47,103.
- The Agency withdrew \$120,000 from an authorized loan of up to \$600,000 towards facade restoration projects and other expenses of the Agency.
- Taxes received for the first year were \$42,621. Incremental tax revenues provide the vehicle for debt repayment 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 only has one governmental fund. The Agency had no proprietary funds or business-type activity. The agency-wide statements include the statement of net assets and the statement of activities.

The *statement of net assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the 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 comparison for the general fund, and the budget to GAAP reconciliation in the basic financial statements and accompanying notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the first year of operation for the Pendleton Downtown Commission Urban Renewal District. In future years when prior-year information is available for all Agency activities, a comparative analysis of government-wide data will be included in this report.

A. Analysis of Net Assets

Table 1
Pendleton Development Commission
Summary of Net Assets
FY 2005-06

| | <u>Governmental</u> <u>Activities</u> |
|-----------------------------------|--|
| Current and other assets | \$ 149,111 |
| Capital Assets | <u>- 0-</u> |
| Total assets | <u>\$ 149,111</u> |
| Long-term liabilities outstanding | \$ 120,000 |
| Other liabilities | <u>3</u> |
| Total liabilities | <u>\$ 120,003</u> |
| Net Assets | |
| Restricted for debt service | \$ 40,711 |
| Unrestricted (deficit) | <u>(11,603)</u> |
| Total Net Assets | <u>\$ 29,108</u> |

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the Agency, assets exceed liabilities by \$29,108 at the close of the FY2005-06 year. There were no capital assets for the Agency.

B. Statement of Activities

**Table 2
Pendleton Development Commission
Governmental Activities
FY2005-06**

| | <u>Governmental Activities</u> |
|----------------------------------|---|
| Revenues | |
| <i>Program revenues:</i> | |
| Operating grants & contributions | \$ 1,420 |
| <i>General revenues:</i> | |
| Property taxes | 44,545 |
| Investment earnings | <u>1,138</u> |
| Total revenues | <u>\$ 47,103</u> |
| | |
| Expenses | |
| General government | \$ 16,085 |
| Interest on long-term debt | <u>1,910</u> |
| | |
| Total expenses | <u>\$ 17,995</u> |
| | |
| Change in net assets | 29,108 |
| | |
| Net assets, July 1, 2005 | <u>\$ -0-</u> |
| | |
| Net assets, June 30, 2006 | <u>\$ 29,108</u> |

As noted above, the Pendleton Development Commission's overall net assets increased by \$29,108 during FY2005-06. This increase is due to the start up of the Agency with the tax collection for \$44,545. The tax increment revenue is restricted to repayment of debt. The major project for the Agency is the facade restoration project, which spent \$12,000 in repayments to owners for reimbursement of facade improvements. Debt expense included interest payments of \$1,410 and bank loan finance charges of \$500.

BUDGETARY HIGHLIGHTS

The Agency's total appropriations were budgeted at \$578,000. \$543,000 for capital improvements, \$10,000 for materials and services and \$25,000 for debt service. The budget was amended to \$553,000 for materials and services and \$25,000 for debt service due to the facade restoration program. Total appropriations remained the same.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Agency has no capital assets at this time.

B. Debt Administration

As of June 30, 2006, the Agency had total debt outstanding of \$120,000. The Agency has a note that allows incremental financing up to \$600,000 through a local bank.

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

**Table 3
Pendleton Development Commission
Outstanding Debt
For Year Ending FY2005-06**

Governmental Activities

| Debt Category | <u>FY2006</u> |
|----------------------|----------------------|
| Notes Payable | <u>\$ 120,000</u> |
| Total | <u>\$ 120,000</u> |

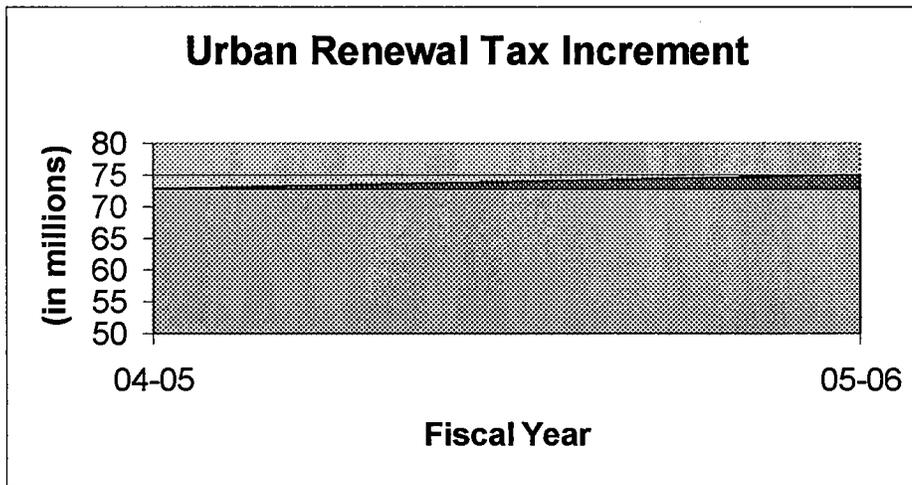
The Agency incurred debt for the first time in FY06 for \$120,000. The tax increment revenues will be used to payoff debt.

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 increased 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 ASSETS
June 30, 2006

| | <u>Governmental Activities</u> |
|---------------------------------------|------------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 146,747 |
| Receivables | <u>2,364</u> |
| Total assets | <u>149,111</u> |
| LIABILITIES | |
| Accounts payable and accrued expenses | 3 |
| Non-current liabilities: | |
| Due in more than one year | <u>120,000</u> |
| Total liabilities | <u>120,003</u> |
| NET ASSETS | |
| Restricted for debt service | 40,711 |
| Unrestricted (deficit) | <u>(11,603)</u> |
| Total net assets (deficit) | <u>\$ 29,108</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, 2006

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> Operating Grants and Contributions | <u>Net (Expenses) and Changes in Net Assets</u> |
|---|------------------|---|---|
| Primary government: | | | |
| Governmental activities: | | | |
| General government | \$ 16,085 | \$ 1,420 | \$ (14,665) |
| Interest on long-term debt | <u>1,910</u> | <u>-</u> | <u>(1,910)</u> |
| Total governmental activities | <u>\$ 17,995</u> | <u>\$ 1,420</u> | <u>(16,575)</u> |
| General revenues: | | | |
| Property taxes, levied for debt service | | | 44,545 |
| Interest and investment earnings | | | <u>1,138</u> |
| Total general revenues | | | <u>45,683</u> |
| Change in net assets | | | 29,108 |
| Net assets (deficit) - beginning | | | <u>-</u> |
| Net assets (deficit) - ending | | | <u>\$ 29,108</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 FUND
June 30, 2006

| | <u>General Fund</u> |
|--|--------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 146,747 |
| Receivables | <u>2,364</u> |
| Total assets | <u><u>\$ 149,111</u></u> |
| LIABILITIES AND FUND BALANCES | |
| Liabilities: | |
| Accounts payable | \$ 3 |
| Deferred revenue | <u>1,924</u> |
| Total liabilities | <u>1,927</u> |
| Fund balances: | |
| Reserved for debt service | 40,711 |
| Unreserved | <u>106,473</u> |
| Total fund balances | <u>147,184</u> |
| Total liabilities and fund balances | <u><u>\$ 149,111</u></u> |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Total fund balances from above | \$ 147,184 |
| Long-term assets that are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | 1,924 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(120,000)</u> |
| Net assets of governmental activities | <u><u>\$ 29,108</u></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 REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND**

For the Fiscal Year Ended June 30, 2006

| | General Fund |
|---|-------------------|
| REVENUES | |
| Property taxes | \$ 42,621 |
| Interest on investments | 1,138 |
| Miscellaneous | 1,420 |
| TOTAL REVENUES | 45,179 |
| EXPENDITURES | |
| General government | 16,085 |
| Debt Service | 1,910 |
| TOTAL EXPENDITURES | 17,995 |
| REVENUES OVER (UNDER) EXPENDITURES | 27,184 |
| OTHER FINANCING SOURCES (USES) | |
| Issuance of debt | 120,000 |
| NET CHANGE IN FUND BALANCE | 147,184 |
| FUND BALANCE AT BEGINNING OF YEAR | - |
| FUND BALANCE AT END OF YEAR | \$ 147,184 |

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 FUND
TO THE STATEMENT OF ACTIVITIES**
For the Fiscal Year Ended June 30, 2006

| | | |
|---|-----------|----------------|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ | 147,184 |
|---|-----------|----------------|

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds as follows:

| | | |
|----------------|--|-------|
| Property taxes | | 1,924 |
|----------------|--|-------|

Issuance of debt is a financial resource in the governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets.

| | | |
|--|--|------------------|
| | | <u>(120,000)</u> |
|--|--|------------------|

| | | |
|--|-----------|----------------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ | <u>29,108</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 REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|---|-------------------------|----------------|-------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Property taxes | \$ 50,000 | \$ 50,000 | \$ 42,621 | \$ (7,379) |
| Interest on investments | 3,000 | 3,000 | 1,138 | (1,862) |
| Miscellaneous | - | - | 1,420 | 1,420 |
| TOTAL REVENUES | <u>53,000</u> | <u>53,000</u> | <u>45,179</u> | <u>(7,821)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government: | | | | |
| Materials and services | 10,000 | 553,000 | 16,085 | 536,915 |
| Capital outlay | 543,000 | - | - | - |
| Debt service | 25,000 | 25,000 | 1,910 | 23,090 |
| TOTAL EXPENDITURES | <u>578,000</u> | <u>578,000</u> | <u>17,995</u> | <u>560,005</u> |
| REVENUES OVER (UNDER) EXPENDITURES | (525,000) | (525,000) | 27,184 | 552,184 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of debt | 525,000 | 525,000 | 120,000 | (405,000) |
| NET CHANGE IN FUND BALANCE | - | - | 147,184 | 147,184 |
| FUND BALANCE, JULY 1, 2005 | - | - | - | - |
| FUND BALANCE, JUNE 30, 2006 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 147,184</u> | <u>\$ 147,184</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, 2006

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, "Determining Whether Certain Organizations are Component Units", 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 Assets 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 fund.

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.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

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 fund:

The *General Fund* is the Agency's primary operation fund. It accounts for all financial resources of the Agency. Principal sources of revenue are property taxes and debt proceeds. Expenditures are primarily for loans to rehabilitate public assets within the Urban Renewal District for the City of Pendleton.

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 and short-term investments with original maturities of three months or less from the date of acquisition.

The Agency's bank accounts and investments are maintained in a central pool of cash and investments. 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. The Agency had no investments during the year.

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

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for specific uses. Generally the purpose for each is indicated by the account title on the face of the balance sheet.

I. Long-Term Obligations

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

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

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, 2006, a supplemental budget was 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, 2006. If bank deposits at year end are not entirely insured or collateralized with securities held 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 entirely of bank demand deposits. For deposits in excess of federal depository insurance, Oregon Revised Statutes require the depository institution to maintain on deposit with a collateral pool manager, securities having a value not less than 25% of the outstanding certificates of participation issued by the pool manager. For the fiscal year ended June 30, 2006, the carrying amount of the Agency's deposits was \$146,747 and the bank balance was \$146,747. All deposits are held in the name of the Agency. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$46,747 was uninsured and uncollateralized.

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, 2006 are shown below:

| | |
|-----------------------------|-------------------|
| Carrying amount of deposits | <u>\$ 146,747</u> |
|-----------------------------|-------------------|

B. Receivables

At June 30, 2006, the Agency's receivables are as follows:

| | |
|-------------------|-----------------|
| Property taxes | \$ 1,924 |
| Matured interest | <u>440</u> |
| Total receivables | <u>\$ 2,364</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 \$45,627. Following is a summary of property tax transactions for the year ended June 30, 2006:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|----------------------------------|------------------------------|-------------------|-------------------|---------------------------|--------------------------------|
| Note Payable - Community Bank | <u>\$ -</u> | <u>\$ 120,000</u> | <u>\$ -</u> | <u>\$ 120,000</u> | <u>\$ -</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 \$1,924 in unavailable property taxes.

D. Long – Term Obligations

The Pendleton Development Commission established a line of credit to finance both approved projects and general obligations of the Agency, until the levied amount of property taxes starts to be paid. The line of credit is authorized for \$600,000 and is to be repaid from property taxes. The interest rate on the line of credit is set at Prime (as posted in the Wall Street Journal), minus 1.75% fixed at time of closing. As of June 30, 2006, the Agency has drawn \$120,000 of the line of credit and the interest rate was 5.50%. Interest only payments are payable quarterly until December 31, 2008 when the outstanding balance will be amortized over a 120 month period, with principal and interest due quarterly.

Future debt service requirements based on the current interest rate and outstanding balance are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|--------------------------------|--------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ - | \$ 6,600 |
| 2008 | - | 6,600 |
| 2009 | 8,586 | 6,475 |
| 2010 | 9,725 | 5,957 |
| 2011 | 10,273 | 5,408 |
| 2012-16 | 60,740 | 17,667 |
| 2017-19 | 30,676 | 2,018 |
| | <u>\$ 120,000</u> | <u>\$ 50,725</u> |

Changes in long-term obligations for the fiscal year ended June 30, 2006, are as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|----------------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Note Payable - Community Bank | \$ - | \$ 120,000 | \$ - | \$ 120,000 | \$ - |

E. 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.

AUDITOR'S COMMENTS AND REPORTS

INDEPENDENT AUDITOR'S COMMENTS

Oregon Administrative Rules 162-10-000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments, and disclosures required in audit reports. The required schedules, comments, and disclosures not included in the preceding section of this report are set forth following:

Accounting Systems and Internal Controls

We found that the accounting records of the Agency were generally well maintained and adequate for audit purposes. The internal controls for the Agency are operating as designed and no material weakness or reportable conditions were noted.

Investments

Our review of deposit and investment balances indicated that the Agency was in compliance with ORS 294, as it pertains to investment of public funds, during the year ended June 30, 2006.

Collateral

Oregon Revised Statutes (ORS) Chapter 295 provides that public officials maintain sufficient collateral certificates to secure deposits of public funds, in excess of those insured by the Federal Deposit Insurance Corporation.

Our review of the Agency's deposited funds disclosed instances where the Agency exceeded Federal Deposit Insurance Corporation ("FDIC") coverage including additional certificates of collateral participation in effect at the time.

Indebtedness

We reviewed compliance relating to short-term and long-term debt, including limitations on the amount of debt, which may be incurred, liquidation of debt within the prescribed period, and compliance with provisions of bond indentures or other agreements. We found no instances in which the Agency had not complied with these legal or contractual provisions relating to short-term and long-term debt.

Budget

We reviewed the preparation, adoption and execution of the Agency's budget for 2005-06 and the preparation and adoption of the budget for 2006-07. The Agency has complied with statutory requirements in all material respects for the current and ensuing years budget.

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 materials and services, capital outlay, and debt service.

Insurance And Fidelity Bonds

The Agency is covered by insurance and fidelity bonds under the City's policies. We reviewed the City's insurance and fidelity bond coverage at June 30, 2006, and ascertained that such policies appeared to be in force. We are not competent by training to comment whether the insurance policies of the City in force at June 30, 2006, are adequate. The City has complied with provisions of ORS 221.903 regarding bonding of City personnel.

Programs Funded From Outside Sources

We selected and tested, to the extent deemed appropriate, transactions, records, and reports relative to programs funded wholly or partially by other governmental agencies.

The results of our tests indicate, for the items tested, the Agency complied with laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies, and, for the items tested, financial reports and related data were materially in agreement with and supported by accounting records.

Highway Funds

The Agency does not receive Highway Funds.

Public Contracts And Purchasing

We have reviewed the Agency's compliance with ORS 279, pertaining to the awarding of public contracts and the construction of public improvements. Our review disclosed no conditions, which we considered to be matters of noncompliance of the Agency's bidding procedures or quote procedures.

Statement of Accountability for Independently Elected Officials

This statement is not applicable to the Pendleton Development Commission.