

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

**Annual Financial Report**

**For the Fiscal Year Ended June 30, 2017**

**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, 2017**

**BOARD OF DIRECTORS**

<u>Name</u>	<u>Address</u>	<u>Term Expires</u> <u>December 31,</u>
John Turner	701 N.W. 23 <sup>rd</sup> Street Pendleton, OR 97801	2020
McKennon McDonald	806 N.W. 8 <sup>th</sup> St. Pendleton, OR 97801	2018
John Brenne	318 NW Bailey #4A Pendleton, OR 97801	2018
Jake Cambier	1324 NW King Pendleton, OR 97801	2018
Paul Chalmers	330 SW Tahoe Avenue Pendleton, OR 97801	2020
Becky Marks	212 NW Despain Avenue Pendleton, OR 97801	2020
Scott Fairley	115 NW 7 <sup>th</sup> Street Pendleton, OR 97801	2020
Neil Brown	3305 S.W. Hailey Avenue Pendleton, OR 97801	2018
Dale Primmer	101 SW Quinney Place Pendleton, OR 97801	2020

**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, 2017, 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, 2017, 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 15, 2017, on our consideration of the Pendleton Development Commissions' internal control over financial reporting and on tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-320. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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

December 15, 2017

## **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, 2017. 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

- FY17 was the twelfth year of operations for the Agency. The Commission spent \$76,009 towards second story access downtown.
- The assets of the Agency exceeded its liabilities at the close of the fiscal year by \$81,704 (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 paid out for the fiscal year. FY17 saw income of \$17,242 in loan payment receipts from established loans.
- The demolition program is in its seventh 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 \$1,903 expensed during the year.
- During the fiscal year, the Agency had expenses from governmental activities totaling \$348,953 and total governmental activity revenues of \$726,512.
- The Agency was indebted \$1,401,966 from authorized loans towards facade restoration projects, construction projects and expenses of the Agency. The Agency paid off one loan early for \$740,824 principal.
- Taxes received for the ninth year were \$713,259. 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 twelfth year of operation for the Pendleton Downtown Commission Urban Renewal District

#### A. Analysis of Net Position

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

	<u>Governmental</u> <u>Activities</u>		
	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>Change</u>
<b>Assets</b>			
Current and other assets	\$1,779,646	\$1,247,867	(\$531,779)
Capital assets	37,559	37,559	0
Assets available for sale	341,261	341,261	0
<b>Total Assets</b>	<u>\$2,158,466</u>	<u>\$1,626,688</u>	<u>(\$531,779)</u>
<b>Liabilities</b>			
Long-term liabilities outstanding	\$2,343,465	\$1,401,966	(\$941,499)
Other liabilities	110,856	143,018	32,162
<b>Total liabilities</b>	<u>\$2,454,321</u>	<u>\$1,544,984</u>	<u>(\$909,337)</u>
<b>Net Position</b>			
Restricted for Debt Service	\$1,193,605	\$751,440	(\$442,165)
Unrestricted (deficit)	<u>(1,489,460)</u>	<u>(669,736)</u>	<u>819,724</u>
<b>Total Net Position</b>	<u>(\$295,855)</u>	<u>\$81,704</u>	<u>\$377,559</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 2015-16</u>	<u>FY 2016-17</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	7,775	0	(7,775)
<i>General revenues:</i>			
Property taxes	796,130	711,560	(84,570)
Miscellaneous Income	0	0	0
Investment earnings	8,077	14,952	6,875
<b>Total Revenues</b>	<b><u>\$811,982</u></b>	<b><u>\$726,512</u></b>	<b><u>-\$85,470</u></b>
 <b>Expenses</b>			
General Government	\$76,111	\$220,745	\$144,634
Interest on long-term debt	140,529	128,208	(12,321)
<b>Total Expenses</b>	<b><u>\$216,640</u></b>	<b><u>\$348,953</u></b>	<b><u>\$132,313</u></b>
 Change in net position	595,342	377,559	(217,783)
 <b>Net position -- beginning</b>	<b><u>(\$891,197)</u></b>	<b><u>(\$295,855)</u></b>	<b><u>\$595,342</u></b>
<b>Net position -- ending</b>	<b><u>(\$295,855)</u></b>	<b><u>\$81,704</u></b>	<b><u>\$377,559</u></b>

As noted above, the Pendleton Development Commission's overall net position increased by \$377,559 during FY2017. The twelfth year saw the Agency tax revenue of \$711,560. The tax increment revenue is restricted to repayment of debt. Debt expense included interest and fee payments of \$128,208.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Agency's operating General Fund total appropriations were budgeted at \$445,000. The original budget adopted was for \$275,000 for materials and services and \$170,000 for contingency. The Budget was amended during the year to decrease materials and services and increase capital outlay by \$67,868 for the improvement of downtown parking lots.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**A. Capital Assets**

There were no properties purchased by the Pendleton Development Commission during the year.

<b>Pendleton Development Commission Governmental Activities Capital Assets</b>			
<b>Asset Category</b>	<b><u>FY 2015-16</u></b>	<b><u>FY 2016-17</u></b>	<b><u>Change</u></b>
Land	\$37,559	\$37,559	\$0
Assets Available for Resale	341,261	341,261	0
Total Assets	<u>\$378,820</u>	<u>\$378,820</u>	<u>\$0</u>

**B. Debt Administration**

As of June 30, 2017, the Agency had total debt outstanding of \$1,401,966. The agency paid off one debt note early to a local institution just before year end.

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

<b>Table 3 Pendleton Development Commission Outstanding Debt Governmental Activities</b>			
<b>Debt Category</b>	<b><u>FY 2015-16</u></b>	<b><u>FY 2016-17</u></b>	<b><u>Change</u></b>
Notes Payable	\$2,343,465	\$1,401,966	(\$941,499)
Total Notes Payable	<u>\$2,343,465</u>	<u>\$1,401,966</u>	<u>(\$941,499)</u>

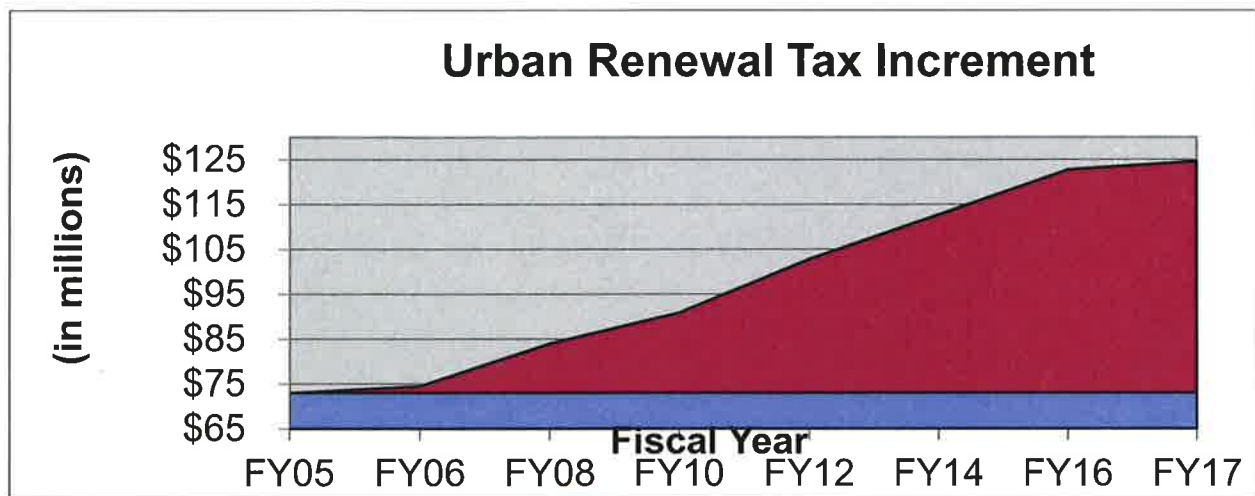
The Agency has two fixed loans at the beginning of the fiscal year and made annual principal payments of \$941,499. Total debt as of June 30<sup>th</sup> was \$1,401,966. Tax revenues will be used to payoff debt.

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 POSITION**  
**June 30, 2017**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,149,091
Receivables:	
Property taxes	45,899
Notes	52,878
Land	37,559
Assets available for sale	<u>341,261</u>
 Total assets	 <u>1,626,688</u>
 <b>LIABILITIES</b>	
Accounts payable and accrued liabilities	112,449
Accrued interest payable	30,569
Long-term obligations:	
Due within one year	211,860
Due in more than one year	<u>1,190,106</u>
 Total liabilities	 <u>1,544,984</u>
 <b>NET POSITION</b>	
Restricted for debt service	751,440
Unrestricted (deficit)	<u>(669,736)</u>
 Total net position (deficit)	 <u>\$ 81,704</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, 2017**

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	\$ 220,745	\$ -	\$ -	\$ -	\$ (220,745)
Interest on long-term obligations	<u>128,208</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(128,208)</u>
Total governmental activities	<u>\$ 348,953</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(348,953)</u>
	General revenues:				
	Property taxes levied for:				
	Debt service				711,560
	Interest and investment earnings				<u>14,952</u>
	Total general revenues				<u>726,512</u>
	Change in net position				377,559
	Net position (deficit), beginning				<u>(295,855)</u>
	Net position, ending				<u>\$ 81,704</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, 2017**

	General Fund	Urban Renewal District Debt Service Fund	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 339,668	\$ 809,423	\$ 1,149,091
Receivables:			
Property taxes	-	45,899	45,899
Notes	52,878	-	52,878
Total assets	\$ 392,546	\$ 855,322	\$ 1,247,868
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 46,731	\$ 65,718	\$ 112,449
Total liabilities	46,731	65,718	112,449
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	52,878	38,164	91,042
Total deferred inflows of resources	52,878	38,164	91,042
<b>FUND BALANCE</b>			
Restricted	-	751,440	751,440
Unassigned	292,937	-	292,937
Total fund balance	292,937	751,440	1,044,377
Total liabilities, deferred inflows of resources and fund balance	\$ 392,546	\$ 855,322	\$ 1,247,868
<b>Amounts reported for governmental activities in the Statement of Net Position are different because:</b>			
Fund balance above			\$ 1,044,377
Long-term assets that are not available to pay for current-period expenditures are deferred in the funds.			91,042
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.			(1,432,535)
<b>Net position of governmental activities</b>			<b>\$ 81,704</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, 2017**

	<b>General Fund</b>	<b>Urban Renewal District Debt Service Fund</b>	<b>Totals</b>
<b>REVENUES</b>			
Property taxes	\$ -	\$ 713,259	\$ 713,259
Loan repayments	17,242	-	17,242
Interest on investments	2,595	8,209	10,804
<b>TOTAL REVENUES</b>	<u>19,837</u>	<u>721,468</u>	<u>741,305</u>
<b>EXPENDITURES</b>			
Current:			
General government:			
Materials and services	151,872	68,873	220,745
Debt service	-	1,094,760	1,094,760
<b>TOTAL EXPENDITURES</b>	<u>151,872</u>	<u>1,163,633</u>	<u>1,315,505</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(132,035)</u>	<u>(442,165)</u>	<u>(574,200)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(132,035)	(442,165)	(574,200)
<b>FUND BALANCE, Beginning</b>	<u>424,972</u>	<u>1,193,605</u>	<u>1,618,577</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 292,937</u>	<u>\$ 751,440</u>	<u>\$ 1,044,377</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, 2017**

<b>Net change in fund balance - governmental fund</b>	\$ (574,200)
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	(14,793)
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.	941,500
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.	<u>25,052</u>
<b>Change in net position - governmental activities</b>	<u><u>\$ 377,559</u></u>

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

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
<b>REVENUES</b>				
Loan repayments	\$ 17,000	\$ 17,000	\$ 17,242	\$ 242
Interest on investments	2,000	2,000	2,595	595
<b>TOTAL REVENUES</b>	<u>19,000</u>	<u>19,000</u>	<u>19,837</u>	<u>837</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Materials and services	275,000	207,314	151,872	55,442
Capital outlay	-	67,686	-	67,686
Contingency	170,000	170,000	-	170,000
<b>TOTAL EXPENDITURES</b>	<u>445,000</u>	<u>445,000</u>	<u>151,872</u>	<u>293,128</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(426,000)</u>	<u>(426,000)</u>	<u>(132,035)</u>	<u>293,965</u>
<b>NET CHANGE IN FUND BALANCE</b>	(426,000)	(426,000)	(132,035)	293,965
<b>FUND BALANCE, Beginning</b>	<u>426,000</u>	<u>426,000</u>	<u>424,972</u>	<u>(1,028)</u>
<b>FUND BALANCE, Ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 292,937</u>	<u>\$ 292,937</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, 2017**

**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, 2017, 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, 2017. 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, 2017, the carrying amount of the Agency's deposits was \$902,244 and the bank balance was \$915,993. 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 \$665,993 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, 2017 are shown below:

Deposits with financial institutions	\$ 902,244
Local Government Investment Pool	<u>246,847</u>
Total cash and cash equivalents	<u>\$ 1,149,091</u>

**B. Receivables**

At June 30, 2017, the Agency's receivables are as follows:

Property taxes	\$ 45,899
Notes	<u>52,878</u>
Total	<u>\$ 98,777</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 \$728,045.

The Agency provides funds to local businesses for building renovation, equipment purchases and other startup costs under the Jump Start Loan Program. The maximum loan is \$40,000 for businesses and \$60,000 for property owners and repayment terms are structured over a period of one to seven years with interest rates from 1% to 7%. There were two loans at year end with interest rates at 7%. The loan for \$22,198 was

paid off shortly after year end and the loan for \$30,680 is being paid with monthly payments of \$958. The loan matures July 1, 2020 and is secured by a trust deed.

**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 \$38,164 in property taxes and \$52,878 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 showing no change 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	341,261	-	-	341,261
Total non-depreciable	<u>\$ 378,820</u>	<u>\$ -</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, 2017 was \$1,401,965. There is no prepayment penalty and property tax revenues are pledged to the loan.

Future maturities are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 211,860	\$ 63,050
2019	230,281	44,629
2020	238,917	35,993
2021	247,876	27,034
2022	257,172	17,739
2023	215,859	8,095
	<u>\$ 1,401,965</u>	<u>\$ 196,540</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 and was scheduled to be paid off by 6/30/2019. However, the Pendleton Development Commission paid off the loan early in 2017, the balance at year end was zero.

Changes in long-term obligations for the fiscal year ended June 30, 2017, 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	\$ 2,343,465	\$ -	\$ (941,500)	\$ 1,401,965	\$ 211,860

**F. Fund Balance Classifications**

Fund balances by classification for the year ended June 30, 2017 were as follows:

<u>Fund Balances:</u>	<u>General</u>	<u>Urban Renewal District Debt Service</u>	<u>Total Governmental Funds</u>
Restricted	\$ -	\$ 751,440	\$ 751,440
Unassigned	292,937	-	292,937
Total Fund Balances	<u>\$ 292,937</u>	<u>\$ 751,440</u>	<u>\$ 1,044,377</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 \$52,878 in jump start loans receivable at year end.

The Pendleton Development Commission has committed funds to various projects and has potential obligations of \$191,467 for façade restoration grants, \$18,900 for architectural services, and \$27,500 to the Pendleton Downtown Association.

**I. Subsequent Events**

The Pendleton Development Commission approved the proposal of a Banner Bank credit line of \$3.5 million and a term loan of \$1.4 million (to be used to pay off an existing term loan from Banner Bank and thereby reduce the interest rate).

The Pendleton Development Commission approved a grant under the Fresh Start Program for \$98,495.

A Jump Start loan of \$23,533 was approved at the August meeting and the boundaries of the Jump Start program were extended to include the entire urban renewal district.

**J. Related Party Transactions**

The Pendleton Development Commission owed the City of Pendleton \$65,718 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, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 800,000	\$ 800,000	\$ 713,259	\$ (86,741)
Interest on investments	5,000	5,000	8,209	3,209
<b>TOTAL REVENUES</b>	<u>805,000</u>	<u>805,000</u>	<u>721,468</u>	<u>(83,532)</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Materials and services	60,960	70,960	68,873	2,087
Debt service	559,664	1,119,664	1,094,760	24,904
<b>TOTAL EXPENDITURES</b>	<u>620,624</u>	<u>1,190,624</u>	<u>1,163,633</u>	<u>26,991</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>184,376</u>	<u>(385,624)</u>	<u>(442,165)</u>	<u>(56,541)</u>
<b>NET CHANGE IN FUND BALANCE</b>	184,376	(385,624)	(442,165)	(56,541)
<b>FUND BALANCE, Beginning</b>	<u>1,185,000</u>	<u>1,185,000</u>	<u>1,193,605</u>	<u>8,605</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 1,369,376</u>	<u>\$ 799,376</u>	<u>\$ 751,440</u>	<u>\$ (47,936)</u>

See auditor's report.

**AUDITOR'S COMMENTS AND REPORTS**

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**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 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, 2017, and have issued our report thereon dated December 15, 2017. 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.

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 15, 2017