

**CITY OF HERMISTON, OREGON**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended**

**June 30, 2006**

**Prepared by the Department of Finance**

# CITY OF HERMISTON, OREGON

June 30, 2006

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**June 30, 2006**

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## **INTRODUCTORY SECTION**

**CITY OF HERMISTON, OREGON**

**List of Principal Officials**

**June 30, 2006**

**ELECTED OFFICIALS**

	<u>Term Expires</u>
Mayor:	
Robert E. Severson	December 31, 2008
Council Members:	
Rod S. Hardin	December 31, 2008
Walter E. Achuff	December 31, 2010
Manuel P. Gutierrez	December 31, 2008
Michael E. Calame	December 31, 2010
Jackie C. Myers	December 31, 2010
Joe Harn	December 31, 2008
Harmon Springer	December 31, 2010
Robbie Wolfe	December 31, 2010
Municipal Judge:	
Kieth R. Kirkwood	December 31, 2006

**APPOINTED OFFICIALS**

City Manager:	Edward Brookshier
Assistant City Manager:	C. Ray Jones
Finance Director/City Recorder:	Robert D. Irby
Executive Secretary:	Linda Cain
Chief of Police:	Daniel Coulombe
City Engineer/Water Superintendent:	Patrick D. Napolitano
Wastewater Superintendent:	Darrell J. Schiffner
Library Director:	Marie L. Baldo
City Attorney:	Gary Luisi

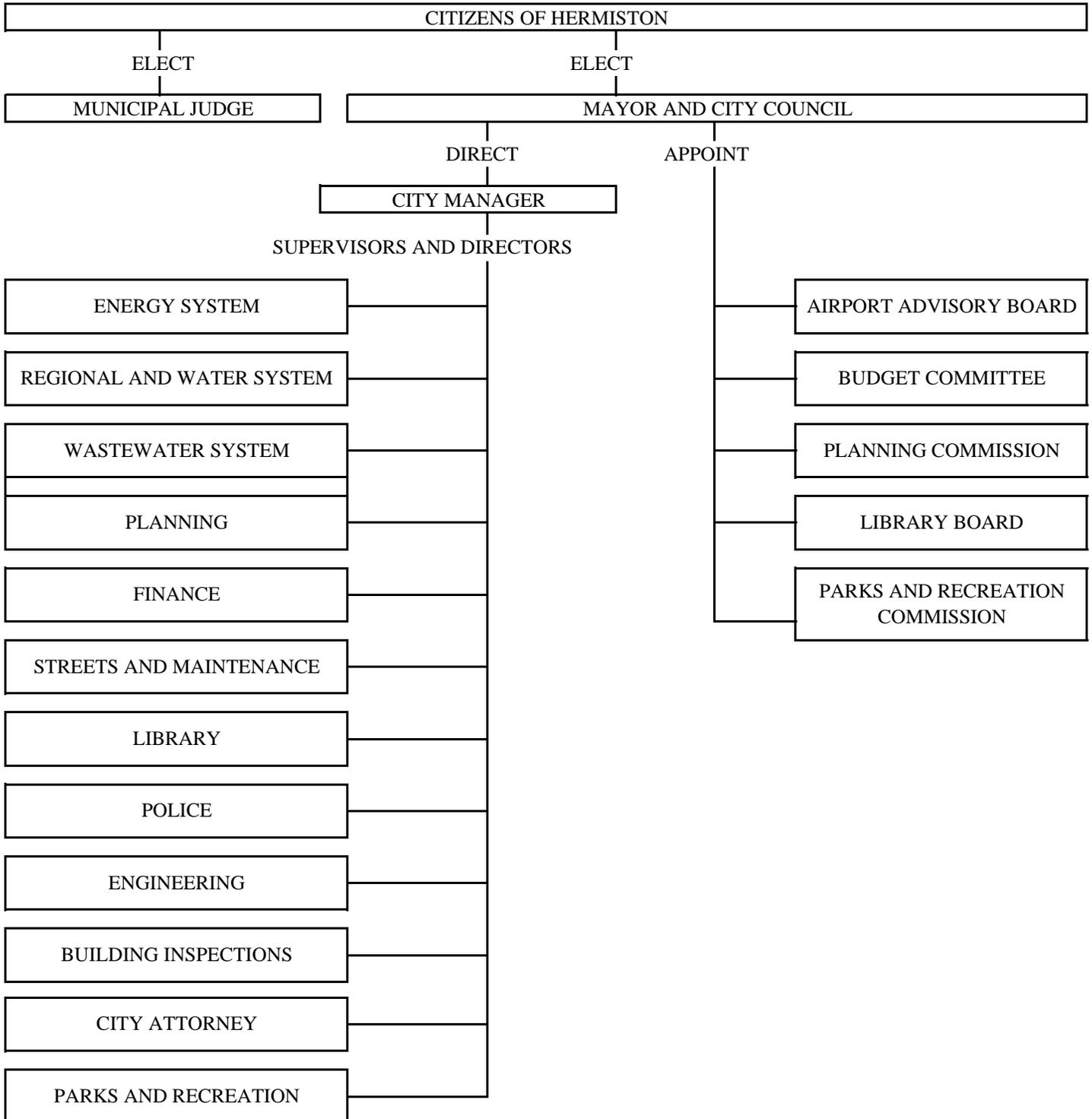
**OFFICIAL ADDRESS**

180 N.E. Second Street  
Hermiston, OR 97838  
Telephone: 541-567-5521  
Fax: 541-567-5530

**CITY OF HERMISTON, OREGON**

**Organizational Chart**

**June 30, 2006**





*Administrative Offices*  
180 N.E. 2nd Street  
Hermiston, OR 97838-1860  
Phone (541) 567-5521 · Fax (541) 567-5530  
E-mail: [city@hermiston.or.us](mailto:city@hermiston.or.us)

To the Citizens of the City of Hermiston:

The comprehensive annual financial report of the City of Hermiston, Oregon, for the fiscal year ended June 30, 2006, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state, and county financial assistance, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management of the City.

Oregon statutes require an annual audit by independent certified public accountants. The accounting firm of Barnett & Moro, P.C., was selected by the City. The auditor's report is included in the financial section of this report.

City management provides a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management Discussion and Analysis (MD&A). The City's MD&A can be found following the auditor's report.

## **CITY PROFILE**

Hermiston is a progressive, growth oriented urban center for an area based economically on agriculture, food processing and other light industry. Hermiston is located in west Umatilla County in northeast Oregon, less than a day's drive from major markets such as Portland, Spokane, Seattle and Boise, 35 miles west of Pendleton and south of the Tri-Cities, Washington, and six miles south of the Columbia River. The city covers approximately 4,500 acres.

Hermiston is the merging point for two interstate highways, I82 (north-south) and I84 (east-west). It offers Union Pacific's Hinkle Rail Yard to the south and the Port of Umatilla's barge loading facilities to the north. Hermiston owns its own airport to complete this hub of commercial and industrial transportation. Hermiston's other municipal facilities include a modern public safety center, housing police and municipal court; Hermiston Community Center, a regional conference and convention center; public works building; wastewater treatment plant; public library; twelve city parks encompassing 114 acres, and water and sewer utilities. There are approximately 83 full-time city employees. In the 1960s, the voters approved the mayor/council-manager form of government. The eight councilors, mayor and a municipal judge are elected, and the council hires a city manager as its administrator.

The City provides a full range of services. These services include police protection; sanitation services; the construction and maintenance of highways, streets, and infrastructure; recreational activities and cultural events. In addition to general government activities, the City operates electricity, water, and sewer utility systems.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body.

Budgetary controls comply with Oregon's Local Budget Law, Chapter 294 of the Oregon Revised Statutes. This law does two very important things:

1. It establishes standard procedures for preparing, presenting, and administering the budget.
2. It requires citizen involvement in the preparation of the budget and public disclosure of the budget before its formal adoption.

An annual budget resolution is passed by the City Council, thus it becomes the formal budget for the City operations. Budgetary control is maintained at the organizational unit level within funds. The legally adopted budget is at the department level for current expenditures, with separate appropriations established for categories such as capital projects, debt service, transfers, and contingencies.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

## **ECONOMIC CONDITIONS AND OUTLOOK**

A labor market economist for the State of Oregon speaks of Hermiston as "one of the most desirable sites for industrial development in the Pacific Northwest" because of its low land costs, large inventory of industrially zoned land, reasonable local taxes and excellent access to transportation routes. The citizens and government of Hermiston boast a progressive, growth oriented philosophy that encourages new business to locate here, and have established city services for a population of 30,000. Current estimated population is 15,000.

Recent years have seen the construction of a modern hospital, a medical center, public library, county office building, 41,000 square foot grocery store, 73,000 square foot Wal-Mart, \$3.5 million food distribution center for Pacific Northwest Mormon Churches and a \$10 million food processing plant. Hermiston is also home to the 1.2 million square foot Wal-Mart Distribution Center, as well as other warehousing, cold storage and logistics oriented businesses. Hermiston is located one truck day away from seven western states and two Canadian provinces. Located at the intersection of two interstate freeways makes the community ideally suited for companies moving products to the western states region. There has also been a multi-million dollar expansion of existing food processing industries, \$5 million expansion to the school system; \$1.5 million expansion to the Marlette Mobile Home plant; development of the municipal airport; development of a community college branch campus; a \$300,000 downtown beautification project and construction of a \$500,000 state office building, Umatilla County's West End Justice Center and a Home Depot retail outlet.

Situated in an arid section of Oregon, Hermiston's existence has always necessarily been connected to water. The two original townsites that were to become Hermiston sprang up following the creation of Hermiston Irrigation District in 1905. This was the first flood irrigation project built by the Bureau of Reclamation.

The town of Hermiston was incorporated in 1907, named after a character in a book being written by Robert Louis Stevenson at the time. Hermiston had its own locally owned bank, built a Carnegie Library and thrived as an agricultural center for several decades. Its population increased dramatically with the construction of the Umatilla Army Ordinance Depot in the 1940s and McNary Dam and the Hinkle Rail Yard in the 1950s.

Circle irrigation developed and agriculture flourished throughout the desert area, increasing irrigated land to over 200,000 acres. Abundant access to field and row crops such as potatoes, melons, beans, onions, etc., resulted in the construction of food processing plants, and their employment needs increased Hermiston's population from 4,893 in 1970 to 15,000 in 2006.

With agricultural interests predominant in and around Hermiston, the county fair makes its home here and today offers a central site for rodeos, home shows, livestock sales, community dances, auctions and other events, as well as the annual Umatilla County Fair. The City of Hermiston maintains its small town, western flavor congeniality while incorporating progressive educational, recreational, and cultural opportunities with security and medical care.

Hermiston School District has five elementary schools, two middle schools, one senior high school, one alternative school, and one ESD office. With 4,700 students, it is the largest school district in Eastern Oregon, and with 480 employees, the third largest employer in Hermiston. Residents have the opportunity for advanced education through a local campus of Blue Mountain Community College, as well as local access to four year degrees from Eastern Oregon College and the ED-Net Satellite system. Other two and four year colleges are within commuting distance. Washington State University's Tri-Cities campus is 45 miles north in Richland, Washington.

## Citizens of the City of Hermiston

Although 250 miles from the ocean, Hermiston is only 450 feet above sea level and receives less than nine inches of rain annually. The area offers a spectrum of outdoor pastimes, including water sports such as skiing, boating, swimming and fishing in the surrounding ponds, streams and rivers. Day trips or longer for snow sports, camping, hiking and hunting are taken to nearby mountain ranges and rockhounding abounds in the geological areas two hours south of town. Hermiston offers athletic clubs; olympic size swimming pool; jogging trails; bicycle lanes; sites for tennis, soccer, horseshoes, miniature golf and all kinds of ball leagues; and golf courses in three neighboring towns. Environmental areas include twelve city parks encompassing 114 acres, Umatilla Wildlife Refuge, Hat Rock State Park and Cold Springs Reservoir.

Culturally, Hermiston is the scene for varied performances at the junior and senior high auditoriums, including events sponsored by the Desert Arts Council, Stage Struck Theater Productions, the Community Concert Association and Eastern Oregon Symphony. There are five movie theaters and a roller rink. Hermiston boasts more than 150 organizations, including service clubs such as Rotary, Kiwanis and Altrusa, and fraternal organizations such as the Elks, Eagles and Moose. Hermiston also has a modern public library.

Hermiston is served by the 911 emergency system, a well trained police force, county deputy sheriffs and the Oregon State Police. The City has its own municipal court and a circuit court presides locally as well.

Medical care is based in a modern hospital, supported by medical clinics housing a variety of specialists. Ambulance service is provided by the fire district. There are optometric, dental, chiropractic and mental health services available.

Lamb Weston, a subsidiary of ConAgra, Golden Valley Microwave, has a \$15 million potato processing plant in the Hermiston area which employs approximately 800 people. There are seven potato fresh-pack sheds and a flaking plant.

Hermiston Foods Incorporated, a wholly owned subsidiary of Norpac Foods, operates a \$10 million processing plant within the boundaries of Hermiston. The plant employs over 250 individuals and seasonally processes peas, dry beans, carrots, and similar vegetable crops. The plant is a state of the art facility which began operations in 1990. Pendleton Grain Growers operates a \$1.5 million feed mill just south of the City; there are also several large feed lot operations in the area.

Major employers outside the food processing industry include Johns-Manville, Marlette Homes, Wal-Mart Distribution Center and Portland General Electric. Johns-Manville constructed a \$4 million polyvinylchloride pipe plant in the Port of Umatilla Industrial Park five miles north of Hermiston. This plant employs approximately 50 people. Marlette Homes, is located within the City and employs approximately 225 people. Marlette has completed a \$1.5 million plant expansion which has doubled plant capacity. Portland General Electric has constructed a coal-fired electrical generating plant at Carty Reservoir, approximately 25 miles west of Hermiston. Wal-Mart operates a \$75 million, 1.2 million square foot distribution center which employs approximately 800 workers and transfers merchandise to about 400 trucks daily.

Citizens of the City of Hermiston

The Church of Jesus Christ of Latter Day Saints constructed their “Bishop’s Central Storehouse” here in Hermiston which is a \$3.5 million facility. This storehouse serves the church’s needs in the Pacific Northwest.

Four shopping centers are within the City. The shopping facilities in Hermiston serve approximately 50,000 people in the Umatilla and Morrow counties. State of Washington residents also shop here due to the non-sales tax in the State of Oregon.

Regional projects:

The Hermiston region is expecting considerable economic and employment growth. The \$567,000,000 Umatilla Army Depot incineration project is expected to operate for several years.

### **MAJOR INITIATIVES**

The City expended \$2,000,000 on improvements to its wastewater treatment plant during the year. The estimated total cost of this multi-year project is \$10,000,000.

Goals: The City utilizes a formalized goal setting approach with goals established every two years. The current goals, adopted by the City Council, include:

1. Superior Public Safety Services
2. Advance Development of Transportation Facilities
3. Advance Development of Water and Sewer Facilities
4. Promote Economic and Community Development; Improve Quality of Life
5. Recognize Importance of Basic Human Values; Maintain a Civil Society

### **CASH MANAGEMENT**

The City maximizes its yield on short-term/low risk investments by pooling the cash of all funds. The City’s idle cash is invested primarily in U.S. Treasury securities and bank demand deposits.

### **RISK MANAGEMENT**

The City has initiated a limited risk management program for workers’ compensation and general liability. The City is self-insured for unemployment compensation costs. Third-party coverage is currently maintained for workers’ compensation and general liability. The City has accumulated \$45,000 in the recorder’s reserve fund for uninsured losses.

**AWARDS**

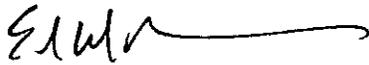
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to City of Hermiston for its comprehensive annual financial report for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

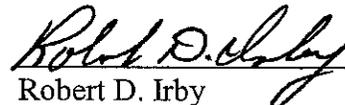
**ACKNOWLEDGEMENTS**

The preparation of this report could not have been accomplished without the dedicated and efficient efforts of the staff of the Finance Department. We would like to thank the members of the department who contributed and assisted in the report's preparation. Our sincere appreciation goes to the Mayor and the City Council members for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Sincerely,



Edward Brookshier  
City Manager and Treasurer



Robert D. Irby  
Finance Director/Recorder

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Hermiston,  
Oregon

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Carol E. Perry*

President

*Jeffrey R. Emery*

Executive Director

**FINANCIAL SECTION**

# **BARNETT & MORO, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

495 E. Main

Hermiston, OR 97838

(541) 567-5215

Fax (541) 567-0497

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DENNIS L. BARNETT, C.P.A.

GERALD J. MORO, C.P.A.

KRISTIE L. SHASTEEN, C.P.A.

CAMERON W. ANDERSON, C.P.A.

RICHARD L. STODDARD, C.P.A.

## **INDEPENDENT AUDITOR'S REPORT**

Mayor and City Council  
City of Hermiston  
Hermiston, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, budgetary comparison information for the general fund and reserve fund, and the aggregate remaining fund information of City of Hermiston, Oregon as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Hermiston, Oregon's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, budgeting comparison information for the general fund and reserve fund, and the aggregate remaining fund information of the City of Hermiston, Oregon, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

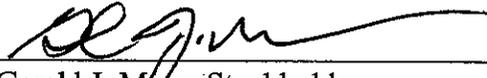
In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2006, on our consideration of the City of Hermiston, Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Mayor and City Council  
City of Hermiston  
Page two

The management's discussion and analysis and budgetary comparison information included in the supplementary information section, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hermiston, Oregon's, basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Barnett & Moro, P.C.

By:   
\_\_\_\_\_  
Gerald J. Moro, Stockholder  
Hermiston, Oregon  
August 22, 2006

## CITY OF HERMISTON, OREGON

### Management's Discussion and Analysis

June 30, 2006

This discussion and analysis provide highlights of financial activities of the City of Hermiston, Oregon. The analysis focuses on the City's overall financial position, results of operations, and other important economic factors. It discusses events of the current fiscal year while providing comparisons to results of the prior year. We encourage readers to consider the information presented here in conjunction with the information that we have furnished in our letter of transmittal.

#### **Overview of the Financial Statements**

The City's basic financial statements are divided into several components. Together, they provide a comprehensive overview of the City's financial position. The components of the basic financial statements include:

- 1. Government-wide financial statements.** The government-wide financial statements present information about the financial activities of the City as a whole.

The Statement of Net Assets presents a view of assets available for future City operations and the liabilities the City owes. The difference between the assets and liabilities is reported as the net assets. Over time, increases or decreases in net assets may be useful in determining improvement or deterioration in the financial position of the City.

The Statement of Activities reports how the City's net assets changed during the year. Net assets are increased by revenues and decreased by expenses. The Statement of Activities presents expenses by function and compares them with their related revenues such as grants, contributions, and charges for service. General revenues such as taxes and investment interest available to support all City functions are reported separately from program specific revenues.

- 2. Fund financial statements.** The fund financial statements focus on individual major governmental and proprietary funds.

Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. Governmental fund statements present near-term inflows and outflows of available resources. The City maintains twelve governmental funds. Each major fund is presented individually with the remaining governmental funds combined into a single aggregate column. Individual fund information for the non-major governmental funds is presented elsewhere in the report. A reconciliation of the total fund balances and the changes in fund balances of the governmental funds to the total net assets and the changes in net assets in the government-wide financial statements is provided.

Proprietary funds report the same functions presented as business-type funds in the government-wide financial statements. The City uses three proprietary funds to account for its electricity, water, sewer, and regional water operations.

## CITY OF HERMISTON, OREGON

### Management's Discussion and Analysis (continued)

**June 30, 2006**

Overview of the Financial Statements (continued)

3. **Notes to the Financial Statements.** The notes provide additional information necessary to gain a full understanding of the financial statements.
4. **Other Information.** This section includes financial information about individual non-major governmental funds, budget to actual comparisons for all funds not included in the basic financial statements, and information about capital assets and long-term debt.

#### **Financial Highlights**

Over time, increases or decreases in net assets may be useful in determining improvement or deterioration in the financial position of the City. The following tables provide information comparing the current year's government-wide financial statements to restatements of prior year's information for the City as a whole:

Net Assets at Year-End  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Cash and investments	\$ 7,373	\$ 8,298	\$ 3,671	\$ 3,501	\$ 11,044	\$ 11,799
Other assets	463	379	1,651	982	2,114	1,361
Capital assets	13,581	13,766	31,863	32,187	45,444	45,953
Total assets	<u>21,417</u>	<u>22,443</u>	<u>37,185</u>	<u>36,670</u>	<u>58,602</u>	<u>59,113</u>
Other liabilities	341	280	1,799	1,434	2,140	1,714
Long term debt outstanding	3,696	3,805	19,792	20,757	23,488	24,562
Total liabilities	<u>4,037</u>	<u>4,085</u>	<u>21,591</u>	<u>22,191</u>	<u>25,628</u>	<u>26,276</u>
Net assets:						
Invested in capital assets, net of debt	9,885	9,961	11,323	10,977	21,208	20,938
Restricted	205	327	-	-	205	327
Unrestricted	7,290	8,070	4,271	3,502	11,561	11,572
Total net assets	<u>\$ 17,380</u>	<u>\$ 18,358</u>	<u>\$ 15,594</u>	<u>\$ 14,479</u>	<u>\$ 32,974</u>	<u>\$ 32,837</u>

**CITY OF HERMISTON, OREGON**

**Management's Discussion and Analysis (continued)**

**June 30, 2006**

**Financial Highlights (continued)**

Governmental and Proprietary Activities  
Year Ending June 30,  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>REVENUES</b>						
Program revenues:						
Charges for service	\$ 1,706	\$ 1,640	\$ 11,016	\$ 10,751	\$ 12,722	\$ 12,391
Operating Grants and contributions	93	118	-	-	93	118
Capital Grants and contributions	-	253	-	75	-	328
General revenues:						
Taxes	5,147	4,859	-	-	5,147	4,859
Interest	272	112	117	57	389	169
Other	713	664	77	95	790	759
Total revenues	<u>7,931</u>	<u>7,646</u>	<u>11,210</u>	<u>10,978</u>	<u>19,141</u>	<u>18,624</u>
<b>EXPENSES</b>						
Governmental activities:						
General government	1,992	2,184	-	-	1,992	2,184
Public safety	2,978	2,522	-	-	2,978	2,522
Highways and streets	1,137	1,012	-	-	1,137	1,012
Cultural and recreation	2,360	1,879	-	-	2,360	1,879
Interest on long-term debt	158	130	-	-	158	130
Business-type activities:						
Water	-	-	2,438	2,525	2,438	2,525
Sewer	-	-	1,601	1,581	1,601	1,581
Electric	-	-	6,340	6,130	6,340	6,130
Total expenses	<u>8,625</u>	<u>7,727</u>	<u>10,379</u>	<u>10,236</u>	<u>19,004</u>	<u>17,963</u>
Change in net assets before transfers	(694)	(81)	831	742	137	661
Transfers	<u>(284)</u>	<u>(954)</u>	<u>284</u>	<u>954</u>	<u>-</u>	<u>-</u>
Change in net assets	(978)	(1,035)	1,115	1,696	137	661
Beginning net assets	<u>18,358</u>	<u>19,393</u>	<u>14,479</u>	<u>12,783</u>	<u>32,837</u>	<u>32,176</u>
Ending net assets	<u>\$ 17,380</u>	<u>\$ 18,358</u>	<u>\$ 15,594</u>	<u>\$ 14,479</u>	<u>\$ 32,974</u>	<u>\$ 32,837</u>

## CITY OF HERMISTON, OREGON

### Management's Discussion and Analysis (continued)

June 30, 2006

#### **Financial Highlights (continued)**

The City's overall net assets increased by \$51,000 during the year. Key elements of the changes in net assets are explained as follows:

#### **Governmental Activities**

Interest income on cash held by governmental funds increased \$160,000 over 2005 due to higher interest rates available on bank deposits and U.S. Government bonds.

Property tax revenues increased because of increasing property values within the City of Hermiston. For the year ended June 30, 2006, the City property taxes remained constant at a rate of \$5.0814 per \$1,000 of assessed value. The assessed value of property within the City increased \$29,000,000 since 2005. The increase in property values increased the City's tax levy by approximately \$150,000.

The City completed improvements to its airport in 2005. All capital grants relating to this project were received in 2005. As a result, capital grants and contributions decreased by \$253,000.

The City's required contribution to the Oregon Public Employees Retirement Plan (P.E.R.S.) is increasing from 12.31% of eligible payroll to 20.57% effective July 1, 2005. City wide pension expense increased by \$410,000.

#### **Business-Type Activities**

Operating income in the Energy fund increased because the City's cost for wholesale electricity was lower than the previous year. The City incurred higher interest costs to finance Energy fund variable rate debt. During 2005, the City refinanced its variable rate debt with fixed rate bonds, insuring interest rates will remain reasonable.

#### **Budgetary Highlights**

The City modified its budget three times for unforeseen events. The City made two resolutions allowing expenditure of grants received for specific purposes. The City also approved a supplemental budget to appropriate expenditure of beginning cash balances in excess of expectations.

General Fund revenues exceeded budgeted expectations by \$885,000. The City has, and will continue to budget conservatively on general revenues. Specific increases in revenues are discussed in Governmental Activities above.

The City exceeded its budget for materials and services in the Energy fund by \$355,000, mostly due to unexpected costs relating to refinancing bonded debt.

## CITY OF HERMISTON, OREGON

### Management's Discussion and Analysis (continued)

June 30, 2006

#### Capital Assets

The City had \$45.4 million in capital assets net of depreciation at June 30, 2006 allocated as follows:

Capital Assets at Year-End  
Net of depreciation  
(in thousands)

	Governmental Activities		Business-type Activities		Total Governmental	
	2006	2005	2006	2005	2006	2005
Land	\$ 2,109	\$ 2,123	\$ 650	\$ 228	\$ 2,759	\$ 2,351
Construction in progress	-	275	-	1,905	-	2,180
Buildings and systems	6,180	5,938	31,107	29,929	37,287	35,867
Machinery, equipment	513	432	106	125	619	557
Street system	4,779	4,998	-	-	4,779	4,998
Total capital assets	<u>\$ 13,581</u>	<u>\$ 13,766</u>	<u>\$ 31,863</u>	<u>\$ 32,187</u>	<u>\$ 45,444</u>	<u>\$ 45,953</u>

Major changes in capital assets included the following:

The City completed the first two phases of its wastewater treatment plant improvements and moved \$1.9 million from construction in progress to buildings and systems.

The City completed development of Riverfront Park and construction of its public safety center, moving \$275,000 from construction in progress to buildings and systems. The City spent \$142,000 on safety center construction in 2006.

Extensions and upgrades to utility systems added \$340,000 to buildings and systems.

The City traded its street sweeper and \$95,000 for a new street sweeper.

Additional information on capital assets can be found in the Notes to the Financial Statements.

#### Debt Administration

At year end, the City had \$24.6 million in long term debt outstanding compared to \$25.2 last year. The City repaid \$13,815,000 of long term debt during the year while incurring new long term debt of \$13,210,000. Additional information on debt administration can be found in Note 7 to the Financial Statements.

**CITY OF HERMISTON, OREGON**

**Management's Discussion and Analysis (continued)**

**June 30, 2006**

**Economic Factors and Next Year's Budgets and Rates**

No economic factors are expected to significantly effect next years budget or property tax rate.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Hermiston, Oregon's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Robert D. Irby, Finance Director, City of Hermiston, 180 N.E. Second Street, Hermiston, OR 97838.

**BASIC FINANCIAL STATEMENTS**

**CITY OF HERMISTON, OREGON**

**Statement of Net Assets**

**June 30, 2006**

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 7,372,700	\$ 3,671,832	\$ 11,044,532
Accounts and other receivables, net	93,151	1,239,886	1,333,037
Property taxes receivable	267,969	-	267,969
Assessment liens receivable	16,243	-	16,243
Prepaid expenses	86,171	-	86,171
Bond issue costs, net	-	410,527	410,527
Capital assets:			
Nondepreciable	2,108,670	649,943	2,758,613
Depreciable, net of depreciation	11,472,135	31,212,714	42,684,849
Total assets	<u>21,417,039</u>	<u>37,184,902</u>	<u>58,601,941</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	140,651	500,086	640,737
Accrued interest payable	19,008	283,793	302,801
Compensated absences payable	181,073	67,995	249,068
Deposits payable	-	199,440	199,440
Notes payable			
Due within one year	-	163,153	163,153
Due in more than one year	-	128,300	128,300
Bonds payable			
Due within one year	118,000	585,000	703,000
Due in more than one year	3,578,000	19,663,261	23,241,261
Total liabilities	<u>4,036,732</u>	<u>21,591,028</u>	<u>25,627,760</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets (net of related debt)	9,884,805	11,322,943	21,207,748
Restricted for:			
Highways and streets	205,077	-	205,077
Unrestricted	7,290,425	4,270,931	11,561,356
Total net assets	<u>\$ 17,380,307</u>	<u>\$ 15,593,874</u>	<u>\$ 32,974,181</u>

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



**CITY OF HERMISTON, OREGON**

**Governmental Funds**

**Balance Sheet**  
**June 30, 2006**

	<u>General</u>	<u>Reserve</u>	<u>Other Governmental</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 2,749,931	\$ 3,639,309	\$ 983,460	\$ 7,372,700
Receivables (net of allowances for uncollectibles):				
Property taxes	236,699	-	31,270	267,969
Special assessments	7,555	-	8,688	16,243
Intergovernmental and other	93,151	-	-	93,151
Prepaid expenses	-	-	86,171	86,171
Total assets	<u>\$ 3,087,336</u>	<u>\$ 3,639,309</u>	<u>\$ 1,109,589</u>	<u>\$ 7,836,234</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b><u>LIABILITIES:</u></b>				
Accounts payable	\$ 14,903	\$ 26,622	\$ 99,126	\$ 140,651
Deferred revenues	216,451	-	36,175	252,626
Total liabilities	<u>231,354</u>	<u>26,622</u>	<u>135,301</u>	<u>393,277</u>
 <b><u>FUND BALANCES:</u></b>				
Reserved for encumbrances	-	-	39,478	39,478
Unreserved, reported in:				
General fund, undesignated	2,855,982	-	-	2,855,982
Special revenue funds:				
Designated for general government	-	-	201,248	201,248
Designated for public safety	-	-	18,970	18,970
Designated for highways and streets	-	-	48,086	48,086
Designated for culture and recreation	-	-	168,352	168,352
Designated for capital outlay	-	3,612,687	182,405	3,795,092
Debt service fund:				
Designated for debt service	-	-	315,749	315,749
Total fund balances	<u>2,855,982</u>	<u>3,612,687</u>	<u>974,288</u>	<u>7,442,957</u>
Total liabilities and fund balances	<u>\$ 3,087,336</u>	<u>\$ 3,639,309</u>	<u>\$ 1,109,589</u>	<u>\$ 7,836,234</u>

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

**CITY OF HERMISTON, OREGON**

**Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Assets  
June 30, 2006**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 7,442,957

Capital assets used in governmental activities are not financial resources, therefore, are not reported in the governmental funds' balance sheet.

Acquisition cost	\$ 27,801,672	
Accumulated depreciation	<u>(14,220,867)</u>	
		13,580,805

Deferred property tax revenues are collected in subsequent years and are not available to pay for current-period expenditures and, therefore, are reported as deferred revenue in the funds' balance sheet. 238,492

Deferred assessment liens and investment income revenues are collected in subsequent periods and are not available for current year's operation. However, on a full accrual basis of accounting, they are reported as revenues. 14,134

Accrued compensated absences are not due and payable with current financial resources, therefore, they are not reported in the funds' balance sheet. (181,073)

Long-term liabilities, including bonds payable and accrued interest payable, are not due in the current period and, therefore, are not reported in the funds' balance sheet.

Bonds payable	(3,696,000)	
Accrued interest payable	<u>(19,008)</u>	
		<u>(3,715,008)</u>

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES** **\$ 17,380,307**

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

**CITY OF HERMISTON, OREGON**

**Governmental Funds**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**For the Year Ended June 30, 2006**

	<u>General</u>	<u>Reserve</u>	<u>Other Governmental</u>	<u>Total</u>
<b><u>REVENUES:</u></b>				
Property taxes	\$ 2,939,796	\$ -	\$ 376,055	\$ 3,315,851
Transient room tax	197,171	56,326	46,939	300,436
911 tax	-	-	119,985	119,985
Franchise tax	393,501	-	-	393,501
Intergovernmental	319,521	26,718	721,384	1,067,623
Fees, licenses, and permits	3,220	-	-	3,220
Fines and forfeits	285,630	-	158,006	443,636
Investment interest	112,659	149,621	10,000	272,280
Charges for services	845,949	109,546	303,635	1,259,130
Miscellaneous	415,687	16,984	348,350	781,021
Total revenues	<u>5,513,134</u>	<u>359,195</u>	<u>2,084,354</u>	<u>7,956,683</u>
<b><u>EXPENDITURES:</u></b>				
Current:				
General government	1,471,623	13,696	437,074	1,922,393
Public safety	2,294,283	-	602,766	2,897,049
Highways and streets	-	156,445	662,298	818,743
Cultural and recreation	1,689,483	42,379	331,107	2,062,969
Debt service:				
Principal	-	-	109,000	109,000
Interest	-	-	164,716	164,716
Capital Outlay:				
General government	-	10,364	-	10,364
Public safety	178,663	-	74,815	253,478
Highways and streets	94,641	54,128	34,000	182,769
Cultural and recreation	38,374	62,467	39,000	139,841
Total expenditures	<u>5,767,067</u>	<u>339,479</u>	<u>2,454,776</u>	<u>8,561,322</u>
<b><u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u></b>				
	<u>(253,933)</u>	<u>19,716</u>	<u>(370,422)</u>	<u>(604,639)</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Transfers in	508,515	360,794	838,292	1,707,601
Transfers out	(828,905)	(769,508)	(393,027)	(1,991,440)
Total other financing sources (uses)	<u>(320,390)</u>	<u>(408,714)</u>	<u>445,265</u>	<u>(283,839)</u>
<b><u>NET CHANGE IN FUND BALANCES</u></b>				
	(574,323)	(388,998)	74,843	(888,478)
<b><u>FUND BALANCES, BEGINNING</u></b>				
	<u>3,430,305</u>	<u>4,001,685</u>	<u>899,445</u>	<u>8,331,435</u>
<b><u>FUND BALANCES, ENDING</u></b>				
	<u>\$ 2,855,982</u>	<u>\$ 3,612,687</u>	<u>\$ 974,288</u>	<u>\$ 7,442,957</u>

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

**CITY OF HERMISTON, OREGON**

**Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds to  
the Statement of Activities  
For the Year Ended June 30, 2006**

Net change in fund balances - total governmental funds	\$	(888,478)
Amounts reported for governmental activities in the statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the by which capital outlay exceeded depreciation in the current period.		
Expenditures for capital assets	\$	586,452
Less current year depreciation		<u>(757,325)</u>
		(170,873)
The effect of transactions involving capital assets is to decrease net assets.		(14,100)
Governmental funds defer revenues that do not provide current financial resources. However, the statement of activities recognizes such revenues at their net realizable value when earned, regardless of when received.		(11,721)
Repayment of long-term debt use current financial resources and are reported as expenditures in governmental funds. However, it is reported as a decrease in liabilities in the statement of net assets.		109,000
Some expenses, such as accrued interest expense on long-term debt, are reported in the statement of activities. However they do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		<u>(1,910)</u>
<b><u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u></b>	<b>\$</b>	<b><u><u>(978,082)</u></u></b>

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

**CITY OF HERMISTON, OREGON**

**General Fund**

**Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non-GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
<b><u>REVENUES:</u></b>				
Property taxes	\$ 2,690,000	\$ 2,690,000	\$ 2,934,913	\$ 244,913
Transient room tax	176,700	176,700	197,171	20,471
Franchise fees	608,000	608,000	734,996	126,996
Intergovernmental	253,000	253,000	317,061	64,061
Fees, licenses, and permits	1,500	1,500	3,220	1,720
Fines and forfeits	170,000	170,000	285,630	115,630
Investment interest	50,000	50,000	278,639	228,639
Charges for services	809,110	809,110	834,937	25,827
Miscellaneous	371,000	371,000	429,289	58,289
Total revenues	<u>5,129,310</u>	<u>5,129,310</u>	<u>6,015,856</u>	<u>886,546</u>
<b><u>EXPENDITURES:</u></b>				
Personal services	3,806,755	3,905,755	3,905,723	32
Materials and services	1,578,415	1,593,615	1,549,666	43,949
Capital outlay	35,500	214,200	169,698	44,502
Total expenditures	<u>5,420,670</u>	<u>5,713,570</u>	<u>5,625,087</u>	<u>88,483</u>
<b><u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u></b>	(291,360)	(584,260)	390,769	975,029
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Transfers out	<u>(937,850)</u>	<u>(989,350)</u>	<u>(828,905)</u>	<u>160,445</u>
<b><u>NET CHANGE IN FUND BALANCE</u></b>	(1,229,210)	(1,573,610)	(438,136)	1,135,474
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>1,254,210</u>	<u>1,598,610</u>	<u>3,147,382</u>	<u>1,548,772</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 2,709,246</u>	<u>\$ 2,684,246</u>

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

**CITY OF HERMISTON, OREGON**

**Reserve Fund**

**Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non-GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b><u>REVENUES:</u></b>				
Taxes	\$ 93,140	\$ 93,140	\$ 56,326	\$ (36,814)
Intergovernmental	-	-	26,718	26,718
Reimbursements and other	-	-	126,530	126,530
Total revenues	93,140	93,140	209,574	116,434
<b><u>EXPENDITURES:</u></b>				
Materials and services	474,835	474,835	212,520	262,315
Capital outlay	4,300,385	4,351,885	746,467	3,605,418
Total expenditures	4,775,220	4,826,720	958,987	3,867,733
<b><u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u></b>				
	(4,682,080)	(4,733,580)	(749,413)	3,984,167
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Transfers from:				
General Fund	2,000	53,500	11,500	(42,000)
Street Fund	11,000	11,000	11,000	-
Utility Fund	7,000	7,000	7,000	-
Energy Services Fund	340,815	340,815	331,294	(9,521)
Total other financing sources (uses)	360,815	412,315	360,794	(51,521)
<b><u>NET CHANGE IN FUND BALANCE</u></b>				
	(4,321,265)	(4,321,265)	(388,619)	3,932,646
<b><u>FUND BALANCES, BEGINNING</u></b>				
	4,321,265	4,321,265	4,001,306	(319,959)
<b><u>FUND BALANCES, ENDING</u></b>				
	\$ -	\$ -	\$ 3,612,687	\$ 3,612,687

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

**CITY OF HERMISTON, OREGON**

**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2006**

	Business-Type Activities-Enterprise Funds			
	Utility	Energy	Regional Water	Totals
<b><u>ASSETS</u></b>				
<b><u>CURRENT ASSETS:</u></b>				
Cash and investments	\$ 1,874,563	\$ 1,327,272	\$ 469,997	\$ 3,671,832
Accounts receivable, net	485,474	744,642	9,770	1,239,886
Total current assets	<u>2,360,037</u>	<u>2,071,914</u>	<u>479,767</u>	<u>4,911,718</u>
<b><u>CAPITAL ASSETS:</u></b>				
Capital assets, net	12,750,538	12,045,668	7,066,451	31,862,657
<b><u>OTHER ASSETS:</u></b>				
Bond issue costs, net	23,483	387,044	-	410,527
Total assets	<u>15,134,058</u>	<u>14,504,626</u>	<u>7,546,218</u>	<u>37,184,902</u>
<b><u>LIABILITIES</u></b>				
<b><u>CURRENT LIABILITIES:</u></b>				
Accounts payable	115,742	384,344	-	500,086
Accrued interest payable	45,112	144,612	94,069	283,793
Compensated absences payable	67,995	-	-	67,995
Deposits payable	122,039	77,401	-	199,440
Notes payable	34,821	128,332	-	163,153
Bonds payable	445,000	-	140,000	585,000
Total current liabilities	<u>830,709</u>	<u>734,689</u>	<u>234,069</u>	<u>1,799,467</u>
<b><u>LONG TERM LIABILITIES:</u></b>				
Notes payable	96,215	32,085	-	128,300
Bonds payable	2,740,000	12,828,261	4,095,000	19,663,261
Total long-term liabilities	<u>2,836,215</u>	<u>12,860,346</u>	<u>4,095,000</u>	<u>19,791,561</u>
Total liabilities	<u>3,666,924</u>	<u>13,595,035</u>	<u>4,329,069</u>	<u>21,591,028</u>
<b><u>NET ASSETS</u></b>				
Invested in capital assets (net of related debt)	9,434,502	(943,010)	2,831,451	11,322,943
Unrestricted	2,032,632	1,852,601	385,698	4,270,931
Total net assets	<u>\$ 11,467,134</u>	<u>\$ 909,591</u>	<u>\$ 3,217,149</u>	<u>\$ 15,593,874</u>

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

**CITY OF HERMISTON, OREGON**

**Proprietary Funds**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2006**

	Business-Type Activities - Enterprise Funds			
	Utility	Energy	Regional Water	Totals
<b><u>OPERATING REVENUE:</u></b>				
Charges for sales and services:				
Pledged as security for revenue bonds:				
Electricity	\$ -	\$ 7,300,481	\$ -	\$ 7,300,481
Water	1,852,613	-	-	1,852,613
Sewer	1,418,119	-	-	1,418,119
Miscellaneous revenues	37,329	39,980	-	77,309
Unpledged:				
Water	-	-	444,966	444,966
Total operating revenue	<u>3,308,061</u>	<u>7,340,461</u>	<u>444,966</u>	<u>11,093,488</u>
<b><u>OPERATING EXPENSES:</u></b>				
Cost of sales and services:				
Electricity	-	5,323,345	-	5,323,345
Water	1,155,604	-	426,631	1,582,235
Sewer	1,179,308	-	-	1,179,308
Depreciation and amortization	681,668	446,766	173,057	1,301,491
Total operating expenses	<u>3,016,580</u>	<u>5,770,111</u>	<u>599,688</u>	<u>9,386,379</u>
<b><u>OPERATING INCOME</u></b>	<u>291,481</u>	<u>1,570,350</u>	<u>(154,722)</u>	<u>1,707,109</u>
<b><u>NONOPERATING REVENUES</u></b>				
<b><u>(EXPENSES):</u></b>				
Interest on investments	84,782	32,499	-	117,281
Interest expense	<u>(196,238)</u>	<u>(570,269)</u>	<u>(226,327)</u>	<u>(992,834)</u>
Total nonoperating revenue (expenses)	<u>(111,456)</u>	<u>(537,770)</u>	<u>(226,327)</u>	<u>(875,553)</u>
<b><u>INCOME BEFORE CONTRIBUTIONS</u></b>				
<b><u>AND TRANSFERS</u></b>				
	180,025	1,032,580	(381,049)	831,556
Transfers in	606,508	-	364,140	970,648
Transfers out	<u>(7,000)</u>	<u>(679,809)</u>	<u>-</u>	<u>(686,809)</u>
<b><u>CHANGE IN NET ASSETS</u></b>	<u>779,533</u>	<u>352,771</u>	<u>(16,909)</u>	<u>1,115,395</u>
<b><u>TOTAL NET ASSETS - BEGINNING</u></b>	<u>10,687,601</u>	<u>556,820</u>	<u>3,234,058</u>	<u>14,478,479</u>
<b><u>TOTAL NET ASSETS - ENDING</u></b>	<u>\$ 11,467,134</u>	<u>\$ 909,591</u>	<u>\$ 3,217,149</u>	<u>\$ 15,593,874</u>

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

**CITY OF HERMISTON, OREGON**

**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2005**

	Business-Type Activities - Enterprise Funds			
	Utility	Energy	Regional Water	Totals
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Receipts from customers	\$ 3,277,537	\$ 7,087,736	\$ 470,722	\$ 10,835,995
Payments to suppliers	(835,881)	(5,050,902)	(251,567)	(6,138,350)
Payments to employees	(1,508,014)	(190,711)	(177,877)	(1,876,602)
Net cash provided by operating activities	<u>933,642</u>	<u>1,846,123</u>	<u>41,278</u>	<u>2,821,043</u>
<b><u>CASH FLOWS FROM NONCAPITAL</u></b>				
<b><u>FINANCING ACTIVITIES:</u></b>				
Transfer from other funds	606,508	-	364,140	970,648
Transfer to other funds	(7,000)	(679,809)	-	(686,809)
Net cash used in noncapital financing activities	<u>599,508</u>	<u>(679,809)</u>	<u>364,140</u>	<u>283,839</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED</u></b>				
<b><u>FINANCING ACTIVITIES:</u></b>				
Acquisition and construction of capital assets	(606,507)	(339,520)	-	(946,027)
Interest paid on bonds and notes	(196,238)	(570,269)	(226,327)	(992,834)
Principal paid on bonds and notes	(453,163)	(523,869)	(135,000)	(1,112,032)
Net cash used in capital and related financing activities	<u>(1,255,908)</u>	<u>(1,433,658)</u>	<u>(361,327)</u>	<u>(3,050,893)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>				
Interest received	<u>84,782</u>	<u>32,499</u>	<u>-</u>	<u>117,281</u>
<b><u>NET INCREASE (DECREASE) IN CASH</u></b>	<u>362,024</u>	<u>(234,845)</u>	<u>44,091</u>	<u>171,270</u>
<b><u>CASH AND INVESTMENTS, BEGINNING</u></b>	<u>1,512,539</u>	<u>1,562,117</u>	<u>425,906</u>	<u>3,500,562</u>
<b><u>CASH AND INVESTMENTS, ENDING</u></b>	<u>\$ 1,874,563</u>	<u>\$ 1,327,272</u>	<u>\$ 469,997</u>	<u>\$ 3,671,832</u>
<b><u>RECONCILIATION OF OPERATING INCOME</u></b>				
<b><u>TO NET CASH PROVIDED BY</u></b>				
<b><u>OPERATING ACTIVITIES:</u></b>				
Operating income	\$ 291,481	\$ 1,570,350	\$ (154,722)	\$ 1,707,109
<b><u>ADJUSTMENTS TO RECONCILE OPERATING</u></b>				
<b><u>INCOME TO NET CASH PROVIDED</u></b>				
<b><u>BY OPERATING ACTIVITIES:</u></b>				
Depreciation and amortization	681,668	446,766	173,057	1,301,491
Change in assets and liabilities:				
Accounts receivable	(30,524)	(252,725)	25,756	(257,493)
Accounts payable and accrued expenses	(8,983)	81,732	(2,813)	69,936
<b><u>NET CASH PROVIDED BY OPERATING</u></b>	<u>\$ 933,642</u>	<u>\$ 1,846,123</u>	<u>\$ 41,278</u>	<u>\$ 2,821,043</u>
<b><u>ACTIVITIES</u></b>	<u>\$ 933,642</u>	<u>\$ 1,846,123</u>	<u>\$ 41,278</u>	<u>\$ 2,821,043</u>

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

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Hermiston, Oregon, operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police), highway and streets, electricity, water and sanitation services, culture-recreation services, public improvements, inspection, planning and zoning, airport, and general administrative services.

The City's comprehensive annual financial report includes the accounts of all City operations. The financial statements of the City of Hermiston, Oregon have been prepared in conformity with generally accepted accounting policies as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**A. Scope of reporting entity:**

A component unit is a separate legal organization for which the City is considered to be financially accountable. The City has determined that no other organization meets the criteria to be included as a component unit in the City's financial statements.

**B. Government-wide and fund financial statements:**

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report activity as a whole. For the most part, the effect of interfund activity has been removed from these statements. Individual funds are not displayed. Instead the statements distinguish between governmental activities and business-type activities. Governmental activities are generally supported by taxes and City general revenues. Business-type activities are generally supported by fees charged to external customers.

The statement of activities separates program revenues from general revenues. Program revenues include: 1) charges for goods, services, and privileges, 2) operating grants and contributions, 3) capital grants and contributions.

**C. Measurement focus, basis of accounting, and financial statement presentation:**

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**C. Measurement focus, basis of accounting, and financial statement presentation (continued):**

Government-wide and proprietary fund financial statements are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With the flow of economic resources measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Under accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Governmental fund financial statements are reported using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Governmental fund financial statements use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transactions can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on long-term debt are recorded as fund liabilities when due.

Those revenues susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, interest revenue, and charges for services. Fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

The City reports deferred revenue on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when other revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**D. Fund Types and Major Funds:**

**Governmental Funds**

Governmental funds are generally used to account for activities supported by taxes and general City revenues. The City reports the following major governmental funds:

**General Fund:** The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Reserve Fund:** The Reserve Fund is used to account for funds set aside by the City for various designated purposes. Allocations are maintained to insure funds are expended according to restrictions imposed at the receipt of the funds or by later City designations of allowable uses of these funds.

**Proprietary Funds**

Proprietary Funds are used to account for operations which are financed and operated in a manner similar to private business enterprises. Proprietary funds distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing goods and services in connection with the fund's principal purpose. The intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City reports the following major proprietary funds:

**Utility Fund:** The Utility Fund is used to account for operations of the City's water and sewer utilities.

**Energy Fund:** The Energy Fund is used to account for operations of the City's electricity distribution system.

**Regional Water Fund:** The Regional Water Fund is used to account for operation of the regional water system. The regional water system treats and distributes water from the Columbia River for city use and sale to commercial users.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**E. Capital assets and long-term liabilities:**

The City capitalizes assets purchased or constructed with an individual cost more than \$5,000 and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair values on the date donated.

Capital assets are comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported on their respective fund financial statements. Capital assets are depreciated using the straight-line method. Maintenance and repairs are charged to expenditures in various budgetary funds as incurred and are not capitalized. Upon disposal, the cost and applicable accumulated depreciation are removed from the respective account, and the resulting gain or loss is recorded in operations.

The estimated useful lives for depreciable assets are as follows:

Electricity distribution system	33 years
Street system	50 years
Water and sewer system	50 years
Buildings	25 years
Machinery and equipment	5 to 10 years

Interest is capitalized on proprietary fund assets constructed with debt proceeds. During the year, no interest costs were capitalized.

Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statements and the fund financial statements of the proprietary funds. Bond premiums and discounts are deferred and amortized over the life of the bond. Bonds payable are reported net of the applicable premium or discount. Bond issuance costs are amortized in a systematic manner over the term of their related debt in the government-wide financial statements and the fund financial statements of proprietary funds. Bond issuance costs are reported as expenses of the period incurred in the fund financial statements of governmental funds.

**F. Cash and investments:**

Cash includes demand deposits and short-term investments. The City combines each fund's cash in a cash pool, which is accounted for monthly.

For purposes of the statement of cash flows, the proprietary fund types consider all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**G. Cash and investments (continued):**

Statutes authorize the City to invest in certificates of deposit, passbooks, bankers' acceptances, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition, the City can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law. Investments are reported at fair value.

**H. Inventories:**

The City does not have any significant inventories. Inventory items are recorded as expenditures when purchased.

**I. Use of estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**J. Compensated absences:**

Vested and accumulated vacation leave is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

**K. Fund equity:**

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

**L. Interfund transactions:**

Interfund services provided and used are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**M. Property taxes:**

Umatilla County assesses, collects, and distributes property taxes for all local governments within the County. Property taxes are billed in October of each year. Unpaid personal and real property taxes become liens against the property on January 1 and July 1, respectively. Property taxes are payable in three installments due November 15, February 15, and May 15. A 3% discount is allowed for full payment by November 15. Interest at 16% annually is charged for late payments.

**N. Income taxes:**

The City is a municipal corporation exempt from federal and state income taxes.

**O. Post-employment health care benefits:**

The City does not provide any significant post-employment health care benefits. Retired employees are allowed to continue their group health care insurance at their own expense.

**P. Credit risk:**

The City grants credit to utility customers, substantially all of whom are local residents.

**Q. Interest income:**

It is the policy of the City to transfer interest income earned on cash balances of the special revenue funds and the Recorder's Reserve Fund to the General Fund.

**R. Accounting Standards:**

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting, the City has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

**S. Restricted net assets:**

Revenue from taxes on motor vehicle use fuel is required by the Oregon Constitution and other statutes to be expended on streets, roads, and highways. All funds restricted for this purpose are held in Street Fund and the Reserve fund and segregated by project. When the option is available to use restricted or unrestricted resources for any purpose, the City will expend restricted resources first.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**T. Designated fund balances:**

The City intends balances in various reserve funds to be expended for designated purposes. These designations are reported on Governmental Funds Balance Sheet.

**U. Encumbrances:**

The City encumbers amounts necessary to honor its commitments before liabilities are incurred. Encumbered appropriations do not lapse at year end, but are reserved for future expenditures.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**A. Budgets and budgetary accounting:**

1. The City Council follows these procedures in establishing the budgetary data reflected in these financial statements.
  - a. Budgets for all budgeted funds are adopted on a basis that varies from the basis of accounting used for financial statement presentation as described above. The budgetary basis of accounting is cash basis plus encumbrances. Under this basis, revenues are recorded as they are received and expenditures and expenses when paid. Encumbrances for purchase orders and other commitments are included with expenditures in the budgetary accounts as charges against the budget appropriations. Budget comparison statements presented in this report are on this non-GAAP budgetary basis of accounting. Reconciliations between budgetary basis and financial statements basis are provided in notes 12 and 13.
  - b. The budget process includes preparation of a proposed budget under the direction of the City Manager. The budget is reviewed and approved by a Budget Committee prior to its submission to the City Council. The operating budget includes proposed expenditures and the means for financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The budget document includes both summary and detailed budget information.
  - c. After the proposed budget is prepared, the budget officer publishes a “Notice of Budget committee Meeting” in at least one newspaper of general circulation. At the budget committee meeting, the budget message is delivered explaining the proposed budget and any significant changes in the City’s financial position. The budget committee meets thereafter as many times as necessary until the budget document is completed.
  - d. After approval by the budget committee and the required public hearing, and prior to July 1, the budget is adopted by the City Council, and appropriations are enacted by resolution. Appropriations control expenditures in broad categories as required by Oregon Local Budget Law. More detailed classifications of budgeted expenditures are adopted for administrative control purposes. Budget appropriations lapse at year end.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued):**

**A. Budgets and budgetary accounting (continued):**

2. Management is not allowed to modify the budget without action by the governing body. The governing body is authorized to modify the original budget appropriation resolution in the following ways:
  - a. Transfer of budget appropriations within a fund are authorized by resolution of the governing body.
  - b. Budget revisions that increase total expenditures in any fund require a supplemental budget to be adopted. If a supplemental budget increases a fund's expenditures by less than 10%, the City can adopt it by publishing a notice seven days before a meeting is held to pass the adoption resolution. If a supplemental budget increases a fund's expenditures by more than 10%, the City must follow the same procedures in adopting a supplemental budget as those to adopt an original budget.
3. During the year the City adopted a supplemental budget which increased total appropriations by \$395,900.
4. The following funds legally adopt annual budgets:
  - General fund
  - All special revenue funds
  - All debt service funds
  - All capital project funds
  - All enterprise funds

The City did not prepare budgets for six Special Revenue Funds: the Recreation Reserve Fund, Records Reserve Fund, Municipal Court Fund, the Conference Center Fund, the Library Reserve Fund and the Law Enforcement Reserve Fund.
5. Expenditures may not legally exceed budget appropriations at the object level of control in each fund:
  - Personal services
  - Materials and services
  - Capital outlay
  - Debt service:
    - Principal
    - Interest

Appropriations are made at the same legal level of control described above.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued):**

**B. Budget overexpenditures:**

Oregon state local budget laws prohibit overexpenditure of budgeted appropriations. The City overexpended its budget for the year ended June 30, 2006 as follows:

Energy Fund:

Personal services	\$ 1,256
Materials and services	355,973
Capital outlay	9,520

**NOTE 3 – CASH AND INVESTMENTS:**

Cash and investments consisted of the following:

Cash on hand	\$ 13,245
Demand deposits, Banner Bank	1,085,163
Demand deposits, U.S. National Bank	2,156,008
Cash subtotal	<u>3,254,416</u>
U.S. Government notes	<u>7,790,116</u>
Total cash and investments, June 30, 2006	<u><u>\$ 11,044,532</u></u>

At year-end, the City's bank deposits were covered by federal depository insurance of \$100,000 at each institution and by collateral held by the pledging bank's designated pool manager on behalf of the City as follows:

<u>Institution</u>	<u>Pooled Collateral Certificate</u>	<u>Minimum Collateral in Pool</u>
Banner Bank	\$ 2,000,000	\$ 500,000
U.S. National Bank	3,800,000	950,000

The above collateral certificates are issued in the City's name. The collateral in the pool is held in the name of the bank issuing the certificate. Oregon law requires collateral certificates of participation for funds in excess of those insured by the federal deposit insurance corporation. The City was in compliance with collateral requirements throughout the year.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 3 – CASH AND INVESTMENTS (continued):**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City manages its custodial credit risk by maintaining a certificate of participation in a collateral pool in an amount in excess of the City’s uninsured deposits. The collateral pool manager is required by ORS 295 to maintain securities having a value not less than 25% of the certificates of participation.

\$3,241,171 of the City’s bank balance of \$3,241,171 was exposed to custodial credit risk at June 30, 2006. \$1,450,000 was collateralized by the pledging institutions’ agent, but not in the City’s name. \$1,591,171 was uninsured and uncollateralized.

Interest Rate Risk – Investments

The City invests in short-term U.S. Government securities. These securities will be redeemed for full value at maturity. The City has not adopted a formal investment policy addressing this risk.

Credit Risk – Investments

The City’s investments are backed by U.S. Government securities.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments. All of the City’s \$7,790,116 in investments are held by a third party not in the City’s name. The City has not adopted a formal investment policy addressing this risk.

**NOTE 4 – SPECIAL ASSESSMENTS RECEIVABLE:**

Special assessments receivable are the result of various local improvement district assessments over the years. The balances of special assessments receivable are offset by deferred revenue liability until collected.

Changes to special assessments receivable consisted of the following:

Balance July 1, 2005	\$ 32,153
New assessments	-
Collections during year	(17,032)
Interest collected	1,122
	<hr/>
Balance June 30, 2006	<u>\$ 16,243</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 5 – CAPITAL ASSETS:**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006
<b><u>Governmental Activities:</u></b>				
Capital assets not being depreciated:				
Land	\$ 2,122,770	\$ -	\$ (14,100)	\$ 2,108,670
Construction in progress	274,530	-	(274,530)	-
Total capital assets not being depreciated	<u>2,397,300</u>	<u>-</u>	<u>(288,630)</u>	<u>2,108,670</u>
Capital assets being depreciated:				
Buildings and improvements	10,011,586	590,351	-	10,601,937
Machinery and equipment	1,864,037	238,853	(150,750)	1,952,140
Street system	13,084,797	54,128	-	13,138,925
Total capital assets being depreciated	<u>24,960,420</u>	<u>883,332</u>	<u>(150,750)</u>	<u>25,693,002</u>
Less: Accumulated depreciation:				
Buildings and improvements	(4,073,707)	(348,453)	-	(4,422,160)
Machinery and equipment	(1,432,211)	(135,553)	128,400	(1,439,364)
Street system	(8,086,024)	(273,319)	-	(8,359,343)
Total accumulated depreciation	<u>(13,591,942)</u>	<u>(757,325)</u>	<u>128,400</u>	<u>(14,220,867)</u>
Total capital assets being depreciated, net	<u>11,368,478</u>	<u>126,007</u>	<u>(22,350)</u>	<u>11,472,135</u>
Governmental activities capital assets, net	<u>\$ 13,765,778</u>	<u>\$ 126,007</u>	<u>\$ (310,980)</u>	<u>\$ 13,580,805</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 5 – CAPITAL ASSETS (continued):**

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006
	<hr/>	<hr/>	<hr/>	<hr/>
<b><u>Business-type Activities:</u></b>				
Capital assets not being depreciated:				
Land	\$ 228,061	\$ 421,882	\$ -	\$ 649,943
Construction in progress	1,904,795	-	(1,904,795)	-
Total capital assets not being depreciated	<hr/> 2,132,856	<hr/> 421,882	<hr/> (1,904,795)	<hr/> 649,943
Capital assets being depreciated:				
Utility system and Buildings	46,038,647	2,428,941	-	48,467,588
Equipment and vehicles	667,750	-	-	667,750
Total capital assets being depreciated	<hr/> 46,706,397	<hr/> 2,428,941	<hr/> -	<hr/> 49,135,338
Less: Accumulated depreciation:				
Utility system and Buildings	(16,109,983)	(1,250,923)	-	(17,360,906)
Equipment and vehicles	(542,136)	(19,582)	-	(561,718)
Total accumulated depreciation	<hr/> (16,652,119)	<hr/> (1,270,505)	<hr/> -	<hr/> (17,922,624)
Total capital assets being depreciated, net	<hr/> 30,054,278	<hr/> 1,158,436	<hr/> -	<hr/> 31,212,714
Business-type activities capital assets, net	<hr/> <hr/> \$ 32,187,134	<hr/> <hr/> \$ 1,580,318	<hr/> <hr/> \$ (1,904,795)	<hr/> <hr/> \$ 31,862,657

Depreciation was charged to functions and programs as follows:

<b>Governmental Activities:</b>	
General government	\$ 69,111
Public safety	73,131
Highways and streets	317,789
Cultural and recreation	297,294
Total depreciation expense governmental Activities	<hr/> <hr/> \$ 757,325
<b>Business-type activities:</b>	
Water	\$ 286,220
Sewer	389,458
Electricity	421,770
Regional Water	173,057
Total depreciation expense business-type activities	<hr/> <hr/> \$ 1,270,505

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 6 – RISK MANAGEMENT:**

The City pays claims for unemployment compensation costs when billed by the state. The cost to the City should they be forced to terminate a group of employees has not been determined. The City has accumulated \$45,544 in the Recorder's Reserve Fund for unemployment claims.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

**NOTE 7 – LONG-TERM DEBT:**

Bonds Payable:

The City issues bonds to provide funds for the acquisition and construction of major capital facilities. Bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues.

The City issued refunding sewer bonds in September 1993 for \$2,330,000. These bonds were used to retire sewer bonds issued in 1978. The City realized an economic gain by paying reduced interest costs over the life of the bonds. The debt issuance costs of \$40,000 are being amortized in a systematic manner over the term of the debt.

The City issued utility revenue bonds in May 1997 for \$4,500,000. The proceeds were used to construct a new water reservoir and other water improvements. Bond issuance costs of \$67,775 are being amortized in a systematic manner over the term of the debt.

The City issued street revenue bonds in June 1998 for \$750,000. These bonds were used for local paving projects. The debt service for these bonds is being paid with property tax funding by the governmental debt service fund.

The City issued general obligation refunding water bonds in November 2000 for \$4,450,000. These bonds were used to retire some of the water bonds issued in 1994.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 7 – LONG-TERM DEBT (continued):**

The City issued electric system revenue refunding bonds in October 2005 for \$13,210,000 to retire bonds issued in 2002 in a current refunding. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$178,243. This difference and an original issue discount of \$220,607 are reported in the accompanying financial statements as a deduction from bonds payable, and are being charged to operations over the life of the debt using the effective-interest method. Bond issuance costs of \$404,393 are capitalized and amortized over the life of the bond using the effective-interest method.

The City issued general obligation bonds in March 2003 for \$3,635,000 to finance construction of an aquatic center. Bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities:		
1998 Street Revenue Bonds	4.35% - 5.4%	181,000
2003 Pool Bonds	2.0% - 4.625%	3,515,000
Business-type activities:		
1993 Refunding Sewer Bonds	3.3% - 5.25%	415,000
1997 Utility Revenue Bonds	4.9% - 5.4%	2,770,000
2000 Refunding Water Bonds	4.75% - 5.6%	4,235,000
2005 Electric System Revenue Bonds	3.35%-4.60%	13,210,000
Gross amount of bonds		<u>24,326,000</u>
Unamortized refunding costs		(170,596)
Unamortized original issue discount		(211,143)
Total bonds		<u><u>\$ 23,944,261</u></u>

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 118,000	\$ 159,756	\$ 585,000	\$ 972,585
2008	128,000	153,518	550,000	942,457
2009	40,000	148,439	505,000	911,322
2010	45,000	147,309	545,000	887,433
2011	45,000	145,981	580,000	861,822
2012-16	335,000	698,749	3,620,000	3,838,939
2017-21	535,000	613,039	3,620,000	2,899,234
2022-26	790,000	472,998	4,135,000	1,942,265
2027-31	1,120,000	257,983	4,310,000	1,002,375
2032-36	540,000	25,437	2,180,000	99,674
Totals	<u><u>\$ 3,696,000</u></u>	<u><u>\$ 2,823,209</u></u>	<u><u>\$ 20,630,000</u></u>	<u><u>\$ 14,358,106</u></u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 7 – LONG-TERM DEBT (continued):**

Notes payable:

The City borrowed \$500,000 from the State of Oregon Economic Development Department on March 8, 1990. The note proceeds were used to construct a water and sewer utility system serving a plant owned by Hermiston Foods, Inc. This note is payable \$41,373 annually each July 15, including 5.0% interest. This note is a direct obligation of the City. This note is reported as a debt of the proprietary funds.

The City borrowed \$385,000 from Bank of America, NA in October, 2002 to finance its electric distribution system. Principal is payable \$32,083 quarterly. Interest at an annualized rate of 3.5% of the outstanding balance is paid quarterly.

Notes currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities:		
Oregon State	5.00%	\$ 131,036
Bank of America	3.50%	160,417
Total notes		<u>\$ 291,453</u>

Annual debt service requirements to maturity for notes payable are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 163,153	\$ 10,482
2007	68,649	5,092
2008	38,390	2,982
2009	21,261	1,063
2010	-	-
Totals	<u>\$ 291,453</u>	<u>\$ 19,619</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 7 – LONG-TERM DEBT (continued):**

**Changes in long-term debt**

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006	Due Within One Year
<b>Government Activities:</b>					
1998 Street Revenue Bonds	\$ 265,000	\$ -	\$ (84,000)	\$ 181,000	\$ 88,000
2003 Pool Bonds	3,540,000	-	(25,000)	3,515,000	30,000
Total bonds	3,805,000	-	(109,000)	3,696,000	118,000
Compensated absences	173,071	179,432	(171,430)	181,073	181,073
Total Governmental Activities	<u>3,978,071</u>	<u>179,432</u>	<u>(280,430)</u>	<u>3,877,073</u>	<u>299,073</u>
<b>Business-Type Activities:</b>					
1993 Refunding Sewer Bonds	\$ 610,000	\$ -	\$ (195,000)	\$ 415,000	\$ 205,000
1997 Utility Revenue Bonds	2,995,000	-	(225,000)	2,770,000	240,000
2000 Refunding Water Bonds	4,370,000	-	(135,000)	4,235,000	140,000
2002 Electric Revenue Bonds	12,990,000	-	(12,990,000)	-	-
2005 Electric Revenue Bonds	-	13,210,000	-	13,210,000	-
Total bonds	<u>20,965,000</u>	<u>13,210,000</u>	<u>(13,545,000)</u>	<u>20,630,000</u>	<u>585,000</u>
<b>Notes Payable:</b>					
Oregon State	164,198	-	(33,163)	131,035	34,821
Bank of America	288,750	-	(128,333)	160,417	128,332
Total notes	<u>452,948</u>	<u>-</u>	<u>(161,496)</u>	<u>291,452</u>	<u>163,153</u>
Compensated absences	68,687	79,734	(80,426)	67,995	67,995
Total Business-type Activities	<u>\$21,486,635</u>	<u>\$13,289,734</u>	<u>\$ (13,786,922)</u>	<u>\$20,989,447</u>	<u>\$ 816,148</u>

Compensated absences of governmental activities are generally liquidated by the general funds.

**NOTE 8 – GARBAGE DISPOSAL CONTRACT:**

The City contracts for garbage disposal with a third party. Under terms of the agreement the City remits eighty-seven percent of collected sanitation fees to the contracting party, with the General Fund retaining thirteen percent of the fees as compensation for billing and collection services and as franchise fees.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 9 - INTERFUND TRANSACTIONS:**

Transfer Out:	Transfer In:						Total Transfers Out
	General	Reserve	Utility	Energy	Regional Water	Nonmajor Governmental	
General	\$ -	\$ 11,500	\$ -	\$ -	\$ -	\$ 817,405	\$ 828,905
Reserve	150,000	-	606,508	-	-	13,000	769,508
Utility	-	7,000	-	-	-	-	7,000
Energy	348,515	331,294	-	-	-	-	679,809
Regional Water	-	-	-	-	-	-	-
Nonmajor governmental	10,000	11,000	-	-	364,140	-	385,140
Total Transfers in	<u>\$ 508,515</u>	<u>\$ 360,794</u>	<u>\$ 606,508</u>	<u>\$ -</u>	<u>\$ 364,140</u>	<u>\$ 830,405</u>	<u>\$ 2,670,362</u>

Net transfers from business-type activities to governmental activities reported on the statement of activities are reported as follows:

Net transfers to business-type activities:

Transfers out:	
Utility fund	\$ (7,000)
Energy fund	(679,809)
Transfers in:	
Utility fund	606,508
Regional water fund	364,140
	<u>\$ 283,839</u>

Net transfers from governmental activities:

Transfers in:	
General fund	\$ 508,515
Reserve fund	360,794
Non-major governmental funds	837,121
Transfer out:	
General fund	(835,621)
Reserve fund	(769,508)
Non-major governmental funds	(385,140)
	<u>\$ (283,839)</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 9 - INTERFUND TRANSACTIONS (continued):**

The City makes routine transfers between funds as follows:

Interest earned by monies held in various reserve funds is transferred to the General Fund.

Amounts designated for specific purposes authorized by resolutions of the City Council are transferred to one of the City's reserve fund.

Amounts designated for debt service are transferred to the Debt Service Fund.

The Energy Fund pays five percent of gross energy revenues in lieu of taxes to the General Fund.

Other significant transfers that do not occur on a routine basis include:

The Energy Fund transferred \$331,294 to the Reserve Fund to fund upgrades to the City's electrical utility.

Budgetary basis transfers reported on the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual differ from those reported on the modified accrual basis in the fund financial statements because:

The City budgets debt service payments of proprietary funds as transfers to the Debt Service Fund. The proprietary fund financial statements report debt service payments as reductions of long term debt and interest expense.

The City budgets payment in lieu of taxes as an expenditure of the Energy Fund and as revenue to the General Fund. The fund financial statements reports these as a transfer.

Expenditures for proprietary fund capital assets are made by the Reserve Fund. The City budgets these expenditures as capital outlay, but the fund financial statements report them as transfers.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 10 – CONTINGENT LIABILITIES:**

Amounts received or receivable from state and federal grants are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential loss on all claims will not be significant to the City's financial statements.

**NOTE 11 – INTERGOVERNMENTAL REVENUES:**

The City's governmental funds received funding from a variety of federal and Oregon governmental sources. The following schedule details the more significant sources:

Oregon State highway taxes	\$ 721,384
Oregon State liquor and cigarette taxes	179,064
Oregon State revenue sharing	101,462
Various state and federal sources	<u>65,713</u>
Total	<u><u>\$ 1,067,623</u></u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 12 – RECONCILIATION OF GAAP BASIS REVENUES AND EXPENDITURES TO BUDGETARY BASIS REVENUES AND EXPENDITURES:**

As discussed in note 2, the City accounts for budgetary basis revenues and expenditures using a non-GAAP method. Budgetary basis information of the General Fund and the major Special Revenue Fund reconciles to GAAP basis as follows:

	<u>General Fund</u>	<u>Reserve Fund</u>
<b><u>GAAP BASIS NET CHANGE IN FUND BALANCES</u></b>	\$ (581,039)	\$ (388,998)
<b><u>ADD (DEDUCT):</u></b>		
Change in receivables	(3,735)	-
Change in encumbrances	141,980	-
Change in deferred revenue	(2,058)	379
<b><u>BUDGETARY BASIS NET CHANGE IN FUND BALANCES</u></b>	<u>\$ (444,852)</u>	<u>\$ (388,619)</u>

**NOTE 13 – RECONCILIATION OF GAAP BASIS FUND EQUITY TO BUDGETARY BASIS FUND EQUITY:**

The budgetary basis fund equity of the General Fund and the major Special Revenue Fund reconciles to GAAP basis fund equity as follows:

	<u>General Fund</u>	<u>Reserve Fund</u>
<b><u>GAAP BASIS FUND BALANCES</u></b>	\$ 2,849,266	\$ 3,612,687
<b><u>ADD (DEDUCT):</u></b>		
Receivables	(363,187)	-
Deferred revenue	216,451	-
<b><u>BUDGET BASIS FUND BALANCES</u></b>	<u>\$ 2,702,530</u>	<u>\$ 3,612,687</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 14 – DEFERRED COMPENSATION PLAN:**

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred, all property and rights purchased, and all income, property, or rights are, until paid or made available to the employee or other beneficiary, held in trust for the exclusive benefit of the participants and their beneficiaries. The deferred compensation investments are not included in the City's financial statements.

**NOTE 15 – DEFINED BENEFIT PENSION PLAN:**

**A. Plan Description**

The City's defined benefit pension plan, Oregon Public Employee Retirement System (PERS); provides retirement and disability benefits, limited cost-of-living adjustments, and a number of other options to plan members and beneficiaries. PERS is an agent multiple-employer pension plan that acts as a common investment and administrative unit for the governmental units within the State of Oregon. PERS is administered under Oregon Revised Statute Chapter 238. ORS 238.620 establishes the Public Employees Retirement Board as the governing body of PERS. The authority to establish and amend the benefit provisions of the plan rests with the Oregon Legislature. PERS presents ten-year historical trend information in its comprehensive annual financial report for the system as a whole. That report may be obtained by writing to Oregon PERS, P.O. Box 23700, Tigard, OR 97281-3700.

**B. Funding Policy**

Members of PERS are required to contribute 6.00% of their salary covered under the plan. The employer is required by ORS 238.225 to contribute at an actuarially determined rate. The current rate is 20.57% of salary covered under the plan. The contribution requirements for plan members and the employer are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**C. Annual Pension Cost**

For 2006, the City's annual pension cost of \$877,615 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The amortization method is level percentage of projected payroll with an amortization period of thirty years open. The City uses the fair market value method to determine the actuarial value of the plan's assets. The actuarial assumptions included (a) 8% investment rate of return of present and future assets; (b) projected salary increases of 5% per year attributable to general wage adjustments with additional increases for proportion and longevity that vary by age and service, (c) 2% per year cost-of-living adjustments, and (d) demographic assumptions that have been chosen to reflect the best estimate of emerging experience.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 452,200	100%	\$ -
2005	466,164	100%	-
2006	877,615	100%	-

**D. Trend Information**

The data presented below presents the information currently available.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Actuarial Liability/ (Surplus) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/99	18,886,308	18,848,329	(37,979)	100%	2,703,434	(1)%
12/31/01	19,290,789	18,864,640	(426,149)	102%	3,220,200	(13)%
12/31/03	18,721,924	22,466,624	3,744,700	83%	3,612,306	104%
12/31/04	20,299,813	24,094,640	3,794,827	84%	3,932,782	96%

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2006**

**NOTE 16 – SUBSEQUENT EVENTS:**

The City is improving its wastewater treatment plant. No construction contracts have been awarded; the estimated total cost of this multi-year project is \$10,000,000. The City expended \$125,000 on this project during the year ended June 30, 2006 bringing total expenditures so far on this project to \$2,000,000.

The City is planning to sell bonds in 2009 to finance this project. Completion of the project is expected in 2011.

**SUPPLEMENTARY INFORMATION**

**CITY OF HERMISTON, OREGON**

**Non-major Governmental Funds**

**June 30, 2006**

**SPECIAL REVENUE FUNDS**

Special revenue funds are used to account for specific revenues that are restricted to expenditure for particular purposes.

**State Tax Street Fund:**

This fund is used to account for the city's share of motor fuel tax revenues and special grants that are legally restricted to the maintenance of the streets within the city.

**Transient Room Tax Fund:**

This fund is used to account for the receipts of monies received from motel room taxation.

**Recreation Reserve Fund:**

This fund is used to account for amounts designated for recreation activities for city residents.

**Municipal Court Fund:**

This fund is used to account for bail and fines received and refunds paid.

**Recorder's Reserve Fund:**

This fund is used to account for amounts received by the city with a dedicated purpose.

**Conference Center Fund:**

This fund is used to account for revenues and expenditures relating to the operation of the City's conference center.

**Revolving Loan Fund:**

This fund is used to account for local improvements projects such as curb, gutter, sidewalk, and paving. Upon completion of a project, this fund is fully reimbursed.

**911 Communications Fund:**

This fund is used to account for income and expenses of the City's 911 emergency dispatch operations.

**Law Enforcement Reserve Fund:**

This fund is used to account for amounts designated by the City for law enforcement and related purposes.

**Library Reserve Fund:**

This fund is used to account for amounts designated by the City for library operations and improvements.

**DEBT SERVICE FUND**

Debt service funds are used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources.

**Bonded Debt Fund:**

This fund is used to account for the payment of bonded debt.

**CITY OF HERMISTON, OREGON**

**Non-major Governmental Funds**

**Combining Balance Sheet**

**June 30, 2006**

					Special Revenue					Debt Service	Total Non-major Governmental Funds	
	State Tax Street Fund	Transient Room Tax Fund	Recreation Reserve Fund	Municipal Court Fund	Recorder's Reserve Fund	Conference Center Fund	Revolving Loan Fund	911 Communications Fund	Law Enforcement Reserve Fund	Library Reserve Fund	Bonded Debt Fund	
<b><u>ASSETS</u></b>												
Cash and investments	\$ 48,086	\$ 92,351	\$ 57,808	\$ 1,816	\$ 210,203	\$ 19,621	\$ 182,062	\$ -	\$ 17,154	\$ 42,050	\$ 312,309	\$ 983,460
Receivables (net of allowances for uncollectibles):												
Property taxes	-	-	-	-	-	-	-	-	-	-	31,270	31,270
Special assessments	-	-	-	-	-	-	8,688	-	-	-	-	8,688
Prepaid expenses	-	-	-	-	86,171	-	-	-	-	-	-	86,171
Total assets	<u>\$ 48,086</u>	<u>\$ 92,351</u>	<u>\$ 57,808</u>	<u>\$ 1,816</u>	<u>\$ 296,374</u>	<u>\$ 19,621</u>	<u>\$ 190,750</u>	<u>\$ -</u>	<u>\$ 17,154</u>	<u>\$ 42,050</u>	<u>\$ 343,579</u>	<u>\$ 1,109,589</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>												
<b><u>LIABILITIES:</u></b>												
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 95,126	\$ 4,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 99,126
Deferred revenues	-	-	-	-	-	-	8,345	-	-	-	27,830	36,175
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,126</u>	<u>4,000</u>	<u>8,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,830</u>	<u>135,301</u>
<b><u>FUND BALANCES:</u></b>												
Reserved for encumbrances	-	39,478	-	-	-	-	-	-	-	-	-	39,478
Unreserved fund balance:												
Designated for general government	-	-	-	-	201,248	-	-	-	-	-	-	201,248
Designated for public safety	-	-	-	1,816	-	-	-	-	17,154	-	-	18,970
Designated for highways and streets	48,086	-	-	-	-	-	-	-	-	-	-	48,086
Designated for culture and recreation	-	52,873	57,808	-	-	15,621	-	-	-	42,050	-	168,352
Designated for capital outlay	-	-	-	-	-	-	182,405	-	-	-	-	182,405
Designated for debt service	-	-	-	-	-	-	-	-	-	-	315,749	315,749
Total fund balances	<u>48,086</u>	<u>92,351</u>	<u>57,808</u>	<u>1,816</u>	<u>201,248</u>	<u>15,621</u>	<u>182,405</u>	<u>-</u>	<u>17,154</u>	<u>42,050</u>	<u>315,749</u>	<u>974,288</u>
Total liabilities and fund balances	<u>\$ 48,086</u>	<u>\$ 92,351</u>	<u>\$ 57,808</u>	<u>\$ 1,816</u>	<u>\$ 296,374</u>	<u>\$ 19,621</u>	<u>\$ 190,750</u>	<u>\$ -</u>	<u>\$ 17,154</u>	<u>\$ 42,050</u>	<u>\$ 343,579</u>	<u>\$ 1,109,589</u>

**CITY OF HERMISTON, OREGON**

**Non-major Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2006**

	Special Revenue										Debt Service	Total Non-major Governmental Funds
	State Tax Street Fund	Transient Room Tax Fund	Recreation Reserve Fund	Municipal Court Fund	Recorder's Reserve Fund	Conference Center Fund	Revolving Loan Fund	911 Communications Fund	Law Enforcement Reserve Fund	Library Reserve Fund	Bonded Debt Fund	
<b>REVENUES:</b>												
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 376,055	\$ 376,055
Transient room tax	-	46,939	-	-	-	-	-	-	-	-	-	46,939
911 Tax	-	-	-	-	-	-	-	119,985	-	-	-	119,985
Intergovernmental	721,384	-	-	-	-	-	-	-	-	-	-	721,384
Fines and forfeits	-	-	-	158,006	-	-	-	-	-	-	-	158,006
Investment interest	-	-	-	-	10,000	-	-	-	-	-	-	10,000
Charges for services	-	-	72,733	-	125,439	105,463	-	-	-	-	-	303,635
Miscellaneous	-	-	2,983	-	171,268	-	9,689	-	57,768	64,329	42,313	348,350
Total revenues	<u>721,384</u>	<u>46,939</u>	<u>75,716</u>	<u>158,006</u>	<u>306,707</u>	<u>105,463</u>	<u>9,689</u>	<u>119,985</u>	<u>57,768</u>	<u>64,329</u>	<u>418,368</u>	<u>2,084,354</u>
<b>EXPENDITURES</b>												
Current:												
General government	-	-	-	158,001	279,073	-	-	-	-	-	-	437,074
Public safety	-	-	-	-	-	-	-	567,219	35,547	-	-	602,766
Highways and streets	662,298	-	-	-	-	-	-	-	-	-	-	662,298
Cultural and recreation	-	37,802	173,297	-	-	89,842	-	-	-	30,166	-	331,107
Debt service:												
Principal	-	-	-	-	-	-	-	-	-	-	109,000	109,000
Interest	-	-	-	-	-	-	-	-	-	-	164,716	164,716
Capital outlay:												
Public safety	-	-	-	-	-	-	-	54,455	20,360	-	-	74,815
Street Improvements	34,000	-	-	-	-	-	-	-	-	-	-	34,000
Cultural and recreation	-	-	39,000	-	-	-	-	-	-	-	-	39,000
Total expenditures	<u>696,298</u>	<u>37,802</u>	<u>212,297</u>	<u>158,001</u>	<u>279,073</u>	<u>89,842</u>	<u>-</u>	<u>621,674</u>	<u>55,907</u>	<u>30,166</u>	<u>273,716</u>	<u>2,454,776</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>25,086</u>	<u>9,137</u>	<u>(136,581)</u>	<u>5</u>	<u>27,634</u>	<u>15,621</u>	<u>9,689</u>	<u>(501,689)</u>	<u>1,861</u>	<u>34,163</u>	<u>144,652</u>	<u>(370,422)</u>
<b>OTHER FINANCING SOURCES (USES):</b>												
Transfers in	-	-	55,000	-	-	-	-	501,689	-	7,887	273,716	838,292
Transfers out	(11,000)	-	-	-	(17,887)	-	-	-	-	-	(364,140)	(393,027)
Total other financing sources (uses)	<u>(11,000)</u>	<u>-</u>	<u>55,000</u>	<u>-</u>	<u>(17,887)</u>	<u>-</u>	<u>-</u>	<u>501,689</u>	<u>-</u>	<u>7,887</u>	<u>(90,424)</u>	<u>445,265</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>14,086</u>	<u>9,137</u>	<u>(81,581)</u>	<u>5</u>	<u>9,747</u>	<u>15,621</u>	<u>9,689</u>	<u>-</u>	<u>1,861</u>	<u>42,050</u>	<u>54,228</u>	<u>74,843</u>
<b>FUND BALANCES, BEGINNING</b>	<u>34,000</u>	<u>83,214</u>	<u>139,389</u>	<u>1,811</u>	<u>191,501</u>	<u>-</u>	<u>172,716</u>	<u>-</u>	<u>15,293</u>	<u>-</u>	<u>261,521</u>	<u>899,445</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 48,086</u>	<u>\$ 92,351</u>	<u>\$ 57,808</u>	<u>\$ 1,816</u>	<u>\$ 201,248</u>	<u>\$ 15,621</u>	<u>\$ 182,405</u>	<u>\$ -</u>	<u>\$ 17,154</u>	<u>\$ 42,050</u>	<u>\$ 315,749</u>	<u>\$ 974,288</u>

**CITY OF HERMISTON, OREGON**

**Reserve Fund**

**Schedule of Detail Allocations (Non-GAAP Budgetary Basis)**

**For the Year Ended June 30, 2006**

City Ordinances have established specific allocations of the Reserve Fund. The following schedule presents the allocations of the 2005-06 transactions to their specified purposes.

	Balance June 30, 2005	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2006
<b><u>ALLOCATIONS:</u></b>					
Office equipment, finance	\$ 61,581	\$ -	\$ 24,060	\$ 7,000	\$ 44,521
Airport improvements	(11,615)	31,858	-	2,000	22,243
Park improvements	942	2	-	-	944
Recreation programs	26,414	28,162	26,200	-	28,376
Parks development	43,513	28,164	44,064	-	27,613
395 / Harper signal	150,000	-	-	-	150,000
Centennial bell	32,750	11,707	14,051	9,500	39,906
Planning	14,101	-	-	-	14,101
St Johns street construction	105,000	-	-	-	105,000
Street equipment	11,287	-	14,787	3,500	-
Bicycle trails	46,146	-	33,531	7,500	20,115
Street maintenance	197,835	57	69,929	-	127,963
Street construction	83,078	78	54,128	-	29,028
Utility construction	169,615	-	100,054	-	69,561
Sewer department equipment	6,397	-	4,175	-	2,222
Sewer plant and repairs	-	-	-	-	-
Water department equipment	13,444	-	-	-	13,444
Wastewater treatment plant	946,461	-	559,098	-	387,363
HES Improvements	635,290	-	-	331,294	966,584
Regional water system	888,992	-	14,760	-	874,232
Wastewater-SDC	40,191	47,555	-	-	87,746
Water-SDC	539,884	61,991	150	-	601,725
Total reserve fund	<u>\$ 4,001,306</u>	<u>\$ 209,574</u>	<u>\$ 958,987</u>	<u>\$ 360,794</u>	<u>\$ 3,612,687</u>

**CITY OF HERMISTON, OREGON**

**State Tax Street Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget (Non-GAAP Budgetary Basis) and Actual**

**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget-</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b><u>REVENUES:</u></b>				
Intergovernmental	<u>\$ 610,000</u>	<u>\$ 610,000</u>	<u>\$ 721,384</u>	<u>\$ 111,384</u>
<b><u>EXPENDITURES:</u></b>				
Current:				
Highways and streets:				
Personal services	<u>523,150</u>	<u>523,150</u>	<u>458,266</u>	<u>64,884</u>
Materials and services	<u>233,225</u>	<u>233,225</u>	<u>204,032</u>	<u>29,193</u>
Total expenditures	<u>756,375</u>	<u>756,375</u>	<u>662,298</u>	<u>94,077</u>
<b><u>EXCESS (DEFICIENCY) OF REVENUES</u></b>				
<b><u>OVER (UNDER) EXPENDITURES</u></b>	<u>(146,375)</u>	<u>(146,375)</u>	<u>59,086</u>	<u>205,461</u>
<b><u>OTHER FINANCING SOURCES</u></b>				
<b><u>(USES):</u></b>				
Transfers in	<u>157,375</u>	<u>157,375</u>	<u>-</u>	<u>(157,375)</u>
Transfers out	<u>(11,000)</u>	<u>(11,000)</u>	<u>(11,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>146,375</u>	<u>146,375</u>	<u>(11,000)</u>	<u>(157,375)</u>
<b><u>NET CHANGE IN FUND BALANCES</u></b>	<u>-</u>	<u>-</u>	<u>48,086</u>	<u>48,086</u>
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,086</u>	<u>\$ 48,086</u>

**CITY OF HERMISTON, OREGON**

**Transient Room Tax Fund**

**Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget (Non-GAAP Budgetary Basis) and Actual**

**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
<b><u>REVENUES:</u></b>				
Taxes	\$ 42,280	\$ 42,280	\$ 46,939	\$ 4,659
<b><u>EXPENDITURES:</u></b>				
Current:				
General Government				
Material and services	<u>77,280</u>	<u>77,280</u>	<u>77,280</u>	<u>0</u>
<b><u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u></b>	(35,000)	(35,000)	(30,341)	4,659
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>35,000</u>	<u>35,000</u>	<u>83,214</u>	<u>48,214</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,873</u>	<u>\$ 52,873</u>

**CITY OF HERMISTON, OREGON**

**911 Communications Fund**

**Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget (Non-GAAP Budgetary Basis) and Actual**

**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts	Final Budget- Positive (Negative)
<b><u>REVENUES:</u></b>				
911 communications tax	<u>\$ 125,000</u>	<u>\$ 125,000</u>	<u>\$ 119,985</u>	<u>\$ (5,015)</u>
<b><u>EXPENDITURES:</u></b>				
Current:				
Public safety				
Personal services	528,105	528,105	524,534	3,571
Materials and services	46,650	46,650	42,685	3,965
Capital outlay	<u>55,000</u>	<u>55,000</u>	<u>54,455</u>	<u>545</u>
Total expenditures	<u>629,755</u>	<u>629,755</u>	<u>621,674</u>	<u>8,081</u>
<b><u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u></b>	(504,755)	(504,755)	(501,689)	3,066
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Transfers in	<u>504,755</u>	<u>504,755</u>	<u>501,689</u>	<u>(3,066)</u>
<b><u>NET CHANGE IN FUND BALANCES</u></b>	-	-	-	-
<b><u>FUND BALANCES, BEGINNING</u></b>	-	-	-	-
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF HERMISTON, OREGON**

**Revolving Loan Fund**

**Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget (Non-GAAP Budgetary Basis) and Actual**

**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
<b><u>REVENUES:</u></b>				
Miscellaneous	\$ 10,000	\$ 10,000	\$ 12,200	\$ 2,200
<b><u>EXPENDITURES:</u></b>				
Current:				
Capital outlay	<u>177,400</u>	<u>177,400</u>	<u>-</u>	<u>177,400</u>
<b><u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u></b>	(167,400)	(167,400)	12,200	179,600
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>167,400</u>	<u>167,400</u>	<u>169,862</u>	<u>2,462</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 182,062</u>	<u>\$ 182,062</u>

**CITY OF HERMISTON, OREGON**

**Bonded Debt Fund**

**Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget (Non-GAAP Budgetary Basis) and Actual**

**For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b><u>REVENUES:</u></b>				
Property taxes	\$ 366,140	\$ 366,140	\$ 375,592	\$ 9,452
Miscellaneous income	-	-	42,313	42,313
Total revenues	<u>366,140</u>	<u>366,140</u>	<u>417,905</u>	<u>51,765</u>
<b><u>EXPENDITURES:</u></b>				
Debt service:				
Principal				
1997 street bonds	84,000	84,000	84,000	-
2003 pool bonds	25,000	25,000	25,000	-
Interest				
1997 street bonds	14,140	14,140	14,140	-
2003 pool bonds	150,580	150,580	150,576	4
Total expenditures	<u>273,720</u>	<u>273,720</u>	<u>273,716</u>	<u>4</u>
<b><u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u></b>				
	<u>92,420</u>	<u>92,420</u>	<u>144,189</u>	<u>51,769</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Transfers in:				
Utility fund (HFI debt)	41,375	41,375	41,373	(2)
Utility fund (for debt service)	613,180	613,180	613,177	(3)
Energy fund (for debt service)	628,335	628,335	532,191	(96,144)
General fund (for debt service)	273,720	273,720	273,716	(4)
Debt service (for utility funds):				
State HFI loan payment	(41,375)	(41,375)	(41,373)	2
Hermiston Energy Service loan	(136,760)	(136,760)	(136,758)	2
Principal:				
1993 sewer bonds	(195,000)	(195,000)	(195,000)	-
Regional water bonds	(135,000)	(135,000)	(135,000)	-
1997 utility revenue bonds	(225,000)	(225,000)	(225,000)	-
Interest:				
1993 sewer bonds	(31,735)	(31,735)	(31,733)	2
Regional water bonds	(229,140)	(229,140)	(229,140)	-
1997 utility revenue bonds	(161,445)	(161,445)	(161,445)	-
Hermiston Energy Service bonds	(491,575)	(491,575)	(395,432)	96,143
Total other financing sources (uses)	<u>(90,420)</u>	<u>(90,420)</u>	<u>(90,424)</u>	<u>(4)</u>
<b><u>NET CHANGE IN FUND BALANCES</u></b>	<u>2,000</u>	<u>2,000</u>	<u>53,765</u>	<u>51,765</u>
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>-</u>	<u>-</u>	<u>258,544</u>	<u>258,544</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 312,309</u>	<u>\$ 310,309</u>

**CITY OF HERMISTON, OREGON**

**Utility Fund**

**Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget (Non-GAAP Budgetary Basis) and Actual**

**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget-
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<b><u>REVENUES:</u></b>				
Charges for services				
Water	\$ 1,755,000	\$ 1,755,000	\$ 1,831,720	\$ 76,720
Sewer	1,255,000	1,255,000	1,418,419	163,419
Bond assessments	20,000	20,000	27,398	7,398
Investment interest	45,000	45,000	74,241	29,241
Total revenues	<u>3,075,000</u>	<u>3,075,000</u>	<u>3,351,778</u>	<u>276,778</u>
<b><u>EXPENDITURES:</u></b>				
Personal services	1,528,830	1,528,830	1,508,014	20,816
Materials and services	947,500	947,500	820,711	126,789
Total expenditures	<u>2,476,330</u>	<u>2,476,330</u>	<u>2,328,725</u>	<u>147,605</u>
<b><u>EXCESS OF REVENUES OVER EXPENDITURES</u></b>				
	<u>598,670</u>	<u>598,670</u>	<u>1,023,053</u>	<u>424,383</u>
<b><u>TRANSFERS OUT</u></b>				
Reserve fund	(7,000)	(7,000)	(7,000)	-
Bonded debt fund	(654,560)	(654,560)	(654,550)	10
Total transfers out	<u>(661,560)</u>	<u>(661,560)</u>	<u>(661,550)</u>	<u>10</u>
<b><u>NET CHANGE IN FUND BALANCES</u></b>				
	(62,890)	(62,890)	361,503	424,393
<b><u>FUND BALANCES, BEGINNING</u></b>				
	<u>62,890</u>	<u>62,890</u>	<u>1,374,189</u>	<u>1,311,299</u>
<b><u>FUND BALANCES, ENDING</u></b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,735,692</u>	<u>\$ 1,735,692</u>

**CITY OF HERMISTON, OREGON**

**Energy Fund**

**Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget (Non-GAAP Budgetary Basis) and Actual**

**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
<b><u>REVENUES:</u></b>				
Charges for services	\$ 7,008,000	\$ 7,008,000	\$ 7,047,756	\$ 39,756
Miscellaneous	50,000	50,000	66,194	16,194
Total revenues	<u>7,058,000</u>	<u>7,058,000</u>	<u>7,113,950</u>	<u>55,950</u>
<b><u>EXPENDITURES:</u></b>				
Personal services	189,455	189,455	190,711	(1,256)
Materials and services	5,569,395	5,569,395	5,925,368	(355,973)
Capital outlay	330,000	330,000	339,520	(9,520)
Total expenditures	<u>6,088,850</u>	<u>6,088,850</u>	<u>6,455,599</u>	<u>(366,749)</u>
<b><u>EXCESS OF REVENUES OVER EXPENDITURES</u></b>				
	969,150	969,150	658,351	(310,799)
<b><u>TRANSFERS OUT</u></b>				
	<u>(969,150)</u>	<u>(969,150)</u>	<u>(863,485)</u>	<u>105,665</u>
<b><u>NET CHANGE IN FUND BALANCE</u></b>				
	-	-	(205,134)	(205,134)
<b><u>FUND BALANCES, BEGINNING</u></b>				
	<u>-</u>	<u>-</u>	<u>1,063,314</u>	<u>1,063,314</u>
<b><u>FUND BALANCES, ENDING</u></b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 858,180</u>	<u>\$ 858,180</u>

**CITY OF HERMISTON, OREGON**

**Regional Water Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget (Non-GAAP Budgetary Basis) and Actual**

**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget-</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b><u>REVENUES:</u></b>				
Charges for services	<u>\$ 480,000</u>	<u>\$ 480,000</u>	<u>\$ 470,722</u>	<u>\$ (9,278)</u>
<b><u>EXPENDITURES:</u></b>				
Personal services	<u>202,420</u>	<u>202,420</u>	<u>177,877</u>	<u>24,543</u>
Materials and services	<u>326,600</u>	<u>326,600</u>	<u>248,754</u>	<u>77,846</u>
Total expenditures	<u>529,020</u>	<u>529,020</u>	<u>426,631</u>	<u>102,389</u>
<b><u>NET CHANGE IN FUND</u></b>				
<b><u>BALANCES</u></b>	<u>(49,020)</u>	<u>(49,020)</u>	<u>44,091</u>	<u>93,111</u>
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>49,020</u>	<u>49,020</u>	<u>425,906</u>	<u>376,886</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 469,997</u>	<u>\$ 469,997</u>

**CITY OF HERMISTON**

**Reconciliation of GAAP Basis Revenues, Expenditures and Fund Equity to  
Budgetary Basis Revenues, Expenditures and Fund Equity**

**For the Year Ended June 30, 2006**

The City uses a non-GAAP budgetary basis as described in note 2 to the basic financial statements. This schedule provides a reconciliation between GAAP basis fund financial statements and the non-GAAP budgetary basis

	<u>General Fund</u>	<u>Bonded Debt Fund</u>	<u>Energy Fund</u>	<u>Utility Fund</u>	<u>Regional Water Fund</u>	<u>Revolving Loan Fund</u>	<u>Transient Room Tax Fund</u>
<b><u>GAAP BASIS FUND BALANCES</u></b>	\$ 2,849,266	\$ 315,749	\$ 909,591	\$ 11,467,134	\$ 3,217,149	\$ 182,405	\$ 92,351
<b><u>ADD (DEDUCT):</u></b>							
Accounts receivable	(337,405)	(31,270)	(744,642)	(485,474)	(9,770)	(8,688)	-
Receivable due to other entities	-	-	-	109,511	-	-	-
Accrued interest	-	-	144,612	45,112	94,069	-	-
Encumbrances	-	-	-	-	-	-	(39,478)
Deferred revenue	216,451	27,830	-	-	-	8,345	-
Capital assets	-	-	(12,045,668)	(12,750,538)	(7,066,451)	-	-
Long term debt	-	-	12,601,634	3,292,553	4,235,000	-	-
Unrealized investment (gains) or losses	(25,782)	-	(7,347)	(10,601)	-	-	-
Compensated absences	-	-	-	67,995	-	-	-
<b><u>BUDGETARY BASIS FUND BALANCES</u></b>	<u>\$ 2,702,530</u>	<u>\$ 312,309</u>	<u>\$ 858,180</u>	<u>\$ 1,735,692</u>	<u>\$ 469,997</u>	<u>\$ 182,062</u>	<u>\$ 52,873</u>
<b><u>GAAP BASIS NET CHANGE IN FUND BALANCES</u></b>	\$ (581,039)	\$ 54,228	\$ 352,771	\$ 779,533	\$ (16,909)	\$ 9,689	\$ 9,137
<b><u>ADD (DEDUCT):</u></b>							
Change in accounts receivable	(9,715)	744	(252,725)	(30,524)	25,756	10,967	-
Change in accrued interest	-	-	117,728	(5,149)	(2,813)	-	-
Change in receivable due to other entities	-	-	-	6,878	-	-	-
Change in encumbrances payable	141,980	-	-	-	-	-	(39,478)
Change in deferred revenue	(2,058)	(1,207)	-	-	-	(8,456)	-
Change in capital assets	-	-	82,250	69,170	173,057	-	-
Change in long term debt	-	-	(498,873)	(447,172)	(135,000)	-	-
Change in unrealized gains or losses	5,980	-	(6,285)	(10,541)	-	-	-
Change in compensated absences	-	-	-	(692)	-	-	-
<b><u>BUDGETARY BASIS NET CHANGE IN FUND BALANCES</u></b>	<u>\$ (444,852)</u>	<u>\$ 53,765</u>	<u>\$ (205,134)</u>	<u>\$ 361,503</u>	<u>\$ 44,091</u>	<u>\$ 12,200</u>	<u>\$ (30,341)</u>

**CITY OF HERMISTON, OREGON**

**Schedule of Property Tax Transactions and Outstanding Balances**  
**For the Year Ended June 30, 2006**

<u>Fiscal Year</u>	<u>Property Taxes Receivable June 30, 2005</u>	<u>Current Levy as Extended by Assessor</u>	<u>Discounts Allowed</u>	<u>Corrections and Adjustments</u>	<u>Interest Collected</u>	<u>Cash Collections</u>	<u>Property Taxes Receivable June 30, 2006</u>
2005-06	\$ -	\$ 3,395,907	\$ (83,593)	\$ (13,719)	\$ 1,344	\$ (3,156,735)	\$ 143,204
2004-05	143,282	-	(1)	(841)	4,046	(79,608)	66,878
2003-04	64,860	-	-	(279)	3,915	(33,318)	35,178
2002-03	35,441	-	-	(705)	4,340	(24,120)	14,956
2001-02 and prior	15,890	-	-	4,728	3,896	(16,761)	7,753
Totals	<u>\$ 259,473</u>	<u>\$ 3,395,907</u>	<u>\$ (83,594)</u>	<u>\$ (10,816)</u>	<u>\$ 17,541</u>	<u>\$ (3,310,542)</u>	<u>\$ 267,969</u>

**CITY OF HERMISTON, OREGON**  
**Schedule of Future Debt Service Requirements**  
**Of Bonds Payable**  
**June 30, 2006**

Maturing during Year Ending June 30,	1993		1997		1998		2000		2005	
	Sewer Refunding Bonds		Utility Revenue Bonds		Street Revenue Bonds		Water Refunding Bonds		Energy System Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 205,000	\$ 21,788	\$ 240,000	\$ 150,083	\$ 88,000	\$ 9,730	\$ 140,000	\$ 222,265	\$ -	\$ 578,449
2008	210,000	11,025	195,000	137,843	93,000	4,185	145,000	215,140	-	578,449
2009	-	-	205,000	127,703	-	-	160,000	207,515	140,000	576,104
2010	-	-	220,000	116,838	-	-	165,000	199,596	160,000	570,999
2011	-	-	230,000	105,178	-	-	170,000	191,555	180,000	565,089
2012	-	-	245,000	92,873	-	-	180,000	183,023	200,000	558,239
2013	-	-	255,000	79,643	-	-	190,000	173,863	225,000	550,264
2014	-	-	270,000	65,490	-	-	200,000	164,013	250,000	541,114
2015	-	-	285,000	50,505	-	-	210,000	153,452	275,000	530,739
2016	-	-	305,000	34,687	-	-	225,000	142,086	305,000	518,948
2017	-	-	320,000	17,760	-	-	235,000	129,718	330,000	506,058
2018	-	-	-	-	-	-	250,000	116,380	365,000	492,157
Later years	-	-	-	-	-	-	1,965,000	378,156	10,780,000	4,303,319
	<u>\$ 415,000</u>	<u>\$ 32,813</u>	<u>\$ 2,770,000</u>	<u>\$ 978,603</u>	<u>\$ 181,000</u>	<u>\$ 13,915</u>	<u>\$ 4,235,000</u>	<u>\$ 2,476,762</u>	<u>\$ 13,210,000</u>	<u>\$ 10,869,928</u>

Maturing During Year Ending June 30,	2003		Total	
	Pool Bonds			
	Principal	Interest	Principal	Interest
2007	\$ 30,000	\$ 150,026	\$ 703,000	\$ 1,132,341
2008	35,000	149,333	678,000	1,095,975
2009	40,000	148,439	545,000	1,059,761
2010	45,000	147,309	590,000	1,034,742
2011	45,000	145,981	625,000	1,007,803
2012	55,000	144,363	680,000	978,498
2013	60,000	142,391	730,000	946,161
2014	65,000	140,154	785,000	910,771
2015	75,000	137,469	845,000	872,165
2016	80,000	134,372	915,000	830,093
2017	90,000	132,768	975,000	786,304
2018	100,000	130,969	715,000	739,506
Later years	2,795,000	1,105,720	15,540,000	5,787,195
	<u>\$ 3,515,000</u>	<u>\$ 2,809,294</u>	<u>\$ 24,326,000</u>	<u>\$ 17,181,315</u>

**CITY OF HERMISTON, OREGON**

**Schedule of Long-Term Debt Transactions**  
**For the Year Ended June 30, 2006**

	Interest Rate	PRINCIPAL TRANSACTIONS				INTEREST TRANSACTIONS			
		Outstanding June 30, 2005	New Debt Issued	Matured During Year	Outstanding June 30, 2006	Matured and Outstanding June 30, 2005	Matured During Year	Paid During Year	Matured and Outstanding June 30, 2006
<b><u>BONDS PAYABLE:</u></b>									
1993 Sewer Refunding Bonds *	3.3%- 5.25%	\$ 610,000	\$ -	\$ 195,000	\$ 415,000	\$ -	\$ 31,732	\$ 31,732	\$ -
1997 Utility Revenue Bonds	4.9%- 5.4%	2,995,000	-	225,000	2,770,000	-	161,445	161,445	-
1998 Street Revenue Bonds	4.35%-5.4%	265,000	-	84,000	181,000	-	14,140	14,140	-
2000 Water Refunding Bonds*	4.75%-5.6%	4,370,000	-	135,000	4,235,000	-	229,140	229,140	-
2002 Energy System Revenue Bonds	Variable	12,990,000	-	12,990,000	-	-	125,490	125,490	-
2002 Energy System Revenue Bonds	3.35%-4.60%	-	13,210,000	-	13,210,000	-	269,943	269,943	-
2003 Pool Bonds*	2.0%-4.625%	3,540,000	-	25,000	3,515,000	-	150,576	150,576	-
		<u>\$24,770,000</u>	<u>\$13,210,000</u>	<u>\$13,654,000</u>	<u>\$24,326,000</u>	<u>\$ -</u>	<u>\$ 982,466</u>	<u>\$ 982,466</u>	<u>\$ -</u>

\* -- general obligation bonds

**CITY OF HERMISTON, OREGON**

**Annual Accounting of System Development Charges**

**For the Year Ended June 30, 2006**

	<u>Water System</u>	<u>Wastewater System</u>
<b><u>BALANCE, JUNE 30, 2005</u></b>	\$ 539,884	\$ 40,191
<b><u>REVENUES:</u></b>		
System development charges collected	61,991	47,555
<b><u>EXPENDITURES</u></b>		
Reimbursement of capital improvements	<u>(150)</u>	<u>-</u>
<b><u>BALANCE, JUNE 30, 2006</u></b>	<u>\$ 601,725</u>	<u>\$ 87,746</u>

Notes:

- A. The City accounts for system development charges in the Reserve Fund (A City special revenue fund).
- B. This schedule is prepared to satisfy ORS 223.311 which requires an annual accounting of system development charges.

**CAPITAL ASSETS USED IN THE OPERATION**  
**OF GOVERNMENTAL FUNDS**

**CITY OF HERMISTON, OREGON**

**Capital Assets Used in the Operation of Governmental Activities**  
**Schedule By Function and Activity**  
**June 30, 2006**

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Machinery and Equipment</u>	<u>Infrastructure</u>	<u>Total</u>
General government:					
City hall	\$ 91,500	\$ 500,000	\$ 301,274	\$ -	\$ 892,774
Airport	498,579	781,780	73,427	-	1,353,786
Parking	494,380	-	-	-	494,380
Inspections	-	11,820	11,250	-	23,070
Other - unclassified	221,730	710,981	-	-	932,711
	<u>1,306,189</u>	<u>2,004,581</u>	<u>385,951</u>	<u>-</u>	<u>3,696,721</u>
Public safety:					
Police	24,820	836,578	618,601	-	1,479,999
Highway and streets:					-
Maintenance	62,461	367,650	783,477	-	1,213,588
Street System	-	-	-	13,138,925	13,138,925
	<u>62,461</u>	<u>367,650</u>	<u>783,477</u>	<u>13,138,925</u>	<u>14,352,513</u>
Culture and recreation:					
Aquatic center	-	3,809,971	-	-	3,809,971
Library	8,500	784,269	24,692	-	817,461
Parks	658,700	994,616	139,419	-	1,792,735
CRC community building	3,000	294,393	-	-	297,393
Community center building	45,000	1,509,879	-	-	1,554,879
	<u>715,200</u>	<u>7,393,128</u>	<u>164,111</u>	<u>-</u>	<u>8,272,439</u>
Total governmental funds capital assets	<u>\$ 2,108,670</u>	<u>\$ 10,601,937</u>	<u>\$ 1,952,140</u>	<u>\$ 13,138,925</u>	<u>\$ 27,801,672</u>

**CITY OF HERMISTON, OREGON**

**Capital Assets Used in the Operation of Governmental Activities**  
**Comparative Schedules By Source**

**June 30, 2006 and 2005**

	June 30,	
	<u>2006</u>	<u>2005</u>
<b><u>GOVERNMENTAL FUNDS CAPITAL ASSETS:</u></b>		
Land	\$ 2,108,670	\$ 2,122,770
Buildings and improvements	10,601,937	10,011,586
Machinery and equipment	1,952,140	1,864,037
Infrastructure	13,138,925	13,084,797
Construction in progress	-	274,530
	<u>                    </u>	<u>                    </u>
Total governmental funds capital assets	<u>\$ 27,801,672</u>	<u>\$ 27,357,720</u>
 <b><u>INVESTMENT IN GOVERNMENTAL FUND</u></b>		
<b><u>CAPITAL ASSETS BY SOURCE:</u></b>		
Unsegregated amounts, prior years	\$ 17,251,503	\$ 17,265,603
General fund	3,168,504	2,895,582
Special revenue funds	1,854,705	1,669,575
Capital project funds	5,456,960	5,456,960
Donations	70,000	70,000
	<u>                    </u>	<u>                    </u>
Total governmental funds capital assets	<u>\$ 27,801,672</u>	<u>\$ 27,357,720</u>

**CITY OF HERMISTON, OREGON**

**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule of Changes By Function and Activity**

**For the Year Ended June 30, 2006**

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets June 30,2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Governmental Funds Capital Assets June 30,2006</u>
General government:				
City hall	\$ 882,410	\$ 10,364	\$ -	\$ 892,774
Airport	1,353,786	-	-	1,353,786
Parking	494,380	-	-	494,380
Inspections	23,070	-	-	23,070
Other - unclassified	946,811	-	(14,100)	932,711
	<u>3,700,457</u>	<u>10,364</u>	<u>(14,100)</u>	<u>3,696,721</u>
Public safety:				
Police	1,265,521	253,478	(39,000)	1,479,999
Highways and streets:				
Maintenance	1,174,347	150,991	(111,750)	1,213,588
Infrastructure	13,084,797	54,128	-	13,138,925
	<u>14,259,144</u>	<u>205,119</u>	<u>(111,750)</u>	<u>14,352,513</u>
Culture and recreation:				
Aquatic center	3,753,308	56,663	-	3,809,971
Library	817,461	-	-	817,461
Parks	1,709,557	83,178	-	1,792,735
CRC community building	297,393	-	-	297,393
Community center building	1,554,879	-	-	1,554,879
	<u>8,132,598</u>	<u>139,841</u>	<u>-</u>	<u>8,272,439</u>
Total governmental funds capital assets	<u>\$ 27,357,720</u>	<u>\$ 608,802</u>	<u>\$ (164,850)</u>	<u>\$ 27,801,672</u>

**STATISTICAL SECTION**

**CITY OF HERMISTON, OREGON**

**STATISTICAL SECTION CONTENTS**

**June 30, 2006**

This part of the City of Hermiston's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information, and supplementary information says about the equity's overall financial health.

	<u>Pages</u>
<b><u>Financial Trends</u></b>	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	78-82
<b><u>Revenue Capacity</u></b>	
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	83-86
<b><u>Debt Capacity</u></b>	
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	87-90
<b><u>Demographic and Economic Information</u></b>	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	91-93
<b><u>Operating Information</u></b>	
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	94-96

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2004; schedules presenting government-wide information include information beginning in that year.

**CITY OF HERMISTON, OREGON**

**NET ASSETS BY COMPONENT**  
**Last Three Fiscal Years**  
**(Accrual Basis of Accounting)**

**June 30, 2006**

	<u>Fiscal Year</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b><u>GOVERNMENTAL ACTIVITIES:</u></b>			
Invested in capital assets, net of related debt	\$ 9,884,805	\$ 9,960,778	\$ 9,324,856
Restricted	205,077	327,059	420,776
Unrestricted	<u>7,290,425</u>	<u>8,070,552</u>	<u>9,647,493</u>
Total governmental activities net assets	<u>17,380,307</u>	<u>18,358,389</u>	<u>19,393,125</u>
<b><u>BUSINESS-TYPE ACTIVITIES:</u></b>			
Invested in capital assets, net of related debt	11,322,943	10,976,902	9,903,186
Restricted	-	-	-
Unrestricted	<u>4,270,931</u>	<u>3,501,577</u>	<u>2,879,449</u>
Total business-type activities net assets	<u>15,593,874</u>	<u>14,478,479</u>	<u>12,782,635</u>
<b><u>TOTAL GOVERNMENT:</u></b>			
Invested in capital assets, net of related debt	21,207,748	20,937,680	19,228,042
Restricted	205,077	327,059	420,776
Unrestricted	<u>11,561,356</u>	<u>11,572,129</u>	<u>12,526,942</u>
Total government net assets	<u>\$ 32,974,181</u>	<u>\$ 32,836,868</u>	<u>\$ 32,175,760</u>

**CITY OF HERMISTON, OREGON**

**CHANGES IN NET ASSETS**  
**Last Three Fiscal Years**  
**(Accrual Basis of Accounting)**

**June 30, 2006**

	Fiscal Year		
	2006	2005	2004
<b><u>EXPENSES</u></b>			
Governmental activities:			
General government	\$ 1,991,504	\$ 2,184,415	\$ 2,270,000
Public safety	2,978,182	2,521,609	2,489,238
Highways and streets	1,136,532	1,012,189	897,918
Cultural and recreation	2,360,265	1,878,464	1,234,204
Interest on long-term debt	158,624	130,450	172,979
Total governmental activities expenses	<u>8,625,107</u>	<u>7,727,127</u>	<u>7,064,339</u>
Business-type activities:			
Water	2,438,335	2,525,746	2,252,355
Sewer	1,600,498	1,580,785	1,613,125
Electric	6,340,380	6,129,914	6,251,921
Total business-type activities net assets	<u>10,379,213</u>	<u>10,236,445</u>	<u>10,117,401</u>
Total government expenses	<u>\$ 19,004,320</u>	<u>\$ 17,963,572</u>	<u>\$ 17,181,740</u>
<b><u>PROGRAM REVENUES</u></b>			
Governmental Activities:			
Charges for services:			
General government	\$ 1,093,736	\$ 1,301,116	\$ 1,126,180
Public safety	110,257	-	52,255
Highways and streets	-	-	-
Cultural and recreation	501,993	338,776	149,027
Operating grants and contributions	92,995	118,356	83,870
Capital grants and contributions	-	252,821	191,749
Total governmental activities program revenues	<u>1,798,981</u>	<u>2,011,069</u>	<u>1,603,081</u>
Business-type activities:			
Charges for services:			
Water	2,297,579	2,414,322	2,451,824
Sewer	1,418,119	1,416,865	1,363,445
Electric	7,300,481	6,920,377	6,923,223
Capital grants and contributions	-	75,000	-
Total business-type activities program revenues	<u>11,016,179</u>	<u>10,826,564</u>	<u>10,738,492</u>
Total government program revenues	<u>\$ 12,815,160</u>	<u>\$ 12,837,633</u>	<u>\$ 12,341,573</u>

**CITY OF HERMISTON, OREGON**

**Changes in Net Assets**  
**Last Three Fiscal Years**  
**(Accrual Basis of Accounting)**

**June 30, 2006**

	Fiscal Year		
	2006	2005	2004
<b><u>NET (EXPENSE) REVENUE</u></b>			
Governmental activities	\$ (6,826,126)	\$ (5,716,058)	\$ (5,461,258)
Business-type activities	636,966	590,119	621,091
Total government expenses	<u>\$ (6,189,160)</u>	<u>\$ (5,125,939)</u>	<u>\$ (4,840,167)</u>
<b><u>GENERAL REVENUES AND OTHER</u></b>			
<b><u>CHANGES IN NET ASSETS</u></b>			
Governmental activities			
Taxes			
Property taxes	\$ 3,304,130	\$ 3,122,922	\$ 2,953,977
Transient room taxes	300,436	275,625	\$ 264,908
Franchise fee	393,501	363,315	284,502
Motor fuel taxes	721,384	707,943	633,688
State shared taxes	427,229	389,551	368,581
Interest and investment earnings	272,280	112,122	75,017
Other revenues	712,022	663,458	626,054
Gain (loss) on sale of capital assets	901	-	-
Transfers	(283,839)	(953,614)	1,051,945
Total governmental activities	<u>5,848,044</u>	<u>4,681,322</u>	<u>6,258,672</u>
Business-type activities:			
Interest and investment earnings	117,281	56,794	55,820
Other revenues	77,309	95,317	66,565
Transfers	283,839	953,614	(1,051,945)
Total business-type activities	<u>478,429</u>	<u>1,105,725</u>	<u>(929,560)</u>
Total government	<u>6,326,473</u>	<u>5,787,047</u>	<u>5,329,112</u>
<b><u>CHANGE IN NET ASSETS</u></b>			
Governmental activities	(978,082)	(1,034,736)	797,414
Business-type activities	1,115,395	1,695,844	(308,469)
Total government	<u>\$ 137,313</u>	<u>\$ 661,108</u>	<u>\$ 488,945</u>

(continued from previous page)

**CITY OF HERMISTON, OREGON**

**Fund Balances, Governmental Funds**  
**Last Three Fiscal Years**  
**(Modified Accrual Basis of Accounting)**

	<u>Fiscal Year</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b><u>GENERAL FUND</u></b>			
Reserved	\$ -	\$ 141,980	\$ 50,001
Unreserved	2,855,982	3,288,325	4,105,501
Total general fund	<u>2,855,982</u>	<u>3,430,305</u>	<u>4,155,502</u>
<b><u>ALL OTHER GOVERNMENTAL FUNDS</u></b>			
Reserved	39,478	34,000	314,172
Unreserved, reported in:			
Special revenue funds	4,231,748	4,605,609	5,446,143
Debt service fund	315,749	261,521	134,935
Total all other governmental funds	<u>\$ 4,586,975</u>	<u>\$ 4,901,130</u>	<u>\$ 5,895,250</u>

**CITY OF HERMISTON, OREGON**

**Changes in Fund Balances, Governmental Funds**  
**Last Three Fiscal Years**  
**(Modified Accrual Basis of Accounting)**

	Fiscal Year		
	2006	2005	2004
<b><u>REVENUES</u></b>			
Property taxes	\$ 3,315,851	\$ 3,107,703	\$ 2,951,718
Transient room tax	300,436	275,625	264,908
911 tax	119,985	133,766	132,314
Franchise fees	393,501	363,315	284,502
Intergovernmental	1,067,623	1,264,905	1,114,697
Fees, licenses, and permits	3,220	2,575	2,305
Fines and forfeits	443,636	359,138	363,724
Investment interest	272,280	112,122	75,017
Charges for services	1,259,130	1,278,179	963,738
Miscellaneous	781,021	631,458	555,044
Total revenues	<u>7,956,683</u>	<u>7,528,786</u>	<u>6,707,967</u>
<b><u>EXPENDITURES</u></b>			
General government	1,922,393	2,111,943	2,189,074
Public safety	2,897,049	2,474,233	2,445,654
Highway and streets	818,743	709,759	598,981
Cultural and recreation	2,062,969	1,588,492	1,070,608
Capital outlay	586,452	1,168,738	3,735,143
Debt service:			
Principal	109,000	104,000	146,000
Interest	164,716	169,324	174,150
Total expenditures	<u>8,561,322</u>	<u>8,326,489</u>	<u>10,359,610</u>
<b><u>DEFICIENCY OF REVENUES</u></b>			
<b><u>UNDER EXPENDITURES</u></b>	<u>(604,639)</u>	<u>(797,703)</u>	<u>(3,651,643)</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Transfers in	1,707,601	1,932,403	2,484,455
Transfers out	(1,991,440)	(2,886,017)	(1,432,510)
Sale of capital assets	-	32,000	104,844
<b><u>TOTAL OTHER FINANCING</u></b>			
<b><u>SOURCES (USES)</u></b>	<u>(283,839)</u>	<u>(921,614)</u>	<u>1,156,789</u>
<b><u>NET CHANGE IN FUND BALANCES</u></b>	<u>\$ (888,478)</u>	<u>\$ (1,719,317)</u>	<u>\$ (2,494,854)</u>

Debt service as a percentage of noncapital expenditures

**CITY OF HERMISTON, OREGON**

**Assessed Value and Estimated Actual Value of Taxable Property,**

**Last Ten Fiscal Years**

<u>Fiscal Year Ended June 30,</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Utilities</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value as a Percentage of Actual Value</u>
1997	*	*	*	\$ 370,396,781	6.52	*	-
1998	*	*	*	328,160,100	6.06	*	-
1999	*	*	*	343,341,230	6.06	422,352,722	81.29%
2000	311,978,803	21,676,821	34,901,446	368,557,070	5.99	474,179,319	77.73%
2001	344,432,303	24,326,192	37,098,185	405,856,680	5.85	517,929,968	78.36%
2002	369,571,307	25,331,609	72,830,104	467,733,020	5.64	634,685,027	73.70%
2003	374,233,139	16,523,129	103,272,951	494,029,219	5.62	622,931,342	79.31%
2004	424,744,350	18,103,633	83,395,497	526,243,480	5.78	672,503,213	78.25%
2005	447,643,482	17,018,410	96,679,608	561,341,500	5.76	700,657,519	80.12%
2006	477,280,010	18,529,096	94,188,014	589,997,120	5.73	726,723,326	81.19%

**Source:** Umatilla County

\* Information not available.

**CITY OF HERMISTON, OREGON**

**Property Tax Rates**  
**Direct and Overlapping Governments**  
**(Per \$1,000 of Assessed Value)**

**Last Ten Fiscal Years**

	Fiscal Year Ended June 30,									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
<b><u>Direct rates</u></b>										
City of Hermiston general	5.08	5.08	5.08	4.89	4.89	4.89	4.89	4.89	6.06	6.52
City of Hermiston bond	0.65	0.68	0.70	0.73	0.75	0.96	1.10	1.17	1.23	-
Total direct rates	<u>5.73</u>	<u>5.76</u>	<u>5.78</u>	<u>5.62</u>	<u>5.64</u>	<u>5.85</u>	<u>5.99</u>	<u>6.06</u>	<u>7.29</u>	<u>6.52</u>
<b><u>Overlapping rates</u></b>										
Umatilla County	3.15	3.15	3.20	3.17	3.13	3.29	3.36	3.24	2.85	2.72
Hermiston School District #8	5.96	7.36	7.88	7.09	7.62	8.07	8.69	6.27	4.88	5.89
Umatilla County E.S.D.	0.46	0.46	0.46	0.46	0.46	0.46	0.46	0.46	0.56	0.53
Blue Mountain Community College	0.86	0.84	0.88	0.87	0.89	0.89	0.91	0.54	0.66	0.62
Port of Umatilla	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.13
Hermiston Cemetery District #8	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.06
Hermiston Fire and Emergency Services District #7-404	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	-	-
West Umatilla Vector Control District	0.25	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.16
Total overlapping rates	<u>12.12</u>	<u>13.45</u>	<u>14.06</u>	<u>13.23</u>	<u>13.74</u>	<u>14.35</u>	<u>15.06</u>	<u>12.15</u>	<u>9.39</u>	<u>10.11</u>
<b>Total</b>	<u>17.85</u>	<u>19.21</u>	<u>19.84</u>	<u>18.85</u>	<u>19.38</u>	<u>20.20</u>	<u>21.05</u>	<u>18.21</u>	<u>16.68</u>	<u>16.63</u>

Prior to 1999, fire and ambulance services were provided by the City.

Information provided by the Umatilla County Assessor's Office.

**CITY OF HERMISTON, OREGON**

**Principal Taxpayers**  
**June 30, 2006**

Taxpayer	Type of Business	Rank	2006		Rank	1997	
			Taxable Assessed Valuation	% of City Taxable Assessed Valuation		Taxable Assessed Valuation	% of City Taxable Assessed Valuation
Wal-Mart Stores East LP	Distribution center	1	\$ 30,018,490	5.1%		\$ -	0.0%
Retail Trust #2	Shopping center	2	8,021,470	1.4%		-	0.0%
U.S. West Communications	Telephone utility	3	7,289,200	1.2%	3	6,209,982	1.7%
Pan Pacific Retail Properties	Shopping center	4	6,747,070	1.1%		-	0.0%
Hermiston Foods LLC	Food processing	5	6,489,330	1.1%		-	0.0%
Umatilla Electric Co-op	Power utility	6	5,986,700	1.0%	8	2,296,540	0.6%
Wal-Mart Distribution Center #6037	Distribution center	7	4,611,970	0.8%		-	0.0%
CMH Manufacturing West, Inc.	Manufacturing plant	8	4,705,240	0.8%		-	0.0%
Clay Davis Stroud LLC	Apartments	9	3,987,640	0.7%		-	0.0%
S.R. Innco, Inc.	Apartments	10	3,989,990	0.7%	6	2,901,710	0.8%
Port of Umatilla	Water utility		-	0.0%	1	7,196,420	1.9%
Portland Fixture Limited	Shopping center		-	0.0%	2	6,262,350	1.7%
Marlette Homes, Inc	Manufacturing plant		-	0.0%	4	3,824,560	1.0%
Cascade Natural Gas Corp.	Natural gas utility		-	0.0%	5	3,548,097	1.0%
Pacific Power	Power utility		-	0.0%	7	2,403,600	0.6%
Hermiston Assisted Living	Retirement home		-	0.0%	9	2,200,240	0.6%
Good Shepherd Hospital	Medical offices		-	0.0%	10	2,135,359	0.6%
			<u>\$ 81,847,100</u>	<u>13.9%</u>		<u>\$ 38,978,858</u>	<u>10.5%</u>

Information provided by the Umatilla County Assessor's Office.

**CITY OF HERMISTON, OREGON**

**PROPERTY TAX LEVIES AND COLLECTIONS,**  
**LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 2,418,317	\$ 2,186,346	90.4 %	\$ 231,674	\$ 2,418,020	100.0 %
1998	2,406,629	2,233,371	92.8	172,206	2,405,577	100.0
1999	2,084,788	1,937,633	92.9	146,286	2,083,919	100.0
2000	2,207,996	2,043,882	92.6	163,205	2,207,087	100.0
2001	2,377,623	2,180,738	91.7	195,327	2,376,065	99.9
2002	2,637,791	2,448,707	92.8	186,761	2,635,468	99.9
2003	2,784,370	2,591,105	93.1	178,309	2,769,414	99.5
2004	3,042,382	2,833,672	93.1	173,532	3,007,204	98.8
2005	3,232,964	2,972,550	91.9	193,536	3,166,086	97.9
2006	3,395,907	3,156,735	93.0	-	3,156,735	93.0

Information provided by Umatilla County Tax Collector's office.

**CITY OF HERMISTON, OREGON**

**Ratios of Outstanding Debt by Type,  
Last Ten Fiscal Years**

Fiscal Year	General Bonded Debt		Percentage of Actual Property Value	Per Capita	Business-Type Activities			Total Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Street Revenue Bonds			Revenue Bonds	Refunding Bonds	Notes Payable			
1997	\$ 5,045,000	\$ -	*	\$ 456	\$ 4,500,000	\$ 1,880,000	\$ 561,536	\$11,986,536	5.61% %	\$ 1,084
1998	4,945,000	750,000	*	502	4,340,000	1,745,000	539,090	12,319,090	5.36%	1,086
1999	4,835,000	690,000	1.31%	462	4,170,000	1,610,000	510,809	11,815,809	4.68%	988
2000	-	627,000	0.13%	52	3,995,000	6,185,000	307,775	11,114,775	4.20%	914
2001	-	561,000	0.11%	43	3,815,000	5,760,000	281,792	10,417,792	3.53%	792
2002	-	492,000	0.08%	36	3,625,000	5,840,000	11,427,472	21,384,472	6.92%	1,577
2003	3,635,000	420,000	0.65%	287	16,415,000	5,575,000	610,862	26,655,862	8.20%	1,888
2004	3,565,000	344,000	0.58%	269	16,205,000	5,295,000	580,782	25,989,782	7.30%	1,787
2005	3,540,000	265,000	0.54%	259	15,985,000	4,980,000	452,948	25,222,948	*	1,716
2006	3,515,000	181,000	0.51%	246	15,980,000	4,650,000	291,452	24,617,452	*	1,638

**Note:** Details regarding the City's outstanding debt can be found in the notes to the financial statements.

\* Figure not available

**CITY OF HERMISTON, OREGON**

**Computation of Direct and Overlapping Bonded Debt**  
**General Obligation Bonds**

**June 30, 2006**

<u>Jurisdiction</u>	<u>Net General Obligation Bonded Debt Outstanding</u>	<u>Percentage Applicable to City</u>	<u>Amount Applicable to City</u>
<b><u>DIRECT:</u></b>			
City of Hermiston (1)	\$ 3,696,000	100.00%	\$ 3,696,000
<b><u>OVERLAPPING:</u></b>			
Umatilla County	9,345,000	16.31	1,524,170
School District #8	43,245,000	46.80	20,238,660
County E.S.D	-	16.31	-
Blue Mountain Community College	10,865,000	16.31	1,772,082
Port of Umatilla	3,850,000	16.31	627,935
Cemetery District #8	-	46.80	-
Fire District #7-404	-	45.58	-
West Umatilla Vector Control District	-	33.63	-
Total overlapping	<u>67,305,000</u>		<u>24,162,847</u>
Total direct and overlapping	<u>\$ 71,001,000</u>		<u>\$ 27,858,847</u>

(1) Excluding general obligation bonds reported in the enterprise funds.

**CITY OF HERMISTON, OREGON**

**Computation of Legal Debt Margin**

**June 30, 2006**

**Legal Debt Margin Calculation for Fiscal Year 2006**

True cash value	<u>\$ 589,997,120</u>								
Debt limit (3% of assessed value)		\$17,699,914							
Debt applicable to limit:									
Gross bonded debt	\$ 24,326,000								
Less legal deductions:									
Sewer bonds	(415,000)								
Water bonds	(4,235,000)								
Utility bonds	(2,770,000)								
Street bonds	(181,000)								
Energy bonds	<u>(13,210,000)</u>								
 Total net debt applicable to limit		<u>3,515,000</u>							
Legal debt margin		<u>\$14,184,914</u>							
Total net debt applicable to the limit as a percentage of debt limit		19.86%							
 Debt limit	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Total net debt applicable to limit	\$ 11,108,008	\$ 9,844,803	\$10,300,237	\$11,056,712	\$12,175,700	\$14,031,990	\$14,820,876	\$15,787,304	\$16,840,245
 Legal debt margin	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,635,000</u>	<u>3,565,000</u>	<u>3,540,000</u>
 Total net debt applicable to the limit as a percentage of debt limit	<u>\$ 11,108,008</u>	<u>\$ 9,844,803</u>	<u>\$10,300,237</u>	<u>\$11,056,712</u>	<u>\$12,175,700</u>	<u>\$14,031,990</u>	<u>\$11,185,876</u>	<u>\$12,222,304</u>	<u>\$13,300,245</u>
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	24.53%	22.58%	21.02%

ORS 287.004 provides a debt limit of 3% of the true cash value (market) of all taxable property within the City boundaries.

The true cash value information obtained from Umatilla County Assessor's office.

**CITY OF HERMISTON, OREGON**

**Pledged-Revenue Coverage**  
**Last Ten Fiscal Years**

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenues	Debt Service (3)		Coverage
				Principal	Interest	
<b>Utility</b>						
1997	\$ 2,265,420	\$ 1,849,608	\$ 415,812	\$ -	\$ -	N/A
1998	3,063,578	1,727,445	1,336,133	160,000	217,562	3.54
1999	3,298,037	1,801,553	1,496,484	170,000	229,340	3.75
2000	3,295,448	1,830,191	1,465,257	175,000	220,840	3.70
2001	3,371,459	2,016,646	1,354,813	180,000	212,090	3.46
2002	3,518,065	2,336,534	1,181,531	190,000	203,090	3.01
2003	3,680,972	2,458,335	1,222,637	200,000	192,640	3.11
2004	3,903,300	2,527,525	1,375,775	210,000	182,840	3.50
2005	3,923,300	2,746,358	1,176,942	220,000	172,445	3.00
2006	3,837,809	2,761,543	1,076,266	225,000	161,445	2.79
<b>Electric</b>						
1997	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
1998	-	-	-	-	-	N/A
1999	-	-	-	-	-	N/A
2000	-	-	-	-	-	N/A
2001	-	-	-	-	-	N/A
2002	4,653,859	3,639,551	1,014,308	-	-	N/A
2003	6,371,874	5,979,643	392,231	-	172,192	2.28
2004	6,957,577	5,625,429	1,332,148	-	203,773	6.54
2005	6,980,375	5,389,383	1,590,992	-	295,383	5.39
2006	7,372,960	5,323,345	2,049,615	-	570,269	3.59

- (1) Total revenues (including interest) exclusive of tap fees.
- (2) Total operating expenses exclusive of depreciation.
- (3) Includes principal and interest of revenue bonds only. It does not include the general obligation bonds reported in the water and sewer enterprise funds.

**CITY OF HERMISTON, OREGON**

**Demographic Statistics**

**Last Ten Fiscal Years**

<u>Fiscal Year Ended June 30,</u>	<u>City Population</u>	<u>Umatilla County Per Capita Income</u>	<u>Total Personal Income</u>	<u>Umatilla County Unemployment Rate</u>
1997	11,061	\$ 19,315	\$ 213,643,215	8.0
1998	11,342	20,247	229,641,474	6.8
1999	11,963	21,123	252,694,449	6.5
2000	12,165	21,736	264,418,440	4.6
2001	13,154	22,427	295,004,758	4.9
2002	13,560	22,789	309,018,840	5.2
2003	14,120	23,011	324,915,320	6.9
2004	14,540	24,484	355,997,360	6.4
2005	14,700	*	*	7.8
2006	15,025	*	*	6.2

Source of Information:  
Portland State University Center of Population and Research  
State of Oregon Employment Division  
Hermiston School District #8R  
U.S. Department of Commerce

(\*) Figure was not available.

**CITY OF HERMISTON, OREGON**

**Principal Employers**  
**Current Year and Nine Years Ago**

<u>Employer</u>	<u>2006</u>			<u>1997</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Wal-Mart Distribution	1000	1	8.8%			
Washington Demilitarization	500	2	4.4%	Information not available		
Con-Agra Lamb-Weston	500	3	4.4%			
Union Pacific Railroad	435	4	3.8%			
Two Rivers Correctional Institution	430	5	3.8%			
Good Shepherd Medical Center	424	6	3.7%			
Hermiston School District	420	7	3.7%			
CMH Manufacturing	360	8	3.2%			
Wal-Mart Supercenter	356	9	3.1%			
Wal-Mart Transportation	310	10	2.7%			
			<u>41.5%</u>			

Note: Included employers in the Greater Hermiston Area.

Sources: Oregon Employment Department and the Greater Hermiston Chamber of Commerce

**CITY OF HERMISTON, OREGON**

**Full-Time Equivalent City Government Employees by Function/Program**

**Last Three Fiscal Years**

<u>Function/Program</u>	Full-time Equivalent Employees as of June 30,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
General government	11.2	11.2	11.2
Public safety	33.5	33.5	33.5
Highways and streets	6.3	6.3	6.3
Cultural and recreation	27.5	27	17
Water	10.7	10.7	10.7
Sewer	11.4	11.4	11.4
Electric	2.4	2.4	2.4
Total	<u>103</u>	<u>102.5</u>	<u>92.5</u>

Source: City of Hermiston

**CITY OF HERMSITON, OREGON**

**Operating Indicators by Function/Program**  
**Last Three Fiscal Years**

<b><u>FUNCTION/PROGRAM</u></b>	<b>Fiscal Year</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Governmental Activities:</b>			
General government			
Number of Senior Citizen Taxi Program tickets sold	27,879	25,103	*
Number of building inspections	2,266	*	*
Public Safety			
Total police incidents	25,610	*	*
Officer initiated	9,807	*	*
Calls for police service	15,803	*	*
Number of traffic stops	5,104	*	*
Highways and streets			
Estimated miles of street swept	600	*	*
Cultural and recreation			
Number of library items checked out	89,835	*	*
Number of library patrons	10,007	9,873	*
<b>Business-type activities:</b>			
Water			
Number of accounts	4,060	3,954	3,829
Annual consumption (in millions of gallons)	2,983	3,711	*
Sewer			
Number of accounts	4,393	4,283	*
Electricity			
Number of accounts	5,163	5,139	*
KWH sold	104,636,712	*	*

(\*) Figure was not available.

Sources: Various City of Hermiston departments.

**CITY OF HERMISTON, OREGON**

**Capital Assets Statistics by Function/Program**  
**Last Three Fiscal Years**

<b>Function/Program</b>	<b>Fiscal Year</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Governmental Activities</b>			
General government			
Administrative buildings	2	2	2
Public Safety			
Police stations	1	1	1
Patrol units			
Cars	12	12	12
Trucks	1	1	1
Motorcycles	2	2	2
Highways and streets			
Miles of streets	60	60	60
Culture and recreation			
Library collection:			
Printed materials	39,110	*	*
Audio materials	1,442	*	*
Video materials	1,407	*	*
Electronic materials	3,451	*	*
<b>Business-type activities:</b>			
Water			
Miles of city water line	60	60	60
Miles of regional water system water line	14	14	14
City wells	6	6	6
Sewer:			
Sewage pump stations	8	8	8
Clarifiers	4	4	4
Gravity Thickeners	2	1	1
Electric			
Miles of overhead line	37	*	*
Miles of underground line	20	*	*
Transformers	1,186	*	*

(\*) Figure was not available.

Sources: Various City of Hermiston departments.

**CITY OF HERMISTON, OREGON**

**Miscellaneous Statistical Data**  
**June 30, 2006**

**FORM OF GOVERNMENT**

**MAYOR/COUNCIL-MANAGER**

Date of Incorporation

July 10, 1907

Date of First Charter

March 15, 1910

Type of Charter

Home Rule Charter

Date of Present Charter Adoption

November 2, 1954

Area - Acres

4,500

**LOCATION:** Hermiston is centrally located between the major cities of the Pacific Northwest. It is 185 miles east of Portland, 185 miles southwest of Spokane, 260 miles southeast of Seattle and 260 miles northwest of Boise.

**POPULATION:** 15,025

**ELEVATION:** 450 feet above sea level

**ELEVATION:** Hermiston has a very mild climate compared to most of the country. During the summer months, the average high is 86° F and the average low is 54° F. Winter temperatures average 47° F high and 28° F low with little or no snow. Average annual rainfall is less than 9 inches.

**HERMISTON CITY GOVERNMENT AND SERVICES:** The City of Hermiston government is of the mayor/council-manager type. It reflects progressive thought and action, good planning for the future, and concern for the welfare of the City's citizens. Public safety is the key issue, with modern police department and the full gamut of City services. The City-owned-and-operated facilities include seven city parks, a municipal airport, a public safety center (municipal court and police department using the 911 emergency number), a modern sewage treatment plant, water treatment plant, electricity distribution system, public parks building, City Hall, and public library.

**POLICE PROTECTION:** The police department located in the Hermiston Public Safety Center, 330 S. First, is a full-service police department providing crime investigation, traffic enforcement, crime prevention, youth services, and general security to the community. The members of the department are active in many aspects of community service and provide hundreds of hours of volunteer time in support of youth programs. Our dispatchers provide 911 service to this area with one of the first programs in the state.

**CITY OF HERMISTON, OREGON**

**Miscellaneous Statistical Data (continued)**

**June 30, 2006**

**LIBRARY:** The library building, located at 235 E. Gladys Avenue, provides 14,000 square feet of space to store the library's automated collection of 39,000 books, 100 magazine and newspaper subscriptions, and many paperbacks. The library has direct access to the State Library card catalog and to a regional computer access system.

The library offers movie, slide and overhead projectors, TV-VCR, laser videodisc player, typewriter, cassette player, engraver, copy machine, a telefacsimile (FAX) machine, and internet access for public use.

The library serves Hermiston's residents, plus 5,000 more outside the City through a contract with a regional library district.

Number of Employees:

Full-Time	4
Part-Time	6

**AIRPORT FACILITIES:** The Hermiston Municipal Airport is located one and one-half miles from the city center on Airport Way. Services available at the airport include: fuel facilities, overnight and long-term airplane parking, licensed mechanic, flight school, airplane rental, air charter, and courtesy cars. The management is under the direction of the City Manager and the Airport Advisory Committee. The Airport Advisory Committee meets monthly and consists of five individuals from the community appointed by the Mayor and reporting to the City Council.

**RECREATION:**

Parks, Playgrounds, Ball fields:

Number of Facilities	9
Number of Acres	83

This does not include two unimproved sites.

**EDUCATION:** Hermiston School District #8R encompasses 154 square miles.

Schools:

Elementary	5
Middle	2
Senior High	1

Blue Mountain Community College in Pendleton operates a permanent facility in Hermiston for off-campus adult and continuing education.

**AUDIT COMMENTS AND DISCLOSURES**  
**REQUIRED BY STATE REGULATIONS**

**AUDIT COMMENTS AND DISCLOSURES**  
**REQUIRED BY STATE REGULATIONS**

Oregon Administrative Rules 162-10-000 through 162-10-330 of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments, and disclosures are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth following.

# **BARNETT & MORO, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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CAMERON W. ANDERSON, C.P.A.  
RICHARD L. STODDARD, C.P.A.

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mayor and City Council  
City of Hermiston  
Hermiston, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, budgetary comparison information for the general fund and reserve fund, and the aggregate remaining fund information of City of Hermiston, Oregon, as of and for the year ended June 30, 2006, which collectively comprise the City of Hermiston, Oregon's basic financial statements and have issued our report thereon dated August 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hermiston, Oregon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

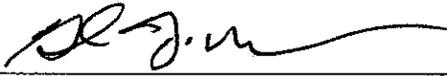
As part of obtaining reasonable assurance about whether City of Hermiston, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Mayor and City Council  
City of Hermiston  
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However, we noted certain matters that we reported to management of City of Hermiston, Oregon in a separate letter dated August 22, 2006.

This report is intended solely for the information and use of the management and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

Barnett & Moro, P.C.

By:   
\_\_\_\_\_  
Gerald J. Moro, Stockholder  
Hermiston, Oregon  
August 22, 2006

**CITY OF HERMISTON, OREGON**

**AUDIT COMMENTS AND DISCLOSURES**

**June 30, 2006**

**ACCOUNTING AND INTERNAL CONTROL STRUCTURE**

The records of the City are generally well maintained. The adequacy of the City's internal control structure is discussed in the Report Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

**ADEQUACY OF COLLATERAL SECURING DEPOSITORY BALANCES**

ORS Chapter 295 provides that each depository throughout the period of its possession of public fund deposits shall maintain on deposit with its custodians, at its own expense, securities having a value not less than 25% of certificates of participation issued by the pool manager for funds in excess of those insured by the Federal Deposit Insurance Corporation. The City appears to have complied with collateral requirements.

**BUDGETING AND TAX LEVIES**

The City appears to have complied with the Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption and execution of its budget and tax levy for the current year with the following exceptions. The City did not prepare budgets for six Special Revenue Funds: the Recreation Reserve Fund, Records Reserve Fund, Municipal Court Fund, the Conference Center Fund, the Library Reserve Fund and the Law Enforcement Reserve Fund. The City had budget overexpenditures as included in Note 2 to the Financial Statements.

**INDEBTEDNESS**

The City bonded debt is limited by ORS 287.004 to 3% of total assessed value; exceptions are allowed for utility issues and street issues. The City is in compliance with statutory debt limitations relating to short-term and long-term debt.

**FEDERAL AND STATE GRANTS**

We reviewed and tested, to the extent deemed appropriate, transactions and reports of the federal and state programs in which the City participates. The scope of our audit engagement did not require us to make a complete audit examination of each project and our audit opinion on the City's basic financial statements does not cover each individual grant.

**INSURANCE AND FIDELITY BOND COVERAGE**

The City's insurance policies appear to be in force. We are not competent by training to state whether the insurance coverage in force at June 30, 2006, is adequate. The City does review insurance coverage annually with its insurance agent. The City is not required to have any fidelity bond coverage.

**CITY OF HERMISTON, OREGON**

**AUDIT COMMENTS AND DISCLOSURES**

**June 30, 2006**

**PUBLIC CONTRACTS AND PURCHASING**

The City appears to have complied with legal requirements regarding awarding public contracts.

**INVESTMENT OF PUBLIC FUNDS**

The City appears to have complied with legal provisions regarding investment of public funds.

**HIGHWAY FUNDS**

Revenue from taxes on motor vehicle use fuel is required to be expended on streets, roads, and highways as explained in Article IX of the Oregon Constitution and ORS 294, 368, and 373. The City appears to be in compliance with these provisions.

**ACCOUNTABILITY FOR INDEPENDENTLY ELECTED OFFICIALS:**

The City of Hermiston, Oregon has no Independently Elected Officials who handle the funds of the City.