

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

Annual Financial Report

For the Fiscal Year Ended June 30, 2010

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, 2010

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	2012
Steve Taylor	514 SE 17th Pendleton, OR 97801	2010
John Brenne	PO Box 1404 Pendleton, OR 97801	2010
Justin Pearce	301 NW Gilliam Avenue Pendleton, OR 97801	2010
Becky Marks	PO Box 494 Pendleton, OR 97801	2012
Bryan Branstetter	911 NW Carden Avenue Pendleton, OR 97801	2012
Steven Bjerke	PO Box 1537 Pendleton, OR 97801	2010
Dan Ceniga	2130 SW Quinney Avenue Pendleton, OR 97801	2012
John Boston	1911 SW Perkins Avenue Pendleton, OR 97801	2010

AGENCY ADDRESS

Administrative Offices
500 SW Dorion Avenue
Pendleton, OR 97801



Dickey and Tremper, LLP

Certified Public Accountants and Business Advisors

110 SE First Street
P.O. Box 1533
Pendleton, OR 97801
Phone: (541) 276-6862
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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 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, 2010, 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 each major fund of the Pendleton Development Commission, as of June 30, 2010, 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.

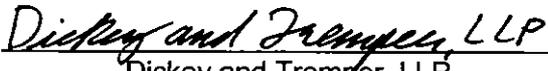
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages a through e be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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

A

INDEPENDENT AUDITOR'S REPORT (Continued)

responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pendleton Development Commission's financial statements as a whole. The supplemental budgetary schedule for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the financial statements. 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 the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Dickey and Tremper, LLP
Certified Public Accountants and Consultants

December 31, 2010

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, 2010. 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

- FY10 was the fifth year of operations for the Agency. The facade reimbursement program continued with \$132,116 reimbursed to property owners for downtown facade restorations by June 30th. Also this year, elevator, water, and storm sewer grants were given to property owners for a total of \$130,432.
- The liabilities of the Agency exceeded its assets at the close of the fiscal year by \$974,720 (net assets).
- During the fiscal year, the Agency had expenses from governmental activities totaling \$674,980 and total governmental activity revenues of \$373,659.
- The Agency was indebted \$3,052,715 from authorized loans towards facade restoration projects, construction projects. and expenses of the Agency.
- The Agency funded the complete domestic hot water and cold water retrofit of the Vert complex for \$39,837 and continued toward completion of the Court/Dorion Street reconstruction for \$371,414 and Riverfront Parkway improvements for \$320,897. The Agency also contributed \$100,000 towards the replacement of Roy Raley Restrooms prior to the Round-Up Centennial celebration.
- Taxes received for the fifth year were \$325,626. 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 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 comparisons for the general fund and the budget to GAAP reconciliation in the basic financial statements and accompanying notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

A. Analysis of Net Assets

**Table 1
Pendleton Development Commission
Summary of Net Assets**

	<u>Governmental Activities</u>		
	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>Change</u>
Assets			
Current and other assets	\$661,147	\$822,602	\$161,455
Capital assets	424,375	1,116,685	692,310
Assets available for sale	308,726	308,726	0
Total Assets	<u>\$1,394,248</u>	<u>\$2,248,013</u>	<u>\$853,765</u>
Liabilities			
Long-term liabilities outstanding	\$2,000,000	\$3,052,715	\$1,052,715
Other liabilities	67,647	170,018	102,371
Total liabilities	<u>\$2,067,647</u>	<u>\$3,222,733</u>	<u>\$1,155,086</u>
Net Assets			
Restricted for Debt Service	\$489,547	\$475,434	-\$14,113
Unrestricted (deficit)	<u>(1,162,946)</u>	<u>(1,450,154)</u>	<u>(287,208)</u>
Total Net Assets	<u><u>(\$673,399)</u></u>	<u><u>(\$974,720)</u></u>	<u><u>(\$301,321)</u></u>

As noted earlier, net assets 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 2008-09</u>	<u>FY 2009-10</u>	<u>Change</u>
Revenues			
<i>Program revenues:</i>			
Charges for services	\$130	\$27,712	\$27,582
Operating grants & contributions	350	0	(\$350)
Capital grants & contributions	0	6,150	
<i>General revenues:</i>			
Property taxes	287,991	330,156	42,165
Investment earnings	10,613	9,641	(972)
Total Revenues	<u>\$299,084</u>	<u>\$373,659</u>	<u>\$74,575</u>
Expenses			
General Government	\$562,356	\$501,713	(\$60,643)
Interest on long-term debt	128,611	173,267	44,656
Total Expenses	<u>\$690,967</u>	<u>\$674,980</u>	<u>(\$15,987)</u>
Change in net assets	(391,883)	(301,321)	90,562
Net assets -- beginning	<u>(\$281,516)</u>	<u>(\$673,399)</u>	<u>(\$391,883)</u>
Net assets -- ending	<u>(\$673,399)</u>	<u>(\$974,720)</u>	<u>(\$301,321)</u>

As noted above, the Pendleton Development Commission's overall net assets decreased by \$301,321 during FY2010. This decrease is due to the incurring of additional debt for façade restoration, elevator and storm sewer grants, and various Court Street and Riverfront Parkway improvement construction. The fifth year saw the Agency tax collection of \$330,156. The two major projects for the Agency were the Court/Dorion street improvements for \$371,414 and the Riverfront Plaza construction for \$320,898. The tax increment revenue is restricted to repayment of debt. Debt expense included interest and fee payments of \$173,267.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Agency's General Fund total appropriations were budgeted at \$1,792,950. The budget adopted was for \$790,950 for materials and services, \$631,000 for capital outlay and \$371,000 for debt service. The budget was amended once during the fiscal year with \$350,000 being transferred from Materials and Services to Capital Outlay for Vert improvements reclassification and to provide for Riverfront Plaza construction.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

Major events that affected capital assets for the current fiscal year included the funding of major improvements on Court Street and the Riverfront Plaza development. The Riverfront Plaza was on scheduled to be constructed in time for the centennial Round-Up celebration. The Commission provided funding to complete domestic hot water and cold water retrofit of the Vert complex.

**Pendleton Development Commission
Governmental Activities
Capital Assets**

	<u>FY2008-09</u>	<u>FY2009-10</u>	<u>Change</u>
Asset Category			
Land	\$ 248,681	\$ 248,681	\$ 0
Construction in Progress	175,694	868,005	692,311
Assets Available for Resale	<u>308,726</u>	<u>308,726</u>	<u>-0-</u>
Total	<u>\$ 733,101</u>	<u>\$1,425,412</u>	<u>\$692,311</u>

B. Debt Administration

As of June 30, 2010, the Agency had total debt outstanding of \$3,052,715.

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

**Table 3
Pendleton Development Commission
Outstanding Debt**

Governmental Activities

	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>Change</u>
Debt Category			
Notes Payable	<u>\$ 2,000,000</u>	<u>\$3,052,715</u>	<u>\$1,052,715</u>
Total	<u>\$ 2,000,000</u>	<u>\$3,052,715</u>	<u>\$1,052,715</u>

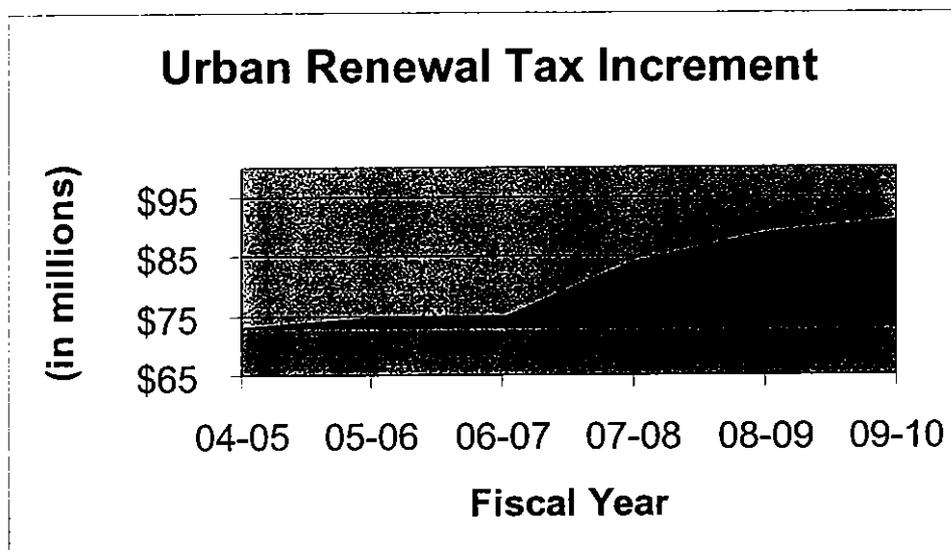
The Agency borrowed an additional \$1,200,000. The Agency had consolidated one loan in the prior year and then opened a new loan in FY10 to continue façade grants, capital construction, and other projects as approved by the Commission. One loan payment was made for \$147,285 to principal. Total debt as of June 30th was \$3,052,715. 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 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, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 796,675
Receivables:	
Property taxes	25,927
Land	248,681
Construction in progress	868,004
Assets available for sale	<u>308,726</u>
 Total assets	 <u>2,248,013</u>
LIABILITIES	
Accounts payable and accrued liabilities	103,156
Retainage payable	15,953
Accrued interest payable	50,909
Long-term obligations:	
Due within one year	158,569
Due in more than one year	<u>2,894,146</u>
 Total liabilities	 <u>3,222,733</u>
NET ASSETS	
Restricted for debt service	475,434
Unrestricted (deficit)	<u>(1,450,154)</u>
 Total net assets (deficit)	 <u>\$ (974,720)</u>

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

STATEMENT OF ACTIVITIES
For the fiscal year ended June 30, 2010

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	\$ 501,713	\$ 27,712	\$ -	\$ 6,150	\$ (467,851)
Interest on long-term obligations	<u>173,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(173,267)</u>
Total governmental activities	<u>\$ 674,980</u>	<u>\$ 27,712</u>	<u>\$ -</u>	<u>\$ 6,150</u>	<u>(641,118)</u>
General revenues:					
Property taxes levied for:					
Debt service					330,156
Interest and investment earnings					<u>9,641</u>
Total general revenues					<u>339,797</u>
Change in net assets					(301,321)
Net assets (deficit), beginning					<u>(673,399)</u>
Net assets (deficit), ending					<u>\$ (974,720)</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, 2010

	General Fund	Urban Renewal District Debt Service Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 398,414	\$ 398,261	\$ 796,675
Receivables:			
Property taxes	-	25,927	25,927
Total assets	\$ 398,414	\$ 424,188	\$ 822,602
LIABILITIES			
Accounts payable and accrued liabilities	\$ 103,156	\$ -	\$ 103,156
Retainage Payable	15,953	-	15,953
Deferred revenue	-	23,949	23,949
Total liabilities	119,109	23,949	143,058
FUND BALANCE			
Reserved for debt service	75,195	400,239	475,434
Unreserved	204,110	-	204,110
Total fund balance	279,305	400,239	679,544
Total liabilities and fund balance	\$ 398,414	\$ 424,188	\$ 822,602

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

Fund balance above	\$ 679,544
Long-term assets that are not available to pay for current-period expenditures are deferred in the funds.	23,949
Capital assets purchased by governmental activities are not financial resources and are not reported in the funds.	1,425,411
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.	(3,103,624)
Net assets (deficit) of governmental activities	\$ (974,720)

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, 2010**

	General Fund	Urban Renewal District Debt Service Fund	Totals
REVENUES			
Property taxes	\$ -	\$ 325,626	\$ 325,626
Contributions	6,150	-	6,150
Interest on investments	3,787	5,854	9,641
Miscellaneous	27,712	-	27,712
TOTAL REVENUES	<u>37,649</u>	<u>331,480</u>	<u>369,129</u>
EXPENDITURES			
Current:			
General government:			
Materials and services	377,575	20,950	398,525
Capital outlay	795,499	-	795,499
Debt service	-	324,644	324,644
TOTAL EXPENDITURES	<u>1,173,074</u>	<u>345,594</u>	<u>1,518,668</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,135,425)</u>	<u>(14,114)</u>	<u>(1,149,539)</u>
OTHER FINANCING SOURCES (USES)			
Issuance of debt	1,200,000	-	1,200,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,200,000</u>	<u>-</u>	<u>1,200,000</u>
NET CHANGE IN FUND BALANCE	64,575	(14,114)	50,461
FUND BALANCE, Beginning	<u>214,730</u>	<u>414,353</u>	<u>629,083</u>
FUND BALANCE, Ending	<u>\$ 279,305</u>	<u>\$ 400,239</u>	<u>\$ 679,544</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, 2010

Net change in fund balance - governmental fund	\$ 50,461
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	4,530
Issuance of debt is a financial resource in the governmental fund, but the issuance increases long-term liabilities in the Statement of Net Assets.	(1,200,000)
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 Assets.	147,285
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.	4,092
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities capital assets held for rehabilitation and sale are capitalized until disposed.	<u>692,311</u>
Change in net assets - governmental activities	<u>\$ (301,321)</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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
REVENUES				
Contributions	\$ -	\$ -	\$ 6,150	\$ 6,150
Interest on investments	1,000	1,000	3,787	2,787
Miscellaneous	-	-	27,712	27,712
TOTAL REVENUES	<u>1,000</u>	<u>1,000</u>	<u>37,649</u>	<u>36,649</u>
EXPENDITURES				
Current:				
General government:				
Materials and services	420,000	420,000	377,575	42,425
Capital outlay	981,000	981,000	795,499	185,501
TOTAL EXPENDITURES	<u>1,401,000</u>	<u>1,401,000</u>	<u>1,173,074</u>	<u>227,926</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,400,000)</u>	<u>(1,400,000)</u>	<u>(1,135,425)</u>	<u>264,575</u>
OTHER FINANCING SOURCES (USES)				
Issuance of debt	1,300,000	1,300,000	1,200,000	(100,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,300,000</u>	<u>1,300,000</u>	<u>1,200,000</u>	<u>(100,000)</u>
NET CHANGE IN FUND BALANCE	(100,000)	(100,000)	64,575	164,575
FUND BALANCE, Beginning	<u>100,000</u>	<u>100,000</u>	<u>214,730</u>	<u>114,730</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279,305</u>	<u>\$ 279,305</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, 2010

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 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.

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 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 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.

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, 2010, 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, 2010. 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, 2010, the carrying amount of the Agency's deposits was \$749,229 and the bank balance was \$755,204. All deposits are held in the name of the Pendleton Development Commission (blended component unit). Of the bank balance, \$257,937 was covered by federal depository insurance. The remaining \$497,267 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, 2010 are shown below:

Deposits with financial institutions	\$ 749,229
Local Government Investment Pool	<u>47,446</u>
Total cash and cash equivalents	<u>\$ 796,675</u>

B. Receivables

At June 30, 2010, the Agency's receivables are as follows:

Property taxes	<u>\$ 25,927</u>
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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 \$295,853. Following is a summary of property tax transactions for the year ended June 30, 2010:

	Balances July 1, 2009	2009-10 Levy	Adjustments Interest and (Discounts)	Collections	Balances June 30, 2010
2009-10	\$ -	\$ 337,498	\$ (9,555)	\$ (312,978)	\$ 14,965
2008-09	14,524	-	284	(7,554)	7,254
2007-08	4,849	-	220	(2,017)	3,052
2006-07	1,481	-	169	(1,034)	616
2005-06	280	-	57	(297)	40
	<u>\$ 21,134</u>	<u>\$ 337,498</u>	<u>\$ (8,825)</u>	<u>\$ (323,880)</u>	<u>\$ 25,927</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 \$23,949 in unavailable property taxes.

D. Capital Assets

The Pendleton Development Commission purchased property in the Urban Renewal District for future development and for refurbishment and sale and has construction in progress for park and infrastructure improvements, which will revert to the City of Pendleton upon completion. A summary of the capital asset activity during the year is as follows:

Description	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 248,681	\$ -	\$ -	\$ 248,681
Land available for sale	308,726	-	-	308,726
Construction in progress	175,693	692,311	-	868,004
Total non-depreciable	<u>\$ 733,100</u>	<u>\$ 692,311</u>	<u>\$ -</u>	<u>\$ 1,425,411</u>

E. Long – Term Obligations

The Pendleton Development Commission established a non-revolving line of credit with Banner Bank on June 26, 2009 in the amount of \$1,500,000, which was amended September 30, 2010 to increase the available amount to \$2,150,000, change the interest rate to a fixed 5.5%, and change the maturity date to September 20, 2011. The line of credit is to be repaid by property taxes and the balance at June 30, 2010 was \$1,200,000. There is no prepayment penalty and property tax revenues are pledged to the loan. An amortization schedule is not currently available.

The Pendleton Development Commission refinanced the 2008 line of credits 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%. Future maturities are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2011	\$ 158,569	\$ 122,182
2012	169,035	111,717
2013	180,191	100,560
2014	192,084	88,668
2015	204,761	75,990
2016-2019	948,075	159,601
	<u>\$ 1,852,715</u>	<u>\$ 658,718</u>

Changes in long-term obligations for the fiscal year ended June 30, 2010, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	<u>\$ 2,000,000</u>	<u>\$ 1,200,000</u>	<u>\$ (147,285)</u>	<u>\$ 3,052,715</u>	<u>\$ 158,569</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, Contingencies, and Subsequent Events

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

- Miscellaneous Façade Restoration projects for approximately \$246,000.
- Wayfinding signs for \$76,800.
- \$40,000 landscaping grants.
- \$20,000 demolition project.

The Pendleton Development Commission, a blended component unit, has construction in progress for the Court Street project with total costs to date of \$459,357 and estimated total project costs of \$494,417. At June 30, 2010, the project was approximately 93% complete. The Commission also has construction in progress relating to the Riverfront Park Improvements. Total costs were \$369,043, with total estimated project costs of \$445,631 and the project is approximately 83% complete. The Commission has also paid \$39,604 in engineering and design costs towards improvements to Westgate; the design portion was essentially complete at year end.

PDC has a LOC at Banner Bank originally due on September 30, 2010. As of June 30 the balance was \$1.2 million. After year end, another \$200,000 was drawn down and the loan was amended to increase the authorized amount to \$2.15 million, change the loan maturity date to September 30, 2011, and change the interest rate to 5.5%.

The Pendleton Development Commission transferred the improvements to SW Court Avenue at the SE 4th Street park and entry to the Umatilla River Parkway to the City.

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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 347,000	\$ 347,000	\$ 325,626	\$ (21,374)
Interest on investments	10,000	10,000	5,854	(4,146)
TOTAL REVENUES	<u>357,000</u>	<u>357,000</u>	<u>331,480</u>	<u>(25,520)</u>
EXPENDITURES				
Current:				
General government:				
Materials and services	20,950	20,950	20,950	-
Debt service	<u>371,000</u>	<u>371,000</u>	<u>324,644</u>	<u>46,356</u>
TOTAL EXPENDITURES	<u>391,950</u>	<u>391,950</u>	<u>345,594</u>	<u>46,356</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(34,950)</u>	<u>(34,950)</u>	<u>(14,114)</u>	<u>20,836</u>
NET CHANGE IN FUND BALANCE	(34,950)	(34,950)	(14,114)	20,836
FUND BALANCE, Beginning	<u>485,950</u>	<u>485,950</u>	<u>414,353</u>	<u>(71,597)</u>
FUND BALANCE, Ending	<u>\$ 451,000</u>	<u>\$ 451,000</u>	<u>\$ 400,239</u>	<u>\$ (50,761)</u>

AUDITOR'S COMMENTS AND REPORTS

INDEPENDENT AUDITOR'S COMMENTS

Oregon Administrative Rules 162-10-0000 through 162-10-0330 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 significant deficiencies 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, 2010.

Collateral

Oregon Revised Statutes (ORS) Chapter 295 provides that public officials must ensure the banks they are doing business with are on the Office of the State Treasurer's (OST) list of qualified depositories. Public Officials are also required to report to OST all bank depositories in which they deposit public funds.

Our review of the Agency's deposited funds did not disclose any instances where the Agency deposited funds with unapproved depositories or did not properly notify the OST of what depositories held their public funds, as required by ORS 295.

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 2009-10 and the preparation and adoption of the budget for 2010-11. The Agency has complied with statutory requirements in all material respects for the current and ensuing year's 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, 2010, 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, 2010, 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.