

**CITY OF HERMISTON, OREGON**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended**

**June 30, 2008**

**Prepared by the Department of Finance**

# CITY OF HERMISTON, OREGON

June 30, 2008

## Contents

	<u>Page</u>
<b><u>INTRODUCTORY SECTION:</u></b>	
List of Principal Officials	1
Organizational Chart	2
Letter of Transmittal	3-8
GFOA Certificate of Achievement	9
<b><u>FINANCIAL SECTION:</u></b>	
Independent Auditor's Report	11-12
Management's Discussion and Analysis	13-18
<b><u>Basic Financial Statements:</u></b>	
Statement of Net Assets	20
Statement of Activities	21
Governmental Funds Balance Sheet	22
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	23
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds to the Statement of Activities	25
Statement of Revenues, Expenditures and Change in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual:	
General Fund	26
Reserve Fund	27
Proprietary Funds:	
Statement of Net Assets	28
Statement of Revenues, Expenses, and Changes in Fund Net Assets	29
Statement of Cash Flows	30
Notes to basic Financial Statements	31-53
<b><u>Supplementary Information:</u></b>	
Non-major Governmental Funds:	
Non-major Governmental Funds	55
Combining Balance Sheet	56
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	57
Reserve Fund – Schedule for Detail Allocations (Non-GAAP Budgetary Basis)	58

# CITY OF HERMISTON, OREGON

June 30, 2008

## Contents (Continued)

	<u>Page</u>
<b><u>Supplementary Information (continued):</u></b>	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual:	
State Tax Street Fund	59
Transient Room Tax Fund	60
911 Communications Fund	61
Revolving Loan Fund	62
Bonded Debt Fund	63
Utility Fund	64
Energy Fund	65
Regional Water Fund	66
Reconciliation of GAAP Basis Revenues, Expenditures and Fund Equity to Budgetary Basis Revenues, Expenditures and Fund Equity	67
Schedule of Property Tax Transactions and Outstanding Balances	68
Schedule of Future Debt Service Requirements of Bonds Payable	69
Schedule of Long-Term Debt Transactions	70
Annual accounting of System Development Charges	71
Capital Assets Used In the Operation of Governmental Activities - Schedule by Function and Activity	73
Capital Assets Used In the Operation of Governmental Activities - Comparative Schedules By Source	74
Capital Assets Used In the Operation of Governmental Activities - Schedule of Changes by Function and Activity	75
<b><u>STATISTICAL SECTION:</u></b>	
Statistical Section Contents	77
Net Assets by Component	78
Changes in Net Assets - Last Three Fiscal Years (Accrual Basis of Accounting)	79-80
Fund Balances, Governmental Funds (Modified Accrual Basis of Accounting)	81
Changes in Fund Balances, Governmental Funds (Modified Accrual Basis of Accounting)	82
Assessed Value and Estimated Actual Value of Taxable Property	83
Property Tax Rates – Direct and Overlapping Governments	84
Principal Taxpayers	85
Property Tax Levies and Collections	86
Ratios of Outstanding Debt by Type	87

**CITY OF HERMISTON, OREGON**

**June 30, 2008**

**Contents (Continued)**

	<u>Page</u>
<b><u>STATISTICAL SECTION (continued):</u></b>	
Computation of Direct and Overlapping Bonded Debt - General Obligation Bonds	88
Computation of Legal Debt Margin	89
Pledged-Revenue Coverage	90
Demographic Statistics	91
Principal Employers	92
Full-Time Equivalent City Government Employees by Function/Program	93
Operating Indicators by Function/Program	94
Capital Asset Statistics by Function/Program	95
Miscellaneous Statistical Data	96-97
<b><u>AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS:</u></b>	
Audit Comments and Disclosures Required by State Regulations	99
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	100-101
Audit Comments and Disclosures	102-103

**INTRODUCTORY SECTION**

**CITY OF HERMISTON, OREGON**

**List of Principal Officials**

**June 30, 2008**

**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
Brian Misner	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
Frank J. Harkenrider	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:	Patrick D. Napolitano
Water Superintendent:	Roy Bicknell
Wastewater Superintendent:	Darrell J. Schiffner
Library Director:	Marie L. Baldo
City Attorney:	Gary Luisi

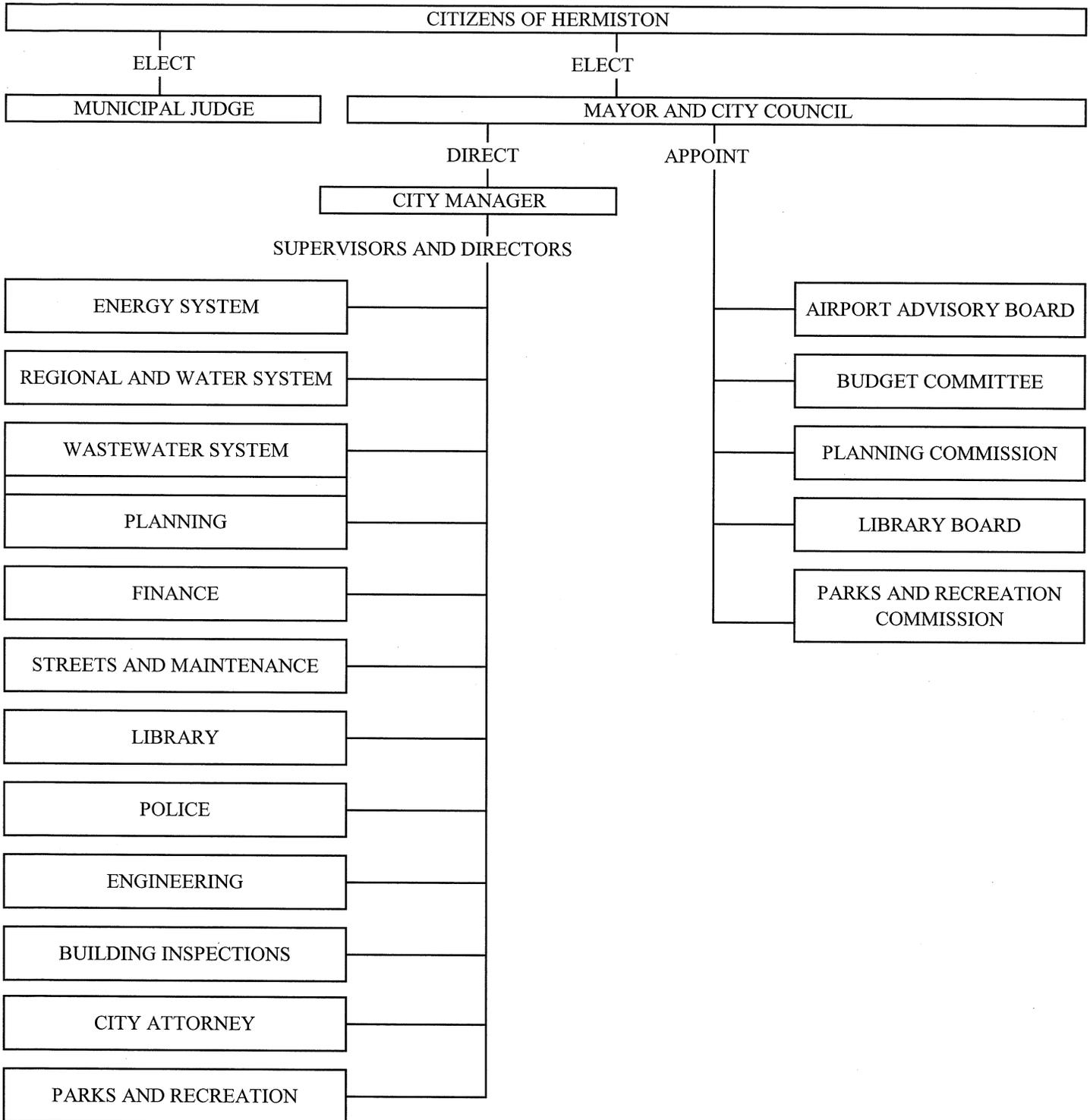
**OFFICIAL ADDRESS**

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

**CITY OF HERMISTON, OREGON**

**Organizational Chart**

**June 30, 2008**





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

November 10, 2008

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, 2008, 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 transportation/logistics, agriculture, food processing and other light industry. Hermiston is located in west Umatilla County in northeast Oregon, less than a day's drive from major markets such as Portland, Spokane, Seattle and Boise, 35 miles west of Pendleton and south of the Tri-Cities, Washington, and six miles south of the Columbia River. The city covers approximately 4,500 acres.

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

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

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

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

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

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

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

**ECONOMIC CONDITIONS AND OUTLOOK**

A labor market economist for the State of Oregon speaks of Hermiston as "one of the most desirable sites for industrial development in the Pacific Northwest" because of its low land costs, large inventory of industrially zoned land, reasonable local taxes and excellent access to transportation routes. The citizens and government of Hermiston boast a progressive, growth oriented philosophy that encourages new business to locate here, and have established city services for a population of 30,000. Current estimated population is 15,785.

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 newest addition to the medical community is the Yakima Farm Workers Clinic completed in 2008. 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, Office Max and Big 5 Sports, 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 2008, 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 town sites 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 15,785 in 2008.

## 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, and Eastern Oregon Symphony. There are eight 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 \$3,500,000 on improvements to its wastewater treatment plant as part of a multi-year project expected to total \$16,500,000. The City approved a \$1,500,000 line of credit to provide interim financing.

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 2008.

The City anticipates continuing efforts to improve and develop its streets, 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 \$35,000 in the recorder's reserve fund for uninsured losses.

### **AWARDS**

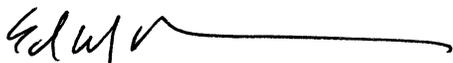
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to City of Hermiston for its comprehensive annual financial report for the fiscal year ended June 30, 2007. In order to be awarded a Certificate 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, 2007

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.



*Oliver S. Cox*

President

*Jeffrey R. Emery*

Executive Director

**FINANCIAL SECTION**

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

CERTIFIED PUBLIC ACCOUNTANTS

495 E. Main

Hermiston, OR 97838

(541) 567-5215

(541) 567-0497 Fax

DENNIS L. BARNETT, C.P.A.

GERALD J. MORO, C.P.A.

KRISTIE L. SHASTEEN, C.P.A.

CAMERON W. ANDERSON, C.P.A.

RICHARD L. STODDARD, C.P.A.

BETSY J. BENNETT, 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, and the aggregate remaining fund information of City of Hermiston, Oregon as of and for the year ended June 30, 2008, 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, and the aggregate remaining fund information of City of Hermiston, Oregon, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgeting comparison for the general fund and reserve fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

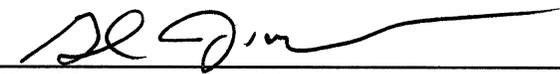
In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2008, on our consideration of City of Hermiston, Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 important for assessing the results of our audit.

Mayor and City Council  
City of Hermiston  
Page two

The management's discussion and analysis is not a required part of the basic financial statements but is 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, supplementary information, capital assets used in the operation of governmental funds section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has 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, the capital assets used in the operation of governmental funds section, and statistical section 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  
October 28, 2008

# CITY OF HERMISTON, OREGON

## Management's Discussion and Analysis

June 30, 2008

This discussion and analysis provides 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 several 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, 2008**

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 that prepare budgets that are 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	
	2008	2007	2008	2007	2008	2007
Cash and investments	\$ 7,658	\$ 7,135	\$ 3,895	\$ 3,907	\$ 11,553	\$ 11,042
Other assets	625	508	1,556	1,676	2,181	2,184
Capital assets	13,605	13,709	31,965	31,712	45,570	45,421
<b>Total assets</b>	<b>21,888</b>	<b>21,352</b>	<b>37,416</b>	<b>37,295</b>	<b>59,304</b>	<b>58,647</b>
Other liabilities	588	525	1,182	1,034	1,770	1,559
Long term debt outstanding	3,450	3,578	19,173	19,829	22,623	23,407
<b>Total liabilities</b>	<b>4,038</b>	<b>4,103</b>	<b>20,355</b>	<b>20,863</b>	<b>24,393</b>	<b>24,966</b>
Net assets:						
Invested in capital assets, net of debt	10,155	10,131	12,732	11,883	22,887	22,014
Restricted	-	164	-	-	-	164
Unrestricted	7,695	6,954	4,329	4,549	12,024	11,503
<b>Total net assets</b>	<b>\$ 17,850</b>	<b>\$ 17,249</b>	<b>\$ 17,061</b>	<b>\$ 16,432</b>	<b>\$ 34,911</b>	<b>\$ 33,681</b>

**CITY OF HERMISTON, OREGON**

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

**June 30, 2008**

**Financial Highlights (continued)**

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

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>REVENUES</b>						
Program revenues:						
Charges for service	\$ 1,864	\$ 1,712	\$ 11,090	\$ 11,085	\$ 12,954	\$ 12,797
Operating Grants and contributions	130	155	-	-	130	155
Capital Grants and contributions	323	387	-	-	323	387
General revenues:						
Taxes	6,183	5,702	-	-	6,183	5,702
Interest	203	350	174	167	377	517
Other	708	774	85	71	793	845
Total revenues	<u>9,411</u>	<u>9,080</u>	<u>11,349</u>	<u>11,323</u>	<u>20,760</u>	<u>20,403</u>
<b>EXPENSES</b>						
Governmental activities:						
General government	2,205	2,006	-	-	2,205	2,006
Public safety	3,253	3,092	-	-	3,253	3,092
Highways and streets	1,196	1,126	-	-	1,196	1,126
Economic development	55	-	-	-	55	-
Cultural and recreation	2,472	2,479	-	-	2,472	2,479
Interest on long-term debt	150	158	-	-	150	158
Business-type activities:						
Water	-	-	2,632	2,641	2,632	2,641
Sewer	-	-	1,555	1,635	1,555	1,635
Electric	-	-	6,397	6,559	6,397	6,559
Total expenses	<u>9,331</u>	<u>8,861</u>	<u>10,584</u>	<u>10,835</u>	<u>19,915</u>	<u>19,696</u>
Change in net assets before transfers	80	219	765	488	845	707
Transfers	521	(350)	(521)	350	-	-
Extraordinary items	-	-	385	-	385	-
Change in net assets	<u>601</u>	<u>(131)</u>	<u>629</u>	<u>838</u>	<u>1,230</u>	<u>707</u>
Beginning net assets	17,249	17,380	16,432	15,594	33,681	32,974
Ending net assets	<u>\$ 17,850</u>	<u>\$ 17,249</u>	<u>\$ 17,061</u>	<u>\$ 16,432</u>	<u>\$ 34,911</u>	<u>\$ 33,681</u>

## CITY OF HERMISTON, OREGON

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

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

The City's overall net assets (reported on the government-wide Statement of Activities) increased by \$1,230,000 during the year. Key elements of the changes in net assets are explained as follows:

#### **Fund Analysis**

##### **Governmental Activities**

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.

The primary fund of the City, the General Fund, ended the year of operations with an increase in fund balance of \$69,419. Total revenues in the General Fund increased by 2% over the prior year, due primarily to increases in property taxes of 5%. Property tax revenues increased because of increasing property values within the City of Hermiston. The assessed value of property within the City increased \$25,000,000 since 2007. The factors increased the City's tax levy by approximately \$403,000. Expenditures in the General Fund increased by 6% over the prior year. Expenditure increases were primarily due to general government and public safety payroll.

The second major governmental fund, the Reserve Fund, ended the fiscal year with an increase in fund balance of \$315,969. Total revenues and expenditures in this fund decreased from the prior year by 20% and 21%, respectively. The decrease in revenues is due mainly to decreased investment income and grants and contributions. The decrease in expenditures was due primarily to decreased capital outlay expenditures from the prior year.

The remaining governmental funds ended with an increase in fund balance of \$212,089. Revenues increased by 15% over the prior year and expenditures increased by 2% over the prior year. The increase in revenues was due primarily to increases in voter approved property taxes of 64% over the prior year. These taxes are levied to provide for repayment of a voter approved bond. The City reduced its levy for these taxes below normal levels in 2007 to expend an accumulated surplus.

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

The Utility Fund experienced a decrease in fund balance of \$102,393. Revenues decreased by less than 1% while expenses increased by less than 1% over the prior year. The decrease in fund balance was due mainly to transfers out in excess of transfers in.

The fund balance in the Energy Fund increased by \$796,375 during the year ended June 30, 2008. Energy Fund revenues increased by 1% over the prior year while expenses decreased by 3%. The decrease in expenses was primarily because the City's cost to purchase and transmit wholesale electricity was slightly lower than the previous year. The City also received a \$385,614 settlement payment relating to electricity rates charged by a supplier, as explained in the note to the financial statements titled extraordinary item.

The Regional Water Fund experienced a decrease in fund balance of \$64,240. Revenues decreased by 3% and expenses decreased by 4%. The decrease in revenue was due to a decrease in water income and the decrease in expenses was mainly due to decreased river station payroll.

**CITY OF HERMISTON, OREGON**

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

**June 30, 2008**

**Budgetary Highlights**

The City modified its budget three times for unforeseen events. The City approved three supplemental budgets to appropriate expenditure of beginning cash balances in excess of expectations.

General Fund revenues exceeded budgeted expectations by \$943,725. The City has, and will continue to budget conservatively on general revenues. Specific increases in revenues are discussed in Governmental Activities above.

**Capital Assets**

The City had \$45.6 million in capital assets net of depreciation at June 30, 2008 allocated as follows:

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

	Governmental Activities		Business-type Activities		Total Governmental	
	2008	2007	2008	2007	2008	2007
Land	\$ 2,209	\$ 2,109	\$ 650	\$ 650	\$ 2,859	\$ 2,759
Construction in progress	75	-	1,104	425	1,179	425
Buildings and systems	6,012	6,170	29,906	30,268	35,918	36,438
Machinery, equipment	342	495	305	369	647	864
Street system	4,967	4,935	-	-	4,967	4,935
Total capital assets	<u>\$ 13,605</u>	<u>\$ 13,709</u>	<u>\$ 31,965</u>	<u>\$ 31,712</u>	<u>\$ 45,570</u>	<u>\$ 45,421</u>

Major changes in capital assets included the following:

The City added \$1,104,000 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 added a park tower to McKenzie Park at a cost of \$171,000.

The City spent \$320,000 on street and bridge upgrades.

Extensions and upgrades to utility systems added \$208,000 to buildings and systems.

The City's purchased Victory Square Park land for \$100,000.

Additional information on capital assets can be found in the note to the financial statements titled Capital Assets.

**CITY OF HERMISTON, OREGON**

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

**June 30, 2008**

**Debt Administration**

At year end, the City had \$23.0 million in long term debt outstanding compared to \$23.8 last year. The City repaid \$759,000 of long term debt during the year. Additional information on debt administration can be found in Note 7 to the Financial Statements.

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

The City approved a \$1,500,000 line of credit to provide interim financing for wastewater plant improvements expected to cost \$16,500,000 over several years. These factors were considered in preparing the City's 2008-2009 budget and 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, 2008**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 7,658,548	\$ 3,895,081	\$ 11,553,629
Accounts and other receivables, net	125,425	1,221,903	1,347,328
Property taxes receivable	306,002	-	306,002
Contracts receivable	193,585	-	193,585
Bond issue costs, net	-	334,274	334,274
Capital assets:			
Nondepreciable	2,284,036	1,754,484	4,038,520
Depreciable, net of depreciation	11,320,865	30,210,244	41,531,109
Total assets	<u>21,888,461</u>	<u>37,415,986</u>	<u>59,304,447</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	123,425	504,038	627,463
Accrued interest payable	12,411	255,718	268,129
Compensated absences payable	230,872	70,018	300,890
Deposits payable	-	292,291	292,291
Unearned revenue	221,696	-	221,696
Notes payable			
Due within one year	-	38,390	38,390
Due in more than one year	-	21,263	21,263
Bonds payable			
Due within one year	40,000	515,459	555,459
Due in more than one year	3,410,000	18,657,385	22,067,385
Total liabilities	<u>4,038,404</u>	<u>20,354,562</u>	<u>24,392,966</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets (net of related debt)	10,154,901	12,732,231	22,887,132
Unrestricted	7,695,156	4,329,193	12,024,349
Total net assets	<u>\$ 17,850,057</u>	<u>\$ 17,061,424</u>	<u>\$ 34,911,481</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, 2008**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>						
General government	\$ 2,205,586	\$ 28,874	\$ 96,741	\$ (1,433,939)	\$ -	\$ (1,433,939)
Public safety	3,252,838	18,017	-	(2,590,346)	-	(2,590,346)
Highways and streets	1,195,630	-	127,458	(1,068,172)	-	(1,068,172)
Economic development	55,184	54,679	-	(505)	-	(505)
Cultural and recreation	2,472,003	28,867	98,493	(1,771,753)	-	(1,771,753)
Interest on long-term debt	149,829	-	-	(149,829)	-	(149,829)
Total governmental activities	9,331,070	130,437	322,692	(7,014,544)	-	(7,014,544)
<b>Business-type activities:</b>						
Water	2,631,598	-	-	-	(244,333)	(244,333)
Sewer	1,555,313	-	-	-	(104,889)	(104,889)
Electric	6,397,294	-	-	-	854,828	854,828
Total business-type activities	10,584,205	-	-	-	505,606	505,606
Total government	\$ 19,915,275	\$ 130,437	\$ 322,692	(7,014,544)	505,606	(6,508,938)
<b>General revenues:</b>						
Property taxes, levied for general purposes				3,928,202	-	3,928,202
Property taxes, levied for debt service				325,102	-	325,102
Transient room taxes				320,022	-	320,022
Franchise tax				424,780	-	424,780
911 taxes				172,219	-	172,219
Motor fuel taxes				682,152	-	682,152
State shared taxes - unrestricted				330,842	-	330,842
Interest and investment earnings				203,167	174,581	377,748
Other revenues				708,055	84,906	792,961
Transfers				520,965	(520,965)	-
Total general revenues and transfers				7,615,506	(261,478)	7,354,028
Extraordinary item				-	385,614	385,614
Change in net assets				600,962	629,742	1,230,704
Net assets--beginning				17,249,095	16,431,682	33,680,777
Net assets--ending				\$ 17,850,057	\$ 17,061,424	\$ 34,911,481

**CITY OF HERMISTON, OREGON**

**Governmental Funds**

**Balance Sheet**

**June 30, 2008**

	<u>General</u>	<u>Reserve</u>	<u>Other Governmental</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 3,365,237	\$ 3,454,778	\$ 838,533	\$ 7,658,548
Receivables:				
Property taxes	283,771	-	22,231	306,002
Special assessments	2,910	-	-	2,910
Intergovernmental and other	108,246	-	14,269	122,515
Contracts receivable	-	-	193,585	193,585
Total assets	<u>\$ 3,760,164</u>	<u>\$ 3,454,778</u>	<u>\$ 1,068,618</u>	<u>\$ 8,283,560</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b><u>LIABILITIES:</u></b>				
Accounts payable	\$ -	\$ 56,547	\$ 66,878	\$ 123,425
Deferred revenues	245,215	-	19,008	264,223
Unearned revenues	-	-	221,696	221,696
Total liabilities	<u>245,215</u>	<u>56,547</u>	<u>307,582</u>	<u>609,344</u>
 <b><u>FUND BALANCES:</u></b>				
Unreserved, reported in:				
General fund, undesignated	3,514,949	-	-	3,514,949
Special revenue funds:				
Designated for general government	-	-	270,878	270,878
Designated for public safety	-	-	21,321	21,321
Designated for culture and recreation	-	-	219,924	219,924
Designated for capital outlay	-	3,398,231	136,674	3,534,905
Debt service fund:				
Designated for debt service	-	-	112,239	112,239
Total fund balances	<u>3,514,949</u>	<u>3,398,231</u>	<u>761,036</u>	<u>7,674,216</u>
Total liabilities and fund balances	<u>\$ 3,760,164</u>	<u>\$ 3,454,778</u>	<u>\$ 1,068,618</u>	<u>\$ 8,283,560</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, 2008**

<b><u>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</u></b>		\$ 7,674,216
<p>Capital assets used in governmental activities are not financial resources, therefore, are not reported in the governmental funds' balance sheet.</p>		
Acquisition cost	\$ 29,411,491	
Accumulated depreciation	<u>(15,806,590)</u>	
		13,604,901
<p>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.</p>		
		261,632
<p>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.</p>		
		2,591
<p>Accrued compensated absences are not due and payable with current financial resources, therefore, they are not reported in the funds' balance sheet.</p>		
		(230,872)
<p>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.</p>		
Bonds payable	(3,450,000)	
Accrued interest payable	<u>(12,411)</u>	
		<u>(3,462,411)</u>
<b><u>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</u></b>		<b><u>\$ 17,850,057</u></b>

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, 2008**

	<u>General</u>	<u>Reserve</u>	<u>Other Governmental</u>	<u>Total</u>
<b><u>REVENUES:</u></b>				
Property taxes	\$ 3,926,351	\$ -	\$ 323,715	\$ 4,250,066
Transient room tax	210,014	60,004	50,004	320,022
911 tax	-	-	172,219	172,219
Franchise tax	424,780	-	-	424,780
Intergovernmental	330,842	-	682,152	1,012,994
Fees, licenses, and permits	5,165	-	-	5,165
Fines and forfeits	339,611	-	195,316	534,927
Investment interest	98,976	95,941	8,250	203,167
Charges for services	828,571	127,389	367,345	1,323,305
Grants and contributions	28,874	322,692	101,563	453,129
Miscellaneous	408,976	-	305,975	714,951
Total revenues	<u>6,602,160</u>	<u>606,026</u>	<u>2,206,539</u>	<u>9,414,725</u>
<b><u>EXPENDITURES:</u></b>				
Current:				
General government	1,533,594	25,951	535,278	2,094,823
Public safety	2,451,885	-	665,024	3,116,909
Highways and streets	-	68,340	780,556	848,896
Economic development	-	-	55,184	55,184
Cultural and recreation	1,847,031	42,412	262,232	2,151,675
Debt service:				
Principal	-	-	128,000	128,000
Interest	-	-	154,355	154,355
Capital Outlay:				
General government	16,825	75,366	-	92,191
Public safety	58,448	-	-	58,448
Highways and streets	-	319,890	-	319,890
Cultural and recreation	111,740	191,102	15,000	317,842
Total expenditures	<u>6,019,523</u>	<u>723,061</u>	<u>2,595,629</u>	<u>9,338,213</u>
<b><u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u></b>	<u>582,637</u>	<u>(117,035)</u>	<u>(389,090)</u>	<u>76,512</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Transfers in	481,851	1,647,645	977,069	3,106,565
Transfers out	<u>(995,069)</u>	<u>(1,214,641)</u>	<u>(375,890)</u>	<u>(2,585,600)</u>
Total other financing sources (uses)	<u>(513,218)</u>	<u>433,004</u>	<u>601,179</u>	<u>520,965</u>
<b><u>NET CHANGE IN FUND BALANCES</u></b>	69,419	315,969	212,089	597,477
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>3,445,530</u>	<u>3,082,262</u>	<u>548,947</u>	<u>7,076,739</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ 3,514,949</u>	<u>\$ 3,398,231</u>	<u>\$ 761,036</u>	<u>\$ 7,674,216</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, 2008**

Net change in fund balances - total governmental funds \$ 597,477

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	\$ 788,371	
Less current year depreciation	<u>(892,621)</u>	(104,250)

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. (3,658)

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. 128,000

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. (16,607)

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 600,962

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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
<b><u>REVENUES:</u></b>				
Property taxes	\$ 3,450,000	\$ 3,450,000	\$ 3,911,957	\$ 461,957
Transient room tax	176,700	176,700	210,014	33,314
Franchise fees	660,100	660,100	789,791	129,691
Intergovernmental	264,000	268,800	326,452	57,652
Fees, licenses, and permits	500	500	5,165	4,665
Fines and forfeits	225,000	225,000	339,611	114,611
Investment interest	200,000	200,000	229,057	29,057
Charges for services	734,500	734,500	827,960	93,460
Miscellaneous	389,500	389,500	408,818	19,318
Total revenues	<u>6,100,300</u>	<u>6,105,100</u>	<u>7,048,825</u>	<u>943,725</u>
<b><u>EXPENDITURES:</u></b>				
Personal services	4,402,030	4,483,130	4,157,494	325,636
Materials and services	1,513,905	1,667,630	1,675,016	(7,386)
Capital outlay	78,900	95,900	87,013	8,887
Total expenditures	<u>5,994,835</u>	<u>6,246,660</u>	<u>5,919,523</u>	<u>327,137</u>
<b><u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u></b>				
	<u>105,465</u>	<u>(141,560)</u>	<u>1,129,302</u>	<u>1,270,862</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Transfers in	-	-	-	-
Transfers out	<u>(934,405)</u>	<u>(1,094,805)</u>	<u>(995,069)</u>	<u>99,736</u>
Total other financing sources (uses)	<u>(934,405)</u>	<u>(1,094,805)</u>	<u>(995,069)</u>	<u>99,736</u>
<b><u>NET CHANGE IN FUND BALANCE</u></b>	<u>(828,940)</u>	<u>(1,236,365)</u>	<u>134,233</u>	<u>1,370,598</u>
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>853,940</u>	<u>1,261,365</u>	<u>3,228,995</u>	<u>1,967,630</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 3,363,228</u>	<u>\$ 3,338,228</u>

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

**CITY OF HERMISTON, OREGON**

**Reserve Fund**

**Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non-GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES:</u></b>				
Taxes	\$ 93,140	\$ 93,140	\$ 60,004	\$ (33,136)
Intergovernmental	762,000	762,000	342,784	(419,216)
Reimbursements and other	-	-	127,389	127,389
Total revenues	<u>855,140</u>	<u>855,140</u>	<u>530,177</u>	<u>(324,963)</u>
<b><u>EXPENDITURES:</u></b>				
Materials and services	245,020	245,020	136,703	108,317
Capital outlay	5,402,720	5,922,720	1,690,899	4,231,821
Total expenditures	<u>5,647,740</u>	<u>6,167,740</u>	<u>1,827,602</u>	<u>4,340,138</u>
<b><u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u></b>				
	<u>(4,792,600)</u>	<u>(5,312,600)</u>	<u>(1,297,425)</u>	<u>4,015,175</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Transfers from:				
General Fund	18,000	18,000	18,000	-
Street Fund	7,500	7,500	7,500	-
Utility Fund	910,000	1,430,000	1,430,000	-
Regional Water Fund	10,000	10,000	10,000	-
Energy Services Fund	182,145	182,145	182,145	-
Total other financing sources (uses)	<u>1,127,645</u>	<u>1,647,645</u>	<u>1,647,645</u>	<u>-</u>
<b><u>NET CHANGE IN FUND BALANCE</u></b>				
	<u>(3,664,955)</u>	<u>(3,664,955)</u>	<u>350,220</u>	<u>4,015,175</u>
<b><u>FUND BALANCES, BEGINNING</u></b>				
	<u>3,664,955</u>	<u>3,664,955</u>	<u>3,046,288</u>	<u>(618,667)</u>
<b><u>FUND BALANCES, ENDING</u></b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,396,508</u>	<u>\$ 3,396,508</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, 2008**

	Business-Type Activities-Enterprise Funds			
	Utility	Energy	Regional Water	Totals
<b><u>ASSETS</u></b>				
<b><u>CURRENT ASSETS:</u></b>				
Cash and cash equivalents	\$ 611,177	\$ 2,896,688	\$ 387,216	\$ 3,895,081
Accounts receivable	586,877	714,734	20,092	1,321,703
Allowance for doubtful accounts	(79,800)	(20,000)	-	(99,800)
Total current assets	<u>1,118,254</u>	<u>3,591,422</u>	<u>407,308</u>	<u>5,116,984</u>
<b><u>NONCURRENT ASSETS:</u></b>				
Capital assets, net	13,572,035	11,647,558	6,745,135	31,964,728
Bond issue costs, net	17,514	316,760	-	334,274
Total noncurrent assets	<u>13,589,549</u>	<u>11,964,318</u>	<u>6,745,135</u>	<u>32,299,002</u>
Total assets	<u>14,707,803</u>	<u>15,555,740</u>	<u>7,152,443</u>	<u>37,415,986</u>
<b><u>LIABILITIES</u></b>				
<b><u>CURRENT LIABILITIES:</u></b>				
Accounts payable	130,738	372,525	775	504,038
Accrued interest payable	23,561	144,026	88,131	255,718
Compensated absences payable	70,018	-	-	70,018
Deposits payable	142,840	149,451	-	292,291
Notes payable	38,390	-	-	38,390
Bonds payable	215,459	140,000	160,000	515,459
Total current liabilities	<u>621,006</u>	<u>806,002</u>	<u>248,906</u>	<u>1,675,914</u>
<b><u>NONCURRENT LIABILITIES:</u></b>				
Notes payable	21,263	-	-	21,263
Bonds payable	2,109,803	12,757,582	3,790,000	18,657,385
Total long-term liabilities	<u>2,131,066</u>	<u>12,757,582</u>	<u>3,790,000</u>	<u>18,678,648</u>
Total liabilities	<u>2,752,072</u>	<u>13,563,584</u>	<u>4,038,906</u>	<u>20,354,562</u>
<b><u>NET ASSETS</u></b>				
Invested in capital assets (net of related debt)	11,187,120	(1,250,024)	2,795,135	12,732,231
Unrestricted	768,611	3,242,180	318,402	4,329,193
Total net assets	<u>\$ 11,955,731</u>	<u>\$ 1,992,156</u>	<u>\$ 3,113,537</u>	<u>\$ 17,061,424</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, 2008**

	Business-Type Activities - Enterprise Funds			
	Utility	Energy	Regional Water	Totals
<b><u>OPERATING REVENUE:</u></b>				
Charges for sales and services:				
Pledged as security for revenue bonds:				
Electricity	\$ -	\$ 7,252,122	\$ -	\$ 7,252,122
Water	1,901,028	-	-	1,901,028
Sewer	1,450,424	-	-	1,450,424
Miscellaneous revenues	38,071	46,835	-	84,906
Unpledged:				
Water	-	-	486,237	486,237
Total operating revenue	<u>3,389,523</u>	<u>7,298,957</u>	<u>486,237</u>	<u>11,174,717</u>
<b><u>OPERATING EXPENSES:</u></b>				
Cost of sales and services:				
Electricity	-	5,318,427	-	5,318,427
Water	1,317,778	-	512,465	1,830,243
Sewer	1,380,116	-	-	1,380,116
Depreciation and amortization	473,547	482,004	176,033	1,131,584
Total operating expenses	<u>3,171,441</u>	<u>5,800,431</u>	<u>688,498</u>	<u>9,660,370</u>
<b><u>OPERATING INCOME</u></b>	<u>218,082</u>	<u>1,498,526</u>	<u>(202,261)</u>	<u>1,514,347</u>
<b><u>NONOPERATING REVENUES</u></b>				
<b><u>(EXPENSES):</u></b>				
Interest on investments	119,837	54,744	-	174,581
Interest expense	(114,853)	(596,863)	(212,119)	(923,835)
Total nonoperating revenue (expenses)	<u>4,984</u>	<u>(542,119)</u>	<u>(212,119)</u>	<u>(749,254)</u>
<b><u>INCOME BEFORE TRANSFERS AND</u></b>				
<b><u>EXTRAORDINARY ITEM</u></b>	<u>223,066</u>	<u>956,407</u>	<u>(414,380)</u>	<u>765,093</u>
Transfers in	1,104,541	-	360,140	1,464,681
Transfers out	(1,430,000)	(545,646)	(10,000)	(1,985,646)
Total transfers	<u>(325,459)</u>	<u>(545,646)</u>	<u>350,140</u>	<u>(520,965)</u>
<b><u>INCOME BEFORE EXTRAORDINARY</u></b>				
<b><u>ITEM</u></b>	<u>(102,393)</u>	<u>410,761</u>	<u>(64,240)</u>	<u>244,128</u>
Extraordinary item	-	385,614	-	385,614
<b><u>CHANGE IN NET ASSETS</u></b>	<u>(102,393)</u>	<u>796,375</u>	<u>(64,240)</u>	<u>629,742</u>
<b><u>TOTAL NET ASSETS - BEGINNING</u></b>	<u>12,058,124</u>	<u>1,195,781</u>	<u>3,177,777</u>	<u>16,431,682</u>
<b><u>TOTAL NET ASSETS - ENDING</u></b>	<u>\$ 11,955,731</u>	<u>\$ 1,992,156</u>	<u>\$ 3,113,537</u>	<u>\$ 17,061,424</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, 2008**

	Business-Type Activities - Enterprise Funds			
	Utility	Energy	Regional Water	Totals
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Receipts from customers	\$ 3,401,203	\$ 7,347,553	\$ 505,378	\$ 11,254,134
Payments to suppliers	(1,072,780)	(4,998,492)	(362,513)	(6,433,785)
Payments to employees	(1,635,746)	(211,357)	(151,384)	(1,998,487)
Net cash provided by(used in) operating activities	692,677	2,137,704	(8,519)	2,821,862
<b><u>CASH FLOWS FROM NONCAPITAL</u></b>				
<b><u>FINANCING ACTIVITIES:</u></b>				
Transfer from other funds	1,104,541	-	360,140	1,464,681
Transfer to other funds	(1,430,000)	(545,646)	(10,000)	(1,985,646)
Settlement received	-	385,614	-	385,614
Net cash provided by (used in) noncapital financing activities	(325,459)	(160,032)	350,140	(135,351)
<b><u>CASH FLOWS FROM CAPITAL AND RELATED</u></b>				
<b><u>FINANCING ACTIVITIES:</u></b>				
Acquisition and construction of capital assets	(1,121,544)	(207,642)	-	(1,329,186)
Interest paid on bonds and notes	(119,663)	(578,730)	(215,140)	(913,533)
Principal paid on bonds and notes	(453,670)	(32,084)	(145,000)	(630,754)
Net cash used in capital and related financing activities	(1,694,877)	(818,456)	(360,140)	(2,873,473)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>				
Interest received	119,837	54,744	-	174,581
<b><u>NET INCREASE (DECREASE) IN CASH</u></b>	(1,207,822)	1,213,960	(18,519)	(12,381)
<b><u>CASH AND CASH EQUIVALENTS, BEGINNING</u></b>	1,818,999	1,682,728	405,735	3,907,462
<b><u>CASH AND CASH EQUIVALENTS, ENDING</u></b>	\$ 611,177	\$ 2,896,688	\$ 387,216	\$ 3,895,081
<b><u>RECONCILIATION OF OPERATING INCOME</u></b>				
<b><u>TO NET CASH PROVIDED BY</u></b>				
<b><u>OPERATING ACTIVITIES:</u></b>				
Operating income (loss)	\$ 218,082	\$ 1,498,526	\$ (202,261)	\$ 1,514,347
<b><u>ADJUSTMENTS TO RECONCILE OPERATING</u></b>				
<b><u>INCOME TO NET CASH PROVIDED</u></b>				
<b><u>BY OPERATING ACTIVITIES:</u></b>				
Depreciation and amortization	473,547	482,004	176,033	1,131,584
Change in assets and liabilities:				
Accounts receivable	11,680	48,596	19,141	79,417
Accounts payable and accrued expenses	(10,632)	108,578	(1,432)	96,514
<b><u>NET CASH PROVIDED BY OPERATING</u></b>	\$ 692,677	\$ 2,137,704	\$ (8,519)	\$ 2,821,862
<b><u>ACTIVITIES</u></b>				

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, 2008**

**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, 2008**

**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 and unearned revenue. Governmental funds report deferred revenues when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Governmental funds report unearned revenues when resources are received by the government before they are earned. Unearned revenue is also reported as a liability on the Government-wide financial statements. In subsequent periods, when other revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability is removed and revenue is recognized.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

**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, 2008**

**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, 2008**

**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 appropriate 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, 2008**

**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, 2008**

**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, 2008**

**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 three supplemental budgets which increased total appropriations by \$1,448,625.

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, 2008**

**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, 2008:

General Fund:

Materials and services \$ 7,386

Transient Room Tax Fund:

Materials and services \$ 13,817

**NOTE 3 – CASH AND INVESTMENTS:**

Cash and investments consisted of the following:

Cash on hand \$ 1,410

Demand deposits, Banner Bank 3,682,122

Demand deposits, U.S. National Bank 1,154,447

Cash subtotal 4,837,979

U.S. Government notes 6,715,650

Total cash and investments, June 30, 2008 \$ 11,553,629

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 at June 30, 2008 required collateral certificates of participation for funds in excess of those insured by the federal deposit insurance corporation.

Collateral certificates are no longer required after July 1, 2008 because of a change in Oregon law. All current certificates of participation are cancelled on July 1, 2008.

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

**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.

\$4,636,569 of the City's bank balance of \$4,836,569 was exposed to custodial credit risk at June 30, 2008. \$1,450,000 was collateralized by the pledging institutions' agent, but not in the City's name. \$3,186,569 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.

**Credit Risk – Investments**

The City holds only investments 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. As of June 30, 2008 all of the City's \$6,715,650 in investments were exposed to custodial credit risk because the securities were held by a third party not in the City's name and were not insured. \$4,972,900 of the City's securities were invested in the Federal Home Loan Bank and \$1,742,750 were invested in the Federal National Mortgage Association.

**Investment Policies**

The City has not adopted a formal investment policy addressing interest rate risk, credit risk, or custodial credit 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, 2007	\$ 11,959
New assessments	-
Collections during year	(10,114)
Interest collected	1,065
Balance June 30, 2008	<u>\$ 2,910</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

**NOTE 5 – CAPITAL ASSETS:**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
<b><u>Governmental Activities:</u></b>				
Capital assets not being depreciated:				
Land	\$ 2,108,670	\$ 100,000	\$ -	\$ 2,208,670
Construction in progress	-	75,366	-	75,366
Total capital assets not being depreciated	<u>2,108,670</u>	<u>175,366</u>	<u>-</u>	<u>2,284,036</u>
Capital assets being depreciated:				
Buildings and improvements	10,947,975	217,842	-	11,165,817
Machinery and equipment	2,023,990	75,273	(25,619)	2,073,644
Street system	13,568,104	319,890	-	13,887,994
Total capital assets being depreciated	<u>26,540,069</u>	<u>613,005</u>	<u>(25,619)</u>	<u>27,127,455</u>
Less: Accumulated depreciation:				
Buildings and improvements	(4,777,534)	(376,342)	-	(5,153,876)
Machinery and equipment	(1,528,542)	(228,784)	25,619	(1,731,707)
Street system	(8,633,512)	(287,495)	-	(8,921,007)
Total accumulated depreciation	<u>(14,939,588)</u>	<u>(892,621)</u>	<u>25,619</u>	<u>(15,806,590)</u>
Total capital assets being depreciated, net	<u>11,600,481</u>	<u>(279,616)</u>	<u>-</u>	<u>11,320,865</u>
Governmental activities capital assets, net	<u>\$ 13,709,151</u>	<u>\$ (104,250)</u>	<u>\$ -</u>	<u>\$ 13,604,901</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

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

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
<b><u>Business-type Activities:</u></b>				
Capital assets not being depreciated:				
Land	\$ 649,943	\$ -	\$ -	\$ 649,943
Construction in progress	424,370	1,104,541	(424,370)	1,104,541
Total capital assets not being depreciated	<u>1,074,313</u>	<u>1,104,541</u>	<u>(424,370)</u>	<u>1,754,484</u>
Capital assets being depreciated:				
Utility system and buildings	34,591,436	424,370	-	35,015,806
Electric system	14,158,317	207,642	-	14,365,959
Equipment and vehicles	957,796	17,003	-	974,799
Total capital assets being depreciated	<u>49,707,549</u>	<u>649,015</u>	<u>-</u>	<u>50,356,564</u>
Less: Accumulated depreciation:				
Utility system and buildings	(16,194,971)	(562,628)	-	(16,757,599)
Electric system	(2,286,405)	(432,186)	-	(2,718,591)
Equipment and vehicles	(588,723)	(81,407)	-	(670,130)
Total accumulated depreciation	<u>(19,070,099)</u>	<u>(1,076,221)</u>	<u>-</u>	<u>(20,146,320)</u>
Total capital assets being depreciated, net	<u>30,637,450</u>	<u>(427,206)</u>	<u>-</u>	<u>30,210,244</u>
Business-type activities capital assets, net	<u>\$ 31,711,763</u>	<u>\$ 677,335</u>	<u>\$ (424,370)</u>	<u>\$ 31,964,728</u>

Depreciation was charged to functions and programs as follows:

Governmental Activities:	
General government	\$ 94,780
Public safety	128,285
Highways and streets	345,051
Cultural and recreation	324,505
Total depreciation expense of governmental activities	<u>\$ 892,621</u>
Business-type activities:	
Water	\$ 303,452
Sewer	164,171
Electricity	432,565
Regional Water	176,033
Total depreciation expense of business-type activities	<u>\$ 1,076,221</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

**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 \$35,290 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.

Several of the City's long-term debt agreements require interest rates to increase with the passage of time. Bonds reported in this section show their range of interest rates from inception to final repayment. All interest rates vary according to their respective agreements.

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, 2008. 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, 2008**

**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:		
2003 Pool Bonds	2.0% - 4.625%	\$ 3,450,000
Business-type activities:		
2000 Refunding Water Bonds	4.75% - 5.6%	3,950,000
2005 Electric System Revenue Bonds	3.35%-4.60%	13,210,000
2007 Refunding Utility Bonds	4.10%	2,325,262
Gross amount of bonds		22,935,262
Unamortized refunding costs		(139,617)
Unamortized original issue discount		(172,801)
Total bonds		<u>\$ 22,622,844</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>
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	60,000	142,391	670,469	781,393
2014-2018	410,000	670,131	3,786,262	3,414,217
2019-2023	625,000	564,373	3,815,000	2,541,503
2024-2028	925,000	397,126	3,985,000	1,553,738
2029-2033	1,245,000	149,823	4,945,000	586,239
Totals	<u>\$ 3,450,000</u>	<u>\$ 2,509,936</u>	<u>\$ 19,485,262</u>	<u>\$ 12,255,639</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

**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%	<u>\$    59,653</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>
2009	\$  38,390	\$    2,982
2010	<u>21,263</u>	<u>1,063</u>
Totals	<u>\$  59,653</u>	<u>\$    4,045</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

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

**Changes in long-term debt**

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008	Due Within One Year
<b>Government Activities:</b>					
1998 Street Revenue Bonds	\$ 93,000	\$ -	\$ (93,000)	\$ -	\$ -
2003 Pool Bonds	3,485,000	-	(35,000)	3,450,000	40,000
Total bonds	<u>3,578,000</u>	-	<u>(128,000)</u>	<u>3,450,000</u>	<u>40,000</u>
Compensated absences	209,739	283,906	(262,773)	230,872	230,872
Total Governmental Activities	<u><u>3,787,739</u></u>	<u><u>283,906</u></u>	<u><u>(390,773)</u></u>	<u><u>3,680,872</u></u>	<u><u>270,872</u></u>
<b>Business-Type Activities:</b>					
1993 Refunding Sewer Bonds	\$ 210,000	\$ -	\$ (210,000)	\$ -	\$ -
2000 Refunding Water Bonds	4,095,000	-	(145,000)	3,950,000	160,000
2005 Electric Revenue Bonds	13,210,000	-	-	13,210,000	140,000
2007 Refunding Utility Bonds	2,532,370	-	(207,108)	2,325,262	215,459
Total bonds	<u>20,047,370</u>	-	<u>(562,108)</u>	<u>19,485,262</u>	<u>515,459</u>
<b>Notes Payable:</b>					
Oregon State	96,215	-	(36,562)	59,653	38,390
Bank of America	32,084	-	(32,084)	-	-
Total notes	<u>128,299</u>	-	<u>(68,646)</u>	<u>59,653</u>	<u>38,390</u>
Compensated absences	69,590	73,173	(72,745)	70,018	70,018
Total Business-type Activities	<u><u>\$20,245,259</u></u>	<u><u>\$ 73,173</u></u>	<u><u>\$ (703,499)</u></u>	<u><u>\$19,614,933</u></u>	<u><u>\$ 623,867</u></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, 2008**

**NOTE 9 - INTERFUND TRANSACTIONS:**

Transfer Out:	Transfer In:					Total Transfers Out
	General	Reserve	Utility	Regional Water	Nonmajor Governmental	
General	\$ -	\$ 18,000	\$ -	\$ -	\$ 977,069	\$ 995,069
Reserve	110,100	-	1,104,541	-	-	1,214,641
Utility	-	1,430,000	-	-	-	1,430,000
Energy	363,501	182,145	-	-	-	545,646
Regional Water	-	10,000	-	-	-	10,000
Nonmajor governmental	8,250	7,500	-	360,140	-	375,890
Total Transfers in	<u>\$ 481,851</u>	<u>\$ 1,647,645</u>	<u>\$ 1,104,541</u>	<u>\$ 360,140</u>	<u>\$ 977,069</u>	<u>\$ 4,571,246</u>

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

Net transfers from business-type activities:

Transfers out:	
Utility fund	\$ (1,430,000)
Energy fund	(545,646)
Regional water fund	(10,000)
Transfers in:	
Utility fund	1,104,541
Regional water fund	360,140
	<u>\$ (520,965)</u>

Net transfers to governmental activities:

Transfers in:	
General fund	\$ 481,851
Reserve fund	1,647,645
Non-major governmental funds	977,069
Transfer out:	
General fund	(995,069)
Reserve fund	(1,214,641)
Non-major governmental funds	(375,890)
	<u>\$ 520,965</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

**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 \$471,310 to the 911 Communications Fund and \$105,904 to the Street Fund to meet the costs of these services.

The General Fund transferred \$117,500 to the Revolving Loan Fund to meet immediate cash needs to implement revolving loan programs to be funded by Community Development Block Grants.

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, 2008**

**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	\$ 682,152
Oregon State liquor and cigarette taxes	209,206
Oregon State revenue sharing	<u>121,636</u>
Total	<u>\$ 1,012,994</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

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

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

	<u>General Fund</u>	<u>Reserve Fund</u>
<b><u>GAAP BASIS NET CHANGE IN FUND BALANCES</u></b>		
<b><u>ADD (DEDUCT):</u></b>	\$ 69,419	\$ 315,969
Change in receivables	(16,111)	20,092
Changes in unearned investment (gains) losses	11,731	14,159
Changes in encumbrances	100,000	-
Change in deferred revenue	(30,806)	-
<b><u>BUDGETARY BASIS NET CHANGE IN FUND BALANCES</u></b>	<u>\$ 134,233</u>	<u>\$ 350,220</u>

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

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

	<u>General Fund</u>	<u>Reserve Fund</u>
<b><u>GAAP BASIS FUND BALANCES</u></b>		
<b><u>ADD (DEDUCT):</u></b>	\$ 3,514,949	\$ 3,398,231
Receivables	(394,927)	-
Unearned investment (gains) losses	(2,009)	(1,723)
Deferred revenue	245,215	-
<b><u>BUDGET BASIS FUND BALANCES</u></b>	<u>\$ 3,363,228</u>	<u>\$ 3,396,508</u>

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

**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](http://www.pers.state.or.us).

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

**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 rates. The current rates are 16.46% of salary covered for PERS, 16.31% for General Service OPSRP, and 19.58% for Fire and Police OPSRP. 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 2008, the City's annual pension cost of \$778,049 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006 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
2006	\$ 877,615	100%	\$ -
2007	902,693	100%	-
2008	778,049	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%
12/31/06	25,924,129	25,346,738	(577,391)	102%	4,710,810	(12)%

**CITY OF HERMISTON, OREGON**

**Notes to Basic Financial Statements**

**June 30, 2008**

**NOTE 16 – EXTRAORDINARY ITEM:**

The City's Energy Fund received \$385,614 to settle litigation relating to electricity rates charged by a supplier.

**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 \$16,500,000. The City expended \$1,105,000 on this project during the year ended June 30, 2008 bringing total expenditures so far on this project to \$3,500,000.

The City approved a \$1,500,000 line of credit to provide interim financing for the wastewater treatment plant. 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 September 2008.

The City plans to spend \$35,000 to upgrade its spray park and \$80,000 for a new storage building. These projects are expected to be completed in May 2009.

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 two Community Development Block Grant in the amount of \$400,000 each by the State of Oregon Housing and Community Services Department. Each grant will provide \$310,000 in revolving loans for rehabilitation and mitigation of lead based paint hazards and \$90,000 for the cost of managing the programs. There should be sufficient funds to rehabilitate 34 homes. \$194,000 has been disbursed to program participants as of June 30, 2008.

The City expects to spend \$160,000 for street preservation projects in various locations. These projects are expected to be completed in September 2008.

**SUPPLEMENTARY INFORMATION**

**CITY OF HERMISTON, OREGON**

**Non-major Governmental Funds**

**June 30, 2008**

**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 housing and business development revolving loans.

**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, 2008**

	Special Revenue											Debt Service	Total Non-major Governmental Funds	
	State Tax Street Fund	Transient Room Tax Fund	Recreation Reserve Fund	Municipal Court Fund	Recorder's Reserve Fund	Conference Center Fund	Revolving Loan Fund	911 Communications Fund	Law Enforcement Reserve Fund	Library Reserve Fund	Bonded Debt Fund			
<b>ASSETS</b>														
Cash and investments Receivables (net of allowances for uncollectibles):	\$ -	\$ 48,949	\$ 91,910	\$ 1,718	\$ 317,856	\$ 55,473	\$ 122,405	\$ -	\$ 47,714	\$ 43,492	\$ 109,016	\$ 838,533		
Property taxes	-	-	-	-	-	-	-	-	-	-	22,231	22,231		
Grants and other	-	-	-	-	-	-	14,269	-	-	-	-	14,269		
Contracts Receivables	-	-	-	-	-	-	193,585	-	-	-	-	193,585		
Total assets	\$ -	\$ 48,949	\$ 91,910	\$ 1,718	\$ 317,856	\$ 55,473	\$ 330,259	\$ -	\$ 47,714	\$ 43,492	\$ 131,247	\$ 1,068,618		
<b>LIABILITIES AND FUND BALANCES</b>														
<b>LIABILITIES:</b>														
Accounts payable	\$ -	\$ 15,000	\$ -	\$ -	\$ 46,978	\$ 4,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66,878		
Deferred revenues	-	-	-	-	-	-	-	-	-	-	19,008	19,008		
Unearned revenues	-	-	-	-	-	-	193,585	-	28,111	-	-	221,696		
Total liabilities	-	15,000	-	-	46,978	4,900	193,585	-	28,111	-	19,008	307,582		
<b>FUND BALANCES:</b>														
Unreserved fund balance:														
Designated for general government	-	-	-	-	270,878	-	-	-	-	-	-	270,878		
Designated for public safety	-	-	-	1,718	-	-	-	-	19,603	-	-	21,321		
Designated for culture and recreation	-	33,949	91,910	-	-	50,573	-	-	-	43,492	-	219,924		
Designated for capital outlay	-	-	-	-	-	-	136,674	-	-	-	-	136,674		
Designated for debt service	-	-	-	-	-	-	-	-	-	-	112,239	112,239		
Total fund balances	-	33,949	91,910	1,718	270,878	50,573	136,674	-	19,603	43,492	112,239	761,036		
Total liabilities and fund balances	\$ -	\$ 48,949	\$ 91,910	\$ 1,718	\$ 317,856	\$ 55,473	\$ 330,259	\$ -	\$ 47,714	\$ 43,492	\$ 131,247	\$ 1,068,618		

**CITY OF HERMISTON, OREGON**

**Non-major Governmental Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended June 30, 2008**

	State Tax Street Fund	Transient Room Tax Fund	Recreation Reserve Fund	Municipal Court Fund	Recorder's Reserve Fund	Confidence Center Fund	Revolving Loan Fund	911 Communications Fund	Law Enforcement Reserve Fund	Library Reserve Fund	Debt Service Bonded Debt Fund	Total Non-major Governmental Funds
<b>REVENUES:</b>												
Property taxes												
Transient room tax		50,004										
911 Tax								172,219				
Intergovernmental	682,152											
Fines and forfeits				195,316								
Investment interest					8,250							
Charges for services			100,144		153,331	113,870						
Grants and contributions			12,684		1,065		54,679		18,017	15,118		
Miscellaneous			45,415		186,669		651		2,302	32,056	38,882	
Total revenues	682,152	50,004	158,243	195,316	349,315	113,870	55,330	172,219	20,319	47,174	362,597	2,206,539
<b>EXPENDITURES</b>												
Current:												
General government		56,097		195,225	283,956							
Public safety								643,529	21,495			
Highways and streets	780,556											
Economic development							55,184					
Cultural and recreation			123,150			95,006				44,076		
Debt service:												
Principal											128,000	
Interest											154,355	
Capital outlay:												
Cultural and recreation			15,000									
Total expenditures	780,556	56,097	138,150	195,225	283,956	95,006	55,184	643,529	21,495	44,076	282,355	2,595,629
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(98,404)	(6,093)	20,093	91	65,359	18,864	146	(471,310)	(1,176)	3,098	80,242	(389,090)
<b>OTHER FINANCING SOURCES (USES):</b>												
Transfers in	105,904						117,500	471,310			282,355	977,069
Transfers out	(7,500)				(8,250)						(360,140)	(375,890)
Total other financing sources (uses)	98,404				(8,250)		117,500	471,310			(77,785)	601,179
<b>NET CHANGE IN FUND BALANCES</b>		(6,093)	20,093	91	57,109	18,864	117,646		(1,176)	3,098	2,457	212,089
<b>FUND BALANCES, BEGINNING</b>		40,042	71,817	1,627	213,769	31,709	19,028		20,779	40,394	109,782	548,947
<b>FUND BALANCES, ENDING</b>		33,949	91,910	1,718	270,878	50,573	136,674		19,603	43,492	112,239	761,036

**CITY OF HERMISTON, OREGON**  
**Reserve Fund**

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

**For the Year Ended June 30, 2008**

City Ordinances have established specific allocations of the Reserve Fund. The following schedule presents the allocations of the 2007-08 transactions to their specified purposes.

**ALLOCATIONS:**

	Balance	Revenues	Expenditures	Transfers	Balance
	June 30, 2007			In (Out)	June 30, 2008
Office equipment, finance	\$ 37,650	\$ -	\$ 2,099	\$ 10,000	\$ 45,551
Airport improvements	(7,967)	116,833	75,366	18,000	51,500
Park improvements	944	-	1	-	943
Recreation programs	32,149	30,002	30,800	-	31,351
Parks development	42,917	30,002	31,612	-	41,307
Centennial bell	45,240	127,822	171,101	-	1,961
St Johns street construction	136,932	-	160,309	23,377	-
Street equipment	5,178	-	-	-	5,178
Bicycle trails	27,115	-	-	7,500	34,615
Street maintenance	93,085	-	68,340	-	24,745
Street construction	(98,488)	127,458	159,581	66,807	(63,804)
Utility construction	49,768	-	-	1,816	51,584
Sewer department equipment	2,227	-	1,826	-	401
Sewer repairs	-	-	222,487	222,487	-
Water department equipment	10,944	-	18,538	8,000	406
Wastewater treatment plant	(37,007)	-	747,757	1,097,513	312,749
HES Improvements	1,067,172	-	-	182,145	1,249,317
Regional water system	843,040	-	3,488	10,000	849,552
Wastewater-SDC	133,688	38,084	134,297	-	37,475
Water-SDC	661,701	59,976	-	-	721,677
Total reserve fund	\$ 3,046,288	\$ 530,177	\$ 1,827,602	\$ 1,647,645	\$ 3,396,508

**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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES:</u></b>				
Intergovernmental	\$ 700,000	\$ 700,000	\$ 682,152	\$ (17,848)
<b><u>EXPENDITURES:</u></b>				
Current:				
Highways and streets:				
Personal services	535,300	566,600	563,740	2,860
Materials and services	227,750	227,750	216,816	10,934
Total expenditures	<u>763,050</u>	<u>794,350</u>	<u>780,556</u>	<u>13,794</u>
<b><u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u></b>				
	<u>(63,050)</u>	<u>(94,350)</u>	<u>(98,404)</u>	<u>(4,054)</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Transfers in	70,550	101,850	105,904	4,054
Transfers out	(7,500)	(7,500)	(7,500)	-
Total other financing sources (uses)	<u>63,050</u>	<u>94,350</u>	<u>98,404</u>	<u>4,054</u>
<b><u>NET CHANGE IN FUND BALANCES</u></b>				
	-	-	-	-
<b><u>FUND BALANCES, BEGINNING</u></b>				
	-	-	-	-
<b><u>FUND BALANCES, ENDING</u></b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF HERMISTON, OREGON**

**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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES:</u></b>				
Taxes	\$ 42,280	\$ 42,280	\$ 50,004	\$ 7,724
<b><u>EXPENDITURES:</u></b>				
Current:				
General Government:				
Material and services	<u>42,280</u>	<u>42,280</u>	<u>56,097</u>	<u>(13,817)</u>
<b><u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u></b>	-	-	(6,093)	(6,093)
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>-</u>	<u>-</u>	<u>40,042</u>	<u>40,042</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,949</u>	<u>\$ 33,949</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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
<b><u>REVENUES:</u></b>				
911 communications tax	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 172,219</u>	<u>\$ 72,219</u>
<b><u>EXPENDITURES:</u></b>				
Current:				
Public safety				
Personal services	617,795	629,395	601,423	27,972
Materials and services	44,700	44,700	42,106	2,594
Capital outlay	1,000	1,000	-	1,000
Total expenditures	<u>663,495</u>	<u>675,095</u>	<u>643,529</u>	<u>31,566</u>
<b><u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u></b>	<u>(563,495)</u>	<u>(575,095)</u>	<u>(471,310)</u>	<u>103,785</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Transfers in	<u>563,495</u>	<u>575,095</u>	<u>471,310</u>	<u>(103,785)</u>
<b><u>NET CHANGE IN FUND BALANCES</u></b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
<b><u>REVENUES:</u></b>				
Intergovernmental	\$ -	\$ -	\$ 40,410	\$ 40,410
Miscellaneous	1,500	1,500	1,083	(417)
	<u>1,500</u>	<u>1,500</u>	<u>41,493</u>	<u>39,993</u>
<b><u>EXPENDITURES:</u></b>				
Current:				
Materials and services	-	117,500	55,184	62,316
Capital outlay	20,000	20,000	-	20,000
	<u>20,000</u>	<u>137,500</u>	<u>55,184</u>	<u>82,316</u>
<b><u>EXCESS (DEFICIENCY) OF</u></b>				
<b><u>REVENUES OVER (UNDER)</u></b>	(18,500)	(136,000)	(13,691)	122,309
<b><u>EXPENDITURES</u></b>				
<b><u>OTHER FINANCING SOURCES</u></b>				
<b><u>(USES):</u></b>				
Transfers in		117,500	117,500	-
<b><u>NET CHANGE IN FUND BALANCE:</u></b>	(18,500)	(18,500)	103,809	122,309
<b><u>FUND BALANCES, BEGINNING</u></b>	18,500	18,500	18,596	96
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,405</u>	<u>\$ 122,405</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, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b><u>REVENUES:</u></b>				
Property taxes	\$ 312,140	\$ 312,140	\$ 322,450	\$ 10,310
Miscellaneous income	-	-	38,882	38,882
Total revenues	<u>312,140</u>	<u>312,140</u>	<u>361,332</u>	<u>49,192</u>
<b><u>EXPENDITURES:</u></b>				
Debt service:				
Principal				
1998 street bonds	93,000	93,000	93,000	-
2003 pool bonds	35,000	35,000	35,000	-
Interest				
1998 street bonds	5,025	5,025	5,022	3
2003 pool bonds	149,335	149,335	149,333	2
Total expenditures	<u>282,360</u>	<u>282,360</u>	<u>282,355</u>	<u>5</u>
<b><u>EXCESS OF REVENUES OVER EXPENDITURES</u></b>	<u>29,780</u>	<u>29,780</u>	<u>78,977</u>	<u>49,197</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Transfers in:				
Utility fund (HFI debt)	41,375	41,375	41,373	(2)
Utility fund (for debt service)	531,965	531,965	531,960	(5)
Energy fund (for debt service)	610,815	610,815	610,813	(2)
General fund (for debt service)	282,360	282,360	282,355	(5)
Debt service (for utility funds):				
State HFI loan payment	(41,375)	(41,375)	(41,373)	2
Hermiston Energy Service loan	(32,365)	(32,365)	(32,364)	1
Principal:				
1993 sewer bonds	(210,000)	(210,000)	(210,000)	-
Regional water bonds	(145,000)	(145,000)	(145,000)	-
2007 utility refunding bonds	(207,110)	(207,110)	(207,108)	2
Interest:				
1993 sewer bonds	(11,025)	(11,025)	(11,026)	(1)
Regional water bonds	(215,140)	(215,140)	(215,140)	-
Hermiston Energy Service bonds	(578,450)	(578,450)	(578,449)	1
2007 utility refunding bonds	(103,830)	(103,830)	(103,826)	4
Total other financing sources (uses)	<u>(77,780)</u>	<u>(77,780)</u>	<u>(77,785)</u>	<u>(5)</u>
<b><u>NET CHANGE IN FUND BALANCES</u></b>	<u>(48,000)</u>	<u>(48,000)</u>	<u>1,192</u>	<u>49,192</u>
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>50,000</u>	<u>50,000</u>	<u>107,824</u>	<u>57,824</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 109,016</u>	<u>\$ 107,016</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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES:</u></b>				
Charges for services				
Water	\$ 1,758,000	\$ 1,758,000	\$ 1,948,310	\$ 190,310
Sewer	1,330,000	1,330,000	1,450,805	120,805
Bond assessments	25,000	25,000	21,852	(3,148)
Investment interest	60,000	60,000	123,568	63,568
Total revenues	<u>3,173,000</u>	<u>3,173,000</u>	<u>3,544,535</u>	<u>371,535</u>
<b><u>EXPENDITURES:</u></b>				
Personal services	1,732,300	1,772,600	1,635,318	137,282
Materials and services	1,005,170	1,165,570	1,069,610	95,960
Capital outlay	-	20,000	17,003	2,997
Total expenditures	<u>2,737,470</u>	<u>2,958,170</u>	<u>2,721,931</u>	<u>236,239</u>
<b><u>EXCESS OF REVENUES OVER EXPENDITURES</u></b>	<u>435,530</u>	<u>214,830</u>	<u>822,604</u>	<u>607,774</u>
<b><u>TRANSFERS OUT</u></b>				
Reserve fund	(910,000)	(1,430,000)	(1,430,000)	-
Bonded debt fund	(573,340)	(573,340)	(573,333)	7
Total transfers out	<u>(1,483,340)</u>	<u>(2,003,340)</u>	<u>(2,003,333)</u>	<u>7</u>
<b><u>NET CHANGE IN FUND BALANCES</u></b>	<u>(1,047,810)</u>	<u>(1,788,510)</u>	<u>(1,180,729)</u>	<u>607,781</u>
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>1,047,810</u>	<u>1,788,510</u>	<u>1,643,507</u>	<u>(145,003)</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 462,778</u>	<u>\$ 462,778</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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
<b><u>REVENUES:</u></b>				
Charges for services	\$ 7,025,000	\$ 7,025,000	\$ 7,306,527	\$ 281,527
Miscellaneous	36,500	36,500	46,835	10,335
Investment interest	50,000	50,000	54,744	4,744
Total revenues	<u>7,111,500</u>	<u>7,111,500</u>	<u>7,408,106</u>	<u>296,606</u>
<b><u>EXPENDITURES:</u></b>				
Personal services	228,250	232,950	211,357	21,593
Materials and services	5,690,290	5,690,290	5,500,895	189,395
Capital outlay	400,000	400,000	177,319	222,681
Total expenditures	<u>6,318,540</u>	<u>6,323,240</u>	<u>5,889,571</u>	<u>433,669</u>
<b><u>EXCESS OF REVENUES OVER EXPENDITURES</u></b>				
	792,960	788,260	1,518,535	730,275
<b><u>TRANSFERS OUT</u></b>				
	(792,960)	(792,960)	(792,958)	2
<b><u>EXTRAORDINARY ITEMS</u></b>				
	-	-	385,614	385,614
<b><u>NET CHANGE IN FUND BALANCE</u></b>				
	-	(4,700)	1,111,191	1,115,891
<b><u>FUND BALANCES, BEGINNING</u></b>				
	-	4,700	1,263,386	1,258,686
<b><u>FUND BALANCES, ENDING</u></b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,374,577</u>	<u>\$ 2,374,577</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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget-</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b><u>REVENUES:</u></b>				
Charges for services	<u>\$ 475,000</u>	<u>\$ 475,000</u>	<u>\$ 505,378</u>	<u>\$ 30,378</u>
<b><u>EXPENDITURES:</u></b>				
Personal services	160,685	162,685	151,384	11,301
Materials and services	340,350	388,950	361,081	27,869
Total expenditures	<u>501,035</u>	<u>551,635</u>	<u>512,465</u>	<u>39,170</u>
<b><u>EXCESS (DEFICIENCY) OF REVENUES</u></b>				
<b><u>OVER (UNDER) EXPENDITURES</u></b>	(26,035)	(76,635)	(7,087)	69,548
<b><u>TRANSFERS OUT</u></b>	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
<b><u>NET CHANGE IN FUND</u></b>				
<b><u>BALANCES</u></b>	(36,035)	(86,635)	(17,087)	69,548
<b><u>FUND BALANCES, BEGINNING</u></b>	<u>36,035</u>	<u>86,635</u>	<u>403,528</u>	<u>316,893</u>
<b><u>FUND BALANCES, ENDING</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 386,441</u>	<u>\$ 386,441</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, 2008**

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
<b><u>GAAP BASIS FUND BALANCES</u></b>	\$ 3,514,949	\$ 3,398,231	\$ 112,239	\$ 1,992,156	\$ 11,955,731	\$ 3,113,537	\$ 136,674
<b><u>ADD (DEDUCT):</u></b>							
Accounts receivable	(394,927)	-	(22,231)	(694,734)	(507,077)	(20,092)	(207,854)
Receivable due to other entities	-	-	-	-	126,937	-	-
Accrued interest	-	-	-	144,026	23,561	88,131	-
Encumbrances	-	-	-	-	-	-	-
Deferred revenue	245,215	-	19,008	-	-	-	193,585
Capital assets	-	-	-	(11,647,558)	(13,572,035)	(6,745,135)	-
Long term debt	-	-	-	12,580,822	2,367,401	3,950,000	-
Unrealized investment (gains) or losses	(2,009)	(1,723)	-	(135)	(1,758)	-	-
Compensated absences	-	-	-	-	70,018	-	-
	<u>\$ 3,363,228</u>	<u>\$ 3,396,508</u>	<u>\$ 109,016</u>	<u>\$ 2,374,577</u>	<u>\$ 462,778</u>	<u>\$ 386,441</u>	<u>\$ 122,405</u>
<b><u>BUDGETARY BASIS FUND BALANCES</u></b>							
<b><u>GAAP BASIS NET CHANGE IN FUND BALANCES</u></b>	\$ 69,419	\$ 315,969	\$ 2,457	\$ 796,375	\$ (102,393)	\$ (64,240)	\$ 117,646
<b><u>ADD (DEDUCT):</u></b>							
Change in accounts receivable	(16,111)	20,092	(2,652)	48,596	11,680	19,141	(202,430)
Change in accrued interest	-	-	-	(586)	(4,810)	(3,021)	-
Change in receivable due to other entities	-	-	-	-	12,302	-	-
Change in encumbrances payable	100,000	-	-	-	-	-	-
Change in deferred revenue and accrued liabilities	(30,806)	-	1,387	-	-	-	188,593
Change in capital assets	-	-	-	224,923	(653,921)	176,033	-
Change in long term debt	-	-	-	36,074	(447,746)	(145,000)	-
Change in unrealized gains or losses	11,731	14,159	-	5,809	3,731	-	-
Change in compensated absences	-	-	-	-	428	-	-
	<u>\$ 134,233</u>	<u>\$ 350,220</u>	<u>\$ 1,192</u>	<u>\$ 1,111,191</u>	<u>\$ (1,180,729)</u>	<u>\$ (17,087)</u>	<u>\$ 103,809</u>
<b><u>BUDGETARY BASIS NET CHANGE IN FUND BALANCES</u></b>							

CITY OF HERMISTON, OREGON

Schedule of Property Tax Transactions and Outstanding Balances  
For the Year Ended June 30, 2008

Fiscal Year	Property Taxes Receivable June 30, 2007	Current Levy as Extended by Assessor	Discounts Allowed	Corrections and Adjustments	Interest Collected	Cash Collections	Property Taxes Receivable June 30, 2008
2007-08	\$ -	\$ 4,364,595	\$ (108,497)	\$ 1,389	\$ 2,720	\$ (4,083,728)	\$ 176,479
2006-07	155,760	-	(2)	(1,701)	3,702	(87,781)	69,978
2005-06	69,306	-	-	(215)	3,227	(33,286)	39,032
2004-05	38,180	-	-	(117)	4,348	(29,304)	13,107
2003-04	14,390	-	-	(139)	2,724	(15,010)	1,965
2002-03 and prior	9,470	-	-	(1,693)	1,014	(3,350)	5,441
Totals	\$ 287,106	\$ 4,364,595	\$ (108,499)	\$ (2,476)	\$ 17,735	\$ (4,252,459)	\$ 306,002

**CITY OF HERMISTON, OREGON**  
**Schedule of Future Debt Service Requirements**  
**Of Bonds Payable**  
**June 30, 2008**

Maturing during Year Ending June 30,	2000		2003		2005		2007		Total	
	Water Refunding Bonds	Pool Bonds	Energy System Revenue Bonds	Utility Refunding Bonds	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 160,000	\$ 40,000	\$ 140,000	\$ 215,459	\$ 140,000	\$ 576,104	\$ 215,459	\$ 95,336	\$ 555,459	\$ 1,027,394
2010	165,000	45,000	160,000	228,428	160,000	570,999	228,428	86,502	598,428	1,004,406
2011	170,000	45,000	180,000	236,134	180,000	565,089	236,134	77,136	631,134	979,761
2012	180,000	55,000	200,000	248,510	200,000	558,239	248,510	67,455	683,510	953,080
2013	190,000	60,000	225,000	255,469	225,000	550,264	255,469	57,266	730,469	923,784
2014	200,000	65,000	250,000	266,791	250,000	541,114	266,791	46,792	781,791	892,074
2015	210,000	75,000	275,000	277,744	275,000	530,739	277,744	35,853	837,744	857,513
2016	225,000	80,000	305,000	293,314	305,000	518,948	293,314	24,466	903,314	819,869
2017	235,000	90,000	330,000	303,413	330,000	506,058	303,413	12,440	958,413	779,185
2018	250,000	100,000	365,000	-	365,000	492,158	-	-	715,000	735,707
2019	260,000	105,000	395,000	-	395,000	476,464	-	-	760,000	701,888
2020	275,000	115,000	430,000	-	430,000	458,933	-	-	820,000	665,072
Later years	1,430,000	2,575,000	9,955,000	-	9,955,000	3,367,925	-	-	13,960,000	4,425,842
	\$ 3,950,000	\$ 3,450,000	\$ 13,210,000	\$ 2,325,262	\$ 13,210,000	\$ 9,713,034	\$ 2,325,262	\$ 503,246	\$ 22,935,262	\$ 14,765,575

**CITY OF HERMISTON, OREGON**

**Schedule of Long-Term Debt Transactions**  
**For the Year Ended June 30, 2008**

	Interest Rate	PRINCIPAL TRANSACTIONS				INTEREST TRANSACTIONS			
		Outstanding June 30, 2007	New Debt Issued	Matured During Year	Outstanding June 30, 2008	Matured and Outstanding June 30, 2007	Matured During Year	Paid During Year	Matured and Outstanding June 30, 2008
<b><u>BONDS PAYABLE:</u></b>									
1993 Sewer Refunding Bonds *	3.3%-5.25%	\$ 210,000	\$ -	\$ 210,000	\$ -	\$ -	\$ 11,026	\$ 11,026	\$ -
1998 Street Revenue Bonds	4.35%-5.4%	93,000	-	93,000	-	-	5,022	5,022	-
2000 Water Refunding Bonds*	4.75%-5.6%	4,095,000	-	145,000	3,950,000	-	215,141	215,141	-
2003 Pool Bonds*	2.0%-4.625%	3,485,000	-	35,000	3,450,000	-	149,332	149,332	-
2005 Energy System Revenue Bonds	3.35%-4.60%	13,210,000	-	-	13,210,000	-	578,448	578,448	-
2007 Utility Refunding Bonds	4.10%	2,532,370	-	207,108	2,325,262	-	103,826	103,826	-
		<u>\$23,625,370</u>	<u>\$ -</u>	<u>\$ 690,108</u>	<u>\$22,935,262</u>	<u>\$ -</u>	<u>\$1,062,795</u>	<u>\$1,062,795</u>	<u>\$ -</u>

\* -- general obligation bonds

**CITY OF HERMISTON, OREGON**

**Annual Accounting of System Development Charges**

**For the Year Ended June 30, 2008**

	<u>Water System</u>	<u>Wastewater System</u>
<b><u>BALANCE, JUNE 30, 2007</u></b>	\$ 661,701	\$ 133,688
<b><u>REVENUES:</u></b>		
System development charges collected	59,976	38,084
<b><u>EXPENDITURES</u></b>		
Reimbursement of capital improvements	<u>-</u>	<u>(134,297)</u>
<b><u>BALANCE, JUNE 30, 2008</u></b>	<u>\$ 721,677</u>	<u>\$ 37,475</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, 2008**

<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	941,526	63,427	-	1,503,532
Parking	494,380	-	-	-	494,380
Inspections	-	11,820	28,075	-	39,895
Other - unclassified	221,730	710,981	-	-	932,711
	<u>1,306,189</u>	<u>2,164,327</u>	<u>409,676</u>	<u>-</u>	<u>3,880,192</u>
Public safety:					
Police	24,820	836,578	696,708	-	1,558,106
Highway and streets:					
Maintenance	62,461	367,650	804,227	-	1,234,338
Street System	-	-	-	13,887,994	13,887,994
	<u>62,461</u>	<u>367,650</u>	<u>804,227</u>	<u>13,887,994</u>	<u>15,122,332</u>
Culture and recreation:					
Aquatic center	-	3,809,971	-	-	3,809,971
Library	8,500	784,269	23,614	-	816,383
Parks	758,700	1,474,116	139,419	-	2,372,235
CRC community building	3,000	294,393	-	-	297,393
Community center building	45,000	1,509,879	-	-	1,554,879
	<u>815,200</u>	<u>7,872,628</u>	<u>163,033</u>	<u>-</u>	<u>8,850,861</u>
Total governmental funds capital assets	\$ 2,208,670	\$ 11,241,183	\$ 2,073,644	\$ 13,887,994	\$ 29,411,491

**CITY OF HERMISTON, OREGON**

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

**June 30, 2008 and 2007**

	June 30,	
	<u>2008</u>	<u>2007</u>
<b><u>GOVERNMENTAL FUNDS CAPITAL ASSETS:</u></b>		
Land	\$ 2,208,670	\$ 2,108,670
Buildings and improvements	11,165,817	10,947,975
Machinery and equipment	2,073,644	2,023,990
Infrastructure	13,887,994	13,568,104
Construction in progress	75,366	-
	<hr/>	<hr/>
Total governmental funds capital assets	<u>\$ 29,411,491</u>	<u>\$ 28,648,739</u>
 <b><u>INVESTMENT IN GOVERNMENTAL FUND</u></b>		
<b><u>CAPITAL ASSETS BY SOURCE:</u></b>		
Unsegregated amounts, prior years	\$ 17,225,884	\$ 17,251,503
General fund	3,417,695	3,230,682
Special revenue funds	3,240,952	2,639,594
Capital project funds	5,456,960	5,456,960
Donations	70,000	70,000
	<hr/>	<hr/>
Total governmental funds capital assets	<u>\$ 29,411,491</u>	<u>\$ 28,648,739</u>

CITY OF HERMISTON, OREGON

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

For the Year Ended June 30, 2008

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Governmental Funds Capital Assets June 30, 2008</u>
General government:				
City hall	\$ 909,674	\$ -	\$ -	\$ 909,674
Airport	1,428,166	75,366	-	1,503,532
Parking	494,380	-	-	494,380
Inspections	23,070	16,825	-	39,895
Other - unclassified	932,711	-	-	932,711
	<u>3,788,001</u>	<u>92,191</u>	<u>-</u>	<u>3,880,192</u>
Public safety:				
Police	1,525,277	58,448	(25,619)	1,558,106
Highways and streets:				
Maintenance	1,234,338	-	-	1,234,338
Infrastructure	13,568,104	319,890	-	13,887,994
	<u>14,802,442</u>	<u>319,890</u>	<u>-</u>	<u>15,122,332</u>
Culture and recreation:				
Aquatic center	3,809,971	-	-	3,809,971
Library	816,383	-	-	816,383
Parks	2,054,393	317,842	-	2,372,235
CRC community building	297,393	-	-	297,393
Community center building	1,554,879	-	-	1,554,879
	<u>8,533,019</u>	<u>317,842</u>	<u>-</u>	<u>8,850,861</u>
Total governmental funds capital assets	<u>\$ 28,648,739</u>	<u>\$ 788,371</u>	<u>\$ (25,619)</u>	<u>\$ 29,411,491</u>

**STATISTICAL SECTION**

**CITY OF HERMISTON, OREGON**

**STATISTICAL SECTION CONTENTS**

**June 30, 2008**

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

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

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

**CITY OF HERMISTON, OREGON**

**NET ASSETS BY COMPONENT**

**Last Three Fiscal Years**  
**(Accrual Basis of Accounting)**

**June 30, 2008**

	Fiscal Year		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>GOVERNMENTAL ACTIVITIES:</u></b>			
Invested in capital assets, net of related debt	\$ 10,154,901	\$ 10,131,151	\$ 9,884,805
Restricted	-	163,822	205,077
Unrestricted	<u>7,695,156</u>	<u>6,954,122</u>	<u>7,290,425</u>
Total governmental activities net assets	<u>17,850,057</u>	<u>17,249,095</u>	<u>17,380,307</u>
<b><u>BUSINESS-TYPE ACTIVITIES:</u></b>			
Invested in capital assets, net of related debt	12,732,231	11,882,356	11,322,943
Restricted	-	-	-
Unrestricted	<u>4,329,193</u>	<u>4,549,326</u>	<u>4,270,931</u>
Total business-type activities net assets	<u>17,061,424</u>	<u>16,431,682</u>	<u>15,593,874</u>
<b><u>TOTAL GOVERNMENT:</u></b>			
Invested in capital assets, net of related debt	22,887,132	22,013,507	21,207,748
Restricted	-	163,822	205,077
Unrestricted	<u>12,024,349</u>	<u>11,503,448</u>	<u>11,561,356</u>
Total government net assets	<u>\$ 34,911,481</u>	<u>\$ 33,680,777</u>	<u>\$ 32,974,181</u>

**CITY OF HERMISTON, OREGON**

**CHANGES IN NET ASSETS**

**Last Three Fiscal Years**

**(Accrual Basis of Accounting)**

**June 30, 2008**

	Fiscal Year		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>EXPENSES</u></b>			
Governmental activities:			
General government	\$ 2,205,586	\$ 2,006,173	\$ 1,991,504
Public safety	3,252,838	3,092,095	2,978,182
Highways and streets	1,195,630	1,126,117	1,136,532
Economic development	55,184	-	-
Cultural and recreation	2,472,003	2,479,135	2,360,265
Interest on long-term debt	149,829	157,475	158,624
Total governmental activities expenses	<u>9,331,070</u>	<u>8,860,995</u>	<u>8,625,107</u>
Business-type activities:			
Water	2,631,598	2,640,632	2,438,335
Sewer	1,555,313	1,634,939	1,600,498
Electric	6,397,294	6,559,288	6,340,380
Total business-type activities net assets	<u>10,584,205</u>	<u>10,834,859</u>	<u>10,379,213</u>
Total government expenses	<u>\$ 19,915,275</u>	<u>\$ 19,695,854</u>	<u>\$ 19,004,320</u>
<b><u>PROGRAM REVENUES</u></b>			
Governmental Activities:			
Charges for services:			
General government	\$ 646,032	\$ 1,074,679	\$ 1,093,736
Public safety	644,475	104,110	110,257
Cultural and recreation	572,890	533,716	501,993
Operating grants and contributions	130,437	154,949	92,995
Capital grants and contributions	322,692	387,466	-
Total governmental activities program revenues	<u>2,316,526</u>	<u>2,254,920</u>	<u>1,798,981</u>
Business-type activities:			
Charges for services:			
Water	2,387,265	2,414,327	2,297,579
Sewer	1,450,424	1,453,170	1,418,119
Electric	7,252,122	7,217,117	7,300,481
Total business-type activities program revenues	<u>11,089,811</u>	<u>11,084,614</u>	<u>11,016,179</u>
Total government program revenues	<u>\$ 13,406,337</u>	<u>\$ 13,339,534</u>	<u>\$ 12,815,160</u>

**CITY OF HERMISTON, OREGON**

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

**June 30, 2008**

	Fiscal Year		
	2008	2007	2006
<b><u>NET (EXPENSE) REVENUE</u></b>			
Governmental activities	\$ (7,014,544)	\$ (6,606,075)	\$ (6,826,126)
Business-type activities	505,606	249,755	636,966
Total government expenses	<u>\$ (6,508,938)</u>	<u>\$ (6,356,320)</u>	<u>\$ (6,189,160)</u>
<b><u>GENERAL REVENUES AND OTHER</u></b>			
<b><u>CHANGES IN NET ASSETS</u></b>			
Governmental activities			
Taxes			
Property taxes	\$ 4,253,304	\$ 3,847,564	\$ 3,304,130
Transient room taxes	320,022	313,442	300,436
Franchise fee	424,780	438,831	393,501
911 taxes	172,219	-	-
Motor fuel taxes	682,152	712,278	721,384
State shared taxes	330,842	389,446	427,229
Interest and investment earnings	203,167	349,544	272,280
Other revenues	708,055	785,148	712,022
Gain (loss) on sale of capital assets	-	(11,096)	901
Transfers	520,965	(350,294)	(283,839)
Total governmental activities	<u>7,615,506</u>	<u>6,474,863</u>	<u>5,848,044</u>
Business-type activities:			
Interest and investment earnings	174,581	167,017	117,281
Other revenues	84,906	70,742	77,309
Transfers	(520,965)	350,294	283,839
Extraordinary items	385,614	-	-
Total business-type activities	<u>124,136</u>	<u>588,053</u>	<u>478,429</u>
Total government	<u>7,739,642</u>	<u>7,062,916</u>	<u>6,326,473</u>
<b><u>CHANGE IN NET ASSETS</u></b>			
Governmental activities	600,962	(131,212)	(978,082)
Business-type activities	629,742	837,808	1,115,395
Total government	<u>\$ 1,230,704</u>	<u>\$ 706,596</u>	<u>\$ 137,313</u>

**CITY OF HERMISTON, OREGON**

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

	Fiscal Year		
	2008	2007	2006
<b><u>GENERAL FUND</u></b>			
Reserved	\$ -	\$ 100,000	\$ -
Unreserved	3,514,949	3,345,530	2,855,982
Total general fund	<u>3,514,949</u>	<u>3,445,530</u>	<u>2,855,982</u>
<b><u>ALL OTHER GOVERNMENTAL FUNDS</u></b>			
Reserved	-	83,900	39,478
Unreserved, reported in:			
Special revenue funds	4,047,028	3,437,527	4,231,748
Debt service fund	112,239	109,782	315,749
Total all other governmental funds	<u>\$ 4,159,267</u>	<u>\$ 3,631,209</u>	<u>\$ 4,586,975</u>

**CITY OF HERMISTON, OREGON**

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

	<u>Fiscal Year</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>REVENUES</u></b>			
Property taxes	\$ 4,250,066	\$ 3,847,564	\$ 3,315,851
Transient room tax	320,022	313,442	300,436
911 tax	172,219	97,111	119,985
Franchise fees	424,780	438,831	393,501
Intergovernmental	1,012,994	1,004,613	1,067,623
Fees, licenses, and permits	5,165	3,165	3,220
Fines and forfeits	534,927	521,637	443,636
Investment interest	203,167	349,544	272,280
Charges for services	1,323,305	1,190,868	1,259,130
Miscellaneous	1,168,080	1,309,143	781,021
	<hr/>	<hr/>	<hr/>
Total revenues	9,414,725	9,075,918	7,956,683
<b><u>EXPENDITURES</u></b>			
General government	2,094,823	1,920,337	1,922,393
Public safety	3,116,909	2,997,690	2,897,049
Highway and streets	848,896	813,344	818,743
Economic development	55,184	-	-
Cultural and recreation	2,151,675	2,145,084	2,062,969
Capital outlay	788,371	937,742	586,452
Debt service:			
Principal	128,000	118,000	109,000
Interest	154,355	159,645	164,716
	<hr/>	<hr/>	<hr/>
Total expenditures	9,338,213	9,091,842	8,561,322
<b><u>EXCESS (DEFICIENCY) OF REVENUES</u></b>			
<b><u>OVER (UNDER) EXPENDITURES</u></b>	<hr/>	<hr/>	<hr/>
	76,512	(15,924)	(604,639)
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Transfers in	3,106,565	2,481,304	1,707,601
Transfers out	(2,585,600)	(2,831,598)	(1,991,440)
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL OTHER FINANCING</u></b>			
<b><u>SOURCES (USES)</u></b>	<hr/>	<hr/>	<hr/>
	520,965	(350,294)	(283,839)
<b><u>NET CHANGE IN FUND BALANCES</u></b>			
	<hr/>	<hr/>	<hr/>
	\$ 597,477	\$ (366,218)	\$ (888,478)
Debt service as a percentage of noncapital expenditures	3.30%	3.40%	3.43%

**CITY OF HERMISTON, OREGON**

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

**Last Ten Fiscal Years**

<u>Fiscal Year Ended June 30,</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Utilities</u>	<u>Total Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value as a Percentage of Actual Value</u>
1999	*	*	*	\$ 343,341,230	6.06	\$ 422,352,722	-
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%
2008	544,366,876	26,971,136	97,903,040	669,241,051	6.59	849,629,524	78.77%

**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,									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b><u>Direct rates</u></b>										
City of Hermiston general	6.09	6.09	5.08	5.08	5.08	4.89	4.89	4.89	4.89	4.89
City of Hermiston bond	0.50	0.17	0.65	0.68	0.70	0.73	0.75	0.96	1.10	1.17
Total direct rates	6.59	6.26	5.73	5.76	5.78	5.62	5.64	5.85	5.99	6.06
<b><u>Overlapping rates</u></b>										
Umatilla County	3.12	3.14	3.15	3.15	3.20	3.17	3.13	3.29	3.36	3.24
Hermiston School District #8	8.07	7.99	5.96	7.36	7.88	7.09	7.62	8.07	8.69	6.27
Umatilla County E.S.D.	0.56	0.56	0.46	0.46	0.46	0.46	0.46	0.46	0.46	0.46
Blue Mountain Community College	0.99	0.99	0.86	0.84	0.88	0.87	0.89	0.89	0.91	0.54
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	1.20
West Umatilla Vector Control										
District	0.25	0.25	0.25	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Total overlapping rates	14.43	14.37	12.12	13.45	14.06	13.23	13.74	14.35	15.06	12.15
Total	21.03	20.63	17.85	19.21	19.84	18.85	19.38	20.20	21.05	18.21

Information provided by the Umatilla County Assessor's Office.

**CITY OF HERMISTON, OREGON**

**Principal Taxpayers**  
**June 30, 2008**

Taxpayer	Type of Business	Rank	2008		1999	
			Taxable Assessed Valuation	% of City Taxable Assessed Valuation	Taxable Assessed Valuation	% of City Taxable Assessed Valuation
Wal-Mart Stores East LP	Retailer	1	\$ 31,977,060	4.8%		
Home Depot USA Inc.	Retailer	2	9,056,200	1.4%		
Retail Trust #2	Shopping center	3	8,509,970	1.3%		
PK Sale, LLC	Unknown	4	7,157,960	1.1%		
U.S. West Communications	Telephone utility	5	7,016,600	1.0%	6,450,066	1.9%
CMH Manufacturing West, Inc.	Manufacturing plant	6	6,684,660	1.0%		
Wal-Mart Distribution Center #6037	Distribution center	7	6,660,720	1.0%		
Hermiston Foods LLC	Food processing	8	6,469,530	1.0%		
Umatilla Electric Co-op	Power utility	9	5,929,650	0.9%	2,760,690	0.8%
CDS Hermiston, LLC	Unknown	10	4,230,470	0.6%		
Port of Umatilla	Water utility		-		10,248,070	2.9%
Pan Pacific Retail Properties	Shopping center		-		5,703,953	1.6%
Marlette Homes, Inc	Manufacturing plant		-		4,078,620	1.2%
Good Shepherd Hospital	Medical offices		-		2,741,531	0.8%
S.R. Innco, Inc.	Apartments				2,721,470	0.8%
Prime Service, Inc.	Equipment rental				2,357,940	0.7%
Cascade Natural Gas Corp.	Natural gas utility		-		2,200,393	0.6%
William R. Stewart, Trustee	Apartments		-		1,961,860	0.6%
			\$ 93,692,820	14.1%	\$ 41,224,593	11.9%

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	
	Fiscal Year	Amount	Percentage of Levy		Amount	Percentage of Levy
1999	2,084,788	1,937,633	92.9 %	146,946	2,084,579	100.0 %
2000	2,207,996	2,043,882	92.6	163,824	2,207,706	100.0
2001	2,377,623	2,180,738	91.7	196,361	2,377,099	100.0
2002	2,637,791	2,448,707	92.8	188,473	2,637,180	100.0
2003	2,784,370	2,591,105	93.1	190,180	2,781,285	99.9
2004	3,042,382	2,833,672	93.1	206,745	3,040,417	99.9
2005	3,232,964	2,972,550	91.9	247,307	3,219,857	99.6
2006	3,395,907	3,156,735	93.0	200,140	3,356,875	98.9
2007	3,983,206	3,702,634	93.0	210,594	3,913,228	98.2
2008	4,364,595	4,083,728	93.6	-	4,083,728	93.6

Information provided by Umatilla County Tax Collector's office.

**CITY OF HERMISTON, OREGON**

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

Fiscal Year	General Bonded Debt		Percentage of Actual Property Value	Per Capita	Business-Type Activities				Total Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Street Revenue Bonds			Revenue Bonds	Refunding Bonds	Notes Payable				
1999	\$4,835,000	690,000	1.31%	462	4,170,000	1,610,000	510,809	11,815,809	4.68%	988	
2000	-	627,000	0.13%	52	3,995,000	6,185,000	307,775	11,114,775	4.20%	914	
2001	-	561,000	0.11%	43	3,815,000	5,760,000	281,792	10,417,792	3.53%	792	
2002	-	492,000	0.08%	36	3,625,000	5,840,000	11,427,472	21,384,472	6.92%	1,577	
2003	3,635,000	420,000	0.65%	287	16,415,000	5,575,000	610,862	26,655,862	8.20%	1,888	
2004	3,565,000	344,000	0.58%	269	16,205,000	5,295,000	580,782	25,989,782	7.30%	1,787	
2005	3,540,000	265,000	0.54%	259	15,985,000	4,980,000	452,948	25,222,948	6.78%	1,716	
2006	3,515,000	181,000	0.51%	246	15,980,000	4,650,000	291,452	24,617,452	6.58%	1,638	
2007	3,485,000	93,000	0.56%	232	13,210,000	6,837,370	128,299	23,753,669	*	1,541	
2008	3,450,000	-	0.52%	219	13,210,000	6,275,262	59,653	22,994,915	*	1,457	

**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, 2008**

<u>Jurisdiction</u>	<u>Net General Obligation Bonded Debt Outstanding</u>	<u>Percentage Applicable to City</u>	<u>Amount Applicable to City</u>
<b><u>DIRECT:</u></b>			
City of Hermiston (1)	\$ 3,450,000	100.00%	\$ 3,450,000
<b><u>OVERLAPPING:</u></b>			
Umatilla County	21,930,000	17.51%	3,840,336
School District #8	38,665,000	49.31%	19,066,006
Blue Mountain Community College	8,725,000	17.51%	1,527,904
Port of Umatilla	3,175,000	17.51%	555,999
Total overlapping	<u>72,495,000</u>		<u>24,990,245</u>
Total direct and overlapping	<u>\$ 75,945,000</u>		<u>\$ 28,440,245</u>

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

**CITY OF HERMISTON, OREGON**

**Computation of Legal Debt Margin**

**June 30, 2008**

**Legal Debt Margin Calculation for Fiscal Year 2008**

True cash value	\$ 669,241,051								
Debt limit (3% of assessed value)		\$ 20,077,232							
Debt applicable to limit:									
Gross bonded debt	\$ 22,935,262								
Less legal deductions:									
Water bonds	(3,950,000)								
Utility bonds	(2,325,262)								
Energy bonds	(13,210,000)								
Total net debt applicable to limit			3,450,000						
Legal debt margin			<u>\$ 16,627,232</u>						
Total net debt applicable to the limit as a percentage of debt limit			17.18%						
Debt limit									
	1999	2000	2001	2002	2003	2004	2005	2006	2007
	\$ 10,300,237	\$ 11,056,712	\$ 12,175,700	\$ 14,031,990	\$ 14,820,876	\$ 15,787,304	\$ 16,840,245	\$ 17,699,914	\$ 19,340,500
Total net debt applicable to limit	-	-	-	-	3,636,000	3,565,000	3,540,000	3,515,000	3,485,000
Legal debt margin	<u>\$ 10,300,237</u>	<u>\$ 11,056,712</u>	<u>\$ 12,175,700</u>	<u>\$ 14,031,990</u>	<u>\$ 11,184,876</u>	<u>\$ 12,222,304</u>	<u>\$ 13,300,245</u>	<u>\$ 14,184,914</u>	<u>\$ 15,855,500</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	24.53%	22.58%	21.02%	19.86%	18.02%

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

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

**CITY OF HERMISTON, OREGON**

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

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenues	Debt Service (3)		Coverage
				Principal	Interest	
<b>Utility</b>						
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
2008	3,995,597	3,210,359	785,238	207,108	103,826	2.53
<b>Electric</b>						
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
2008	7,353,701	5,318,427	2,035,274	-	596,863	3.41

- (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>
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	24,900	374,122,500	6.2
2007	15,410	*	*	5.2
2008	15,785	*	*	5.1

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	2008			1999		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Wal-Mart Distribution	1000	1	9.2%			
Washington Demilitarization	500	2	4.6%			
Con-Agra Lamb-Weston	500	3	4.6%			
Union Pacific Railroad	435	4	4.0%			
Two Rivers Correctional Institution	430	5	4.0%			
Good Shepherd Medical Center	426	6	3.9%			
Hermiston School District	420	7	3.9%			
CMH Manufacturing	360	8	3.3%			
Wal-Mart Supercenter	356	9	3.3%			
Hermiston Foods	300	10	2.8%			
			<u>43.5%</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>2008</u>	<u>2007</u>	<u>2006</u>
General government	11.2	11.2	11.2
Public safety	35.0	33.5	33.5
Highways and streets	6.3	6.3	6.3
Cultural and recreation	27.5	27.5	27.5
Water	10.7	10.7	10.7
Sewer	11.4	11.4	11.4
Electric	2.4	2.4	2.4
Total	<u>104.5</u>	<u>103</u>	<u>103</u>

Source: City of Hermiston

**CITY OF HERMISTON, OREGON**

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

<b><u>FUNCTION/PROGRAM</u></b>	<b>Fiscal Year</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Governmental Activities:</b>			
General government			
Number of Senior Citizen Taxi Program tickets sold	34,766	29,077	27,879
Number of building inspections (July-December 07)	881	1,346	2,266
* No longer tracking information			
Public Safety			
Total police incidents	26,654	26,016	25,610
Officer initiated	11,149	10,366	9,807
Calls for police service	15,505	15,650	15,803
Number of traffic stops	5,196	5,602	5,104
Highways and streets			
Estimated miles of street swept	5,000	10,242	600
Cultural and recreation			
Number of library items checked out	100,886	98,072	89,835
Number of library patrons	10,245	8,984	10,007
<b>Business-type activities:</b>			
Water			
Number of accounts	4,411	4,362	4,060
Annual consumption (in millions of gallons)	3,911	2,324	2,983
Sewer			
Number of accounts	4,314	4,494	4,393
Electricity			
Number of accounts	5,230	5,232	5,163
KWH sold	107,034,379	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**

<b>Function/Program</b>	<b>Fiscal Year</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Governmental Activities</b>			
General government			
Administrative buildings	2	2	2
Public Safety			
Police stations	1	1	1
Patrol units			
Cars	16	17	12
Bus	1	1	
Motorcycles	2	2	2
Highways and streets			
Miles of streets	60	63	60
Culture and recreation			
Library collection:			
Printed materials	36,305	37,140	39,110
Audio materials	2,054	1,081	1,442
Video materials	1,618	1,339	1,407
Electronic materials	3,451	3,451	3,451
<b>Business-type activities:</b>			
Water			
Miles of city water line	66	66	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	2
Electric			
Miles of overhead line	37	37	37
Miles of underground line	25	25	20
Transformers	1,643	1,600	1,186

(\*) Figure was not available.

Sources: Various City of Hermiston departments.

**CITY OF HERMISTON, OREGON**

**Miscellaneous Statistical Data**

**June 30, 2008**

**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:** 15,785

**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, 2008**

**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.**

CERTIFIED PUBLIC ACCOUNTANTS

495 E. Main

Hermiston, OR 97838

(541) 567-5215

(541) 567-0497 Fax

DENNIS L. BARNETT, C.P.A.

GERALD J. MORO, C.P.A.

KRISTIE L. SHASTEEN, C.P.A.

CAMERON W. ANDERSON, C.P.A.

RICHARD L. STODDARD, C.P.A.

BETSY J. BENNETT, 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, and the aggregate remaining fund information of City of Hermiston, Oregon, as of and for the year ended June 30, 2008, which collectively comprise the City of Hermiston, Oregon's basic financial statements and have issued our report thereon dated October 28, 2008. 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 the City of Hermiston, Oregon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 the City of Hermiston, Oregon's financial statements that is more than inconsequential will not be prevented or detected by the 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 the City of Hermiston, Oregon's internal control.

Mayor and City Council  
City of Hermiston  
Page two

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.

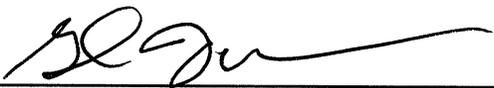
Compliance and Other Matters

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 October 28, 2008.

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  
October 28, 2008

## **CITY OF HERMISTON, OREGON**

### **AUDIT COMMENTS AND DISCLOSURES**

**June 30, 2008**

#### **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 appeared to be in compliance with collateral requirements during the 2007-2008 fiscal year.

#### **BUDGETING AND TAX LEVIES**

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

#### **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, 2008, 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, 2008**

**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.