

CITY OF HERMISTON, OREGON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended

June 30, 2007

Prepared by the Department of Finance

CITY OF HERMISTON, OREGON

June 30, 2007

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INTRODUCTORY SECTION

CITY OF HERMISTON, OREGON

List of Principal Officials

June 30, 2007

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, 2008
Jackie C. Myers	December 31, 2010
Joe Harn	December 31, 2008
Harmon Springer	December 31, 2010
Ken Thorp	December 31, 2010
Municipal Judge:	
Kieth R. Kirkwood	December 31, 2008

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

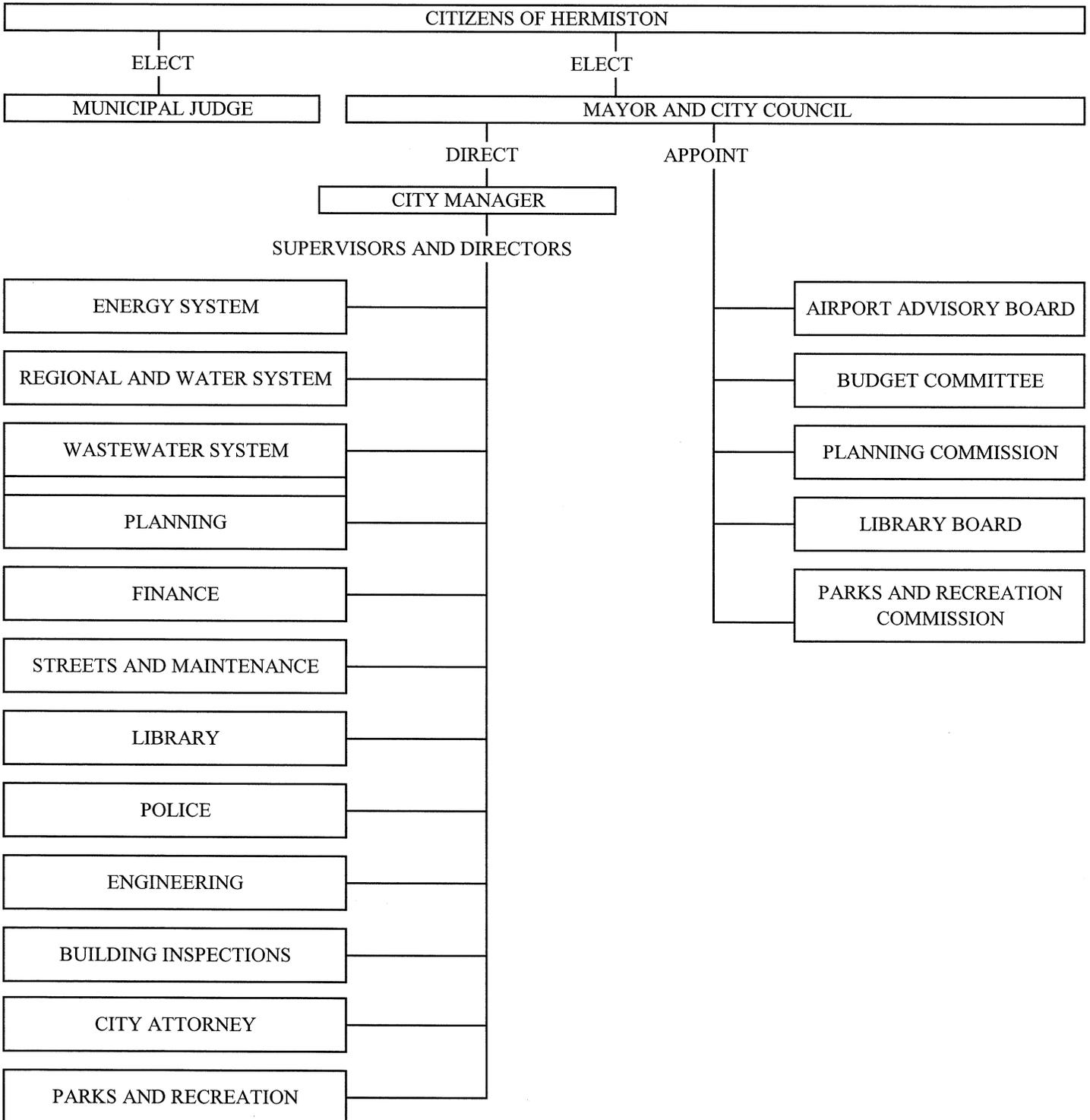
OFFICIAL ADDRESS

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

CITY OF HERMISTON, OREGON

Organizational Chart

June 30, 2007





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

November 16, 2007

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, 2007, 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.

Citizens of the City of Hermiston

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 15,410.

Recent years have seen the ongoing expansion of medical services with expansions at the Good Shepherd Medical Center, construction of the Columbia Professional Medical Plaza, two Dialysis treatments centers and other independent medical providers making the community a regional medical center. The past several years have seen expansion of the retail Wal-Mart store into a super store complex, construction of regional and national retailers such as Home Depot and Office Max, plans for additional motel space as well as numerous other retail businesses. A recent MapInfo Analysis of the City stated "...Hermiston serves a fairly expansive trade based upon its ability to draw customers from southeastern Washington due to the sales tax differential, excellent access via I-82 and I-84 and high quality of life."

In addition to serving as a regional medical and retail center Hermiston has pursued an aggressive effort to build economic diversity with the location of area food processors, 1.2 million square foot Wal-Mart Distribution center, \$3.5 million food distribution center of the Church of Jesus Christ of Latter Day Saints as well as other warehousing, cold storage and logistics oriented businesses. Hermiston is located on 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 \$5 million dollar expansion of eastern Oregon's largest and fastest growing school system. Expansion of the Marlette Mobile home plant was recently completed. The municipal airport received an \$800,000 overlay improvement in the fall of 2007, Blue Mountain Community College west campus expansion was recently completed as was construction of Umatilla County's West end Justice Center. The community has shown a steady population growth over the past decade.

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 15,410 in 2007.

Citizens of the City of Hermiston

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. Plans are underway to develop an Eastern Oregon Higher Education Learning Center in 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 rock hounding 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.

Citizens of the City of Hermiston

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 1,000 workers and transfers merchandise to about 400 trucks daily.

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.

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 AND LONG-TERM FINANCIAL PLANNING

The City has expended a total of \$2,400,000 on improvements to its wastewater treatment plant during the past several years. The estimated total cost of this multi-year project is \$10,000,000.

The City expects to spend \$800,000 to overlay runways and other areas at the Hermiston Municipal Airport. This project is expected to be completed in December 2007.

The City anticipates continuing efforts to improve and develop its parks and recreation facilities.

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.

Citizens of the City of Hermiston

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 \$37,000 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, 2006. 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, 2006

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.



President

Executive Director

FINANCIAL SECTION

BARNETT & MORO, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Hermiston, OR 97838
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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, 2007, 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, 2007, 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.

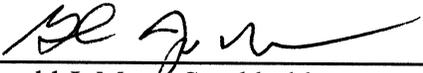
In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2007, on our consideration of City of Hermiston, Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 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
November 8, 2007

CITY OF HERMISTON, OREGON

Management's Discussion and Analysis

June 30, 2007

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 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, 2007

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	
	2007	2006	2007	2006	2007	2006
Cash and investments	\$ 7,135	\$ 7,373	\$ 3,907	\$ 3,671	\$ 11,042	\$ 11,044
Other assets	508	463	1,676	1,651	2,184	2,114
Capital assets	13,709	13,581	31,712	31,863	45,421	45,444
Total assets	<u>21,352</u>	<u>21,417</u>	<u>37,295</u>	<u>37,185</u>	<u>58,647</u>	<u>58,602</u>
Other liabilities	525	341	1,034	1,051	1,559	1,392
Long term debt outstanding	3,578	3,696	19,829	20,540	23,407	24,236
Total liabilities	<u>4,103</u>	<u>4,037</u>	<u>20,863</u>	<u>21,591</u>	<u>24,966</u>	<u>25,628</u>
Net assets:						
Invested in capital assets, net of debt	10,131	9,885	11,883	11,323	22,014	21,208
Restricted	164	205	-	-	164	205
Unrestricted	6,954	7,290	4,549	4,271	11,503	11,561
Total net assets	<u>\$ 17,249</u>	<u>\$ 17,380</u>	<u>\$ 16,432</u>	<u>\$ 15,594</u>	<u>\$ 33,681</u>	<u>\$ 32,974</u>

CITY OF HERMISTON, OREGON

Management's Discussion and Analysis (continued)

June 30, 2007

Financial Highlights (continued)

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
REVENUES						
Program revenues:						
Charges for service	\$ 1,712	\$ 1,706	\$ 11,085	\$ 11,016	\$ 12,797	\$ 12,722
Operating Grants and contributions	155	93	-	-	155	93
Capital Grants and contributions	387	-	-	-	387	-
General revenues:						
Taxes	5,702	5,147	-	-	5,702	5,147
Interest	350	272	167	117	517	389
Other	774	713	71	77	845	790
Total revenues	<u>9,080</u>	<u>7,931</u>	<u>11,323</u>	<u>11,210</u>	<u>20,403</u>	<u>19,141</u>
EXPENSES						
Governmental activities:						
General government	2,006	1,992	-	-	2,006	1,992
Public safety	3,092	2,978	-	-	3,092	2,978
Highways and streets	1,126	1,137	-	-	1,126	1,137
Cultural and recreation	2,479	2,360	-	-	2,479	2,360
Interest on long-term debt	158	158	-	-	158	158
Business-type activities:						
Water	-	-	2,641	2,438	2,641	2,438
Sewer	-	-	1,635	1,601	1,635	1,601
Electric	-	-	6,559	6,340	6,559	6,340
Total expenses	<u>8,861</u>	<u>8,625</u>	<u>10,835</u>	<u>10,379</u>	<u>19,696</u>	<u>19,004</u>
Change in net assets before transfers	219	(694)	488	831	707	137
Transfers	(350)	(284)	350	284	-	-
Change in net assets	(131)	(978)	838	1,115	707	137
Beginning net assets	17,380	18,358	15,594	14,479	32,974	32,837
Ending net assets	<u>\$ 17,249</u>	<u>\$ 17,380</u>	<u>\$ 16,432</u>	<u>\$ 15,594</u>	<u>\$ 33,681</u>	<u>\$ 32,974</u>

CITY OF HERMISTON, OREGON

Management's Discussion and Analysis (continued)

June 30, 2007

Financial Highlights (continued)

The City's overall net assets (reported on the government-wide Statement of Activities) increased by \$707,000 during the year. Key elements of the changes in net assets are explained as follows:

Governmental Activities

The balances of governmental funds decreased by \$366,000 during the year. The governmental funds report outflows of resources for capital acquisitions and principal payments on long-term debts while the government-wide statement of activities does not. \$257,000 of this decrease is the result of capital acquisitions (in excess of depreciation) and principal payments.

Interest income on cash held by governmental funds increased \$128,000 over 2006 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 and because of an increased property tax rate. For the year ended June 30, 2007, the City property taxes increased \$1.0046 per \$1,000 of assessed value to a rate of \$6.0860 per \$1,000 of assessed value. The assessed value of property within the City increased \$55,000,000 since 2006. The factors increased the City's tax levy by approximately \$587,000.

The City received more grants and donations than in previous years; mostly related to airport improvements and the City's centennial celebration.

Business-Type Activities

The net assets of business-type activities and the proprietary funds increased by \$838,000 during the year. Much of this increase results from net revenues of the electric system.

Operating income in the Energy Fund decreased from 2006 because the City's cost to purchase and transmit wholesale electricity was higher than the previous year.

Operating income in the Regional Water Fund decreased from 2006 due to increased costs of electricity and personnel.

Budgetary Highlights

The City modified its budget five times for unforeseen events. The City made four 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 \$1,069,000. The City has, and will continue to budget conservatively on general revenues. Specific increases in revenues are discussed in Governmental Activities above.

CITY OF HERMISTON, OREGON

Management's Discussion and Analysis (continued)

June 30, 2007

Capital Assets

The City had \$45.4 million in capital assets net of depreciation at June 30, 2007 allocated as follows:

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

	Governmental Activities		Business-type Activities		Total Governmental	
	2007	2006	2007	2006	2007	2006
Land	\$ 2,109	\$ 2,109	\$ 650	\$ 650	\$ 2,759	\$ 2,759
Construction in progress	-	-	425	-	425	-
Buildings and systems	6,170	6,180	30,268	31,107	36,438	37,287
Machinery, equipment	495	513	369	106	864	619
Street system	4,935	4,779	-	-	4,935	4,779
Total capital assets	<u>\$ 13,709</u>	<u>\$ 13,581</u>	<u>\$ 31,712</u>	<u>\$ 31,863</u>	<u>\$ 45,421</u>	<u>\$ 45,444</u>

Major changes in capital assets included the following:

The City added \$425,000 for wastewater treatment plant improvements. These additions will be reported as construction in progress until the current phase of the project is completed.

The City renovated McKenzie Park at a cost of \$262,000.

The City spent \$429,000 on street and bridge upgrades.

Extensions and upgrades to utility systems added \$252,000 to buildings and systems.

The City's wastewater system purchased a vacuum truck for \$250,000.

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

Debt Administration

At year end, the City had \$23.8 million in long term debt outstanding compared to \$24.6 last year. The City repaid \$3,396,000 of long term debt during the year while incurring new long term debt of \$2,530,000. 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, 2007

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, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments	\$ 7,134,742	\$ 3,907,462	\$ 11,042,204
Accounts and other receivables, net	124,847	1,301,320	1,426,167
Property taxes receivable	287,105	-	287,105
Assessment liens receivable	11,959	-	11,959
Prepaid expenses	83,900	-	83,900
Bond issue costs, net	-	374,512	374,512
Capital assets:			
Nondepreciable	2,108,670	1,074,313	3,182,983
Depreciable, net of depreciation	11,600,481	30,637,450	42,237,931
Total assets	<u>21,351,704</u>	<u>37,295,057</u>	<u>58,646,761</u>
<u>LIABILITIES</u>			
Accounts payable	267,180	476,412	743,592
Accrued interest payable	16,937	264,135	281,072
Accrued liabilities	30,753	-	30,753
Compensated absences payable	209,739	69,590	279,329
Deposits payable	-	223,831	223,831
Notes payable			
Due within one year	-	68,646	68,646
Due in more than one year	-	59,653	59,653
Bonds payable			
Due within one year	128,000	562,108	690,108
Due in more than one year	3,450,000	19,139,000	22,589,000
Total liabilities	<u>4,102,609</u>	<u>20,863,375</u>	<u>24,965,984</u>
<u>NET ASSETS</u>			
Invested in capital assets (net of related debt)	10,131,151	11,882,356	22,013,507
Restricted for:			
Highways and streets	163,822	-	163,822
Unrestricted	<u>6,954,122</u>	<u>4,549,326</u>	<u>11,503,448</u>
Total net assets	<u>\$ 17,249,095</u>	<u>\$ 16,431,682</u>	<u>\$ 33,680,777</u>

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

CITY OF HERMISTON, OREGON

Statement of Activities

For the Year Ended June 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 2,006,173	\$ 1,074,679	\$ 32,539	\$ 72,262	\$ (826,693)	\$ -	\$ (826,693)
Public safety	3,092,095	104,110	28,995	-	(2,958,990)	-	(2,958,990)
Highways and streets	1,126,117	-	-	285,505	(840,612)	-	(840,612)
Cultural and recreation	2,479,135	533,716	93,415	29,699	(1,822,305)	-	(1,822,305)
Interest on long-term debt	157,475	-	-	-	(157,475)	-	(157,475)
Total governmental activities	8,860,995	1,712,505	154,949	387,466	(6,606,075)	-	(6,606,075)
Business-type activities:							
Water	2,640,632	2,414,327	-	-	-	(226,305)	(226,305)
Sewer	1,634,939	1,453,170	-	-	-	(181,769)	(181,769)
Electric	6,559,288	7,217,117	-	-	-	657,829	657,829
Total business-type activities	10,834,859	11,084,614	-	-	-	249,755	249,755
Total government	\$ 19,695,854	\$ 12,797,119	\$ 154,949	\$ 387,466	(6,606,075)	249,755	(6,356,320)
General revenues:							
Property taxes, levied for general purposes					3,729,632	-	3,729,632
Property taxes, levied for debt service					117,932	-	117,932
Transient room taxes					313,442	-	313,442
Franchise tax					438,831	-	438,831
Motor fuel taxes					712,278	-	712,278
State shared taxes - unrestricted					389,446	-	389,446
Interest and investment earnings					349,544	167,017	516,561
Other revenues					785,148	70,742	855,890
Gain (loss) on sale of capital assets					(11,096)	-	(11,096)
Transfers					(350,294)	350,294	-
Total general revenues and transfers					6,474,863	588,053	7,062,916
Change in net assets					(131,212)	837,808	706,596
Net assets--beginning					17,380,307	15,593,874	32,974,181
Net assets--ending					\$ 17,249,095	\$ 16,431,682	\$ 33,680,777

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

CITY OF HERMISTON, OREGON

Governmental Funds

Balance Sheet

June 30, 2007

	<u>General</u>	<u>Reserve</u>	<u>Other Governmental</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and investments	\$ 3,350,563	\$ 3,179,431	\$ 604,748	\$ 7,134,742
Receivables:				
Property taxes	267,526	-	19,579	287,105
Special assessments	6,535	-	5,424	11,959
Intergovernmental and other	104,755	20,092	-	124,847
Prepaid items	-	-	83,900	83,900
Total assets	<u>\$ 3,729,379</u>	<u>\$ 3,199,523</u>	<u>\$ 713,651</u>	<u>\$ 7,642,553</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Accounts payable	\$ 7,828	\$ 117,261	\$ 142,091	\$ 267,180
Accrued liabilities	30,753	-	-	30,753
Deferred revenues	245,268	-	22,613	267,881
Total liabilities	<u>283,849</u>	<u>117,261</u>	<u>164,704</u>	<u>565,814</u>
 <u>FUND BALANCES:</u>				
Reserved for encumbrances	100,000	-	-	100,000
Reserved-items prepaid	-	-	83,900	83,900
Unreserved, reported in:				
General fund, undesignated	3,345,530	-	-	3,345,530
Special revenue funds:				
Designated for general government	-	-	129,869	129,869
Designated for public safety	-	-	22,406	22,406
Designated for highways and streets	-	-	-	-
Designated for culture and recreation	-	-	183,962	183,962
Designated for capital outlay	-	3,082,262	19,028	3,101,290
Debt service fund:				
Designated for debt service	-	-	109,782	109,782
Total fund balances	<u>3,445,530</u>	<u>3,082,262</u>	<u>548,947</u>	<u>7,076,739</u>
Total liabilities and fund balances	<u>\$ 3,729,379</u>	<u>\$ 3,199,523</u>	<u>\$ 713,651</u>	<u>\$ 7,642,553</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, 2007**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 7,076,739

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

Acquisition cost	\$ 28,648,739	
Accumulated depreciation	<u>(14,939,588)</u>	
		13,709,151

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. 240,773

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. 27,108

Accrued compensated absences are not due and payable with current financial resources, therefore, they are not reported in the funds' balance sheet. (209,739)

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	(3,578,000)	
Accrued interest payable	<u>(16,937)</u>	
		<u>(3,594,937)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 17,249,095**

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, 2007

	General	Reserve	Other Governmental	Total
<u>REVENUES:</u>				
Property taxes	\$ 3,729,632	\$ -	\$ 117,932	\$ 3,847,564
Transient room tax	205,697	58,770	48,975	313,442
911 tax	-	-	97,111	97,111
Franchise tax	438,831	-	-	438,831
Intergovernmental	292,335	-	712,278	1,004,613
Fees, licenses, and permits	3,165	-	-	3,165
Fines and forfeits	333,554	-	188,083	521,637
Investment interest	145,662	193,882	10,000	349,544
Charges for services	747,050	128,163	315,655	1,190,868
Grants and contributions	56,529	376,894	108,992	542,415
Miscellaneous	497,780	1,140	267,808	766,728
Total revenues	<u>6,450,235</u>	<u>758,849</u>	<u>1,866,834</u>	<u>9,075,918</u>
<u>EXPENDITURES:</u>				
Current:				
General government	1,385,191	16,871	518,275	1,920,337
Public safety	2,366,085	-	631,605	2,997,690
Highways and streets	-	68,744	744,600	813,344
Cultural and recreation	1,773,795	29,693	341,596	2,145,084
Debt service:				
Principal	-	-	118,000	118,000
Interest	-	-	159,645	159,645
Capital Outlay:				
General government	21,272	84,380	-	105,652
Public safety	73,708	-	3,880	77,588
Highways and streets	-	449,929	-	449,929
Cultural and recreation	25,501	261,658	17,414	304,573
Total expenditures	<u>5,645,552</u>	<u>911,275</u>	<u>2,535,015</u>	<u>9,091,842</u>
<u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u>	<u>804,683</u>	<u>(152,426)</u>	<u>(668,181)</u>	<u>(15,924)</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers in	876,899	729,710	874,695	2,481,304
Transfers out	(1,092,034)	(1,107,709)	(631,855)	(2,831,598)
Total other financing sources (uses)	<u>(215,135)</u>	<u>(377,999)</u>	<u>242,840</u>	<u>(350,294)</u>
<u>NET CHANGE IN FUND BALANCES</u>	589,548	(530,425)	(425,341)	(366,218)
<u>FUND BALANCES, BEGINNING</u>	<u>2,855,982</u>	<u>3,612,687</u>	<u>974,288</u>	<u>7,442,957</u>
<u>FUND BALANCES, ENDING</u>	<u>\$ 3,445,530</u>	<u>\$ 3,082,262</u>	<u>\$ 548,947</u>	<u>\$ 7,076,739</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, 2007**

Net change in fund balances - total governmental funds \$ (366,218)

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	\$ 902,159	
Less current year depreciation	<u>(762,717)</u>	139,442

The effect of transactions involving capital assets is to decrease net assets. (11,096)

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. 15,255

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. 118,000

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. (26,595)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (131,212)

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, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<u>REVENUES:</u>				
Property taxes	\$ 3,345,000	\$ 3,345,000	\$ 3,728,916	\$ 383,916
Transient room tax	176,700	176,700	205,697	28,997
Franchise fees	642,000	642,000	784,899	142,899
Intergovernmental	279,500	420,005	329,048	(90,957)
Fees, licenses, and permits	2,000	2,000	3,165	1,165
Fines and forfeits	185,000	185,000	333,554	148,554
Investment interest	100,000	100,000	345,704	245,704
Charges for services	638,300	638,300	746,609	108,309
Miscellaneous	394,000	416,885	548,143	131,258
Total revenues	5,762,500	5,925,890	7,025,735	1,099,845
<u>EXPENDITURES:</u>				
Personal services	4,127,615	4,169,385	3,972,044	197,341
Materials and services	1,571,880	1,596,210	1,553,027	43,183
Capital outlay	99,750	223,650	220,481	3,169
Total expenditures	5,799,245	5,989,245	5,745,552	243,693
<u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u>	(36,745)	(63,355)	1,280,183	1,343,538
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers in	331,600	331,600	331,600	-
Transfers out	(942,685)	(1,168,305)	(1,092,034)	76,271
Total other financing sources (uses)	(611,085)	(836,705)	(760,434)	76,271
<u>NET CHANGE IN FUND BALANCE</u>	(647,830)	(900,060)	519,749	1,419,809
<u>FUND BALANCES, BEGINNING</u>	672,830	925,060	2,709,246	1,784,186
<u>FUND BALANCES, ENDING</u>	\$ 25,000	\$ 25,000	\$ 3,228,995	\$ 3,203,995

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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Taxes	\$ 93,140	\$ 93,140	\$ 58,770	\$ (34,370)
Intergovernmental	-	40,192	-	(40,192)
Reimbursements and other	-	-	486,105	486,105
Total revenues	<u>93,140</u>	<u>133,332</u>	<u>544,875</u>	<u>411,543</u>
<u>EXPENDITURES:</u>				
Materials and services	299,830	299,830	125,309	174,521
Capital outlay	3,446,080	3,766,982	1,551,575	2,215,407
Total expenditures	<u>3,745,910</u>	<u>4,066,812</u>	<u>1,676,884</u>	<u>2,389,928</u>
<u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u>				
	<u>(3,652,770)</u>	<u>(3,933,480)</u>	<u>(1,132,009)</u>	<u>2,801,471</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers from:				
General Fund	2,000	194,620	227,620	33,000
Street Fund	44,000	92,090	92,090	-
Utility Fund	260,000	300,000	300,000	-
Regional Water Fund	10,000	10,000	10,000	-
Energy Services Fund	100,000	100,000	100,000	-
Transfers to:				
General Fund	<u>(164,100)</u>	<u>(164,100)</u>	<u>(164,100)</u>	<u>-</u>
Total other financing sources (uses)	<u>251,900</u>	<u>532,610</u>	<u>565,610</u>	<u>33,000</u>
<u>NET CHANGE IN FUND BALANCE</u>				
	<u>(3,400,870)</u>	<u>(3,400,870)</u>	<u>(566,399)</u>	<u>2,834,471</u>
<u>FUND BALANCES, BEGINNING</u>				
	<u>3,400,870</u>	<u>3,400,870</u>	<u>3,612,687</u>	<u>211,817</u>
<u>FUND BALANCES, ENDING</u>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,046,288</u>	<u>\$ 3,046,288</u>

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, 2007

	Business-Type Activities-Enterprise Funds			
	Utility	Energy	Regional Water	Totals
<u>ASSETS</u>				
<u>CURRENT ASSETS:</u>				
Cash and investments	\$ 1,818,999	\$ 1,682,728	\$ 405,735	\$ 3,907,462
Accounts receivable	574,257	763,330	39,233	1,376,820
Allowance for doubtful accounts	(55,500)	(20,000)	-	(75,500)
Total current assets	<u>2,337,756</u>	<u>2,426,058</u>	<u>444,968</u>	<u>5,208,782</u>
<u>CAPITAL ASSETS:</u>				
Capital assets, net	12,918,114	11,872,481	6,921,168	31,711,763
<u>OTHER ASSETS:</u>				
Bond issue costs, net	23,438	351,074	-	374,512
Total noncurrent assets	<u>12,941,552</u>	<u>12,223,555</u>	<u>6,921,168</u>	<u>32,086,275</u>
Total assets	<u>15,279,308</u>	<u>14,649,613</u>	<u>7,366,136</u>	<u>37,295,057</u>
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES:</u>				
Accounts payable	148,577	325,628	2,207	476,412
Accrued interest payable	28,371	144,612	91,152	264,135
Compensated absences payable	69,590	-	-	69,590
Deposits payable	136,061	87,770	-	223,831
Notes payable	36,562	32,084	-	68,646
Bonds payable	417,108	-	145,000	562,108
Total current liabilities	<u>836,269</u>	<u>590,094</u>	<u>238,359</u>	<u>1,664,722</u>
<u>LONG TERM LIABILITIES:</u>				
Notes payable	59,653	-	-	59,653
Bonds payable	2,325,262	12,863,738	3,950,000	19,139,000
Total long-term liabilities	<u>2,384,915</u>	<u>12,863,738</u>	<u>3,950,000</u>	<u>19,198,653</u>
Total liabilities	<u>3,221,184</u>	<u>13,453,832</u>	<u>4,188,359</u>	<u>20,863,375</u>
<u>NET ASSETS</u>				
Invested in capital assets (net of related debt)	10,079,529	(1,023,341)	2,826,168	11,882,356
Unrestricted	1,978,595	2,219,122	351,609	4,549,326
Total net assets	<u>\$ 12,058,124</u>	<u>\$ 1,195,781</u>	<u>\$ 3,177,777</u>	<u>\$ 16,431,682</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, 2007

	Business-Type Activities - Enterprise Funds			
	Utility	Energy	Regional Water	Totals
<u>OPERATING REVENUE:</u>				
Charges for sales and services:				
Pledged as security for revenue bonds:				
Electricity	\$ -	\$ 7,217,117	\$ -	\$ 7,217,117
Water	1,911,853	-	-	1,911,853
Sewer	1,453,170	-	-	1,453,170
Miscellaneous revenues	34,601	36,141	-	70,742
Unpledged:				
Water	-	-	502,474	502,474
Total operating revenue	<u>3,399,624</u>	<u>7,253,258</u>	<u>502,474</u>	<u>11,155,356</u>
<u>OPERATING EXPENSES:</u>				
Cost of sales and services:				
Electricity	-	5,479,880	-	5,479,880
Water	1,249,830	-	540,914	1,790,744
Sewer	1,357,871	-	-	1,357,871
Depreciation and amortization	549,255	477,418	175,041	1,201,714
Total operating expenses	<u>3,156,956</u>	<u>5,957,298</u>	<u>715,955</u>	<u>9,830,209</u>
<u>OPERATING INCOME</u>	<u>242,668</u>	<u>1,295,960</u>	<u>(213,481)</u>	<u>1,325,147</u>
<u>NONOPERATING REVENUES</u>				
<u>(EXPENSES):</u>				
Interest on investments	117,218	49,799	-	167,017
Interest expense	(183,312)	(601,990)	(219,348)	(1,004,650)
Total nonoperating revenue (expenses)	<u>(66,094)</u>	<u>(552,191)</u>	<u>(219,348)</u>	<u>(837,633)</u>
<u>INCOME BEFORE CONTRIBUTIONS</u>				
<u>AND TRANSFERS</u>	<u>176,574</u>	<u>743,769</u>	<u>(432,829)</u>	<u>487,514</u>
Transfers in	714,416	-	403,457	1,117,873
Transfers out	(300,000)	(457,579)	(10,000)	(767,579)
<u>CHANGE IN NET ASSETS</u>	<u>590,990</u>	<u>286,190</u>	<u>(39,372)</u>	<u>837,808</u>
<u>TOTAL NET ASSETS - BEGINNING</u>	<u>11,467,134</u>	<u>909,591</u>	<u>3,217,149</u>	<u>15,593,874</u>
<u>TOTAL NET ASSETS - ENDING</u>	<u>\$ 12,058,124</u>	<u>\$ 1,195,781</u>	<u>\$ 3,177,777</u>	<u>\$ 16,431,682</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, 2007

	Business-Type Activities - Enterprise Funds			
	Utility	Energy	Regional Water	Totals
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from customers	\$ 3,366,341	\$ 7,254,570	\$ 473,011	\$ 11,093,922
Payments to suppliers	(1,000,962)	(5,323,550)	(298,987)	(6,623,499)
Payments to employees	(1,558,287)	(204,677)	(239,720)	(2,002,684)
Net cash provided by operating activities	<u>807,092</u>	<u>1,726,343</u>	<u>(65,696)</u>	<u>2,467,739</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>				
Transfer from other funds	714,416	-	403,457	1,117,873
Transfer to other funds	(300,000)	(457,579)	(10,000)	(767,579)
Net cash used in noncapital financing activities	<u>414,416</u>	<u>(457,579)</u>	<u>393,457</u>	<u>350,294</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Acquisition and construction of capital assets	(714,416)	(252,407)	(29,758)	(996,581)
Interest paid on bonds and notes	(200,054)	(582,367)	(222,265)	(1,004,686)
Principal paid on bonds and notes	(479,820)	(128,333)	(140,000)	(748,153)
Net cash used in capital and related financing activities	<u>(1,394,290)</u>	<u>(963,107)</u>	<u>(392,023)</u>	<u>(2,749,420)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Interest received	117,218	49,799	-	167,017
<u>NET INCREASE (DECREASE) IN CASH</u>	<u>(55,564)</u>	<u>355,456</u>	<u>(64,262)</u>	<u>235,630</u>
<u>CASH AND INVESTMENTS, BEGINNING</u>	<u>1,874,563</u>	<u>1,327,272</u>	<u>469,997</u>	<u>3,671,832</u>
<u>CASH AND INVESTMENTS, ENDING</u>	<u>\$ 1,818,999</u>	<u>\$ 1,682,728</u>	<u>\$ 405,735</u>	<u>\$ 3,907,462</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>				
Operating income	\$ 242,668	\$ 1,295,960	\$ (213,481)	\$ 1,325,147
<u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>				
Depreciation and amortization	549,255	477,418	175,041	1,201,714
Change in assets and liabilities:				
Accounts receivable	(33,283)	1,312	(29,463)	(61,434)
Accounts payable and accrued expenses	48,452	(48,347)	2,207	2,312
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>\$ 807,092</u>	<u>\$ 1,726,343</u>	<u>\$ (65,696)</u>	<u>\$ 2,467,739</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, 2007

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.

The City and the Port of Umatilla, Oregon are co-owners of a regional water system. Each entity retains an undivided interest in assets and is responsible for specific liabilities. Each entity reports financial results separately in its 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, 2007

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, 2007

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, 2007

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. Not all items reported as capital outlay meet these requirements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at 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.

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, 2007

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:

The City allows employees to accumulate earned but unused vacation leave. Vested or accumulated vacation leave is recorded as an expense and liability in the government-wide and proprietary financial statements as the benefits accrue to employees. An expense and liability for these amounts is reported in the governmental funds only if they have matured as a result of employee resignations and retirements. Balances of compensated absences are expected to be paid within one year and are reported as current liabilities.

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, 2007

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, 2007

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.

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, 2007

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, 2007

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

B. Budget overexpenditures:

Oregon state local budget laws prohibit overexpenditure of budgeted appropriations. The City overexpended the budget of the following funds during the year ended June 30, 2007:

State Tax Street Fund:	
Personal services	\$ 24,108
Utility Fund:	
Materials and services	\$ 20,000

NOTE 3 – CASH AND INVESTMENTS:

Cash and investments consisted of the following:

Cash on hand	\$ 1,360
Demand deposits, Banner Bank	1,124,857
Demand deposits, U.S. National Bank	2,729,237
Cash subtotal	<u>3,855,454</u>
U.S. Government notes	<u>7,186,750</u>
Total cash and investments, June 30, 2007	<u>\$ 11,042,204</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 not in compliance with collateral requirements for a short period in December 2006.

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2007

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.

\$3,654,094 of the City's bank balance of \$3,854,094 was exposed to custodial credit risk at June 30, 2007. \$1,450,000 was collateralized by the pledging institutions' agent, but not in the City's name. \$2,204,094 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 \$7,186,750 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, 2006	\$ 16,243
New assessments	-
Collections during year	(5,684)
Interest collected	1,400
Balance June 30, 2007	<u>\$ 11,959</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2007

NOTE 5 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance June 30, 2006	Increases	Decreases	Balance June 30, 2007
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 2,108,670	\$ -	\$ -	\$ 2,108,670
Capital assets being depreciated:				
Buildings and improvements	10,601,937	346,038	-	10,947,975
Machinery and equipment	1,952,140	126,942	(55,092)	2,023,990
Street system	13,138,925	429,179	-	13,568,104
Total capital assets being depreciated	25,693,002	902,159	(55,092)	26,540,069
Less: Accumulated depreciation:				
Buildings and improvements	(4,422,160)	(355,374)	-	(4,777,534)
Machinery and equipment	(1,439,364)	(133,174)	43,996	(1,528,542)
Street system	(8,359,343)	(274,169)	-	(8,633,512)
Total accumulated depreciation	(14,220,867)	(762,717)	43,996	(14,939,588)
Total capital assets being depreciated, net	11,472,135	139,442	(11,096)	11,600,481
Governmental activities capital assets, net	\$ 13,580,805	\$ 139,442	\$ (11,096)	\$ 13,709,151

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2007

NOTE 5 – CAPITAL ASSETS (continued):

	Balance June 30, 2006	Increases	Decreases	Balance June 30, 2007
<u>Business-type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 649,943	\$ -	\$ -	\$ 649,943
Construction in progress	-	424,370		424,370
Total capital assets not being depreciated	<u>649,943</u>	<u>424,370</u>	<u>-</u>	<u>1,074,313</u>
 Capital assets being depreciated:				
Utility system and buildings	34,561,678	29,758	-	34,591,436
Electric system	13,905,910	252,407		14,158,317
Equipment and vehicles	667,750	290,046	-	957,796
Total capital assets being depreciated	<u>49,135,338</u>	<u>572,211</u>	<u>-</u>	<u>49,707,549</u>
 Less: Accumulated depreciation:				
Utility system and buildings	(15,499,716)	(695,255)	-	(16,194,971)
Electric system	(1,861,190)	(425,215)		(2,286,405)
Equipment and vehicles	(561,718)	(27,005)	-	(588,723)
Total accumulated depreciation	<u>(17,922,624)</u>	<u>(1,147,475)</u>	<u>-</u>	<u>(19,070,099)</u>
Total capital assets being depreciated, net	<u>31,212,714</u>	<u>(575,264)</u>	<u>-</u>	<u>30,637,450</u>
 Business-type activities capital assets, net	<u>\$ 31,862,657</u>	<u>\$ (150,894)</u>	<u>\$ -</u>	<u>\$ 31,711,763</u>

Depreciation was charged to functions and programs as follows:

Governmental Activities:	
General government	\$ 75,348
Public safety	80,384
Highways and streets	308,156
Cultural and recreation	298,829
Total depreciation expense of governmental activities	<u>\$ 762,717</u>
 Business-type activities:	
Water	\$ 291,560
Sewer	255,280
Electricity	425,594
Regional Water	175,041
Total depreciation expense of business-type activities	<u>\$ 1,147,475</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2007

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 \$36,996 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.

In January 2007, the City issued Utility Refunding Bonds valued at \$2,532,370 to provide resources placed in an irrevocable trust for future debt service payments of \$2,530,000 to retire utility bonds issued in 1997. As a result, the refunded bonds are considered defeased and the liability has been removed from the Statement of Net Assets at June 30, 2007. The City completed this advance refunding to reduce its total debt service payments over the next ten years by approximately \$219,000 and to obtain an economic gain of approximately \$153,000. The economic gain is the difference between the present values of the old and new debt service.

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, 2007

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%	\$ 93,000
2003 Pool Bonds	2.0% - 4.625%	3,485,000
Business-type activities:		
1993 Refunding Sewer Bonds	3.3% - 5.25%	210,000
2000 Refunding Water Bonds	4.75% - 5.6%	4,095,000
2005 Electric System Revenue Bonds	3.35%-4.60%	13,210,000
2007 Refunding Utility Bonds	4.10%	2,532,370
Gross amount of bonds		<u>23,625,370</u>
Unamortized refunding costs		(154,742)
Unamortized original issue discount		<u>(191,520)</u>
Total bonds		<u><u>\$ 23,279,108</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>
2008	\$ 128,000	\$ 153,518	\$ 562,108	\$ 908,711
2009	40,000	148,439	515,459	878,955
2010	45,000	147,309	553,428	857,097
2011	45,000	145,981	586,134	833,780
2012	55,000	144,363	628,510	808,717
2013-2017	370,000	685,353	3,841,731	3,587,072
2018-2022	580,000	589,815	3,555,000	2,718,646
2023-2027	855,000	436,721	4,060,000	1,744,303
2028-2032	1,180,000	205,478	4,620,000	801,450
2033-2037	280,000	6,475	1,125,000	25,313
Totals	<u><u>\$ 3,578,000</u></u>	<u><u>\$ 2,663,452</u></u>	<u><u>\$ 20,047,370</u></u>	<u><u>\$ 13,164,044</u></u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2007

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%	\$ 96,215
Bank of America	3.50%	32,084
Total notes		<u>\$ 128,299</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>
2008	\$ 68,646	\$ 5,092
2009	38,390	2,982
2010	21,263	1,063
Totals	<u>\$ 128,299</u>	<u>\$ 9,137</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2007

NOTE 7 – LONG-TERM DEBT (continued):

Changes in long-term debt

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Balance June 30, 2006	Increases	Decreases	Balance June 30, 2007	Due Within One Year
Government Activities:					
1998 Street Revenue Bonds	\$ 181,000	\$ -	\$ (88,000)	\$ 93,000	\$ 93,000
2003 Pool Bonds	3,515,000	-	(30,000)	3,485,000	35,000
Total bonds	<u>3,696,000</u>	<u>-</u>	<u>(118,000)</u>	<u>3,578,000</u>	<u>128,000</u>
Compensated absences	181,073	236,471	(207,805)	209,739	209,739
Total Governmental Activities	<u>3,877,073</u>	<u>236,471</u>	<u>(325,805)</u>	<u>3,787,739</u>	<u>337,739</u>
Business-Type Activities:					
1993 Refunding Sewer Bonds	\$ 415,000	\$ -	\$ (205,000)	\$ 210,000	\$ 210,000
1997 Utility Revenue Bonds	2,770,000	-	(2,770,000)	-	-
2000 Refunding Water Bonds	4,235,000	-	(140,000)	4,095,000	145,000
2005 Electric Revenue Bonds	13,210,000	-	-	13,210,000	-
2007 Refunding Utility Bonds	-	2,532,370	-	2,532,370	207,108
Total bonds	<u>20,630,000</u>	<u>2,532,370</u>	<u>(3,115,000)</u>	<u>20,047,370</u>	<u>562,108</u>
Notes Payable:					
Oregon State	131,035	-	(34,820)	96,215	36,562
Bank of America	160,417	-	(128,333)	32,084	32,084
Total notes	<u>291,452</u>	<u>-</u>	<u>(163,153)</u>	<u>128,299</u>	<u>68,646</u>
Compensated absences	67,995	83,382	(81,787)	69,590	69,590
Total Business-type Activities	<u>\$20,989,447</u>	<u>\$ 2,615,752</u>	<u>\$ (3,359,940)</u>	<u>\$20,245,259</u>	<u>\$ 700,344</u>

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

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, 2007

NOTE 9 - INTERFUND TRANSACTIONS:

Transfer Out:	Transfer In:						Total Transfers Out
	General	Reserve	Utility	Energy	Regional Water	Nonmajor Governmental	
General	\$ -	\$ 227,620	\$ -	\$ -	\$ -	\$ 864,414	\$ 1,092,034
Reserve	342,101	-	714,416	-	41,192	10,000	1,107,709
Utility	-	300,000	-	-	-	-	300,000
Energy	357,298	100,000	-	-	-	281	457,579
Regional Water	-	10,000	-	-	-	-	10,000
Nonmajor governmental	<u>177,500</u>	<u>92,090</u>	<u>-</u>	<u>-</u>	<u>362,265</u>	<u>-</u>	<u>631,855</u>
Total Transfers in	<u>\$ 876,899</u>	<u>\$ 729,710</u>	<u>\$ 714,416</u>	<u>\$ -</u>	<u>\$ 403,457</u>	<u>\$ 874,695</u>	<u>\$ 3,599,177</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	\$ (300,000)
Energy fund	(457,579)
Regional water fund	(10,000)
Transfers in:	
Utility fund	714,416
Regional water fund	403,457
	<u>\$ 350,294</u>

Net transfers from governmental activities:

Transfers in:	
General fund	\$ 876,899
Reserve fund	729,710
Non-major governmental funds	874,695
Transfer out:	
General fund	(1,092,034)
Reserve fund	(1,107,709)
Non-major governmental funds	(631,855)
	<u>\$ (350,294)</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2007

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 General Fund transferred \$512,954 to the 911 Communications Fund and \$76,326 to the Street Fund to meet the costs of these services.

The Revolving Loan Fund transferred \$167,500 of excess cash to the General Fund.

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, 2007

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	\$ 712,278
Oregon State liquor and cigarette taxes	189,457
Oregon State revenue sharing	<u>102,878</u>
Total	<u><u>\$ 1,004,613</u></u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2007

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>
<u>GAAP BASIS NET CHANGE IN FUND BALANCES</u>		
<u>ADD (DEDUCT):</u>	\$ 620,301	\$ (530,425)
Change in receivables	(41,411)	(20,092)
Change in encumbrances	(100,000)	-
Change in deferred revenue	40,859	(15,882)
<u>BUDGETARY BASIS NET CHANGE IN FUND BALANCES</u>	<u>\$ 519,749</u>	<u>\$ (566,399)</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>
<u>GAAP BASIS FUND BALANCES</u>		
<u>ADD (DEDUCT):</u>	\$ 3,476,283	\$ 3,082,262
Receivables	(378,816)	(20,092)
Encumbrances	(100,000)	-
Deferred revenue	231,528	(15,882)
<u>BUDGET BASIS FUND BALANCES</u>	<u>\$ 3,228,995</u>	<u>\$ 3,046,288</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2007

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 is a participating employer in the Oregon Public Employees Retirement System ("PERS"), an agent multiple-employer public employee retirement system established under Oregon Revised Statutes 238.600 that acts as a common investment and administrative agent for public employers in the State of Oregon. PERS is a defined benefit pension plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Benefits are established by state statute.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan ("OPSRP") is effective for all new employees hired on or after August 29, 2003, and applies to any inactive PERS members who return to employment following a six month or greater break in service. The new plan consists of a defined benefit program (the "Pension Program") and a defined contribution portion (the Individual Account Program or "IAP"). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service and a factor that varies based on type of service (general versus police or fire).

Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account. Those employees who had established a PERS membership prior to creation of OPSRP will be members of both the PERS and OPSRP system as long as they remain in covered employment.

Both PERS and OPSRP are administered by the Oregon Public Employees Retirement Board ("OPERB"). The comprehensive annual financial report of the funds administered by the OPERB may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, OR 97281-3700, by calling (503) 598-7377, or by accessing the PERS web site at www.pers.state.or.us.

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2007

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.

C. Annual Pension Cost

For 2007, the City's annual pension cost of \$902,693 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the projected unit credit actuarial cost method. The amortization method is 22 years. When the amortization period reaches 20 years, the period for the existing UAL will continue to decline until it is paid off and the new gains and losses recognized in each odd-year valuation will be amortized over a 20 year period from that valuation. The City uses the market value of assets method to determine the asset valuation. The actuarial assumptions included: (a) 8% investment return compounded annually on member's regular account balances and 8.5% compounded annually on member's variable account balances; (b) future general wage inflation of 3.75% per year; (c) healthcare cost inflation of 9.0% in 2007, then declining by .5% per year to 5.0% in 2013; (d) consumer price inflation of 2.75% per year.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 466,164	100%	\$ -
2006	877,615	100%	-
2007	902,693	100%	-

D. Trend Information

The data presented below presents the information currently available.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Actuarial Accrued Liability/ (Surplus) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	19,290,789	18,864,640	(426,149)	102%	3,220,700	(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%
12/31/05	23,237,058	24,851,302	1,614,244	94%	4,243,891	38%

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2007

NOTE 16 – NONCASH INVESTING, CAPITAL, OR FINANCING TRANSACTIONS:

The City sold Utility Refunding Bonds in January 2007. Of the proceeds of \$2,532,370, \$2,501,127 was placed in an irrevocable trust to provide debt service payments to retire utility bonds issued in 1997. The remaining proceeds of \$31,243 were used to pay bond issue costs.

NOTE 17 – 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 \$425,000 on this project during the year ended June 30, 2007 bringing total expenditures so far on this project to \$2,400,000.

The City is planning to sell bonds in 2009 to finance the wastewater treatment plant improvements. Completion of the project is expected in 2011.

The City expects to spend \$800,000 to overlay runways and other areas at the Hermiston Municipal Airport. This project is expected to be completed in December 2007.

The City plans to spend \$115,000 to develop Harrison Park. This project is expected to be completed in December 2007.

The City has been awarded a grant of \$750,000 from the Oregon Economic and Community Development Department to establish a revolving loan fund to provide low interest loans to businesses.

The City of Hermiston has been awarded a Community Development Block Grant in the amount of \$400,000 by the State of Oregon Housing and Community Services Department. This grant will provide \$310,000 for rehabilitation and mitigation of lead based paint hazards and \$90,000 for the cost of managing the program. There should be sufficient funds to rehabilitate 17 homes.

SUPPLEMENTARY INFORMATION

CITY OF HERMISTON, OREGON

Non-major Governmental Funds

June 30, 2007

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, 2007**

	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		
\$ -	\$ 40,042	\$ 71,817	\$ 1,627	\$ 179,196	\$ 34,119	\$ 18,596	\$ -	\$ 20,779	\$ 40,394	\$ 198,178	\$ 604,748	
-	-	-	-	-	-	-	-	-	-	19,579	19,579	
-	-	-	-	-	-	5,424	-	-	-	-	5,424	
-	-	-	-	83,900	-	-	-	-	-	-	83,900	
\$ -	\$ 40,042	\$ 71,817	\$ 1,627	\$ 263,096	\$ 34,119	\$ 24,020	\$ -	\$ 20,779	\$ 40,394	\$ 217,757	\$ 713,651	
\$ -	\$ -	\$ -	\$ -	\$ 49,327	\$ 2,410	\$ -	\$ -	\$ -	\$ -	\$ 90,354	\$ 142,091	
-	-	-	-	-	-	4,992	-	-	-	17,621	22,613	
-	-	-	-	49,327	2,410	4,992	-	-	-	107,975	164,704	
-	-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	213,769	-	-	-	-	-	-	213,769	
-	-	-	1,627	-	-	-	-	20,779	-	-	22,406	
-	-	-	-	-	-	-	-	-	-	-	-	
-	40,042	71,817	-	-	31,709	-	-	-	40,394	-	183,962	
-	-	-	-	-	-	19,028	-	-	-	-	19,028	
-	-	-	-	-	-	-	-	-	-	109,782	109,782	
-	40,042	71,817	1,627	213,769	31,709	19,028	-	20,779	40,394	109,782	548,947	
\$ -	\$ 40,042	\$ 71,817	\$ 1,627	\$ 263,096	\$ 34,119	\$ 24,020	\$ -	\$ 20,779	\$ 40,394	\$ 217,757	\$ 713,651	

ASSETS

Cash and investments
 Receivables (net of allowances for uncollectibles):
 Property taxes
 Special assessments
 Prepaid expenses
 Total assets

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable
 Deferred revenues
 Total liabilities

FUND BALANCES:

Reserved for encumbrances
 Unreserved fund balance:
 Designated for general government
 Designated for public safety
 Designated for highways and streets
 Designated for culture and recreation
 Designated for capital outlay
 Designated for debt service
 Total fund balances

Total liabilities and fund balances

CITY OF HERMISTON, OREGON

**Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2007**

	Special Revenue											Total Non-major Governmental Funds		
	State Tax Street Fund	Transient Room Tax Fund	Recreation Reserve Fund	Municipal Court Fund	Recorders Reserve Fund	Conference Center Fund	Revolving Loan Fund	Communications Fund	Law Enforcement Reserve Fund	Library Reserve Fund	Bonded Debt Fund			
\$	-	-	\$	-	\$	-	\$	-	\$	-	\$	117,932	\$	117,932
Property taxes	-	48,975	-	-	-	-	-	-	-	-	-	-	-	48,975
Transient room tax	-	-	-	-	-	-	-	-	-	-	-	-	-	97,111
911 Tax	-	-	-	-	-	-	-	97,111	-	-	-	-	-	712,278
Intergovernmental	712,278	-	-	-	-	-	-	-	-	-	-	-	-	188,083
Fines and forfeits	-	-	-	188,083	-	-	-	-	-	-	-	-	-	10,000
Investment interest	-	-	88,752	-	10,000	-	-	-	-	-	-	-	-	315,655
Charges for services	-	-	10,572	-	123,646	103,257	-	-	23,995	43,280	-	-	-	108,992
Grants and contributions	-	-	7,113	-	31,145	-	-	-	5,050	23,193	40,596	-	-	267,808
Miscellaneous	-	-	106,437	188,083	187,733	-	4,123	4,123	29,045	66,473	158,528	-	-	1,866,834
Total revenues	712,278	48,975	106,437	188,083	352,524	103,257	4,123	4,123	29,045	66,473	158,528	-	-	1,866,834

EXPENDITURES

Current:														
General government	-	-	-	188,272	330,003	-	-	-	-	-	-	-	-	518,275
Public safety	-	-	-	-	-	-	-	610,065	21,540	-	-	-	-	631,605
Highways and streets	744,600	-	-	-	-	-	-	-	-	-	-	-	-	744,600
Cultural and recreation	-	101,284	102,428	-	-	87,169	-	-	50,715	-	-	-	-	341,596
Debt service:														
Principal	-	-	-	-	-	-	-	-	-	-	118,000	-	-	118,000
Interest	-	-	-	-	-	-	-	-	-	-	159,645	-	-	159,645
Capital outlay:														
Public safety	-	-	-	-	-	-	-	-	3,880	-	-	-	-	3,880
Street Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cultural and recreation	-	-	-	-	-	-	-	-	17,414	-	-	-	-	17,414
Total expenditures	744,600	101,284	102,428	188,272	330,003	87,169	-	610,065	25,420	68,129	277,645	-	-	2,535,015
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(32,322)	(52,309)	4,009	(189)	22,521	16,088	4,123	(512,954)	3,625	(1,656)	(119,117)	(668,181)		

OTHER FINANCING SOURCES (USES):

Transfers in	76,326	-	10,000	-	-	-	-	512,954	-	-	275,415	-	-	874,695
Transfers out	(92,090)	-	-	-	(10,000)	-	(167,500)	-	-	-	(362,265)	-	-	(631,855)
Total other financing sources (uses)	(15,764)	-	10,000	-	(10,000)	-	(167,500)	512,954	-	-	(86,850)	-	-	242,840
NET CHANGE IN FUND BALANCES	(48,086)	(52,309)	14,009	(189)	12,521	16,088	(163,377)	-	3,625	(1,656)	(205,967)	(425,341)		
FUND BALANCES, BEGINNING	48,086	92,351	57,808	1,816	201,248	15,621	182,405	-	17,154	42,050	315,749	974,288		
FUND BALANCES, ENDING	\$ -	\$ 40,042	\$ 71,817	\$ 1,627	\$ 213,769	\$ 31,709	\$ 19,028	\$ -	\$ 20,779	\$ 40,394	\$ 109,782	\$ 548,947		

CITY OF HERMISTON, OREGON

Reserve Fund

Schedule of Detail Allocations (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2007

City Ordinances have established specific allocations of the Reserve Fund. The following schedule presents the allocations of the 2006-07 transactions to their specified purposes.

ALLOCATIONS:

	Balance June 30, 2006	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2007
Office equipment, finance	\$ 44,521	\$ -	\$ 16,871	\$ 10,000	\$ 37,650
Airport improvements	22,243	72,262	84,380	2,000	12,125
Park improvements	944	-	-	-	944
Recreation programs	28,376	29,385	15,612	(10,000)	32,149
Parks development	27,613	29,385	14,081	-	42,917
395 / Harper signal	150,000	-	-	(150,000)	-
Centennial bell	39,906	41,372	261,658	225,620	45,240
Planning	14,101	-	-	(14,101)	-
St Johns street construction	105,000	-	16,158	48,090	136,932
Street equipment	20,115	50	31,872	37,000	5,178
Bicycle trails	127,963	188	-	7,000	27,115
Street maintenance	29,028	285,505	35,066	-	93,085
Street construction	69,561	314	413,021	-	(98,488)
Utility construction	2,222	-	20,056	(51)	49,768
Sewer department equipment	13,444	-	-	5	2,227
Water department equipment	387,363	-	2,500	-	10,944
Wastewater treatment plant	966,584	588	-	(424,370)	(37,007)
HES Improvements	874,232	-	-	100,000	1,067,172
Regional water system	87,746	-	-	(31,192)	843,040
Wastewater-SDC	601,725	45,942	-	-	133,688
Water-SDC	-	59,976	-	-	661,701
Unallocated gains	-	193,882	-	-	15,882
Total reserve fund	\$ 3,612,687	\$ 758,849	\$ 911,275	\$ (377,999)	\$ 3,082,262

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, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Intergovernmental	<u>\$ 675,000</u>	<u>\$ 675,000</u>	<u>\$ 712,278</u>	<u>\$ 37,278</u>
<u>EXPENDITURES:</u>				
Current:				
Highways and streets:				
Personal services	<u>509,585</u>	<u>509,585</u>	<u>533,693</u>	<u>(24,108)</u>
Materials and services	<u>219,925</u>	<u>219,925</u>	<u>210,907</u>	<u>9,018</u>
Total expenditures	<u>729,510</u>	<u>729,510</u>	<u>744,600</u>	<u>(15,090)</u>
<u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u>				
	<u>(54,510)</u>	<u>(54,510)</u>	<u>(32,322)</u>	<u>22,188</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers in	<u>98,510</u>	<u>98,510</u>	<u>76,326</u>	<u>(22,184)</u>
Transfers out	<u>(44,000)</u>	<u>(92,090)</u>	<u>(92,090)</u>	<u>-</u>
Total other financing sources (uses)	<u>54,510</u>	<u>6,420</u>	<u>(15,764)</u>	<u>(22,184)</u>
<u>NET CHANGE IN FUND BALANCES</u>				
	<u>-</u>	<u>(48,090)</u>	<u>(48,086)</u>	<u>4</u>
<u>FUND BALANCES, BEGINNING</u>				
	<u>-</u>	<u>48,090</u>	<u>48,086</u>	<u>(4)</u>
<u>FUND BALANCES, ENDING</u>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2007

	<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>
<u>REVENUES:</u>				
Taxes	\$ 42,280	\$ 42,280	\$ 48,975	\$ 6,695
<u>EXPENDITURES:</u>				
Current:				
General Government:				
Material and services	<u>67,280</u>	<u>67,280</u>	<u>61,806</u>	<u>5,474</u>
<u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u>	(25,000)	(25,000)	(12,831)	12,169
<u>FUND BALANCES, BEGINNING</u>	<u>25,000</u>	<u>25,000</u>	<u>52,873</u>	<u>27,873</u>
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,042</u>	<u>\$ 40,042</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, 2007

	<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>
<u>REVENUES:</u>				
911 communications tax	<u>\$ 70,000</u>	<u>\$ 70,000</u>	<u>\$ 97,111</u>	<u>\$ 27,111</u>
<u>EXPENDITURES:</u>				
Current:				
Public safety				
Personal services	587,265	587,265	577,962	9,303
Materials and services	46,150	46,150	32,103	14,047
Capital outlay	1,000	1,000	-	1,000
Total expenditures	<u>634,415</u>	<u>634,415</u>	<u>610,065</u>	<u>24,350</u>
<u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(564,415)</u>	<u>(564,415)</u>	<u>(512,954)</u>	<u>51,461</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers in	<u>564,415</u>	<u>564,415</u>	<u>512,954</u>	<u>(51,461)</u>
<u>NET CHANGE IN FUND BALANCES</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES, BEGINNING</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES, ENDING</u>	<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, 2007

	<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>
<u>REVENUES:</u>				
Miscellaneous	\$ 5,000	\$ 5,000	\$ 4,034	\$ (966)
<u>EXPENDITURES:</u>				
Current:				
Capital outlay	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
<u>EXCESS (DEFICIENCY) OF</u>				
<u>REVENUES OVER (UNDER)</u>				
<u>EXPENDITURES</u>				
	-	-	4,034	4,034
<u>OTHER FINANCING SOURCES</u>				
<u>(USES):</u>				
Transfers out	<u>(167,500)</u>	<u>(167,500)</u>	<u>(167,500)</u>	<u>-</u>
<u>NET CHANGE IN FUND BALANCE:</u>	(167,500)	(167,500)	(163,466)	4,034
<u>FUND BALANCES, BEGINNING</u>	<u>167,500</u>	<u>167,500</u>	<u>182,062</u>	<u>14,562</u>
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,596</u>	<u>\$ 18,596</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<u>REVENUES:</u>				
Property taxes	\$ 105,765	\$ 105,765	\$ 119,414	\$ 13,649
Miscellaneous income	-	-	40,598	40,598
Total revenues	<u>105,765</u>	<u>105,765</u>	<u>160,012</u>	<u>54,247</u>
<u>EXPENDITURES:</u>				
Debt service:				
Principal				
1997 street bonds	88,000	88,000	88,000	-
2003 pool bonds	30,000	30,000	30,000	-
Interest				
1997 street bonds	9,730	9,730	9,730	-
2003 pool bonds	150,030	150,030	149,915	115
Total expenditures	<u>277,760</u>	<u>277,760</u>	<u>277,645</u>	<u>115</u>
<u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u>				
	<u>(171,995)</u>	<u>(171,995)</u>	<u>(117,633)</u>	<u>54,362</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers in:				
Utility fund (HFI debt)	41,375	41,375	41,373	(2)
Utility fund (for debt service)	616,875	638,515	638,500	(15)
Energy fund (for debt service)	713,835	713,835	710,981	(2,854)
General fund (for debt service)	277,760	277,760	275,134	(2,626)
Debt service (for utility funds):				
State HFI loan payment	(41,375)	(41,375)	(41,373)	2
Hermiston Energy Service loan	(135,385)	(135,385)	(132,251)	3,134
Principal:				
1993 sewer bonds	(205,000)	(205,000)	(205,000)	-
Regional water bonds	(140,000)	(140,000)	(140,000)	-
1997 utility revenue bonds	(240,000)	(240,000)	(240,000)	-
Interest:				
1993 sewer bonds	(21,790)	(21,790)	(21,788)	2
Regional water bonds	(222,265)	(222,265)	(222,265)	-
1997 utility revenue bonds	(150,085)	(150,085)	(150,083)	2
Hermiston Energy Service bonds	(578,450)	(578,450)	(578,449)	1
2007 utility refunding bonds	-	(21,640)	(21,631)	9
Total other financing sources (uses)	<u>(84,505)</u>	<u>(84,505)</u>	<u>(86,852)</u>	<u>(2,347)</u>
<u>NET CHANGE IN FUND BALANCES</u>	<u>(256,500)</u>	<u>(256,500)</u>	<u>(204,485)</u>	<u>52,015</u>
<u>FUND BALANCES, BEGINNING</u>	<u>258,500</u>	<u>258,500</u>	<u>312,309</u>	<u>53,809</u>
<u>FUND BALANCES, ENDING</u>	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 107,824</u>	<u>\$ 105,824</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, 2007

	<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>
<u>REVENUES:</u>				
Charges for services				
Water	\$ 1,743,000	\$ 1,743,000	\$ 1,885,814	\$ 142,814
Sewer	1,300,000	1,300,000	1,453,177	153,177
Bond assessments	20,000	20,000	30,974	10,974
Investment interest	50,000	50,000	122,330	72,330
Total revenues	<u>3,113,000</u>	<u>3,113,000</u>	<u>3,492,295</u>	<u>379,295</u>
<u>EXPENDITURES:</u>				
Personal services	1,559,970	1,559,970	1,559,882	88
Materials and services	960,125	1,024,725	1,044,725	(20,000)
Total expenditures	<u>2,520,095</u>	<u>2,584,695</u>	<u>2,604,607</u>	<u>(19,912)</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>				
	<u>592,905</u>	<u>528,305</u>	<u>887,688</u>	<u>359,383</u>
<u>TRANSFERS OUT</u>				
Reserve fund	(260,000)	(300,000)	(300,000)	-
Bonded debt fund	(658,250)	(679,890)	(679,873)	17
Total transfers out	<u>(918,250)</u>	<u>(979,890)</u>	<u>(979,873)</u>	<u>17</u>
<u>NET CHANGE IN FUND BALANCES</u>				
	(325,345)	(451,585)	(92,185)	359,400
<u>FUND BALANCES, BEGINNING</u>				
	<u>325,345</u>	<u>451,585</u>	<u>1,735,692</u>	<u>1,284,107</u>
<u>FUND BALANCES, ENDING</u>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,643,507</u>	<u>\$ 1,643,507</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, 2007

	<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>
<u>REVENUES:</u>				
Charges for services	\$ 7,077,300	\$ 7,077,300	\$ 7,192,650	\$ 115,350
Miscellaneous	50,000	50,000	87,343	37,343
Total revenues	<u>7,127,300</u>	<u>7,127,300</u>	<u>7,279,993</u>	<u>152,693</u>
<u>EXPENDITURES:</u>				
Personal services	207,870	207,870	204,677	3,193
Materials and services	5,805,595	5,805,595	5,606,722	198,873
Capital outlay	300,000	300,000	252,407	47,593
Total expenditures	<u>6,313,465</u>	<u>6,313,465</u>	<u>6,063,806</u>	<u>249,659</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	813,835	813,835	1,216,187	402,352
<u>TRANSFERS OUT</u>	<u>(813,835)</u>	<u>(813,835)</u>	<u>(810,981)</u>	<u>2,854</u>
<u>NET CHANGE IN FUND BALANCE</u>	-	-	405,206	405,206
<u>FUND BALANCES, BEGINNING</u>	-	-	858,180	858,180
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,263,386</u>	<u>\$ 1,263,386</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, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Charges for services	<u>\$ 597,575</u>	<u>\$ 597,575</u>	<u>\$ 473,011</u>	<u>\$ (124,564)</u>
<u>EXPENDITURES:</u>				
Personal services	249,225	249,225	240,420	8,805
Materials and services	<u>338,350</u>	<u>338,350</u>	<u>289,060</u>	<u>49,290</u>
Total expenditures	<u>587,575</u>	<u>587,575</u>	<u>529,480</u>	<u>58,095</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	10,000	10,000	(56,469)	(66,469)
<u>TRANSFERS OUT</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
<u>NET CHANGE IN FUND BALANCES</u>	-	-	(66,469)	(66,469)
<u>FUND BALANCES, BEGINNING</u>	<u>-</u>	<u>-</u>	<u>469,997</u>	<u>469,997</u>
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 403,528</u>	<u>\$ 403,528</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, 2007

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

	General Fund	Reserve Fund	Bonded Debt Fund	Energy Fund	Utility Fund	Regional Water Fund	Revolving Loan Fund	Transient Room Tax Fund
<u>GAAP BASIS FUND BALANCES</u>	\$ 3,476,283	\$ 3,082,262	\$ 109,782	\$ 1,195,781	\$ 12,058,124	\$ 3,177,777	\$ 19,028	\$ 40,042
<u>ADD (DEDUCT):</u>								
Accounts receivable	(378,816)	(20,092)	(19,579)	(743,330)	(518,757)	(39,233)	(5,424)	-
Receivable due to other entities	-	-	-	-	114,635	-	-	-
Accrued interest	-	-	-	144,612	28,371	91,152	-	-
Encumbrances	(100,000)	-	-	-	-	-	-	-
Deferred revenue	245,268	-	17,621	-	-	-	4,992	-
Capital assets	-	-	-	(11,872,481)	(12,918,114)	(6,921,168)	-	-
Long term debt	-	-	-	12,544,748	2,815,147	4,095,000	-	-
Unrealized investment (gains) or losses	(13,740)	(15,882)	-	(5,944)	(5,489)	-	-	-
Compensated absences	-	-	-	-	69,590	-	-	-
<u>BUDGETARY BASIS FUND BALANCES</u>	<u>\$ 3,228,995</u>	<u>\$ 3,046,288</u>	<u>\$ 107,824</u>	<u>\$ 1,263,386</u>	<u>\$ 1,643,507</u>	<u>\$ 403,528</u>	<u>\$ 18,596</u>	<u>\$ 40,042</u>
<u>GAAP BASIS NET CHANGE IN FUND BALANCES</u>	\$ 620,301	\$ (530,425)	\$ (205,967)	\$ 286,190	\$ 590,990	\$ (39,372)	\$ (163,377)	\$ (52,309)
<u>ADD (DEDUCT):</u>								
Change in accounts receivable	(41,411)	(20,092)	11,692	1,312	(33,283)	(29,463)	3,264	-
Change in accrued interest	-	-	-	-	(16,741)	(2,917)	-	-
Change in receivable due to other entities	-	-	-	-	5,124	-	-	-
Change in encumbrances payable	(100,000)	-	-	-	-	-	-	-
Change in deferred revenue	28,817	-	(10,209)	-	-	-	(3,353)	39,478
Change in capital assets	-	-	-	173,187	(167,576)	145,283	-	-
Change in long term debt	-	-	-	(56,886)	(477,406)	(140,000)	-	-
Change in unrealized gains or losses	12,042	(15,882)	-	1,403	5,112	-	-	-
Change in compensated absences	-	-	-	-	1,595	-	-	-
<u>BUDGETARY BASIS NET CHANGE IN FUND BALANCES</u>	<u>\$ 519,749</u>	<u>\$ (566,399)</u>	<u>\$ (204,484)</u>	<u>\$ 405,206</u>	<u>\$ (92,185)</u>	<u>\$ (66,469)</u>	<u>\$ (163,466)</u>	<u>\$ (12,831)</u>

CITY OF HERMISTON, OREGON

Schedule of Property Tax Transactions and Outstanding Balances
For the Year Ended June 30, 2007

Fiscal Year	Property Taxes Receivable June 30, 2006	Current Levy as Extended by Assessor	Discounts Allowed	Corrections and Adjustments	Interest Collected	Cash Collections	Property Taxes Receivable June 30, 2007
2006-07	\$ -	\$ 3,983,206	\$ (96,705)	\$ (29,662)	\$ 1,555	\$ (3,702,634)	\$ 155,760
2005-06	143,204	-	(2)	(1,874)	3,419	(75,441)	69,306
2004-05	66,878	-	(1)	(336)	3,149	(31,510)	38,180
2003-04	35,178	-	-	(518)	3,945	(24,214)	14,391
2002-03 and prior	22,709	-	-	(2,019)	3,310	(14,531)	9,469
Totals	\$ 267,969	\$ 3,983,206	\$ (96,708)	\$ (34,409)	\$ 15,378	\$ (3,848,330)	\$ 287,106

CITY OF HERMISTON, OREGON

Schedule of Long-Term Debt Transactions
For the Year Ended June 30, 2007

	Interest Rate	PRINCIPAL TRANSACTIONS				INTEREST TRANSACTIONS			
		Outstanding June 30, 2006	New Debt Issued	Matured During Year	Outstanding June 30, 2007	Matured and Outstanding June 30, 2006	Matured During Year	Paid During Year	Matured and Outstanding June 30, 2007
<u>BONDS PAYABLE:</u>									
1993 Sewer Refunding Bonds *	3.3%- 5.25%	\$ 415,000	\$ -	\$ 205,000	\$ 210,000	\$ -	\$ 21,788	\$ 21,788	\$ -
1997 Utility Revenue Bonds	4.9%- 5.4%	2,770,000	-	2,770,000	-	-	150,083	150,083	-
1998 Street Revenue Bonds	4.35%-5.4%	181,000	-	88,000	93,000	-	9,730	9,730	-
2000 Water Refunding Bonds*	4.75%-5.6%	4,235,000	-	140,000	4,095,000	-	222,265	222,265	-
2003 Pool Bonds*	2.0%-4.625%	3,515,000	-	30,000	3,485,000	-	149,915	149,915	-
2005 Energy System Revenue Bonds	3.35%-4.60%	13,210,000	-	-	13,210,000	-	578,449	578,449	-
2007 Utility Refunding Bonds	4.10%	-	2,532,370	-	2,532,370	-	21,631	21,631	-
		<u>\$24,326,000</u>	<u>\$ 2,532,370</u>	<u>\$ 3,233,000</u>	<u>\$23,625,370</u>	<u>\$ -</u>	<u>\$1,153,861</u>	<u>\$1,153,861</u>	<u>\$ -</u>

* -- general obligation bonds

CITY OF HERMISTON, OREGON

Annual Accounting of System Development Charges

For the Year Ended June 30, 2007

	<u>Water System</u>	<u>Wastewater System</u>
<u>BALANCE, JUNE 30, 2006</u>	\$ 601,725	\$ 87,746
<u>REVENUES:</u>		
System development charges collected	59,976	45,942
<u>EXPENDITURES</u>		
Reimbursement of capital improvements	<u>-</u>	<u>-</u>
<u>BALANCE, JUNE 30, 2007</u>	<u>\$ 661,701</u>	<u>\$ 133,688</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, 2007

<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	\$ 318,174	\$ -	\$ 909,674
Airport	498,579	866,160	63,427	-	1,428,166
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>2,088,961</u>	<u>392,851</u>	<u>-</u>	<u>3,788,001</u>
Public safety:					
Police	24,820	836,578	663,879	-	1,525,277
Highway and streets:					
Maintenance	62,461	367,650	804,227	-	1,234,338
Street System	-	-	-	13,568,104	13,568,104
	<u>62,461</u>	<u>367,650</u>	<u>804,227</u>	<u>13,568,104</u>	<u>14,802,442</u>
Culture and recreation:					
Aquatic center	-	3,809,971	-	-	3,809,971
Library	8,500	784,269	23,614	-	816,383
Parks	658,700	1,256,274	139,419	-	2,054,393
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>7,654,786</u>	<u>163,033</u>	<u>-</u>	<u>8,533,019</u>
Total governmental funds capital assets	<u>\$ 2,108,670</u>	<u>\$ 10,947,975</u>	<u>\$ 2,023,990</u>	<u>\$ 13,568,104</u>	<u>\$ 28,648,739</u>

CITY OF HERMISTON, OREGON

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

June 30, 2007 and 2006

	June 30,	
	<u>2007</u>	<u>2006</u>
<u>GOVERNMENTAL FUNDS CAPITAL ASSETS:</u>		
Land	\$ 2,108,670	\$ 2,108,670
Buildings and improvements	10,947,975	10,601,937
Machinery and equipment	2,023,990	1,952,140
Infrastructure	13,568,104	13,138,925
Construction in progress	<u>-</u>	<u>-</u>
Total governmental funds capital assets	<u>\$ 28,648,739</u>	<u>\$ 27,801,672</u>
<u>INVESTMENT IN GOVERNMENTAL FUND</u>		
<u>CAPITAL ASSETS BY SOURCE:</u>		
Unsegregated amounts, prior years	\$ 17,251,503	\$ 17,251,503
General fund	3,230,682	3,168,504
Special revenue funds	2,639,594	1,854,705
Capital project funds	5,456,960	5,456,960
Donations	<u>70,000</u>	<u>70,000</u>
Total governmental funds capital assets	<u>\$ 28,648,739</u>	<u>\$ 27,801,672</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, 2007

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Governmental Funds Capital Assets June 30, 2007</u>
General government:				
City hall	\$ 892,774	\$ 16,900	\$ -	\$ 909,674
Airport	1,353,786	84,380	(10,000)	1,428,166
Parking	494,380	-	-	494,380
Inspections	23,070	-	-	23,070
Other - unclassified	932,711	-	-	932,711
	<u>3,696,721</u>	<u>101,280</u>	<u>(10,000)</u>	<u>3,788,001</u>
Public safety:				
Police	1,479,999	71,878	(26,600)	1,525,277
Highways and streets:				
Maintenance	1,213,588	20,750	-	1,234,338
Infrastructure	13,138,925	429,179	-	13,568,104
	<u>14,352,513</u>	<u>449,929</u>	<u>-</u>	<u>14,802,442</u>
Culture and recreation:				
Aquatic center	3,809,971	-	-	3,809,971
Library	817,461	17,414	(18,492)	816,383
Parks	1,792,735	261,658	-	2,054,393
CRC community building	297,393	-	-	297,393
Community center building	1,554,879	-	-	1,554,879
	<u>8,272,439</u>	<u>279,072</u>	<u>(18,492)</u>	<u>8,533,019</u>
Total governmental funds capital assets	<u>\$ 27,801,672</u>	<u>\$ 902,159</u>	<u>\$ (55,092)</u>	<u>\$ 28,648,739</u>

STATISTICAL SECTION

CITY OF HERMISTON, OREGON

STATISTICAL SECTION CONTENTS

June 30, 2007

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>
<u>Financial Trends</u>	
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
<u>Revenue Capacity</u>	
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	83-86
<u>Debt Capacity</u>	
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
<u>Demographic and Economic Information</u>	
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
<u>Operating Information</u>	
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, 2007

	Fiscal Year		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>GOVERNMENTAL ACTIVITIES:</u>			
Invested in capital assets, net of related debt	\$ 10,131,151	\$ 9,884,805	\$ 9,960,778
Restricted	163,822	205,077	327,059
Unrestricted	<u>6,954,122</u>	<u>7,290,425</u>	<u>8,070,552</u>
Total governmental activities net assets	<u>17,249,095</u>	<u>17,380,307</u>	<u>18,358,389</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>			
Invested in capital assets, net of related debt	11,882,356	11,322,943	10,976,902
Restricted	-	-	-
Unrestricted	<u>4,549,326</u>	<u>4,270,931</u>	<u>3,501,577</u>
Total business-type activities net assets	<u>16,431,682</u>	<u>15,593,874</u>	<u>14,478,479</u>
<u>TOTAL GOVERNMENT:</u>			
Invested in capital assets, net of related debt	22,013,507	21,207,748	20,937,680
Restricted	163,822	205,077	327,059
Unrestricted	<u>11,503,448</u>	<u>11,561,356</u>	<u>11,572,129</u>
Total government net assets	<u>\$ 33,680,777</u>	<u>\$ 32,974,181</u>	<u>\$ 32,836,868</u>

CITY OF HERMISTON, OREGON

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

June 30, 2007

	Fiscal Year		
	2007	2006	2005
<u>EXPENSES</u>			
Governmental activities:			
General government	\$ 2,006,173	\$ 1,991,504	\$ 2,184,415
Public safety	3,092,095	2,978,182	2,521,609
Highways and streets	1,126,117	1,136,532	1,012,189
Cultural and recreation	2,479,135	2,360,265	1,878,464
Interest on long-term debt	157,475	158,624	130,450
Total governmental activities expenses	<u>8,860,995</u>	<u>8,625,107</u>	<u>7,727,127</u>
Business-type activities:			
Water	2,640,632	2,438,335	2,525,746
Sewer	1,634,939	1,600,498	1,580,785
Electric	6,559,288	6,340,380	6,129,914
Total business-type activities net assets	<u>10,834,859</u>	<u>10,379,213</u>	<u>10,236,445</u>
Total government expenses	<u>\$ 19,695,854</u>	<u>\$ 19,004,320</u>	<u>\$ 17,963,572</u>
<u>PROGRAM REVENUES</u>			
Governmental Activities:			
Charges for services:			
General government	\$ 1,074,679	\$ 1,093,736	\$ 1,301,116
Public safety	104,110	110,257	-
Highways and streets	-	-	-
Cultural and recreation	533,716	501,993	338,776
Operating grants and contributions	154,949	92,995	118,356
Capital grants and contributions	387,466	-	252,821
Total governmental activities program revenues	<u>2,254,920</u>	<u>1,798,981</u>	<u>2,011,069</u>
Business-type activities:			
Charges for services:			
Water	2,414,327	2,297,579	2,414,322
Sewer	1,453,170	1,418,119	1,416,865
Electric	7,217,117	7,300,481	6,920,377
Capital grants and contributions	-	-	75,000
Total business-type activities program revenues	<u>11,084,614</u>	<u>11,016,179</u>	<u>10,826,564</u>
Total government program revenues	<u>\$ 13,339,534</u>	<u>\$ 12,815,160</u>	<u>\$ 12,837,633</u>

CITY OF HERMISTON, OREGON

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

June 30, 2007

	Fiscal Year		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>NET (EXPENSE) REVENUE</u>			
Governmental activities	\$ (6,606,075)	\$ (6,826,126)	\$ (5,716,058)
Business-type activities	249,755	636,966	590,119
Total government expenses	<u>\$ (6,356,320)</u>	<u>\$ (6,189,160)</u>	<u>\$ (5,125,939)</u>
<u>GENERAL REVENUES AND OTHER</u>			
<u>CHANGES IN NET ASSETS</u>			
Governmental activities			
Taxes			
Property taxes	\$ 3,847,564	\$ 3,304,130	\$ 3,122,922
Transient room taxes	313,442	300,436	275,625
Franchise fee	438,831	393,501	363,315
Motor fuel taxes	712,278	721,384	707,943
State shared taxes	389,446	427,229	389,551
Interest and investment earnings	349,544	272,280	112,122
Other revenues	785,148	712,022	663,458
Gain (loss) on sale of capital assets	(11,096)	901	-
Transfers	(350,294)	(283,839)	(953,614)
Total governmental activities	<u>6,474,863</u>	<u>5,848,044</u>	<u>4,681,322</u>
Business-type activities:			
Interest and investment earnings	167,017	117,281	56,794
Other revenues	70,742	77,309	95,317
Transfers	350,294	283,839	953,614
Total business-type activities	<u>588,053</u>	<u>478,429</u>	<u>1,105,725</u>
Total government	<u>7,062,916</u>	<u>6,326,473</u>	<u>5,787,047</u>
<u>CHANGE IN NET ASSETS</u>			
Governmental activities	(131,212)	(978,082)	(1,034,736)
Business-type activities	837,808	1,115,395	1,695,844
Total government	<u>\$ 706,596</u>	<u>\$ 137,313</u>	<u>\$ 661,108</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>2007</u>	<u>2006</u>	<u>2005</u>
<u>GENERAL FUND</u>			
Reserved	\$ 100,000	\$ -	\$ 141,980
Unreserved	3,345,530	2,855,982	3,288,325
Total general fund	<u>3,445,530</u>	<u>2,855,982</u>	<u>3,430,305</u>
<u>ALL OTHER GOVERNMENTAL FUNDS</u>			
Reserved	83,900	39,478	34,000
Unreserved, reported in:			
Special revenue funds	3,437,527	4,231,748	4,605,609
Debt service fund	109,782	315,749	261,521
Total all other governmental funds	<u>\$ 3,631,209</u>	<u>\$ 4,586,975</u>	<u>\$ 4,901,130</u>

CITY OF HERMISTON, OREGON

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

	Fiscal Year		
	2007	2006	2005
<u>REVENUES</u>			
Property taxes	\$ 3,847,564	\$ 3,315,851	\$ 3,107,703
Transient room tax	313,442	300,436	275,625
911 tax	97,111	119,985	133,766
Franchise fees	438,831	393,501	363,315
Intergovernmental	1,004,613	1,067,623	1,264,905
Fees, licenses, and permits	3,165	3,220	2,575
Fines and forfeits	521,637	443,636	359,138
Investment interest	349,544	272,280	112,122
Charges for services	1,190,868	1,259,130	1,278,179
Miscellaneous	1,309,143	781,021	631,458
Total revenues	<u>9,075,918</u>	<u>7,956,683</u>	<u>7,528,786</u>
<u>EXPENDITURES</u>			
General government	1,920,337	1,922,393	2,111,943
Public safety	2,997,690	2,897,049	2,474,233
Highway and streets	813,344	818,743	709,759
Cultural and recreation	2,145,084	2,062,969	1,588,492
Capital outlay	937,742	586,452	1,168,738
Debt service:			
Principal	118,000	109,000	104,000
Interest	159,645	164,716	169,324
Total expenditures	<u>9,091,842</u>	<u>8,561,322</u>	<u>8,326,489</u>
<u>DEFICIENCY OF REVENUES</u>			
<u>UNDER EXPENDITURES</u>			
	<u>(15,924)</u>	<u>(604,639)</u>	<u>(797,703)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers in	2,481,304	1,707,601	1,932,403
Transfers out	(2,831,598)	(1,991,440)	(2,886,017)
Sale of capital assets	-	-	32,000
<u>TOTAL OTHER FINANCING SOURCES (USES)</u>	<u>(350,294)</u>	<u>(283,839)</u>	<u>(921,614)</u>
<u>NET CHANGE IN FUND BALANCES</u>	<u>\$ (366,218)</u>	<u>\$ (888,478)</u>	<u>\$ (1,719,317)</u>
Debt service as a percentage of noncapital expenditures	3.40%	3.43%	3.82%

CITY OF HERMISTON, OREGON

Assessed Value and Estimated Actual Value of Taxable Property.

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Real Property	Personal Property	Public Utilities	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
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%
2007	525,823,953	21,005,565	97,853,803	644,683,321	6.26	798,153,424	80.77%

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,

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<u>Direct rates</u>										
City of Hermiston general	6.09	5.08	5.08	5.08	4.89	4.89	4.89	4.89	4.89	6.06
City of Hermiston bond	0.17	0.65	0.68	0.70	0.73	0.75	0.96	1.10	1.17	1.23
Total direct rates	6.26	5.73	5.76	5.78	5.62	5.64	5.85	5.99	6.06	7.29
<u>Overlapping rates</u>										
Umatilla County	3.14	3.15	3.15	3.20	3.17	3.13	3.29	3.36	3.24	2.85
Hermiston School District #8	7.99	5.96	7.36	7.88	7.09	7.62	8.07	8.69	6.27	4.88
Umatilla County E.S.D.	0.56	0.46	0.46	0.46	0.46	0.46	0.46	0.46	0.46	0.56
Blue Mountain Community College	0.99	0.86	0.84	0.88	0.87	0.89	0.89	0.91	0.54	0.66
Port of Umatilla	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Hermiston Cemetery District #8	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
Hermiston Fire and Emergency Services District #7-404	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	-
West Umatilla Vector Control District	0.25	0.25	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Total overlapping rates	14.37	12.12	13.45	14.06	13.23	13.74	14.35	15.06	12.15	9.39
Total	20.63	17.85	19.21	19.84	18.85	19.38	20.20	21.05	18.21	16.68

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, 2007

Taxpayer	Type of Business	2007				1998			
		Rank	Taxable Assessed Valuation	% of City Taxable Assessed Valuation	Rank	Taxable Assessed Valuation	% of City Taxable Assessed Valuation		
Wal-Mart Stores East LP	Retailer	1	\$ 30,919,040	4.8%					
Home Depot USA Inc.	Retailer	2	9,170,400	1.4%					
Retail Trust #2	Shopping center	3	8,262,110	1.3%					
U.S. West Communications	Telephone utility	4	6,966,100	1.1%	2	6,764,266	2.1%		
Pan Pacific Retail Properties	Shopping center	5	6,949,480	1.1%					
Hermiston Foods LLC	Food processing	6	6,453,320	1.0%					
CMH Manufacturing West, Inc.	Manufacturing plant	7	5,970,800	0.9%					
Umatilla Electric Co-op	Power utility	8	5,928,920	0.9%	6	2,784,805	0.8%		
Wal-Mart Distribution Center #6037	Distribution center	9	5,542,200	0.9%					
Sterling Ridge Apartments, LLC	Apartments	10	4,332,948	0.7%					
Port of Umatilla	Water utility		-		1	9,658,760	2.9%		
Portland Fixture Limited	Shopping center		-		3	6,179,670	1.9%		
Marlette Homes, Inc	Manufacturing plant		-		4	4,112,970	1.2%		
Arrow Rentals & Sales, Inc.	Equipment rental		-		5	2,848,118	0.9%		
S.R. Incco, Inc.	Apartments		-		7	2,746,614	0.8%		
Good Shepherd Hospital	Medical offices		-		8	2,595,824	0.8%		
Vernon and Donna Cook	Apartments		-		9	2,433,475	0.7%		
Cascade Natural Gas Corp.	Natural gas utility		-		10	1,986,676	0.6%		
			\$ 90,495,318	14.1%		\$ 42,111,178	12.7%		

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
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	196,303	2,377,041	100.0
2002	2,637,791	2,448,707	92.8	187,955	2,636,662	100.0
2003	2,784,370	2,591,105	93.1	189,039	2,780,144	99.8
2004	3,042,382	2,833,672	93.1	196,050	3,029,722	99.6
2005	3,232,964	2,972,550	91.9	226,709	3,199,259	99.0
2006	3,395,907	3,156,735	93.0	177,703	3,334,438	98.2
2007	3,983,206	3,702,634	93.0	-	3,702,634	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	Street Revenue Bonds			Revenue Bonds	Refunding Bonds	Notes Payable	Revenue Bonds	Refunding Bonds			
1998	\$4,945,000	750,000	750,000	*	502	4,340,000	1,745,000	539,090	12,319,090	5.36%	1,086		
1999	4,835,000	690,000	690,000	1.31%	462	4,170,000	1,610,000	510,809	11,815,809	4.68%	988		
2000	-	627,000	627,000	0.13%	52	3,995,000	6,185,000	307,775	11,114,775	4.20%	914		
2001	-	561,000	561,000	0.11%	43	3,815,000	5,760,000	281,792	10,417,792	3.53%	792		
2002	-	492,000	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	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	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	265,000	0.54%	259	15,985,000	4,980,000	452,948	25,222,948	6.78%	1,716		
2006	3,515,000	181,000	181,000	0.51%	246	15,980,000	4,650,000	291,452	24,617,452	*	1,638		
2007	3,485,000	93,000	93,000	0.56%	232	13,210,000	6,837,370	128,299	23,753,669	*	1,541		

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, 2007

<u>Jurisdiction</u>	<u>Net General Obligation Bonded Debt Outstanding</u>	<u>Percentage Applicable to City</u>	<u>Amount Applicable to City</u>
<u>DIRECT:</u>			
City of Hermiston (1)	\$ 3,578,000	100.00%	\$ 3,578,000
<u>OVERLAPPING:</u>			
Umatilla County	22,645,000	17.21%	3,898,033
School District #8	41,080,000	48.44%	19,900,105
Blue Mountain Community College	9,835,000	17.21%	1,692,963
Port of Umatilla	3,525,000	17.21%	606,781
Total overlapping	<u>77,085,000</u>		<u>26,097,882</u>
Total direct and overlapping	<u>\$ 80,663,000</u>		<u>\$ 29,675,882</u>

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

CITY OF HERMISTON, OREGON

Computation of Legal Debt Margin

June 30, 2007

Legal Debt Margin Calculation for Fiscal Year 2007

True cash value	\$ 644,683,321									
Debt limit (3% of assessed value)		\$ 19,340,500								
Debt applicable to limit:										
Gross bonded debt	\$ 23,625,370									
Less legal deductions:										
Sewer bonds	(210,000)									
Water bonds	(4,095,000)									
Utility bonds	(2,532,370)									
Street bonds	(93,000)									
Energy bonds	(13,210,000)									
Total net debt applicable to limit		3,485,000								
Legal debt margin		<u>\$ 15,855,500</u>								
Total net debt applicable to the limit as a percentage of debt limit		18.02%								
			1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 9,844,803	\$ 10,300,237	\$ 11,056,712	\$ 12,175,700	\$ 14,031,990	\$ 14,820,876	\$ 15,787,304	\$ 16,840,245	\$ 17,699,914	
Total net debt applicable to limit	-	-	-	-	-	3,636,000	3,565,000	3,540,000	3,515,000	
Legal debt margin	\$ 9,844,803	\$ 10,300,237	\$ 11,056,712	\$ 12,175,700	\$ 14,031,990	\$ 11,184,876	\$ 12,222,304	\$ 13,300,245	\$ 14,184,914	
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	24.53%	22.58%	21.02%	19.86%	

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	
Utility						
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
2007	4,019,316	3,148,615	870,701	240,000	171,713	2.11
Electric						
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
2007	7,303,057	5,479,880	1,823,177	-	601,990	3.03

- (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>
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	25,322	372,233,400	7.8
2006	15,025	*	*	6.2
2007	15,410	*	*	5.2

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

Employer	2007			1998		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Wal-Mart Distribution	1000	1	8.8%			
Washington Demilitarization	500	2	4.4%			
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	426	6	3.8%			
Hermiston School District	420	7	3.7%			
CMH Manufacturing	460	8	4.1%			
Wal-Mart Supercenter	360	9	3.2%			
Hermiston Foods	300	10	2.7%			
			<u>42.7%</u>			

Information not available

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>2007</u>	<u>2006</u>	<u>2005</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	27.5	27
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>103</u>	<u>102.5</u>

Source: City of Hermiston

CITY OF HERMISTON, OREGON

Operating Indicators by Function/Program
Last Three Fiscal Years

<u>FUNCTION/PROGRAM</u>	Fiscal Year		
	2007	2006	2005
Governmental Activities:			
General government			
Number of Senior Citizen Taxi Program tickets sold	29,077	27,879	25,103
Number of building inspections	1,346	2,266	*
Public Safety			
Total police incidents	26,016	25,610	*
Officer initiated	10,366	9,807	*
Calls for police service	15,650	15,803	*
Number of traffic stops	5,602	5,104	*
Highways and streets			
Estimated miles of street swept	10,242	600	*
Cultural and recreation			
Number of library items checked out	98,072	89,835	*
Number of library patrons	8,984	10,007	9,873
Business-type activities:			
Water			
Number of accounts	4,362	4,060	3,954
Annual consumption (in millions of gallons)	2,324	2,983	3,711
Sewer			
Number of accounts	4,494	4,393	4,283
Electricity			
Number of accounts	5,232	5,163	5,139
KWH sold	107,260,781	104,636,712	*

(*) Figure was not available.

Sources: Various City of Hermiston departments.

CITY OF HERMISTON, OREGON

Capital Asset Statistics by Function/Program
Last Three Fiscal Years

Function/Program	Fiscal Year		
	2007	2006	2005
Governmental Activities			
General government			
Administrative buildings	2	2	2
Public Safety			
Police stations	1	1	1
Patrol units			
Cars	17	12	12
Bus	1		
Motorcycles	2	2	2
Motorcycles	2	2	2
Highways and streets			
Miles of streets	63	60	60
Culture and recreation			
Library collection:			
Printed materials	37,140	39,110	*
Audio materials	1,081	1,442	*
Video materials	1,339	1,407	*
Electronic materials	3,451	3,451	*
Business-type activities:			
Water			
Miles of city water line	66	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	2	1
Electric			
Miles of overhead line	37	37	*
Miles of underground line	25	20	*
Transformers	1,600	1,186	*

(*) Figure was not available.

Sources: Various City of Hermiston departments.

CITY OF HERMISTON, OREGON

Miscellaneous Statistical Data

June 30, 2007

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: 15,410

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, 2007

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 37,000 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:

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.

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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, 2007, which collectively comprise City of Hermiston, Oregon's basic financial statements and have issued our report thereon dated November 8, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hermiston, Oregon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Hermiston, Oregon's, internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Hermiston, Oregon's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of City of Hermiston, Oregon's financial statements that is more than inconsequential will not be prevented or detected by City of Hermiston, Oregon's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by City of Hermiston, Oregon's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

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*.

We noted certain matters that we reported to management of City of Hermiston, Oregon in a separate letter dated November 8, 2007.

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
November 8, 2007

CITY OF HERMISTON, OREGON

AUDIT COMMENTS AND DISCLOSURES

June 30, 2007

ACCOUNTING AND INTERNAL CONTROL STRUCTURE

The records of the City are generally well maintained. The City's internal control structure is discussed in the 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*.

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 was not in compliance with collateral requirements during December 2006.

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, Recorders Reserve Fund, Municipal Court Fund, the Conference Center Fund, the Library Reserve Fund and the Law Enforcement Reserve Fund. Budget overexpenditures are disclosed 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, 2007, 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, 2007

PUBLIC CONTRACTS AND PURCHASING

The City appears to be in compliance with legal requirements regarding awarding public contracts.

INVESTMENT OF PUBLIC FUNDS

The City appears to be in compliance 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:

Independently Elected Officials do not handle the funds of the City.