

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

**Annual Financial Report**

**For the Fiscal Year Ended June 30, 2012**

**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, 2012**

**BOARD OF DIRECTORS**

<u>Name</u>	<u>Address</u>	<u>Term Expires</u> <u>December 31,</u>
Phillip Houk	707 NW 3 <sup>rd</sup> Street Pendleton, OR 97801	2012
John Brenne	PO Box 1404 Pendleton, OR 97801	2014
Jane Hill	PO Box 339 Pendleton, OR 97801	2012
Becky Marks	PO Box 494 Pendleton, OR 97801	2012
Bryan Branstetter	911 NW Carden Avenue Pendleton, OR 97801	2012
Neil Brown	3305 S.W. Hailey Avenue Pendleton, OR 97801	2014
Keith May	5 N.E. Despain 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	2012

**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  
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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, 2012, 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, 2012, 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*

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Dickey and Tremper, LLP  
Certified Public Accountants and Consultants

December 21, 2012

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

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## 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, 2012. 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

- FY12 was the seventh year of operations for the Agency. The facade reimbursement program continued with \$65,462 reimbursed to property owners for downtown facade restorations by June 30<sup>th</sup>.
- The liabilities of the Agency exceeded its assets at the close of the fiscal year by \$1,838,959 (net assets).
- 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 \$62,475. These loans are paid back over time to the PDC for principal and interest.
- The demolition program is in its second 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. Expenses paid for demolition during FY12 were \$30,247.
- During the fiscal year, the Agency had expenses from governmental activities totaling \$421,048 and total governmental activity revenues of \$533,086.
- The Agency was indebted \$3,353,676 from authorized loans towards facade restoration projects, construction projects and expenses of the Agency.
- A major corporation in Pendleton was taxed on assets they acquired that contributed to a substantial increase in taxes for the Agency. The corporation has appealed to the County.
- The Agency also contributed \$52,500 towards the Rivoli Restoration Project.
- Taxes received for the seventh year were \$522,333. 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 funds, and the budget to GAAP reconciliation in the basic financial statements and accompanying notes.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

This was the seventh 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>FY 2010-11</u>	<u>FY 2011-12</u>	<u>Change</u>
<b>Governmental Activities</b>			
<b>Assets</b>			
Current and other assets	\$818,310	\$1,014,046	\$195,736
Capital assets	265,326	234,696	-30,630
Assets available for sale	<u>308,726</u>	<u>308,726</u>	<u>0</u>
Total Assets	<u>\$1,392,362</u>	<u>\$1,557,468</u>	<u>\$165,106</u>
<b>Liabilities</b>			
Long-term liabilities outstanding	\$3,295,941	\$3,353,676	\$57,735
Other liabilities	<u>47,418</u>	<u>42,751</u>	<u>-4,667</u>
Total liabilities	<u>\$3,343,359</u>	<u>\$3,396,427</u>	<u>\$53,068</u>
<b>Net Assets</b>			
Restricted for Debt Service	\$455,002	\$579,434	\$124,432
Unrestricted (deficit)	<u>(2,405,999)</u>	<u>(2,418,393)</u>	<u>(12,394)</u>
<b>Total Net Assets</b>	<u><u>(\$1,950,997)</u></u>	<u><u>(\$1,838,959)</u></u>	<u><u>\$112,038</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 2010-11</u>	<u>FY 2011-12</u>	<u>Change</u>
<b>Revenues</b>			
<i>Program revenues:</i>			
Charges for services	\$104,268	\$0	(\$104,268)
Operating grants & contributions	6,500	0	(6,500)
Capital grants & contributions	9,525	225	(9,300)
<i>General revenues:</i>			
Property taxes	368,436	530,071	161,635
Investment earnings	6,770	2,790	(3,980)
<b>Total Revenues</b>	<u><b>\$495,499</b></u>	<u><b>\$533,086</b></u>	<u><b>\$37,587</b></u>
<b>Expenses</b>			
General Government	\$1,268,905	\$216,160	(\$1,052,745)
Interest on long-term debt	202,871	204,888	2,017
<b>Total Expenses</b>	<u><b>\$1,471,776</b></u>	<u><b>\$421,048</b></u>	<u><b>(\$1,050,728)</b></u>
Change in net assets	(976,277)	112,038	1,088,315
<b>Net assets -- beginning</b>	<u><b>(\$974,720)</b></u>	<u><b>(\$1,950,997)</b></u>	<u><b>(\$976,277)</b></u>
<b>Net assets -- ending</b>	<u><u><b>(\$1,950,997)</b></u></u>	<u><u><b>(\$1,838,959)</b></u></u>	<u><u><b>\$112,038</b></u></u>

As noted above, the Pendleton Development Commission's overall net assets increased by \$112,038 during FY2012. The Agency maintained programs but capital expenditures were not budgeted or spent. The seventh year saw the Agency tax collection of \$530,071. The tax increment revenue is restricted to repayment of debt. Debt expense included interest and fee payments of \$204,888.

### GENERAL FUND BUDGETARY HIGHLIGHTS

The Agency's operating General Fund total appropriations were budgeted at \$654,000. The budget adopted was for \$450,300 for materials and services and \$203,700 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 Westgate entrance construction in progress that was finalized to the City of Pendleton. There were no additional capital improvements made during the year.

**Pendleton Development Commission  
Governmental Activities  
Capital Assets**

<b>Asset Category</b>	<b><u>FY 2010-11</u></b>	<b><u>FY 2011-12</u></b>	<b><u>Change</u></b>
Land	\$234,696	\$234,696	\$0
Construction in Progress	30,630	0	-30,630
Assets Available for Resale	<u>308,726</u>	<u>308,726</u>	0
Total Assets	<u>\$574,052</u>	<u>\$543,422</u>	<u>-\$30,630</u>

**B. Debt Administration**

As of June 30, 2012, the Agency had total debt outstanding of \$3,353,676.

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

**Table 3  
Pendleton Development Commission  
Outstanding Debt**

**Governmental Activities**

<b>Debt Category</b>	<b><u>FY 2010-11</u></b>	<b><u>FY 2011-12</u></b>	<b><u>Change</u></b>
Notes Payable	<u>\$ 3,295,941</u>	<u>\$3,353,676</u>	<u>\$57,735</u>
Total	<u>\$ 3,295,941</u>	<u>\$3,353,676</u>	<u>\$57,735</u>

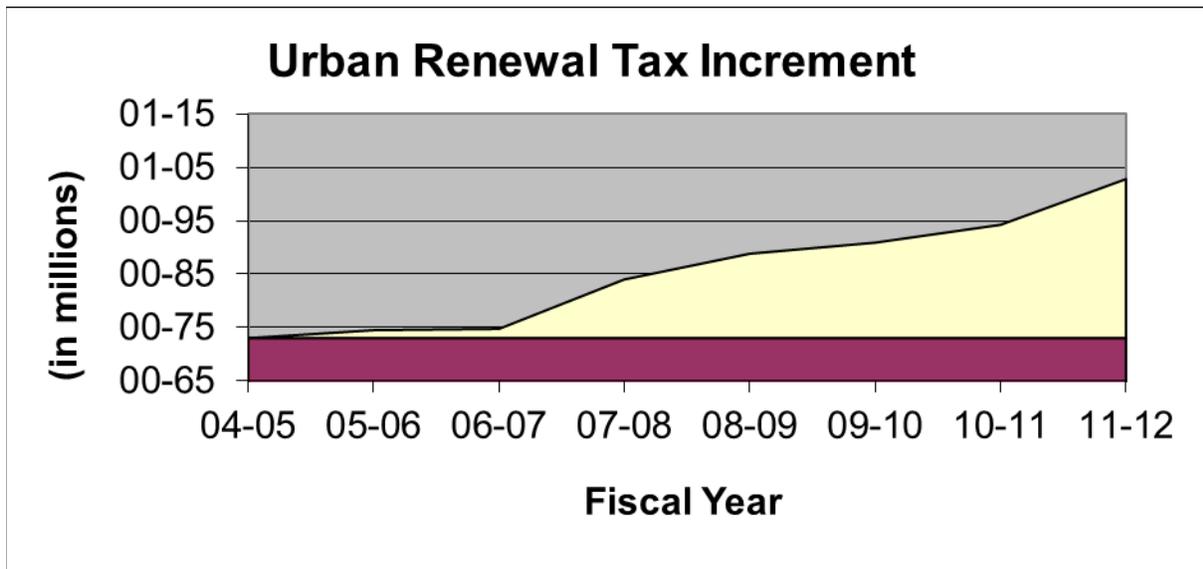
The Agency borrowed an additional \$225,000. The Agency has a fixed loan and made an annual principal payment of \$167,265. The Agency also has an open loan to continue façade grants, capital construction, and other projects as approved by the Commission. Interest only was paid on the open loan. Total debt as of June 30<sup>th</sup> was \$3,353,676. 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**

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

**STATEMENT OF NET ASSETS**  
**June 30, 2012**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 911,583
Receivables:	
Property taxes	39,988
Notes	62,475
Land	234,696
Assets available for sale	<u>308,726</u>
 Total assets	 <u>1,557,468</u>
<b>LIABILITIES</b>	
Accrued interest payable	42,751
Long-term obligations:	
Due within one year	2,003,157
Due in more than one year	<u>1,350,519</u>
 Total liabilities	 <u>3,396,427</u>
<b>NET ASSETS</b>	
Restricted for debt service	579,434
Unrestricted (deficit)	<u>(2,418,393)</u>
 Total net assets (deficit)	 <u>\$ (1,838,959)</u>

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

**STATEMENT OF ACTIVITIES**  
**For the fiscal year ended June 30, 2012**

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	\$ 216,160	\$ -	\$ -	\$ 225	\$ (215,935)
Interest on long-term obligations	<u>204,888</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(204,888)</u>
<b>Total governmental activities</b>	<u><u>\$ 421,048</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 225</u></u>	<u><u>(420,823)</u></u>
General revenues:					
Property taxes levied for:					
Debt service					530,071
Interest and investment earnings					<u>2,790</u>
Total general revenues					<u>532,861</u>
Change in net assets					112,038
Net assets (deficit), beginning					<u>(1,950,997)</u>
Net assets (deficit), ending					<u><u>\$ (1,838,959)</u></u>

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

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2012**

	General Fund	Urban Renewal District Debt Service Fund	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 336,807	\$ 574,776	\$ 911,583
Receivables:			
Property taxes	-	39,988	39,988
Notes	62,475	-	62,475
Total assets	\$ 399,282	\$ 614,764	\$ 1,014,046
<b>LIABILITIES</b>			
Deferred revenue	\$ 62,475	\$ 35,330	\$ 97,805
Total liabilities	62,475	35,330	97,805
<b>FUND BALANCE</b>			
Restricted	-	579,434	579,434
Unassigned	336,807	-	336,807
Total fund balance	336,807	579,434	916,241
Total liabilities and fund balance	\$ 399,282	\$ 614,764	\$ 1,014,046

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

Fund balance above	\$ 916,241
Long-term assets that are not available to pay for current-period expenditures are deferred in the funds.	97,805
Capital assets purchased by governmental activities are not financial resources and are not reported in the funds.	543,422
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.	(3,396,427)
<b>Net assets (deficit) of governmental activities</b>	<b>\$ (1,838,959)</b>

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, 2012**

	General Fund	Urban Renewal District Debt Service Fund	Totals
<b>REVENUES</b>			
Property taxes	\$ -	\$ 522,333	\$ 522,333
Contributions	225	-	225
Interest on investments	1,073	1,717	2,790
<b>TOTAL REVENUES</b>	<u>1,298</u>	<u>524,050</u>	<u>525,348</u>
<b>EXPENDITURES</b>			
Current:			
General government:			
Materials and services	225,204	22,800	248,004
Debt service	-	376,818	376,818
<b>TOTAL EXPENDITURES</b>	<u>225,204</u>	<u>399,618</u>	<u>624,822</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(223,906)</u>	<u>124,432</u>	<u>(99,474)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Issuance of debt	225,000	-	225,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>225,000</u>	<u>-</u>	<u>225,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	1,094	124,432	125,526
<b>FUND BALANCE, Beginning</b>	<u>335,713</u>	<u>455,002</u>	<u>790,715</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 336,807</u>	<u>\$ 579,434</u>	<u>\$ 916,241</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, 2012**

<b>Net change in fund balance - governmental fund</b>	\$ 125,526
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	70,212
Issuance of debt is a financial resource in the governmental fund, but the issuance increases long-term liabilities in the Statement of Net Assets.	(225,000)
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.	167,265
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.	4,665
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>(30,630)</u>
<b>Change in net assets - governmental activities</b>	<u><u>\$ 112,038</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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
<b>REVENUES</b>				
Contributions	\$ -	\$ -	\$ 225	\$ 225
Interest on investments	1,000	1,000	1,073	73
<b>TOTAL REVENUES</b>	<u>1,000</u>	<u>1,000</u>	<u>1,298</u>	<u>298</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Materials and services	450,300	450,300	225,204	225,096
Contingency	203,700	203,700	-	203,700
<b>TOTAL EXPENDITURES</b>	<u>654,000</u>	<u>654,000</u>	<u>225,204</u>	<u>428,796</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(653,000)</u>	<u>(653,000)</u>	<u>(223,906)</u>	<u>429,094</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of debt	550,000	550,000	225,000	(325,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>550,000</u>	<u>550,000</u>	<u>225,000</u>	<u>(325,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(103,000)	(103,000)	1,094	104,094
<b>FUND BALANCE, Beginning</b>	<u>103,000</u>	<u>103,000</u>	<u>335,713</u>	<u>232,713</u>
<b>FUND BALANCE, Ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 336,807</u>	<u>\$ 336,807</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**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, 2012**

**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 fund:

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**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that met the definition of GASB 54: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

In the fund financial statements, the fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash and include inventories and prepaid amounts.

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

Fund balance is reported as committed when the Board of Directors passes a resolution that places specific constraints on how the resources may be used. The Board of Directors can modify or rescind the resolution at any time through passage of an additional resolution.

Fund balance is reported as assigned when resources are constrained by the government's intent to use them for a specific purpose, but are neither restricted nor committed. Intent is expressed when the Board of Directors approves which resources should be assigned to expenditures of particular purposes during the adoption of the annual budget. The Finance Director uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the Agency's fund financial statements.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned.

When the option is available to use restricted or unrestricted resources for any purpose, the Agency expends restricted resources first. When the option is available to use committed, assigned, or unassigned resources for any purpose, the Agency expends

committed resources before assigned resources, and assigned resources before unassigned resources. Fund balances by classification for the year ended June 30, 2012 were as follows:

Fund Balances:	General	Urban Renewal District Debt Service	Total Governmental Funds
Restricted	\$ -	\$ 579,434	\$ 579,434
Unassigned	336,807	-	336,807
 Total Fund Balances	 <u>\$ 336,807</u>	 <u>\$ 579,434</u>	 <u>\$ 916,241</u>

### 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, 2012, 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, 2012. 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, 2012, the carrying amount of the Agency's deposits was \$806,763 and the bank balance was \$809,855. All deposits are held in the name of the Pendleton Development Commission (blended component unit). Of the bank balance, \$506,467 was covered by federal depository insurance. The remaining \$303,388 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, 2012 are shown below:

Deposits with financial institutions	\$ 806,763
Local Government Investment Pool	<u>104,820</u>
Total cash and cash equivalents	<u>\$ 911,583</u>

## B. Receivables

At June 30, 2012, the Agency's receivables are as follows:

Property taxes	\$ 39,988
Notes	<u>62,475</u>
Total	<u>\$ 102,463</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 \$543,929. Following is a summary of property tax transactions for the year ended June 30, 2012:

	Balances July 1, 2011	Levy	Adjustments Interest and (Discounts)	Collections	Balances June 30, 2012
2011-12	\$ -	\$ 543,929	\$ (14,925)	\$ (505,156)	\$ 23,848
2010-11	14,927	-	237	(6,559)	8,605
2009-10	8,685	-	(7)	(3,529)	5,149
2008-09	4,493	-	80	(2,570)	2,003
2007-08	1,554	-	235	(1,467)	322
2006-07	106	-	(10)	(35)	61
	<u>\$ 29,765</u>	<u>\$ 543,929</u>	<u>\$ (14,390)</u>	<u>\$ (519,316)</u>	<u>\$ 39,988</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 \$35,330 in unavailable property taxes and \$62,475 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 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	\$ 234,696	\$ -	\$ -	\$ 234,696
Land available for sale	308,726	-	-	308,726
Construction in progress	30,630	-	30,630	-
Total non-depreciable	<u>\$ 574,052</u>	<u>\$ -</u>	<u>\$ 30,630</u>	<u>\$ 543,422</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, 2011 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, 2012. The line of credit is to be repaid by property taxes and the balance at June 30, 2012 was \$1,825,000. There is no prepayment penalty and property tax revenues are pledged to the loan. Subsequent to year-end, the loan maturity was extended to December 30, 2012 and the Commission is negotiating for a long-term loan. As of the date of this report, the entire balance is considered due within one year.

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%. Future maturities are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2013	\$ 178,157	\$ 102,595
2014	190,359	90,393
2015	203,097	77,655
2016	216,687	64,064
2017	231,052	49,700
2018-2019	<u>509,324</u>	<u>51,701</u>
	<u>\$ 1,528,676</u>	<u>\$ 436,108</u>

Changes in long-term obligations for the fiscal year ended June 30, 2012, 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	\$ 3,295,941	\$ 225,000	\$ (167,265)	\$ 3,353,676	\$ 2,003,157

**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 a Line of Credit at Banner Bank, which was extended beyond its original maturity to December 31, 2012. As of June 30, 2012, the balance was \$1.825 million and the Commission is negotiating for a long-term loan.

The Round-up has appealed its property tax assessment, which is currently being adjudicated. The County expects the appeal will be unsuccessful, but there is a possible contingency related to the assessment. If the appeal is settled in favor of the Round-up, the Pendleton Development Commission may have to refund monies.

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

**H. Related Party Transactions**

A City Council Member was approved to receive grant money under the Pendleton Development Commission's façade restoration program. During the year \$35,828 was paid under the grants.

The Pendleton Development Commission paid the City of Pendleton \$15,000 for administrative services during the year.

## **SUPPLEMENTAL INFORMATION**

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**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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 445,000	\$ 445,000	\$ 522,333	\$ 77,333
Interest on investments	9,000	9,000	1,717	(7,283)
<b>TOTAL REVENUES</b>	<u>454,000</u>	<u>454,000</u>	<u>524,050</u>	<u>70,050</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Materials and services	22,800	22,800	22,800	-
Debt service	<u>467,255</u>	<u>467,255</u>	<u>376,818</u>	<u>90,437</u>
<b>TOTAL EXPENDITURES</b>	<u>490,055</u>	<u>490,055</u>	<u>399,618</u>	<u>90,437</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(36,055)</u>	<u>(36,055)</u>	<u>124,432</u>	<u>160,487</u>
<b>NET CHANGE IN FUND BALANCE</b>	(36,055)	(36,055)	124,432	160,487
<b>FUND BALANCE, Beginning</b>	<u>477,000</u>	<u>477,000</u>	<u>455,002</u>	<u>(21,998)</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 440,945</u>	<u>\$ 440,945</u>	<u>\$ 579,434</u>	<u>\$ 138,489</u>

**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, 2012, and have issued our report thereon dated December 21, 2012. 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 December 21, 2012.

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*

December 21, 2012