

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

**Annual Financial Report**

**For the Fiscal Year Ended June 30, 2016**

**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, 2016**

**BOARD OF DIRECTORS**

<u>Name</u>	<u>Address</u>	<u>Term Expires</u> <u>December 31,</u>
Phillip Houk	707 N.W. 3 <sup>rd</sup> Street Pendleton, OR 97801	2016
McKennon McDonald	806 N.W. 8 <sup>th</sup> St. Pendleton, OR 97801	2018
John Brenne	PO Box 1404 Pendleton, OR 97801	2018
Jane Hill	PO Box 339 Pendleton, OR 97801	Resigned
Jake Cambier	1324 NW King Pendleton, OR 97801	2018
Paul Chalmers	330 SW Tahoe Avenue Pendleton, OR 97801	2016
Becky Marks	PO Box 494 Pendleton, OR 97801	2016
Chuck Wood	411 N.W. 4th Avenue Pendleton, OR 97801	2016
Neil Brown	3305 S.W. Hailey Avenue Pendleton, OR 97801	2018
Al Plute	15 S.E. Emigrant Avenue Pendleton, OR 97801	Resigned
Tom Young	3304 S.W. Ladow Avenue Pendleton, OR 97801	2016

**AGENCY ADDRESS**

Administrative Offices  
500 SW Dorion Avenue  
Pendleton, OR 97801



**Dickey and Tremper, LLP**  
Certified Public Accountants and Business Advisors

110 SE First Street  
P.O. Box 1533  
Pendleton, OR 97801  
Phone: (541) 276-6862  
Toll Free: 1-800-332-6862  
Fax: (541) 276-9040  
Web: [www.dickeyandtremper.com](http://www.dickeyandtremper.com)

## **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, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

A

## **INDEPENDENT AUDITOR'S REPORT (Continued)**

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Pendleton Development Commission (a component unit of the City of Pendleton, Oregon), as of June 30, 2016, and the respective changes in financial position and, the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplemental Information*

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

#### *Other Information*

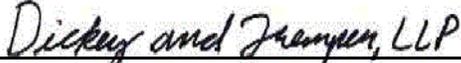
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pendleton Development Commission's basic financial statements. The supplemental budgetary schedule for the Debt Service Fund, as listed in the table of contents, is presented for purposes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

## **INDEPENDENT AUDITOR'S REPORT (Continued)**

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

### **Report on Other Legal and Regulatory Requirements**

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 29, 2016, on our consideration of the Pendleton Development Commissions' internal control over financial reporting and on tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-320. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

  
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**Dickey and Tremper, LLP**  
**Certified Public Accountants**  
**Pendleton, Oregon**

December 29, 2016

**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, 2016. 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

- FY16 was the eleventh year of operations for the Agency. The City spent \$5,581 for consultant services for educating Main Street tenants in Second Story opportunities.
- The liabilities of the Agency exceeded its assets at the close of the fiscal year by \$295,855 (net position).
- The Jump Start program is designed to promote and assist businesses to locate downtown. These loans are paid back over time to the PDC for principal and interest. There were no new loans created for the year. FY16 saw income of \$46,748 in loan payment receipts from established loans.
- The demolition program is in its sixth year. Property owners must agree to construct new building(s) with a minimum building permit value of three times the value of the property being demolished and rebuild within 18 months. There was \$17,731 awarded during the year.
- During the fiscal year, the Agency had expenses from governmental activities totaling \$216,640 and total governmental activity revenues of \$804,207.
- The Agency was indebted \$2,343,465 from authorized loans towards facade restoration projects, construction projects and expenses of the Agency.
- Taxes received for the ninth year were \$791,319. Incremental tax revenues provide the vehicle for repayment debt incurred by the Agency.

### Overview of Financial Statements

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

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

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

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

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

#### A. Analysis of Net Position

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

**Governmental**  
**Activities**

	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>Change</u>
<b>Assets</b>			
Current and other assets	\$1,620,947	\$1,779,646	\$158,699
Capital assets	37,559	37,559	0
Assets available for sale	308,507	341,261	32,754
<b>Total Assets</b>	<u>\$1,967,013</u>	<u>\$2,158,466</u>	<u>\$191,453</u>
<b>Liabilities</b>			
Long-term liabilities outstanding	\$2,749,903	\$2,343,465	(\$406,438)
Other liabilities	108,307	110,856	2,549
<b>Total liabilities</b>	<u>\$2,858,210</u>	<u>\$2,454,321</u>	<u>(\$403,889)</u>
<b>Net Position</b>			
Restricted for Debt Service	\$1,004,274	\$1,193,605	\$189,331
Unrestricted (deficit)	<u>(1,895,471)</u>	<u>(1,489,460)</u>	<u>406,011</u>
<b>Total Net Position</b>	<u>(\$891,197)</u>	<u>(\$295,855)</u>	<u>\$595,342</u>

As noted earlier, net position may serve as a useful indicator of a government's financial position. For the Agency however, tax dollars are required to be used for debt service only. The concept is to borrow dollars now to increase the assessed values of the properties which in turn increase the tax base for the urban renewal agency in the future.

**B. Statement of Changes in Net Activities**

**Table 2  
Pendleton Development Commission  
Governmental Activities**

	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>Change</u>
<b>Revenues</b>			
<i>Program revenues:</i>			
Charges for services	\$0	\$0	\$0
Operating grants & contributions	0	0	0
Capital grants & contributions	9,994	7,775	(2,219)
<i>General revenues:</i>			
Property taxes	724,445	796,130	71,685
Miscellaneous Income	1,513	0	-1,513
Investment earnings	5,115	8,077	2,962
<b>Total Revenues</b>	<u><b>\$741,067</b></u>	<u><b>\$811,982</b></u>	<u><b>\$70,915</b></u>
 <b>Expenses</b>			
General Government	\$112,239	\$76,111	(\$36,128)
Interest on long-term debt	162,853	140,529	(22,324)
<b>Total Expenses</b>	<u><b>\$275,092</b></u>	<u><b>\$216,640</b></u>	<u><b>(\$58,452)</b></u>
 Change in net position	465,975	595,342	129,367
 <b>Net position -- beginning</b>	<u><b>(\$1,357,172)</b></u>	<u><b>(\$891,197)</b></u>	<u><b>\$465,975</b></u>
<b>Net position -- ending</b>	<u><u><b>(\$891,197)</b></u></u>	<u><u><b>(\$295,855)</b></u></u>	<u><u><b>\$595,342</b></u></u>

As noted above, the Pendleton Development Commission's overall net position increased by \$595,342 during FY2016. The Agency maintained programs and purchased one property as an asset for resale. The eleventh year saw the Agency tax revenue of \$796,130. The tax increment revenue is restricted to repayment of debt. Debt expense included interest and fee payments of \$140,529.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Agency's operating General Fund total appropriations were budgeted at \$524,500. The original budget adopted was for \$175,000 for materials and services and \$349,500 for contingency. The Budget was amended during the year to decrease contingency and increase capital outlay by \$45,000.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**A. Capital Assets**

The Pendleton Development Commission purchased one property on SW Byers during the year for \$32,754.

**Pendleton Development Commission  
Governmental Activities  
Capital Assets**

<b>Asset Category</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>Change</b>
Land	\$37,559	\$37,559	\$0
Assets Available for Resale	308,507	341,261	32,754
<b>Total Assets</b>	<b>\$346,066</b>	<b>\$378,820</b>	<b>\$32,754</b>

**B. Debt Administration**

As of June 30, 2016, the Agency had total debt outstanding of \$2,343,465.

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>FY 2014-15</b>	<b>FY 2015-16</b>	<b>Change</b>
Notes Payable	\$2,749,903	\$2,343,465	(\$406,438)
<b>Total Notes Payable</b>	<b>\$2,749,903</b>	<b>\$2,343,465</b>	<b>(\$406,438)</b>

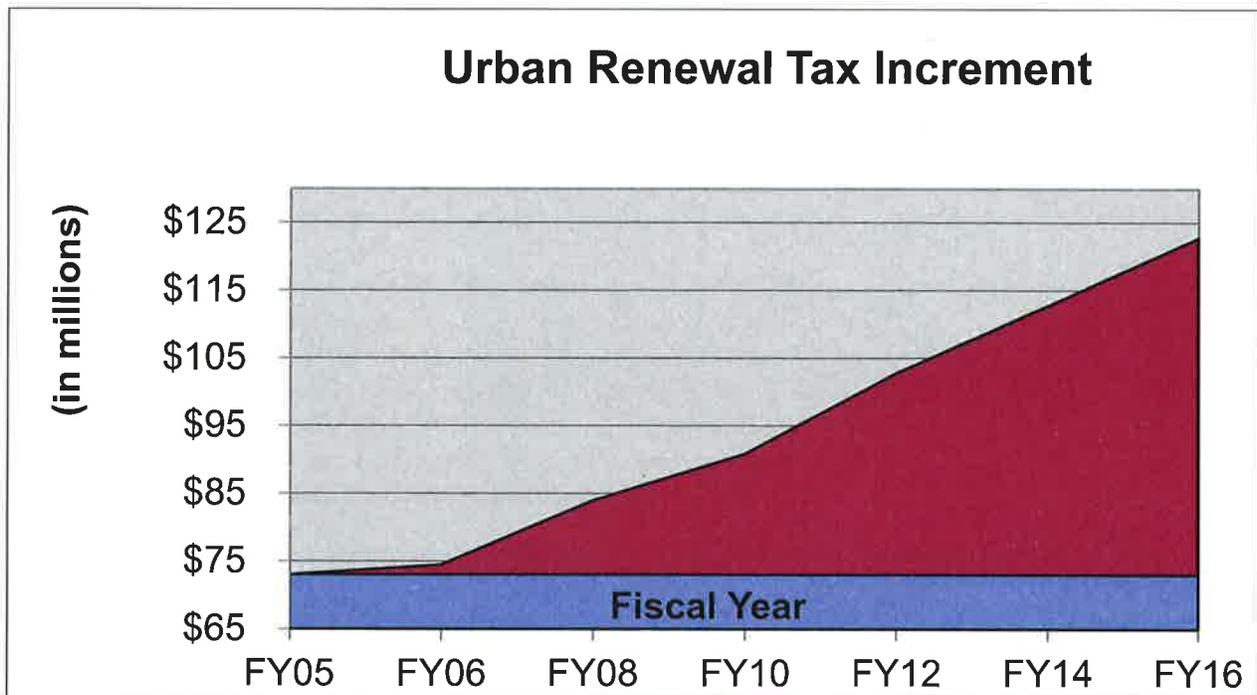
The Agency has two fixed loans and made annual principal payments of \$406,438. Total debt as of June 30<sup>th</sup> was \$2,343,465. Tax revenues will be used to payoff debt.

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

## ECONOMIC FACTORS

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

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



## REQUESTS FOR INFORMATION

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

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

## **BASIC FINANCIAL STATEMENTS**

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

**STATEMENT OF NET POSITION**  
**June 30, 2016**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,669,067
Receivables:	
Property taxes	44,607
Notes	65,972
Land	37,559
Assets available for sale	<u>341,261</u>
 Total assets	 <u>2,158,466</u>
 <b>LIABILITIES</b>	
Accounts payable and accrued liabilities	55,234
Accrued interest payable	55,622
Long-term obligations:	
Due within one year	429,815
Due in more than one year	<u>1,913,650</u>
 Total liabilities	 <u>2,454,321</u>
 <b>NET POSITION</b>	
Restricted for debt service	1,193,605
Unrestricted (deficit)	<u>(1,489,460)</u>
 Total net position (deficit)	 <u>\$ (295,855)</u>

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

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

**STATEMENT OF ACTIVITIES**  
**For the fiscal year ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental activities:						
General government	\$ 76,111	\$ -	\$ -	\$ 7,775	\$ (68,336)	
Interest on long-term obligations	<u>140,529</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(140,529)</u>	
Total governmental activities	<u>\$ 216,640</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,775</u>	<u>(208,865)</u>	
General revenues:						
Property taxes levied for:						
Debt service						796,130
Interest and investment earnings						<u>8,077</u>
Total general revenues						<u>804,207</u>
Change in net position						595,342
Net position (deficit), beginning						<u>(891,197)</u>
Net position (deficit), ending						<u>\$ (295,855)</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, 2016**

	General Fund	Urban Renewal District Debt Service Fund	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 429,306	\$ 1,239,761	\$ 1,669,067
Receivables:			
Property taxes	-	44,607	44,607
Notes	65,972	-	65,972
Total assets	\$ 495,278	\$ 1,284,368	\$ 1,779,646
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 4,334	\$ 50,900	\$ 55,234
Total liabilities	4,334	50,900	55,234
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	65,972	39,863	105,835
Total deferred inflows of resources	65,972	39,863	105,835
<b>FUND BALANCE</b>			
Restricted	-	1,193,605	1,193,605
Unassigned	424,972	-	424,972
Total fund balance	424,972	1,193,605	1,618,577
Total liabilities, deferred inflows of resources and fund balance	\$ 495,278	\$ 1,284,368	\$ 1,779,646

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

Fund balance above	\$ 1,618,577
Long-term assets that are not available to pay for current-period expenditures are deferred in the funds.	105,835
Capital assets purchased by governmental activities are not financial resources and are not reported in the funds.	378,820
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.	(2,399,087)
<b>Net position (deficit) of governmental activities</b>	<b>\$ (295,855)</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, 2016**

	General Fund	Urban Renewal District Debt Service Fund	Totals
<b>REVENUES</b>			
Property taxes	\$ -	\$ 791,319	\$ 791,319
Loan repayments	46,748	-	46,748
Interest on investments	2,095	5,982	8,077
<b>TOTAL REVENUES</b>	<u>48,843</u>	<u>797,301</u>	<u>846,144</u>
<b>EXPENDITURES</b>			
Current:			
General government:			
Materials and services	25,211	50,900	76,111
Capital outlay	32,754	-	32,754
Debt service	-	557,069	557,069
<b>TOTAL EXPENDITURES</b>	<u>57,965</u>	<u>607,969</u>	<u>665,934</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(9,122)</u>	<u>189,332</u>	<u>180,210</u>
<b>NET CHANGE IN FUND BALANCE</b>	(9,122)	189,332	180,210
<b>FUND BALANCE, Beginning</b>	<u>434,094</u>	<u>1,004,273</u>	<u>1,438,367</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 424,972</u>	<u>\$ 1,193,605</u>	<u>\$ 1,618,577</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, 2016**

<b>Net change in fund balance - governmental fund</b>	\$ 180,210
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.	
Unavailable revenues	(34,162)
Repayment of long-term obligations principal is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position.	406,438
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.	10,102
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>32,754</u>
<b>Change in net position - governmental activities</b>	<u><u>\$ 595,342</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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
<b>REVENUES</b>				
Loan repayments	\$ 22,500	\$ 22,500	\$ 46,748	\$ 24,248
Interest on investments	2,000	2,000	2,095	95
<b>TOTAL REVENUES</b>	<u>24,500</u>	<u>24,500</u>	<u>48,843</u>	<u>24,343</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Materials and services	175,000	175,000	25,211	149,789
Capital outlay	-	45,000	32,754	12,246
Contingency	349,500	304,500	-	304,500
<b>TOTAL EXPENDITURES</b>	<u>524,500</u>	<u>524,500</u>	<u>57,965</u>	<u>466,535</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(500,000)</u>	<u>(500,000)</u>	<u>(9,122)</u>	<u>490,878</u>
<b>NET CHANGE IN FUND BALANCE</b>	(500,000)	(500,000)	(9,122)	490,878
<b>FUND BALANCE, Beginning</b>	<u>500,000</u>	<u>500,000</u>	<u>434,094</u>	<u>(65,906)</u>
<b>FUND BALANCE, Ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 424,972</u>	<u>\$ 424,972</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, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization**

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

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

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

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

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

**C. Agency-wide and Fund Financial Statements**

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

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

Separate financial statements are provided for the governmental funds.

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

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

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

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

The Agency reports the following major governmental funds:

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

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

#### **E. Use of Estimates**

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

#### **F. Cash and Cash Equivalents**

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

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

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

### **G. Receivables and Payables**

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

### **H. Fund Equity**

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

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

### **I. Long-Term Obligations**

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

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

## **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, 2016, a supplemental budget was adopted. The Board of Directors must authorize all appropriation transfers and supplementary budgetary appropriations.

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

**Deposits.** The Governmental Accounting Standards Board has adopted accounting principles generally accepted in the United States of America (GAAP), which includes standards to categorize deposits to give an indication of the level of custodial credit risk assumed by the Agency at June 30, 2016. 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, 2016, the carrying amount of the Agency's deposits was \$426,668 and the bank balance was \$426,668. All deposits are held in the name of the Pendleton Development Commission (blended component unit). Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining \$176,668 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, 2016 are shown below:

Deposits with financial institutions	\$ 426,668
Local Government Investment Pool	<u>1,242,399</u>
Total cash and cash equivalents	<u>\$ 1,669,067</u>

**B. Receivables**

At June 30, 2016, the Agency's receivables are as follows:

Property taxes	\$ 44,607
Notes	<u>65,972</u>
Total	<u>\$ 110,579</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 \$815,954.

**C. Deferred Inflows of Resources**

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow

of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item unavailable revenue is reported only in the governmental fund balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The unavailable revenues reported in the governmental funds included \$39,863 in property taxes and \$65,972 in Jump Start notes receivable.

**D. Capital Assets**

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land	\$ 37,559	\$ -	\$ -	\$ 37,559
Land available for sale	308,507	32,754	-	341,261
Total non-depreciable	<u>\$ 346,066</u>	<u>\$ 32,754</u>	<u>\$ -</u>	<u>\$ 378,820</u>

**E. Long – Term Obligations**

The Pendleton Development Commission established a non-revolving line of credit with Banner Bank which was negotiated into a long term loan fixed at 4.75% interest on March 31, 2013 for the outstanding balance of \$1,821,754 and borrowed an additional \$325,000. The loan is to be repaid by property taxes and the balance at June 30, 2016 was \$1,602,641. There is no prepayment penalty and property tax revenues are pledged to the loan.

Future maturities are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 198,773	\$ 76,138
2018	208,214	66,696
2019	218,105	56,806
2020	228,464	46,446
2021	239,316	35,594
2022-2023	509,769	36,545
	<u>\$ 1,602,641</u>	<u>\$ 318,225</u>

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

Future maturities are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	\$ 231,042	\$ 49,709
2018	246,639	34,113
2019	263,143	17,609
	<u>\$ 740,824</u>	<u>\$ 101,431</u>

Changes in long-term obligations for the fiscal year ended June 30, 2016, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes payable	<u>\$ 2,749,903</u>	<u>\$ -</u>	<u>\$ (406,438)</u>	<u>\$ 2,343,465</u>	<u>\$ 429,815</u>

#### F. Fund Balance Classifications

Fund balances by classification for the year ended June 30, 2016 were as follows:

Fund Balances:	General	Urban Renewal District Debt Service	Total Governmental Funds
Restricted	\$ -	\$ 1,193,605	\$ 1,193,605
Unassigned	424,972	-	424,972
Total Fund Balances	<u>\$ 424,972</u>	<u>\$ 1,193,605</u>	<u>\$ 1,618,577</u>

#### G. 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.

#### H. Commitments and Contingencies

The Agency has approximately \$65,972 in jump start loans receivable at year end.

The Pendleton Development Commission has committed funds to various projects and is expecting to pay approximately \$75,000 for a Second Story Development Grant and \$8,000 for a Façade Grant after year end.

#### I. Subsequent Events

The Pendleton Development Commission approved a bid of \$91,915 by Pioneer Asphalt to pave two City parking lots, with \$67,686 to be paid from urban renewal funds and the balance to be paid by the City.

**J. Related Party Transactions**

The Pendleton Development Commission owed the City of Pendleton \$50,900 for administrative services performed by the City.

## **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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 747,400	\$ 747,400	\$ 791,319	\$ 43,919
Interest on investments	3,600	3,600	5,982	2,382
<b>TOTAL REVENUES</b>	<u>751,000</u>	<u>751,000</u>	<u>797,301</u>	<u>46,301</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Materials and services	54,900	54,900	50,900	4,000
Debt service	<u>559,062</u>	<u>559,062</u>	<u>557,069</u>	<u>1,993</u>
<b>TOTAL EXPENDITURES</b>	<u>613,962</u>	<u>613,962</u>	<u>607,969</u>	<u>5,993</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>137,038</u>	<u>137,038</u>	<u>189,332</u>	<u>52,294</u>
<b>NET CHANGE IN FUND BALANCE</b>	137,038	137,038	189,332	52,294
<b>FUND BALANCE, Beginning</b>	<u>1,035,000</u>	<u>1,035,000</u>	<u>1,004,273</u>	<u>(30,727)</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 1,172,038</u>	<u>\$ 1,172,038</u>	<u>\$ 1,193,605</u>	<u>\$ 21,567</u>

See auditor's report.

**AUDITOR'S COMMENTS AND REPORTS**

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## **INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS**

To the Board of Directors  
Pendleton Development Commission  
Pendleton, Oregon

We have audited the basic financial statements of the Pendleton Development Commission as of and for the year ended June 30, 2016, and have issued our report thereon dated December 29, 2016. 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 29, 2016.

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

A handwritten signature in cursive script that reads "Dickey and Tremper, LLP".

December 29, 2016