

CITY OF HERMISTON, OREGON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended

June 30, 2009

Prepared by the Department of Finance

CITY OF HERMISTON, OREGON

June 30, 2009

Contents

	<u>Page</u>
<u>INTRODUCTORY SECTION:</u>	
List of Principal Officials	1
Organizational Chart	2
Letter of Transmittal	3-8
GFOA Certificate of Achievement	9
<u>FINANCIAL SECTION:</u>	
Independent Auditor's Report	11-12
Management's Discussion and Analysis	13-18
<u>Basic Financial Statements:</u>	
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 Fund Statement of Net Assets	28
Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Assets	29
Proprietary Fund Statement of Cash Flows	30
Notes to basic Financial Statements	31-53
<u>Supplementary Information:</u>	
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, 2009

Contents (Continued)

	<u>Page</u>
<u>Supplementary Information (continued):</u>	
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
Waste Water Treatment Plant (WWTP) Construction Fund	67
Reconciliation of GAAP Basis Revenues, Expenditures and Fund Equity to Budgetary Basis Revenues, Expenditures and Fund Equity	68
Schedule of Property Tax Transactions and Outstanding Balances	69
Schedule of Future Debt Service Requirements of Bonds Payable	70
Schedule of Long-Term Debt Transactions	71
Annual Accounting of System Development Charges	72
Capital Assets Used in the Operation of Governmental Activities - Schedule by Function and Activity	74
Capital Assets Used in the Operation of Governmental Activities - Comparative Schedules By Source	75
Capital Assets Used in the Operation of Governmental Activities - Schedule of Changes by Function and Activity	76
<u>STATISTICAL SECTION:</u>	
Statistical Section Contents	78
Net Assets by Component	79
Changes in Net Assets - Last Three Fiscal Years (Accrual Basis of Accounting)	80-81
Fund Balances, Governmental Funds (Modified Accrual Basis of Accounting)	82
Changes in Fund Balances, Governmental Funds (Modified Accrual Basis of Accounting)	83
Assessed Value and Estimated Actual Value of Taxable Property	84
Property Tax Rates – Direct and Overlapping Governments	85
Principal Taxpayers	86
Property Tax Levies and Collections	87
Ratios of Outstanding Debt by Type	88

CITY OF HERMISTON, OREGON

June 30, 2009

Contents (Continued)

	<u>Page</u>
<u>STATISTICAL SECTION (continued):</u>	
Direct and Overlapping Governmental Activities Debt	89
Computation of Legal Debt Margin	90
Pledged-Revenue Coverage	91
Demographic Statistics	92
Principal Employers	93
Full-Time Equivalent City Government Employees by Function/Program	94
Operating Indicators by Function/Program	95
Capital Asset Statistics by Function/Program	96
Miscellaneous Statistical Data	97-98
<u>AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS:</u>	
Audit Comments and Disclosures Required by State Regulations	100-102
<u>SINGLE AUDIT SECTION:</u>	
Schedule of Expenditures of Federal Awards	104
Notes to Schedule of Expenditures of Federal Awards	105
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	106-107
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	108-109
Schedule of Findings and Questioned Costs	110-111
Corrective Action Plan	112
Summary Schedule of Prior Year's Audit Findings	113

INTRODUCTORY SECTION

CITY OF HERMISTON, OREGON

List of Principal Officials

June 30, 2009

ELECTED OFFICIALS

	<u>Term Expires</u>
Mayor:	
Robert E. Severson	December 31, 2010
Council Members:	
Rod S. Hardin	December 31, 2012
Walter E. Achuff	December 31, 2010
Brian Misner	December 31, 2012
Michael E. Calame	December 31, 2012
Jackie C. Myers	December 31, 2010
Joe Harn	December 31, 2012
Harmon Springer	December 31, 2010
Frank J. Harkenrider	December 31, 2010
Municipal Judge:	
Thomas J. Creasing	December 31, 2012

APPOINTED OFFICIALS

City Manager:	Edward Brookshier
Assistant City Manager:	C. Ray Jones
Finance Director/City Recorder:	Robert D. Irby
Senior 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

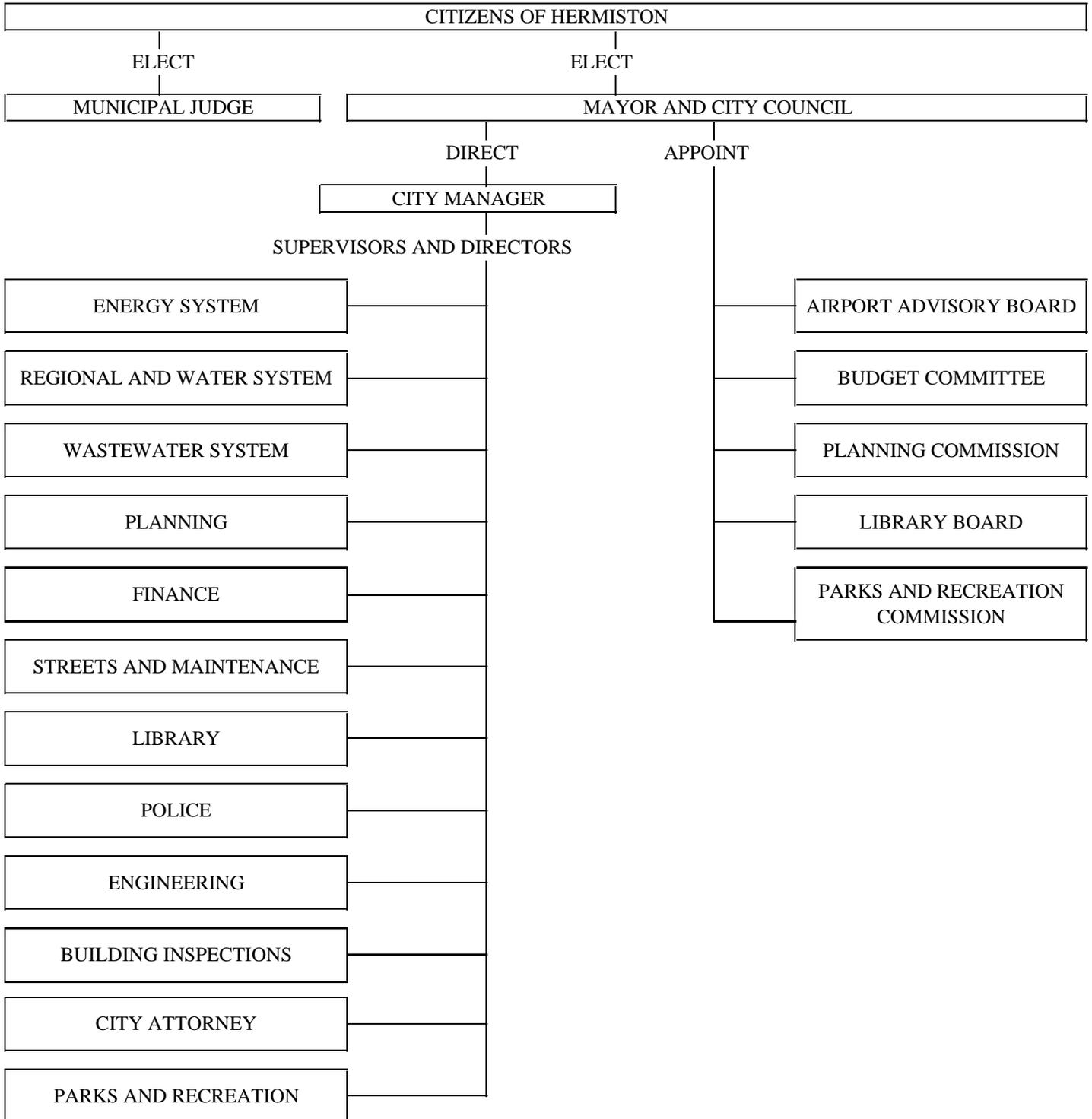
OFFICIAL ADDRESS

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

CITY OF HERMISTON, OREGON

Organizational Chart

June 30, 2009





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

November 23, 2009

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, 2009, 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 16,080.

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 treatment 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 Five Sports, and the recently completed \$3 million Dollar Fiesta Foods facility which opened in July 2009, 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 and the newly constructed \$25 million Pioneer HiBred Seed processing facility to be completed in the fall of 2009, this facility will add new jobs, offer special grower contracts to area farmers, further diversifying area agricultural production opportunities as well as other warehousing, cold storage and logistics oriented businesses. Hermiston is located one truck day away from seven western states and two Canadian provinces. Located at the intersection of two Interstate freeways makes the community ideally suited for companies moving products to the western states region. There has also been a \$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.

Citizens of the City of Hermiston

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 16,080 in 2009.

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 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 \$965,000 on this project during the year ended June 30, 2009 bringing total expenditures so far on this project to \$4,465,000. 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 to finance this project. Completion of the project is expected in 2011.

c. 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 first loan was made in July 2009.

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

Citizens of the City of Hermiston

CASH MANAGEMENT

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

RISK MANAGEMENT

The City has initiated a limited risk management program for workers' compensation and general liability. The City is self-insured for unemployment compensation costs. Third-party coverage is currently maintained for workers' compensation and general liability.

AWARDS

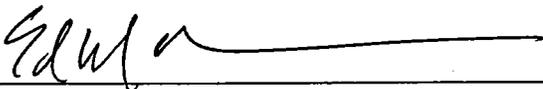
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to City of Hermiston for its comprehensive annual financial report for the fiscal year ended June 30, 2008. In order to be awarded a Certificate 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.

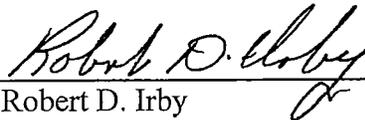
ACKNOWLEDGEMENTS

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, 2008

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.



A handwritten signature in black ink, appearing to read "M. L. Post".

President

A handwritten signature in black ink, appearing to read "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, 2009, 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, 2009, 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 November 23, 2009, on our consideration of the City of Hermiston, Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in 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 the 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 accompanying schedule of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Hermiston, Oregon. The supplementary information and schedule of expenditures of federal awards 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: 
Richard L. Stoddard, Shareholder
Hermiston, Oregon
November 23, 2009

CITY OF HERMISTON, OREGON

Management's Discussion and Analysis

June 30, 2009

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, 2009

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	
	2009	2008	2009	2008	2009	2008
Cash and investments	\$ 6,629	\$ 7,658	\$ 5,047	\$ 3,895	\$ 11,676	\$ 11,553
Other assets	1,179	625	1,590	1,556	2,769	2,181
Capital assets	14,454	13,605	32,315	31,965	46,769	45,570
Total assets	<u>22,262</u>	<u>21,888</u>	<u>38,952</u>	<u>37,416</u>	<u>61,214</u>	<u>59,304</u>
Other liabilities	853	588	1,519	1,182	2,372	1,770
Long term debt outstanding	3,410	3,450	18,960	19,173	22,370	22,623
Total liabilities	<u>4,263</u>	<u>4,038</u>	<u>20,479</u>	<u>20,355</u>	<u>24,742</u>	<u>24,393</u>
Net assets:						
Invested in capital assets, net of debt	11,044	10,155	13,354	12,732	24,398	22,887
Restricted	-	-	-	-	-	-
Unrestricted	6,955	7,695	5,119	4,329	12,074	12,024
Total net assets	<u>\$ 17,999</u>	<u>\$ 17,850</u>	<u>\$ 18,473</u>	<u>\$ 17,061</u>	<u>\$ 36,472</u>	<u>\$ 34,911</u>

CITY OF HERMISTON, OREGON

Management's Discussion and Analysis (continued)

June 30, 2009

Financial Highlights (continued)

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
REVENUES						
Program revenues:						
Charges for service	\$ 2,100	\$ 1,864	\$ 11,599	\$ 11,090	\$ 13,699	\$ 12,954
Operating Grants and contributions	226	130	-	-	226	130
Capital Grants and contributions	1,194	323	-	-	1,194	323
General revenues:						
Taxes	6,373	6,183	-	-	6,373	6,183
Interest	53	203	57	174	110	377
Other	618	708	67	85	685	793
Total revenues	<u>10,564</u>	<u>9,411</u>	<u>11,723</u>	<u>11,349</u>	<u>22,287</u>	<u>20,760</u>
EXPENSES						
Governmental activities:						
General government	2,739	2,205	-	-	2,739	2,205
Public safety	3,500	3,253	-	-	3,500	3,253
Highways and streets	1,153	1,196	-	-	1,153	1,196
Economic development	94	55	-	-	94	55
Cultural and recreation	2,567	2,472	-	-	2,567	2,472
Interest on long-term debt	148	150	-	-	148	150
Business-type activities:						
Water	-	-	2,565	2,632	2,565	2,632
Sewer	-	-	1,690	1,555	1,690	1,555
Electric	-	-	6,270	6,397	6,270	6,397
Total expenses	<u>10,201</u>	<u>9,331</u>	<u>10,525</u>	<u>10,584</u>	<u>20,726</u>	<u>19,915</u>
Change in net assets before transfers	363	80	1,198	765	1,561	845
Transfers	(214)	521	214	(521)	-	-
Extraordinary items	-	-	-	385	-	385
Change in net assets	<u>149</u>	<u>601</u>	<u>1,412</u>	<u>629</u>	<u>1,561</u>	<u>1,230</u>
Beginning 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>
Ending net assets	<u>\$ 17,999</u>	<u>\$ 17,850</u>	<u>\$ 18,473</u>	<u>\$ 17,061</u>	<u>\$ 36,472</u>	<u>\$ 34,911</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 \$1,559,000 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 a decrease in fund balance of \$720,000. Total revenues in the General Fund increased by 5% over the prior year, due primarily to increases in property taxes of 3%. Property tax revenues increased because of increasing property values within the City of Hermiston. The assessed value of property within the City increased \$35,000,000 since 2008. These factors increased the City's tax levy by approximately \$203,000. Expenditures in the General Fund increased by 9% over the prior year. Expenditure increases were primarily due to general government and public safety payroll. Other financing sources decreased by \$625,000 due to an increase from the prior year in transfers out.

The second major governmental fund, the Reserve Fund, ended the fiscal year with a decrease in fund balance of \$145,000. Total revenues and expenditures in this fund increased from the prior year by 54% and 60%, respectively. The increase in revenues is due mainly to an increase in grants and contributions. The increase in expenditures was due primarily to an increase in capital outlay expenditures from the prior year.

The remaining governmental funds ended with an increase in fund balance of \$62,000. Revenues decreased by 2% from the prior year and expenditures increased by 4% over the prior year. There were no major changes to revenues or expenditures in these funds.

Business-Type Activities

The Utility Fund experienced an increase in fund balance of \$170,000. Revenues increased by 6% while expenses increased by 6% over the prior year. The increase in fund balance was due mainly to operating revenues over operating expenses.

The fund balance in the Energy Fund increased by \$775,000 during the year ended June 30, 2009. Energy Fund revenues increased by 3% over the prior year while expenses decreased by 2%. 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 Regional Water Fund experienced an increase in fund balance of \$169,000. Revenues increased by 26% and expenses decreased by 10%. The increase in revenue was due to an increase in potable water income and the decrease in expenses was mainly due to decreased electricity costs.

The Waste Water Treatment Plant Construction Fund increased its fund balance by \$298,000. The increase in fund balance was due to loan proceeds and transfers into the fund.

CITY OF HERMISTON, OREGON

Management's Discussion and Analysis (continued)

June 30, 2009

Budgetary Highlights

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

General Fund revenues exceeded budgeted expectations by \$946,000. 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 \$46.8 million in capital assets net of depreciation at June 30, 2009 allocated as follows:

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

	Governmental Activities		Business-type Activities		Total Governmental	
	2009	2008	2009	2008	2009	2008
Land	\$ 2,209	\$ 2,209	\$ 650	\$ 650	\$ 2,859	\$ 2,859
Construction in progress	25	75	2,070	1,104	2,095	1,179
Buildings and systems	6,460	6,012	29,343	29,906	35,803	35,918
Machinery, equipment	411	342	252	305	663	647
Street system	5,349	4,967	-	-	5,349	4,967
Total capital assets	<u>\$ 14,454</u>	<u>\$ 13,605</u>	<u>\$ 32,315</u>	<u>\$ 31,965</u>	<u>\$ 46,769</u>	<u>\$ 45,570</u>

Major changes in capital assets included the following:

The City added \$966,000 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 improved its airport at a cost of \$778,000.

The City spent \$684,000 on street and bridge upgrades.

Extensions and upgrades to utility systems added \$446,000 to buildings and systems.

Additional information on capital assets can be found in Note 4 to the financial statements.

CITY OF HERMISTON, OREGON

Management's Discussion and Analysis (continued)

June 30, 2009

Debt Administration

At year end, the City had \$22.7 million in long term debt outstanding compared to \$23.0 last year. The City repaid \$595,000 of long term debt during the year and received \$250,000 in debt proceeds. Additional information on debt administration can be found in Note 6 to the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

The City's approved 2009-10 budget is down almost 10% from the final 2008-09 budget due to an expected decrease in revenues, due to the economic downturn.

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, 2009

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments	\$ 6,628,755	\$ 5,047,426	\$ 11,676,181
Accounts and other receivables, net	373,070	1,291,952	1,665,022
Property taxes receivable	397,188	-	397,188
Contracts receivable	408,808	-	408,808
Bond issue costs, net	-	298,460	298,460
Capital assets:			
Nondepreciable	2,233,358	2,720,092	4,953,450
Depreciable, net of depreciation	12,220,952	29,594,435	41,815,387
Total assets	<u>22,262,131</u>	<u>38,952,365</u>	<u>61,214,496</u>
<u>LIABILITIES</u>			
Accounts payable	137,064	863,416	1,000,480
Accrued interest payable	12,328	249,663	261,991
Compensated absences payable	239,644	89,665	329,309
Deposits payable	-	316,286	316,286
Deferred revenue	463,864	-	463,864
Notes payable			
Due within one year	-	21,263	21,263
Due in more than one year	-	250,000	250,000
Bonds payable			
Due within one year	45,000	553,428	598,428
Due in more than one year	3,365,000	18,135,790	21,500,790
Total liabilities	<u>4,262,900</u>	<u>20,479,511</u>	<u>24,742,411</u>
<u>NET ASSETS</u>			
Invested in capital assets (net of related debt)	11,044,310	13,354,046	24,398,356
Unrestricted	6,954,921	5,118,808	12,073,729
Total net assets	<u>\$ 17,999,231</u>	<u>\$ 18,472,854</u>	<u>\$ 36,472,085</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, 2009

Functions/Programs	Expenses	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
Governmental activities:							
General government	\$ 2,738,726	\$ 1,013,349	\$ 99,322	\$ 793,816	\$ (832,239)	\$ -	\$ (832,239)
Public safety	3,500,312	681,836	29,043	-	(2,789,433)	-	(2,789,433)
Highways and streets	1,152,628	-	-	400,438	(752,190)	-	(752,190)
Economic development	93,848	-	96,727	-	2,879	-	2,879
Cultural and recreation	2,566,970	405,375	-	-	(2,161,595)	-	(2,161,595)
Interest on long-term debt	148,356	-	-	-	(148,356)	-	(148,356)
Total governmental activities	<u>10,200,840</u>	<u>2,100,560</u>	<u>225,092</u>	<u>1,194,254</u>	<u>(6,680,934)</u>	<u>-</u>	<u>(6,680,934)</u>
Business-type activities:							
Water	2,565,373	2,572,545	-	-	-	7,172	7,172
Sewer	1,689,890	1,564,185	-	-	-	(125,705)	(125,705)
Electric	6,270,607	7,462,325	-	-	-	1,191,718	1,191,718
Total business-type activities	<u>10,525,870</u>	<u>11,599,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,073,185</u>	<u>1,073,185</u>
Total government	<u>\$ 20,726,710</u>	<u>\$ 13,699,615</u>	<u>\$ 225,092</u>	<u>\$ 1,194,254</u>	<u>(6,680,934)</u>	<u>1,073,185</u>	<u>(5,607,749)</u>
			General revenues:				
			Property taxes, levied for general purposes		4,107,077	-	4,107,077
			Property taxes, levied for debt service		329,726	-	329,726
			Transient room taxes		339,377	-	339,377
			Franchise tax		508,594	-	508,594
			911 taxes		138,996	-	138,996
			Motor fuel taxes		615,027	-	615,027
			State shared taxes - unrestricted		334,322	-	334,322
			Interest and investment earnings		52,759	56,744	109,503
			Other revenues		618,458	67,273	685,731
			Transfers		(214,228)	214,228	-
			Total general revenues and transfers		<u>6,830,108</u>	<u>338,245</u>	<u>7,168,353</u>
			Change in net assets		149,174	1,411,430	1,560,604
			Net assets--beginning		17,850,057	17,061,424	34,911,481
			Net assets--ending		<u>\$ 17,999,231</u>	<u>\$ 18,472,854</u>	<u>\$ 36,472,085</u>

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

CITY OF HERMISTON, OREGON

Governmental Funds

Balance Sheet

June 30, 2009

	<u>General</u>	<u>Reserve</u>	<u>Other Governmental</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and investments	\$ 2,656,052	\$ 3,052,797	\$ 919,906	\$ 6,628,755
Receivables:				
Property taxes	368,536	-	28,652	397,188
Special assessments	1,860	-	-	1,860
Intergovernmental and other	89,395	233,365	48,450	371,210
Contracts receivable	-	-	408,808	408,808
Total assets	<u>\$ 3,115,843</u>	<u>\$ 3,286,162</u>	<u>\$ 1,405,816</u>	<u>\$ 7,807,821</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Accounts payable	\$ 10,150	\$ 33,319	\$ 93,595	\$ 137,064
Deferred revenues:				
Property taxes	309,570	-	24,068	333,638
Contracts and other	1,095	-	462,769	463,864
Total liabilities	<u>320,815</u>	<u>33,319</u>	<u>580,432</u>	<u>934,566</u>
 <u>FUND BALANCES:</u>				
Unreserved, reported in:				
General fund, undesignated	2,795,028	-	-	2,795,028
Special revenue funds:				
Designated for general government	-	-	340,508	340,508
Designated for public safety	-	-	22,158	22,158
Designated for culture and recreation	-	-	216,608	216,608
Designated for capital outlay	-	3,252,843	139,553	3,392,396
Debt service fund:				
Designated for debt service	-	-	106,557	106,557
Total fund balances	<u>2,795,028</u>	<u>3,252,843</u>	<u>825,384</u>	<u>6,873,255</u>
Total liabilities and fund balances	<u>\$ 3,115,843</u>	<u>\$ 3,286,162</u>	<u>\$ 1,405,816</u>	<u>\$ 7,807,821</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, 2009**

<u>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</u>		\$ 6,873,255
<p>Capital assets used in governmental activities are not financial resources, therefore, are not reported in the governmental funds' balance sheet.</p>		
Acquisition cost	\$ 31,022,232	
Accumulated depreciation	<u>(16,567,922)</u>	
		14,454,310
<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>		
		333,638
<p>Accrued compensated absences are not due and payable with current financial resources, therefore, they are not reported in the funds' balance sheet.</p>		
		(239,644)
<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	(3,410,000)	
Accrued interest payable	<u>(12,328)</u>	
		<u>(3,422,328)</u>
<u>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</u>		<u>\$ 17,999,231</u>

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, 2009

	<u>General</u>	<u>Reserve</u>	<u>Other Governmental</u>	<u>Total</u>
<u>REVENUES:</u>				
Property taxes	\$ 4,042,722	\$ -	\$ 324,666	\$ 4,367,388
Transient room tax	222,717	63,632	53,028	339,377
911 tax	-	-	138,996	138,996
Franchise tax	508,594	-	-	508,594
Intergovernmental	334,322	-	615,027	949,349
Fees, licenses, and permits	5,170	-	-	5,170
Fines and forfeits	434,025	-	242,641	676,666
Investment interest	42,129	10,630	-	52,759
Charges for services	930,916	47,222	440,586	1,418,724
Grants and contributions	44,865	1,225,573	148,908	1,419,346
Miscellaneous	415,717	-	202,741	618,458
Total revenues	<u>6,981,177</u>	<u>1,347,057</u>	<u>2,166,593</u>	<u>10,494,827</u>
<u>EXPENDITURES:</u>				
Current:				
General government	1,885,029	236,932	517,816	2,639,777
Public safety	2,692,766	-	713,117	3,405,883
Highways and streets	-	32,004	781,928	813,932
Economic development	-	-	93,848	93,848
Cultural and recreation	1,908,389	4,669	338,203	2,251,261
Debt service:				
Principal	-	-	40,000	40,000
Interest	-	-	148,439	148,439
Capital Outlay:				
General government	13,254	789,539	-	802,793
Public safety	57,253	-	-	57,253
Highways and streets	-	701,985	39,060	741,045
Cultural and recreation	6,000	59,067	22,262	87,329
Total expenditures	<u>6,562,691</u>	<u>1,824,196</u>	<u>2,694,673</u>	<u>11,081,560</u>
<u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u>	<u>418,486</u>	<u>(477,139)</u>	<u>(528,080)</u>	<u>(586,733)</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers in	376,536	668,000	1,163,943	2,208,479
Transfers out	(1,514,943)	(336,249)	(571,515)	(2,422,707)
Total other financing sources (uses)	<u>(1,138,407)</u>	<u>331,751</u>	<u>592,428</u>	<u>(214,228)</u>
<u>NET CHANGE IN FUND BALANCES</u>	<u>(719,921)</u>	<u>(145,388)</u>	<u>64,348</u>	<u>(800,961)</u>
<u>FUND BALANCES, BEGINNING</u>	<u>3,514,949</u>	<u>3,398,231</u>	<u>761,036</u>	<u>7,674,216</u>
<u>FUND BALANCES, ENDING</u>	<u>\$ 2,795,028</u>	<u>\$ 3,252,843</u>	<u>\$ 825,384</u>	<u>\$ 6,873,255</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, 2009**

Net change in fund balances - total governmental funds \$ (800,961)

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 current period.

Expenditures for capital assets	\$ 1,688,420	
Less current year depreciation	<u>(839,011)</u>	849,409

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. 69,415

Repayment of long-term debt uses current financial resources and is reported as expenditures in governmental funds. However, it is reported as a decrease in liabilities in the statement of net assets. 40,000

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. (8,689)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 149,174

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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<u>REVENUES:</u>				
Property taxes	\$ 3,710,000	\$ 3,710,000	\$ 4,024,903	\$ 314,903
Transient room tax	176,700	176,700	222,717	46,017
Franchise fees	711,100	711,100	879,742	168,642
Intergovernmental	263,000	263,000	351,391	88,391
Fees, licenses, and permits	1,500	1,500	5,170	3,670
Fines and forfeits	240,000	240,000	434,025	194,025
Investment interest	200,000	200,000	49,784	(150,216)
Charges for services	732,500	732,500	927,586	195,086
Grants and contributions	33,000	33,000	44,865	11,865
Miscellaneous	342,000	342,000	415,271	73,271
Total revenues	<u>6,409,800</u>	<u>6,409,800</u>	<u>7,355,454</u>	<u>945,654</u>
<u>EXPENDITURES:</u>				
Personal services	4,760,745	4,760,745	4,638,181	122,564
Materials and services	1,777,235	1,974,535	1,848,000	126,535
Capital outlay	90,900	97,900	76,510	21,390
Total expenditures	<u>6,628,880</u>	<u>6,833,180</u>	<u>6,562,691</u>	<u>270,489</u>
<u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u>				
	<u>(219,080)</u>	<u>(423,380)</u>	<u>792,763</u>	<u>1,216,143</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers in	-	-	-	-
Transfers out	<u>(1,256,820)</u>	<u>(1,506,820)</u>	<u>(1,514,943)</u>	<u>(8,123)</u>
Total other financing sources (uses)	<u>(1,256,820)</u>	<u>(1,506,820)</u>	<u>(1,514,943)</u>	<u>(8,123)</u>
<u>NET CHANGE IN FUND BALANCE</u>				
	<u>(1,475,900)</u>	<u>(1,930,200)</u>	<u>(722,180)</u>	<u>1,208,020</u>
<u>FUND BALANCES, BEGINNING</u>				
	<u>1,500,900</u>	<u>1,955,200</u>	<u>3,363,228</u>	<u>1,408,028</u>
<u>FUND BALANCES, ENDING</u>				
	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 2,641,048</u>	<u>\$ 2,616,048</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, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Taxes	\$ 93,140	\$ 93,140	\$ 50,632	\$ (42,508)
Intergovernmental	762,000	1,615,000	992,208	(622,792)
Reimbursements and other	-	-	47,222	47,222
Total revenues	<u>855,140</u>	<u>1,708,140</u>	<u>1,090,062</u>	<u>(618,078)</u>
<u>EXPENDITURES:</u>				
Materials and services	150,655	393,655	268,936	124,719
Capital outlay	5,131,260	5,991,260	1,868,009	4,123,251
Total expenditures	<u>5,281,915</u>	<u>6,384,915</u>	<u>2,136,945</u>	<u>4,247,970</u>
<u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(4,426,775)</u>	<u>(4,676,775)</u>	<u>(1,046,883)</u>	<u>3,629,892</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers from:				
General Fund	114,000	364,000	364,000	-
Street Fund	241,500	241,500	204,000	(37,500)
Energy Fund	100,000	100,000	100,000	-
Total other financing sources (uses)	<u>455,500</u>	<u>705,500</u>	<u>668,000</u>	<u>(37,500)</u>
<u>NET CHANGE IN FUND BALANCE</u>	<u>(3,971,275)</u>	<u>(3,971,275)</u>	<u>(378,883)</u>	<u>3,592,392</u>
<u>FUND BALANCES, BEGINNING</u>	<u>3,971,275</u>	<u>3,971,275</u>	<u>3,396,508</u>	<u>(574,767)</u>
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,017,625</u>	<u>\$ 3,017,625</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, 2009

	Business-Type Activities-Enterprise Funds				Totals
	Utility	Energy	Regional Water	WWTP Construction	
<u>ASSETS</u>					
<u>CURRENT ASSETS:</u>					
Cash and cash equivalents	\$ 897,165	\$ 3,584,476	\$ 565,785	\$ -	\$ 5,047,426
Receivable from other proprietary fund	119,480	-	-	-	119,480
Accounts receivable	650,110	729,851	21,991	-	1,401,952
Allowance for doubtful accounts	(90,000)	(20,000)	-	-	(110,000)
Total current assets	<u>1,576,755</u>	<u>4,294,327</u>	<u>587,776</u>	<u>-</u>	<u>6,458,858</u>
<u>NONCURRENT ASSETS:</u>					
Capital assets, net	13,129,420	11,650,397	6,569,102	965,608	32,314,527
Bond issue costs, net	13,976	284,484	-	-	298,460
Total noncurrent assets	<u>13,143,396</u>	<u>11,934,881</u>	<u>6,569,102</u>	<u>965,608</u>	<u>32,612,987</u>
Total assets	<u>14,720,151</u>	<u>16,229,208</u>	<u>7,156,878</u>	<u>965,608</u>	<u>39,071,845</u>
<u>LIABILITIES</u>					
<u>CURRENT LIABILITIES:</u>					
Accounts payable	210,384	355,033	-	297,999	863,416
Payable to other proprietary fund	-	-	-	119,480	119,480
Accrued interest payable	21,425	143,440	84,798	-	249,663
Compensated absences payable	89,665	-	-	-	89,665
Deposits payable	142,138	174,148	-	-	316,286
Notes payable	21,263	-	-	-	21,263
Bonds payable	228,428	160,000	165,000	-	553,428
Total current liabilities	<u>713,303</u>	<u>832,621</u>	<u>249,798</u>	<u>417,479</u>	<u>2,213,201</u>
<u>NONCURRENT LIABILITIES:</u>					
Notes payable	-	-	-	250,000	250,000
Bonds payable	1,881,375	12,629,415	3,625,000	-	18,135,790
Total long-term liabilities	<u>1,881,375</u>	<u>12,629,415</u>	<u>3,625,000</u>	<u>250,000</u>	<u>18,385,790</u>
Total liabilities	<u>2,594,678</u>	<u>13,462,036</u>	<u>3,874,798</u>	<u>667,479</u>	<u>20,598,991</u>
<u>NET ASSETS</u>					
Invested in capital assets (net of related debt)	10,998,354	(1,139,018)	2,779,102	596,128	13,234,566
Unrestricted	1,127,119	3,906,190	502,978	(297,999)	5,238,288
Total net assets	<u>\$ 12,125,473</u>	<u>\$ 2,767,172</u>	<u>\$ 3,282,080</u>	<u>\$ 298,129</u>	<u>\$ 18,472,854</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, 2009

	Business-Type Activities - Enterprise Funds				
	WWTP				Totals
	Utility	Energy	Regional Water	Construction	
<u>OPERATING REVENUE:</u>					
Charges for sales and services:					
Pledged as security for revenue bonds:					
Electricity	\$ -	\$ 7,462,325	\$ -	\$ -	\$ 7,462,325
Water	2,016,882	-	-	-	2,016,882
Sewer	1,564,185	-	-	-	1,564,185
Miscellaneous revenues	39,413	27,860	-	-	67,273
Unpledged:					
Water	-	-	626,569	-	626,569
Total operating revenue	<u>3,620,480</u>	<u>7,490,185</u>	<u>626,569</u>	<u>-</u>	<u>11,737,234</u>
<u>OPERATING EXPENSES:</u>					
Cost of sales and services:					
Electricity	-	5,188,245	-	-	5,188,245
Water	1,501,200	-	445,326	14,620	1,961,146
Sewer	1,442,590	-	-	-	1,442,590
Depreciation and amortization	446,153	492,618	176,033	-	1,114,804
Total operating expenses	<u>3,389,943</u>	<u>5,680,863</u>	<u>621,359</u>	<u>14,620</u>	<u>9,706,785</u>
<u>OPERATING INCOME</u>	<u>230,537</u>	<u>1,809,322</u>	<u>5,210</u>	<u>(14,620)</u>	<u>2,030,449</u>
<u>NONOPERATING REVENUES</u>					
<u>(EXPENSES):</u>					
Interest on investments	35,270	21,474	-	-	56,744
Interest expense	(96,065)	(589,744)	(204,182)	-	(889,991)
Total nonoperating revenue (expenses)	<u>(60,795)</u>	<u>(568,270)</u>	<u>(204,182)</u>	<u>-</u>	<u>(833,247)</u>
<u>INCOME (DEFICIT) BEFORE</u>					
<u>TRANSFERS</u>	<u>169,742</u>	<u>1,241,052</u>	<u>(198,972)</u>	<u>(14,620)</u>	<u>1,197,202</u>
Transfers in	-	-	367,515	312,749	680,264
Transfers out	-	(466,036)	-	-	(466,036)
Total transfers	<u>-</u>	<u>(466,036)</u>	<u>367,515</u>	<u>312,749</u>	<u>214,228</u>
<u>CHANGE IN NET ASSETS</u>	<u>169,742</u>	<u>775,016</u>	<u>168,543</u>	<u>298,129</u>	<u>1,411,430</u>
<u>TOTAL NET ASSETS - BEGINNING</u>	<u>11,955,731</u>	<u>1,992,156</u>	<u>3,113,537</u>	<u>-</u>	<u>17,061,424</u>
<u>TOTAL NET ASSETS - ENDING</u>	<u>\$ 12,125,473</u>	<u>\$ 2,767,172</u>	<u>\$ 3,282,080</u>	<u>\$ 298,129</u>	<u>\$ 18,472,854</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, 2009

	Business-Type Activities - Enterprise Funds				Totals
	Utility	Energy	Regional Water	WWTP Construction	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>					
Receipts from customers	\$ 3,567,447	\$ 7,475,068	\$ 624,670	\$ -	\$ 11,667,185
Payments to suppliers	(1,058,994)	(4,960,777)	(292,812)	283,379	(6,029,204)
Payments to employees	(1,786,205)	(220,263)	(153,289)	-	(2,159,757)
Net cash provided by operating activities	722,248	2,294,028	178,569	283,379	3,478,224
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>					
Transfer from other funds	-	-	367,515	312,749	680,264
Transfer to other funds	-	(466,036)	-	-	(466,036)
Change in loans payable to (from) other funds	(119,480)	-	-	119,480	-
Net cash provided by (used in) noncapital financing activities	(119,480)	(466,036)	367,515	432,229	214,228
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>					
Acquisition and construction of capital assets	-	(445,574)	-	(965,608)	(1,411,182)
Proceeds on bonds and notes	-	-	-	250,000	250,000
Interest paid on bonds and notes	(98,201)	(576,104)	(207,515)	-	(881,820)
Principal paid on bonds and notes	(253,849)	(140,000)	(160,000)	-	(553,849)
Net cash used in capital and related financing activities	(352,050)	(1,161,678)	(367,515)	(715,608)	(2,596,851)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>					
Interest received	35,270	21,474	-	-	56,744
<u>NET INCREASE IN CASH</u>	285,988	687,788	178,569	-	1,152,345
<u>CASH AND CASH EQUIVALENTS, BEGINNING</u>	611,177	2,896,688	387,216	-	3,895,081
<u>CASH AND CASH EQUIVALENTS, ENDING</u>	\$ 897,165	\$ 3,584,476	\$ 565,785	\$ -	\$ 5,047,426
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>					
Operating income (loss)	\$ 230,537	\$ 1,809,322	\$ 5,210	\$ (14,620)	\$ 2,030,449
<u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>					
Depreciation and amortization	446,153	492,618	176,033	-	1,114,804
Change in assets and liabilities:					
Accounts receivable	(53,033)	(15,117)	(1,899)	-	(70,049)
Accounts payable and accrued expenses	98,591	7,205	(775)	297,999	403,020
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	\$ 722,248	\$ 2,294,028	\$ 178,569	\$ 283,379	\$ 3,478,224

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, 2009

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, 2009

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, 2009

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.

Waste Water Treatment Plant (WWTP) Construction Fund:

The WWTP Construction Fund is used to account for the construction activities of the waste water treatment plant.

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

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, 2009

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

G. Cash and investments (continued):

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

H. Inventories:

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

I. Use of estimates:

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

J. Compensated absences:

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

K. Fund equity:

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

L. Interfund transactions:

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

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

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, 2009

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 11 and 12.
 - 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, 2009

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

A. Budgets and budgetary accounting (continued):

2. Management is not allowed to modify the budget without action by the governing body. The governing body is authorized to modify the original budget appropriation resolution in the following ways:
 - a. Transfer of budget appropriations within a fund are authorized by resolution of the governing body.
 - b. Budget revisions that increase total expenditures in any fund require a supplemental budget to be adopted. If a supplemental budget increases a fund's expenditures by less than 10%, the City can adopt it by publishing a notice seven days before a meeting is held to pass the adoption resolution. If a supplemental budget increases a fund's expenditures by more than 10%, the City must follow the same procedures in adopting a supplemental budget as those to adopt an original budget.
3. During the year the City adopted a supplemental budget which increased total appropriations by \$2,127,600.
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, 2009

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, 2009:

General Fund:

Transfers out	\$ 8,123
---------------	----------

State Tax Street Fund:

Personal services	\$ 13,334
-------------------	-----------

NOTE 3 – CASH AND INVESTMENTS:

Cash and investments consisted of the following:

Cash on hand	\$ 1,410
--------------	----------

Demand deposits, Banner Bank	1,172,898
------------------------------	-----------

Demand deposits, U.S. National Bank	2,754,648
-------------------------------------	-----------

Cash subtotal	<u>3,928,956</u>
---------------	------------------

U.S. Government notes	<u>7,747,225</u>
-----------------------	------------------

Total cash and investments, June 30, 2009	<u>\$ 11,676,181</u>
---	----------------------

At year-end, the City's bank deposits were covered by federal depository insurance of \$250,000 at each institution.

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

NOTE 3 – CASH AND INVESTMENTS (continued):

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. ORS Chapter 295 governs the collateralization of Oregon public funds and provides the statutory requirements for the Public Funds Collateralization Program. The Public Funds Collateralization Program was created by the Office of the State Treasurer to facilitate bank depository, custodian, and public official compliance with ORS 295. ORS 295 requires the depository institution to pledge collateral against any public funds deposits in excess of deposit insurance amounts. As of June 30, 2009, the total bank balance was \$11,676,181. On these deposits \$500,000 was covered by federal depository insurance. The City keeps its deposits at financial institutions deemed to be qualified depositories by the Office of the State Treasurer.

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, 2009 all of the City's \$7,747,225 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.

Investment Policies

The City has not adopted a formal investment policy addressing interest rate risk, credit risk, or custodial credit risk.

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 2,208,670	\$ -	\$ -	\$ 2,208,670
Construction in progress	75,366	802,885	(853,563)	24,688
Total capital assets not being depreciated	<u>2,284,036</u>	<u>802,885</u>	<u>(853,563)</u>	<u>2,233,358</u>
Capital assets being depreciated:				
Buildings and improvements	11,165,817	853,563	-	12,019,380
Machinery and equipment	2,073,644	201,687	(77,679)	2,197,652
Street system	13,887,994	683,848	-	14,571,842
Total capital assets being depreciated	<u>27,127,455</u>	<u>1,739,098</u>	<u>(77,679)</u>	<u>28,788,874</u>
Less: Accumulated depreciation:				
Buildings and improvements	(5,153,876)	(405,037)	-	(5,558,913)
Machinery and equipment	(1,731,707)	(132,381)	77,679	(1,786,409)
Street system	(8,921,007)	(301,593)	-	(9,222,600)
Total accumulated depreciation	<u>(15,806,590)</u>	<u>(839,011)</u>	<u>77,679</u>	<u>(16,567,922)</u>
Total capital assets being depreciated, net	<u>11,320,865</u>	<u>900,087</u>	<u>-</u>	<u>12,220,952</u>
Governmental activities capital assets, net	<u>\$ 13,604,901</u>	<u>\$ 1,702,972</u>	<u>\$ (853,563)</u>	<u>\$ 14,454,310</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

NOTE 4 – CAPITAL ASSETS (continued):

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
<u>Business-type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 649,943	\$ -	\$ -	\$ 649,943
Construction in progress	1,104,541	965,608	-	2,070,149
Total capital assets not being depreciated	<u>1,754,484</u>	<u>965,608</u>	<u>-</u>	<u>2,720,092</u>
Capital assets being depreciated:				
Utility system and buildings	35,015,806	-	-	35,015,806
Electric system	14,365,959	445,574	-	14,811,533
Equipment and vehicles	974,799	-	(51,046)	923,753
Total capital assets being depreciated	<u>50,356,564</u>	<u>445,574</u>	<u>(51,046)</u>	<u>50,751,092</u>
Less: Accumulated depreciation:				
Utility system and buildings	(16,757,599)	(565,747)	-	(17,323,346)
Electric system	(2,718,591)	(442,543)	-	(3,161,134)
Equipment and vehicles	(670,130)	(53,093)	51,046	(672,177)
Total accumulated depreciation	<u>(20,146,320)</u>	<u>(1,061,383)</u>	<u>51,046</u>	<u>(21,156,657)</u>
Total capital assets being depreciated, net	<u>30,210,244</u>	<u>(615,809)</u>	<u>-</u>	<u>29,594,435</u>
Business-type activities capital assets, net	<u>\$ 31,964,728</u>	<u>\$ 349,799</u>	<u>\$ -</u>	<u>\$ 32,314,527</u>

Depreciation was charged to functions and programs as follows:

Governmental Activities:	
General government	\$ 98,269
Public safety	86,301
Highways and streets	340,707
Cultural and recreation	313,734
Total depreciation expense of governmental activities	<u>\$ 839,011</u>
Business-type activities:	
Water	\$ 294,918
Sewer	147,697
Electricity	442,735
Regional Water	176,033
Total depreciation expense of business-type activities	<u>\$ 1,061,383</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

NOTE 5 – 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 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 6 – 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.

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. 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 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, 2009

NOTE 6 – 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%	\$ 3,410,000
Business-type activities:		
2000 Refunding Water Bonds	4.75% - 5.6%	3,790,000
2005 Electric System Revenue Bonds	3.35%-4.60%	13,070,000
2007 Refunding Utility Bonds	4.10%	2,109,803
Gross amount of bonds		<u>22,379,803</u>
Unamortized refunding costs		(125,391)
Unamortized original issue discount		<u>(155,194)</u>
Total bonds		<u>\$ 22,099,218</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>
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	65,000	140,155	716,791	751,919
2015-2019	450,000	653,045	3,724,471	3,241,117
2020-2024	675,000	536,580	4,090,000	2,348,959
2025-2029	1,000,000	353,969	3,915,000	1,370,638
2030-2034	1,015,000	97,704	4,085,000	383,064
Totals	<u>\$ 3,410,000</u>	<u>\$ 2,361,497</u>	<u>\$ 18,969,803</u>	<u>\$ 11,376,684</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

NOTE 6 – 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 \$250,000 of an available \$1,500,000 Water and Sewer Subordinate Lien Credit Facility Note, Series 2008. This interim financing matures September 1, 2010. Variable interest at 55% of the US Bank Prime Rate is due at maturity, presently 2.75%. Should the City be unable to obtain permanent financing to refinance the Facility and 2008 Series Note, the City may pay the interest accrued interest at the maturity date, and pay the unpaid principal with interest at 95% of the Bank's Prime Rate in fifteen equal annual installments.

Notes currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities:		
Oregon State	5.00%	\$ 21,263
2008 Line of Credit	Variable	250,000
Total Business-type activities		<u>\$ 271,263</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>
2010	\$ 21,263	\$ 1,063
2011	250,000	13,750
Totals	<u>\$ 271,263</u>	<u>\$ 14,813</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

NOTE 6 – LONG-TERM DEBT (continued):

Changes in long-term debt

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009	Due Within One Year
Government Activities:					
2003 Pool Bonds	\$ 3,450,000	\$ -	\$ (40,000)	\$ 3,410,000	\$ 45,000
Compensated absences	230,872	268,320	(259,548)	239,644	239,644
Total Governmental Activities	<u>\$ 3,680,872</u>	<u>\$ 268,320</u>	<u>\$ (299,548)</u>	<u>\$ 3,649,644</u>	<u>\$ 284,644</u>
Business-Type Activities:					
2000 Refunding Water Bonds	\$ 3,950,000	\$ -	\$ (160,000)	\$ 3,790,000	\$ 165,000
2005 Electric Revenue Bonds	13,210,000	-	(140,000)	13,070,000	160,000
2007 Refunding Utility Bonds	2,325,262	-	(215,459)	2,109,803	228,428
Total bonds	<u>19,485,262</u>	<u>-</u>	<u>(515,459)</u>	<u>18,969,803</u>	<u>553,428</u>
Notes Payable:					
Oregon State	59,653	-	(38,390)	21,263	21,263
2008 Utility line of credit	-	250,000	-	250,000	-
Total notes	<u>59,653</u>	<u>250,000</u>	<u>(38,390)</u>	<u>271,263</u>	<u>21,263</u>
Compensated absences	70,018	74,345	(54,698)	89,665	89,665
Total Business-type Activities	<u>\$19,614,933</u>	<u>\$ 324,345</u>	<u>\$ (608,547)</u>	<u>\$19,330,731</u>	<u>\$ 664,356</u>

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

NOTE 7 – 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, 2009

NOTE 8 - INTERFUND TRANSACTIONS:

Transfer Out:	Transfer In:					Total Transfers Out
	General	Reserve	Regional Water	WWTP Construction	Nonmajor Governmental	
General	\$ -	\$ 364,000	\$ -	\$ -	\$ 1,150,943	\$ 1,514,943
Reserve	10,500	-	-	312,749	13,000	336,249
Energy	366,036	100,000	-	-	-	466,036
Non-major governmental	-	204,000	367,515	-	-	571,515
Total Transfers in	<u>\$ 376,536</u>	<u>\$ 668,000</u>	<u>\$ 367,515</u>	<u>\$ 312,749</u>	<u>\$ 1,163,943</u>	<u>\$ 2,888,743</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 in:

Regional water fund	367,515
WWTP Construction	312,749

Transfers out:

Energy fund	<u>(466,036)</u>
	<u>\$ 214,228</u>

Net transfers to governmental activities:

Transfers in:

General fund	\$ 376,536
Reserve fund	668,000
Non-major governmental funds	1,163,943

Transfer out:

General fund	(1,514,943)
Reserve fund	(336,249)
Non-major governmental funds	<u>(571,515)</u>
	<u>\$ (214,228)</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

NOTE 8 - 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 \$552,543 to the 911 Communications Fund and \$409,961 to the Street Fund to meet the costs of these services.

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, 2009

NOTE 9 – 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 10 – INTERGOVERNMENTAL REVENUES:

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

Oregon State highway taxes	\$ 615,027
Oregon State liquor and cigarette taxes	214,043
Oregon State revenue sharing	<u>120,279</u>
Total	<u>\$ 949,349</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

NOTE 11 – RECONCILIATION OF GAAP BASIS REVENUES AND EXPENDITURES TO BUDGETARY BASIS REVENUES AND EXPENDITURES:

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

	<u>General Fund</u>	<u>Reserve Fund</u>
<u>GAAP BASIS NET CHANGE IN FUND BALANCES</u>		
<u>ADD (DEDUCT):</u>	\$ (719,921)	\$ (145,388)
Change in receivables	(64,864)	(233,365)
Changes in unearned investment (gains) losses	(2,845)	(130)
Change in deferred revenue	65,450	-
<u>BUDGETARY BASIS NET CHANGE IN FUND BALANCES</u>	<u>\$ (722,180)</u>	<u>\$ (378,883)</u>

NOTE 12 – RECONCILIATION OF GAAP BASIS FUND EQUITY TO BUDGETARY BASIS FUND EQUITY:

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

	<u>General Fund</u>	<u>Reserve Fund</u>
<u>GAAP BASIS FUND BALANCES</u>		
<u>ADD (DEDUCT):</u>	\$ 2,795,028	\$ 3,252,843
Receivables	(459,791)	(233,365)
Unearned investment (gains) losses	(4,854)	(1,853)
Deferred revenue	310,665	-
<u>BUDGET BASIS FUND BALANCES</u>	<u>\$ 2,641,048</u>	<u>\$ 3,017,625</u>

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

NOTE 13 – 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 14 – DEFINED BENEFIT PENSION PLAN:

A. Plan Description

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

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

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

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

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

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 2009, the City's annual pension cost of \$857,130 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2007 actuarial valuation using the projected unit credit actuarial cost method. Tier 1/Tier 2 regular UAL and Retiree Healthcare UAL are amortized as a level percentage of combined valuation payroll over a closed 20 year period. 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 8.0% in 2008, 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
2007	\$ 902,693	100%	\$ -
2008	778,049	100%	-
2009	857,130	100%	-

D. Trend Information

The data presented below presents the information currently available.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Actuarial Liability/ (Surplus) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/03	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)%
12/31/07	27,679,617	25,706,675	(1,972,942)	108%	4,565,370	(43)%
12/31/08	21,245,176	26,636,773	5,391,597	80%	4,992,846	108%

CITY OF HERMISTON, OREGON

Notes to Basic Financial Statements

June 30, 2009

NOTE 15 – 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 \$965,000 on this project during the year ended June 30, 2009 bringing total expenditures so far on this project to \$4,465,000. 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 to finance this project. Completion of the project is expected in 2011.

The City completed construction of Penney Avenue before June 30, 2009. The project was funded with the assistance of a loan and grants from the Oregon Department of Transportation and the Oregon Economic and Community Development Department. A receivable of \$202,000 is recorded in the Reserve Fund to account for final grant proceeds. Loan proceeds of \$76,000 were received after year end, and will be recorded when received. No federal funds are included in the loan or grants.

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 first loan was made in July 2009.

Participating city employees currently contribute 6% of their salary to the Oregon Public Employees Retirement System (PERS.) Effective July 1, 2010, the City will, in lieu of a pay increase, but not as a reduction in salary, pay what would otherwise be the employee's 6% contribution to PERS.

SUPPLEMENTARY INFORMATION

CITY OF HERMISTON, OREGON

Non-major Governmental Funds

June 30, 2009

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, 2009

					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	
<u>ASSETS:</u>												
Cash and investments	\$ 2,079	\$ 47,075	\$ 79,595	\$ 6,947	\$ 355,740	\$ 120,156	\$ 111,053	\$ -	\$ 50,269	\$ 45,019	\$ 101,973	\$ 919,906
Receivables (net of allowances for uncollectibles):												
Property taxes	-	-	-	-	-	-	-	-	-	-	28,652	28,652
Grants and other	-	-	-	-	-	-	48,450	-	-	-	-	48,450
Contracts receivables	-	-	-	-	-	-	408,808	-	-	-	-	408,808
Total assets	<u>\$ 2,079</u>	<u>\$ 47,075</u>	<u>\$ 79,595</u>	<u>\$ 6,947</u>	<u>\$ 355,740</u>	<u>\$ 120,156</u>	<u>\$ 568,311</u>	<u>\$ -</u>	<u>\$ 50,269</u>	<u>\$ 45,019</u>	<u>\$ 130,625</u>	<u>\$ 1,405,816</u>
<u>LIABILITIES AND FUND BALANCES</u>												
<u>LIABILITIES:</u>												
Accounts payable	\$ 2,079	\$ -	\$ 22,262	\$ 1,505	\$ 67,749	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 93,595
Deferred revenues	-	-	-	-	-	5,900	428,758	-	28,111	-	24,068	486,837
Total liabilities	<u>2,079</u>	<u>-</u>	<u>22,262</u>	<u>1,505</u>	<u>67,749</u>	<u>5,900</u>	<u>428,758</u>	<u>-</u>	<u>28,111</u>	<u>-</u>	<u>24,068</u>	<u>580,432</u>
<u>FUND BALANCES:</u>												
Unreserved fund balance:												
Designated for general government	-	47,075	-	5,442	287,991	-	-	-	-	-	-	340,508
Designated for public safety	-	-	-	-	-	-	-	-	22,158	-	-	22,158
Designated for culture and recreation	-	-	57,333	-	-	114,256	-	-	-	45,019	-	216,608
Designated for capital outlay	-	-	-	-	-	-	139,553	-	-	-	-	139,553
Designated for debt service	-	-	-	-	-	-	-	-	-	-	106,557	106,557
Total fund balances	<u>-</u>	<u>47,075</u>	<u>57,333</u>	<u>5,442</u>	<u>287,991</u>	<u>114,256</u>	<u>139,553</u>	<u>-</u>	<u>22,158</u>	<u>45,019</u>	<u>106,557</u>	<u>825,384</u>
Total liabilities and fund balances	<u>\$ 2,079</u>	<u>\$ 47,075</u>	<u>\$ 79,595</u>	<u>\$ 6,947</u>	<u>\$ 355,740</u>	<u>\$ 120,156</u>	<u>\$ 568,311</u>	<u>\$ -</u>	<u>\$ 50,269</u>	<u>\$ 45,019</u>	<u>\$ 130,625</u>	<u>\$ 1,405,816</u>

CITY OF HERMISTON, OREGON

Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2009

	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	
REVENUES:												
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 324,666	\$ 324,666
Transient room tax	-	53,028	-	-	-	-	-	-	-	-	-	53,028
911 Tax	-	-	-	-	-	-	-	138,996	-	-	-	138,996
Intergovernmental	615,027	-	-	-	-	-	-	-	-	-	-	615,027
Fines and forfeits	-	-	-	242,641	-	-	-	-	-	-	-	242,641
Charges for services	-	-	116,409	-	143,213	180,964	-	-	-	-	-	440,586
Grants and contributions	-	-	-	-	3,875	-	96,727	-	12,176	36,130	-	148,908
Miscellaneous	-	-	22,300	-	109,022	-	-	-	11,957	22,295	37,167	202,741
Total revenues	<u>615,027</u>	<u>53,028</u>	<u>138,709</u>	<u>242,641</u>	<u>256,110</u>	<u>180,964</u>	<u>96,727</u>	<u>138,996</u>	<u>24,133</u>	<u>58,425</u>	<u>361,833</u>	<u>2,166,593</u>
EXPENDITURES:												
Current:												
General government	-	39,902	-	238,917	238,997	-	-	-	-	-	-	517,816
Public safety	-	-	-	-	-	-	-	691,539	21,578	-	-	713,117
Highways and streets	781,928	-	-	-	-	-	-	-	-	-	-	781,928
Economic development	-	-	-	-	-	-	93,848	-	-	-	-	93,848
Cultural and recreation	-	-	164,024	-	-	117,281	-	-	-	56,898	-	338,203
Capital Outlay												
Highways and streets	39,060	-	-	-	-	-	-	-	-	-	-	39,060
Cultural and recreation	-	-	22,262	-	-	-	-	-	-	-	-	22,262
Debt service:												
Principal	-	-	-	-	-	-	-	-	-	-	40,000	40,000
Interest	-	-	-	-	-	-	-	-	-	-	148,439	148,439
Total expenditures	<u>820,988</u>	<u>39,902</u>	<u>186,286</u>	<u>238,917</u>	<u>238,997</u>	<u>117,281</u>	<u>93,848</u>	<u>691,539</u>	<u>21,578</u>	<u>56,898</u>	<u>188,439</u>	<u>2,694,673</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(205,961)</u>	<u>13,126</u>	<u>(47,577)</u>	<u>3,724</u>	<u>17,113</u>	<u>63,683</u>	<u>2,879</u>	<u>(552,543)</u>	<u>2,555</u>	<u>1,527</u>	<u>173,394</u>	<u>(528,080)</u>
OTHER FINANCING SOURCES (USES):												
Transfers in	409,961	-	13,000	-	-	-	-	552,543	-	-	188,439	1,163,943
Transfers out	(204,000)	-	-	-	-	-	-	-	-	-	(367,515)	(571,515)
Total other financing sources (uses)	<u>205,961</u>	<u>-</u>	<u>13,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>552,543</u>	<u>-</u>	<u>-</u>	<u>(179,076)</u>	<u>592,428</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>13,126</u>	<u>(34,577)</u>	<u>3,724</u>	<u>17,113</u>	<u>63,683</u>	<u>2,879</u>	<u>-</u>	<u>2,555</u>	<u>1,527</u>	<u>(5,682)</u>	<u>64,348</u>
FUND BALANCES, BEGINNING	<u>-</u>	<u>33,949</u>	<u>91,910</u>	<u>1,718</u>	<u>270,878</u>	<u>50,573</u>	<u>136,674</u>	<u>-</u>	<u>19,603</u>	<u>43,492</u>	<u>112,239</u>	<u>761,036</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ 47,075</u>	<u>\$ 57,333</u>	<u>\$ 5,442</u>	<u>\$ 287,991</u>	<u>\$ 114,256</u>	<u>\$ 139,553</u>	<u>\$ -</u>	<u>\$ 22,158</u>	<u>\$ 45,019</u>	<u>\$ 106,557</u>	<u>\$ 825,384</u>

CITY OF HERMISTON, OREGON

Reserve Fund

Schedule of Detail Allocations (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2009

City Ordinances have established specific allocations of the Reserve Fund. The following schedule presents the allocations of the 2008-09 transactions to their specified purposes.

	Balance June 30, 2008	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2009
<u>ALLOCATIONS:</u>					
Office equipment, finance	\$ 45,551	\$ -	\$ 11,342	\$ -	\$ 34,209
Airport improvements	51,500	731,353	778,197	-	4,656
Park improvements	943	-	51,345	114,000	63,598
Recreation programs	31,351	31,816	4,669	(13,000)	45,498
Parks development	41,307	31,816	7,722	-	65,401
Centennial bell	1,961	140	-	-	2,101
Pioneer Hi-Bred improvements	-	278,551	507,587	250,000	20,964
Street equipment	5,178	2,800	57,197	49,365	146
Bicycle trails	34,615	-	-	-	34,615
Street maintenance	24,745	544	32,004	50,000	43,285
Street construction	(63,804)	118,543	137,201	104,635	22,173
Utility construction	51,584	1,251	-	-	52,835
Sewer department equipment	401	6,000	-	-	6,401
Water department equipment	406	-	-	-	406
Wastewater treatment plant	312,749	-	-	(312,749)	-
BMCC Latino education grant	-	86,531	91,887	-	(5,356)
HES improvements	1,249,317	-	-	100,000	1,349,317
Regional water system	849,552	-	124,009	-	725,543
Wastewater-SDC	37,475	14,302	-	-	51,777
Water-SDC	721,677	19,780	21,036	-	720,421
Parks-SDC	-	13,000	-	-	13,000
Unallocated	1,723	10,630	-	(10,500)	1,853
Total reserve fund	<u>\$ 3,398,231</u>	<u>\$ 1,347,057</u>	<u>\$ 1,824,196</u>	<u>\$ 331,751</u>	<u>\$ 3,252,843</u>

CITY OF HERMISTON, OREGON

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

For the Year Ended June 30, 2009

	<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>
<u>REVENUES:</u>				
Intergovernmental	<u>\$ 700,000</u>	<u>\$ 700,000</u>	<u>\$ 615,027</u>	<u>\$ (84,973)</u>
<u>EXPENDITURES:</u>				
Current:				
Highways and streets:				
Personal services	<u>566,685</u>	<u>596,685</u>	<u>610,019</u>	<u>(13,334)</u>
Materials and services	<u>237,725</u>	<u>237,725</u>	<u>210,969</u>	<u>26,756</u>
Total expenditures	<u>804,410</u>	<u>834,410</u>	<u>820,988</u>	<u>13,422</u>
<u>DEFICIENCY OF REVENUES</u>				
<u>UNDER EXPENDITURES</u>	<u>(104,410)</u>	<u>(134,410)</u>	<u>(205,961)</u>	<u>(71,551)</u>
<u>OTHER FINANCING SOURCES</u>				
<u>(USES):</u>				
Transfers in	<u>345,910</u>	<u>345,910</u>	<u>409,961</u>	<u>64,051</u>
Transfers out	<u>(241,500)</u>	<u>(211,500)</u>	<u>(204,000)</u>	<u>7,500</u>
Total other financing sources (uses)	<u>104,410</u>	<u>134,410</u>	<u>205,961</u>	<u>71,551</u>
<u>NET CHANGE IN FUND BALANCES</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES, BEGINNING</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF HERMISTON, OREGON

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
<u>REVENUES:</u>				
Taxes	\$ 42,280	\$ 42,280	\$ 53,028	\$ 10,748
<u>EXPENDITURES:</u>				
Current:				
General Government:				
Material and services	<u>59,280</u>	<u>59,280</u>	<u>39,902</u>	<u>19,378</u>
<u>DEFICIENCY OF REVENUES UNDER EXPENDITURES</u>	(17,000)	(17,000)	13,126	30,126
<u>FUND BALANCES, BEGINNING</u>	<u>17,000</u>	<u>17,000</u>	<u>33,949</u>	<u>16,949</u>
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,075</u>	<u>\$ 47,075</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, 2009

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts	Final Budget- Positive (Negative)
<u>REVENUES:</u>				
911 communications tax	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 138,996</u>	<u>\$ 38,996</u>
<u>EXPENDITURES:</u>				
Current:				
Public safety				
Personal services	662,770	662,770	649,420	13,350
Materials and services	44,700	44,700	42,119	2,581
Capital outlay	<u>1,000</u>	<u>1,000</u>	-	<u>1,000</u>
Total expenditures	<u>708,470</u>	<u>708,470</u>	<u>691,539</u>	<u>16,931</u>
<u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u>	(608,470)	(608,470)	(552,543)	55,927
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers in	<u>608,470</u>	<u>608,470</u>	<u>552,543</u>	<u>(55,927)</u>
<u>NET CHANGE IN FUND BALANCES</u>	-	-	-	-
<u>FUND BALANCES, BEGINNING</u>	-	-	-	-
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF HERMISTON, OREGON

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

For the Year Ended June 30, 2009

	<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>
<u>REVENUES:</u>				
Intergovernmental	\$ 1,550,000	\$ 1,550,000	\$ 297,719	\$ (1,252,281)
<u>EXPENDITURES:</u>				
Current:				
Materials and services	<u>1,667,500</u>	<u>1,667,500</u>	<u>309,071</u>	<u>1,358,429</u>
<u>EXCESS (DEFICIENCY) OF</u>				
<u>REVENUES OVER (UNDER)</u>	(117,500)	(117,500)	(11,352)	106,148
<u>EXPENDITURES</u>				
<u>FUND BALANCES, BEGINNING</u>	<u>117,500</u>	<u>117,500</u>	<u>122,405</u>	<u>4,905</u>
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,053</u>	<u>\$ 111,053</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, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<u>REVENUES:</u>				
Property taxes	\$ 319,515	\$ 319,515	\$ 323,305	\$ 3,790
Miscellaneous income	-	-	37,167	37,167
Total revenues	319,515	319,515	360,472	40,957
<u>EXPENDITURES:</u>				
Debt service:				
2003 pool bonds				
Principal	40,000	40,000	40,000	-
Interest	148,440	148,440	148,439	1
Total expenditures	188,440	188,440	188,439	1
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>				
	131,075	131,075	172,033	40,958
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers in:				
Utility fund (HFI debt)	41,375	41,375	41,373	(2)
Utility fund (for debt service)	310,800	310,800	310,677	(123)
Energy fund (for debt service)	716,105	716,105	716,104	(1)
General fund (for debt service)	188,440	188,440	188,439	(1)
Debt service (for utility funds):				
State HFI loan payment	(41,375)	(41,375)	(41,373)	2
Principal:				
2000 regional water bonds	(160,000)	(160,000)	(160,000)	-
2005 Hermiston Energy Service bonds	(140,000)	(140,000)	(140,000)	-
2007 utility refunding bonds	(215,460)	(215,460)	(215,459)	1
Interest:				
2000 regional water bonds	(207,515)	(207,515)	(207,515)	-
2005 Hermiston Energy Service bonds	(576,105)	(576,105)	(576,104)	1
2007 utility refunding bonds	(95,340)	(95,340)	(95,218)	122
Total other financing sources (uses)	(179,075)	(179,075)	(179,076)	(1)
<u>NET CHANGE IN FUND BALANCES</u>	(48,000)	(48,000)	(7,043)	40,957
<u>FUND BALANCES, BEGINNING</u>	50,000	50,000	109,016	59,016
<u>FUND BALANCES, ENDING</u>	\$ 2,000	\$ 2,000	\$ 101,973	\$ 99,973

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Charges for services				
Water	\$ 1,809,000	\$ 1,809,000	\$ 1,989,815	\$ 180,815
Sewer	1,385,000	1,385,000	1,564,300	179,300
Bond assessments	20,000	20,000	24,883	4,883
Investment interest	100,000	100,000	35,775	(64,225)
Total revenues	<u>3,314,000</u>	<u>3,314,000</u>	<u>3,614,773</u>	<u>300,773</u>
<u>EXPENDITURES:</u>				
Personal services	1,827,680	1,827,680	1,786,205	41,475
Materials and services	1,134,145	1,150,145	1,127,738	22,407
Total expenditures	<u>2,961,825</u>	<u>2,977,825</u>	<u>2,913,943</u>	<u>63,882</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>				
	<u>352,175</u>	<u>336,175</u>	<u>700,830</u>	<u>364,655</u>
<u>TRANSFERS OUT:</u>				
Bonded debt fund	(352,175)	(352,175)	(352,050)	125
Total transfers out	<u>(352,175)</u>	<u>(352,175)</u>	<u>(352,050)</u>	<u>125</u>
<u>NET CHANGE IN FUND BALANCES</u>				
	-	(16,000)	348,780	364,780
<u>FUND BALANCES, BEGINNING</u>				
	-	16,000	462,778	446,778
<u>FUND BALANCES, ENDING</u>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 811,558</u>	<u>\$ 811,558</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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
<u>REVENUES:</u>				
Charges for services	\$ 7,300,000	\$ 7,300,000	\$ 7,426,997	\$ 126,997
Miscellaneous	35,445	35,445	27,860	(7,585)
Investment interest	40,000	40,000	20,099	(19,901)
Total revenues	<u>7,375,445</u>	<u>7,375,445</u>	<u>7,474,956</u>	<u>99,511</u>
<u>EXPENDITURES:</u>				
Personal services	230,590	230,590	220,263	10,327
Materials and services	5,728,750	5,828,750	5,313,807	514,943
Capital outlay	600,000	600,000	445,574	154,426
Total expenditures	<u>6,559,340</u>	<u>6,659,340</u>	<u>5,979,644</u>	<u>679,696</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	816,105	716,105	1,495,312	779,207
<u>TRANSFERS OUT</u>	<u>(816,105)</u>	<u>(816,105)</u>	<u>(816,104)</u>	<u>1</u>
<u>NET CHANGE IN FUND BALANCE</u>	-	(100,000)	679,208	779,208
<u>FUND BALANCES, BEGINNING</u>	-	100,000	2,374,577	2,274,577
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,053,785</u>	<u>\$ 3,053,785</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, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Charges for services	<u>\$ 435,000</u>	<u>\$ 435,000</u>	<u>\$ 624,670</u>	<u>\$ 189,670</u>
<u>EXPENDITURES:</u>				
Personal services	175,515	175,515	153,289	22,226
Materials and services	402,605	402,605	292,037	110,568
Total expenditures	<u>578,120</u>	<u>578,120</u>	<u>445,326</u>	<u>132,794</u>
<u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u>	(143,120)	(143,120)	179,344	322,464
<u>FUND BALANCES, BEGINNING</u>	<u>143,120</u>	<u>143,120</u>	<u>386,441</u>	<u>243,321</u>
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 565,785</u>	<u>\$ 565,785</u>

CITY OF HERMISTON, OREGON

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

For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>EXPENDITURES:</u>				
Materials and services	-	1,450,000	369,480	1,080,520
Capital outlay	-	50,000	-	50,000
Total expenditures	<u>-</u>	<u>1,500,000</u>	<u>369,480</u>	<u>1,130,520</u>
<u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u>	-	(1,500,000)	(369,480)	1,130,520
<u>OTHER FINANCING SOURCES:</u>				
Operating loan proceeds	-	-	250,000	250,000
<u>NET CHANGE IN FUND BALANCES</u>	-	(1,500,000)	(119,480)	1,380,520
<u>FUND BALANCES, BEGINNING</u>	-	-	-	-
<u>FUND BALANCES, ENDING</u>	<u>\$ -</u>	<u>\$ (1,500,000)</u>	<u>\$ (119,480)</u>	<u>\$ 1,380,520</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, 2009

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

	<u>General Fund</u>	<u>Reserve Fund</u>	<u>Bonded Debt Fund</u>	<u>Energy Fund</u>	<u>Utility Fund</u>	<u>Regional Water Fund</u>	<u>WWTP Construction Fund</u>	<u>Revolving Loan Fund</u>
<u>GAAP BASIS FUND BALANCES</u>	\$ 2,795,028	\$ 3,252,843	\$ 106,557	\$ 2,767,172	\$ 12,125,473	\$ 3,282,080	\$ 298,129	\$ 139,553
<u>ADD (DEDUCT):</u>								
Accounts receivable	(459,791)	(233,365)	(28,652)	(709,851)	(560,110)	(21,991)	-	(457,258)
Receivable due to other entities	-	-	-	-	148,688	-	-	-
Accrued interest	-	-	-	143,440	21,425	84,798	-	-
Encumbrances	-	-	-	-	-	-	297,999	-
Deferred revenue	310,665	-	24,068	-	-	-	-	428,758
Capital assets	-	-	-	(11,650,397)	(13,129,420)	(6,569,102)	(965,608)	-
Long term debt	-	-	-	12,504,931	2,117,090	3,790,000	250,000	-
Unrealized investment (gains) or losses	(4,854)	(1,853)	-	(1,510)	(1,253)	-	-	-
Compensated absences	-	-	-	-	89,665	-	-	-
<u>BUDGETARY BASIS FUND BALANCES</u>	<u>\$ 2,641,048</u>	<u>\$ 3,017,625</u>	<u>\$ 101,973</u>	<u>\$ 3,053,785</u>	<u>\$ 811,558</u>	<u>\$ 565,785</u>	<u>\$ (119,480)</u>	<u>\$ 111,053</u>
<u>GAAP BASIS NET CHANGE IN FUND BALANCES</u>	\$ (719,921)	\$ (145,388)	\$ (5,682)	\$ 775,016	\$ 169,742	\$ 168,543	\$ 298,129	\$ 2,879
<u>ADD (DEDUCT):</u>								
Change in accounts receivable	(64,864)	(233,365)	(6,421)	(15,117)	(53,033)	(1,899)	-	(249,404)
Change in accrued interest	-	-	-	(586)	(2,136)	(3,333)	-	-
Change in receivable due to other entities	-	-	-	-	21,751	-	-	-
Change in encumbrances payable	-	-	-	-	-	-	297,999	-
Change in deferred revenue and accrued liabilities	65,450	-	5,060	-	-	-	-	235,173
Change in capital assets	-	-	-	(2,839)	442,615	176,033	(965,608)	-
Change in long term debt	-	-	-	(75,891)	(250,311)	(160,000)	250,000	-
Change in unrealized gains or losses	(2,845)	(130)	-	(1,375)	505	-	-	-
Change in compensated absences	-	-	-	-	19,647	-	-	-
<u>BUDGETARY BASIS NET CHANGE IN FUND BALANCES</u>	<u>\$ (722,180)</u>	<u>\$ (378,883)</u>	<u>\$ (7,043)</u>	<u>\$ 679,208</u>	<u>\$ 348,780</u>	<u>\$ 179,344</u>	<u>\$ (119,480)</u>	<u>\$ (11,352)</u>

CITY OF HERMISTON, OREGON

Schedule of Property Tax Transactions and Outstanding Balances
For the Year Ended June 30, 2009

<u>Fiscal Year</u>	<u>Property Taxes Receivable June 30, 2008</u>	<u>Current Levy as Extended by Assessor</u>	<u>Discounts Allowed</u>	<u>Corrections and Adjustments</u>	<u>Interest Collected</u>	<u>Cash Collections</u>	<u>Property Taxes Receivable June 30, 2009</u>
2008-09	\$ -	\$ 4,576,241	\$ (114,173)	\$ (8,563)	\$ 929	\$ (4,230,533)	\$ 223,901
2007-08	176,479	-	(15)	(2,780)	3,788	(76,710)	100,762
2006-07	69,978	-	-	(561)	2,635	(26,362)	45,690
2005-06	39,032	-	-	(390)	3,195	(20,989)	20,848
2004-05	13,107	-	-	(400)	2,276	(12,446)	2,537
2003-04 and prior	7,406	-	-	(2,637)	811	(2,130)	3,450
Totals	\$ 306,002	\$ 4,576,241	\$ (114,188)	\$ (15,331)	\$ 13,634	\$ (4,369,170)	\$ 397,188

CITY OF HERMISTON, OREGON
Schedule of Future Debt Service Requirements
Of Bonds Payable
June 30, 2009

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	Principal	Interest	Principal	Interest
2010	\$ 165,000	\$ 199,596	\$ 45,000	\$ 147,309	\$ 160,000	\$ 570,999	\$ 228,428	\$ 86,502	\$ 598,428	\$ 1,004,406
2011	170,000	191,555	45,000	145,981	180,000	565,089	236,134	77,136	631,134	979,761
2012	180,000	183,023	55,000	144,363	200,000	558,239	248,510	67,455	683,510	953,080
2013	190,000	173,863	60,000	142,391	225,000	550,264	255,469	57,266	730,469	923,784
2014	200,000	164,013	65,000	140,155	250,000	541,114	266,791	46,792	781,791	892,074
2015	210,000	153,452	75,000	137,469	275,000	530,739	277,744	35,853	837,744	857,513
2016	225,000	142,086	80,000	134,369	305,000	518,948	293,314	24,466	903,314	819,869
2017	235,000	129,718	90,000	130,969	330,000	506,058	303,413	12,440	958,413	779,185
2018	250,000	116,380	100,000	127,169	365,000	492,158	-	-	715,000	735,707
2019	260,000	102,355	105,000	123,069	395,000	476,464	-	-	760,000	701,888
2020	275,000	87,643	115,000	118,496	430,000	458,933	-	-	820,000	665,072
2021	290,000	71,960	125,000	113,336	470,000	439,808	-	-	885,000	625,104
Later years	1,140,000	116,200	2,450,000	756,421	9,485,000	2,928,117	-	-	13,075,000	3,800,738
	<u>\$ 3,790,000</u>	<u>\$ 1,831,844</u>	<u>\$ 3,410,000</u>	<u>\$ 2,361,497</u>	<u>\$ 13,070,000</u>	<u>\$ 9,136,930</u>	<u>\$ 2,109,803</u>	<u>\$ 407,910</u>	<u>\$22,379,803</u>	<u>\$13,738,181</u>

CITY OF HERMISTON, OREGON

Schedule of Long-Term Debt Transactions
For the Year Ended June 30, 2009

	Interest Rate	PRINCIPAL TRANSACTIONS				INTEREST TRANSACTIONS			
		Outstanding June 30, 2008	New Debt Issued	Matured During Year	Outstanding June 30, 2009	Matured and Outstanding June 30, 2008	Matured During Year	Paid During Year	Matured and Outstanding June 30, 2009
<u>BONDS PAYABLE:</u>									
2000 Water Refunding Bonds*	4.75%-5.6%	3,950,000	-	160,000	3,790,000	-	207,515	207,515	-
2003 Pool Bonds*	2.0%-4.625%	3,450,000	-	40,000	3,410,000	-	148,439	148,439	-
2005 Energy System Revenue Bonds	3.35%-4.60%	13,210,000	-	140,000	13,070,000	-	576,104	576,104	-
2007 Utility Refunding Bonds	4.10%	2,325,262	-	215,459	2,109,803	-	95,218	95,218	-
		<u>\$22,935,262</u>	<u>\$ -</u>	<u>\$ 555,459</u>	<u>\$22,379,803</u>	<u>\$ -</u>	<u>\$1,027,276</u>	<u>\$1,027,276</u>	<u>\$ -</u>

* -- general obligation bonds

CITY OF HERMISTON, OREGON

Annual Accounting of System Development Charges

For the Year Ended June 30, 2009

	<u>Water System</u>	<u>Wastewater System</u>	<u>Parks System</u>
<u>BALANCE, JUNE 30, 2008</u>	\$ 721,677	\$ 37,475	\$ -
<u>REVENUES:</u>			
System development charges collected	19,780	14,302	13,000
<u>EXPENDITURES:</u>			
Reimbursement of capital improvements	<u>(21,036)</u>	<u>-</u>	<u>-</u>
<u>BALANCE, JUNE 30, 2009</u>	<u>\$ 720,421</u>	<u>\$ 51,777</u>	<u>\$ 13,000</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, 2009

<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	\$ 306,079	\$ -	\$ 897,579
Airport	498,579	1,719,723	59,427	-	2,277,729
Parking	494,380	-	-	-	494,380
Inspections	-	11,820	34,075	-	45,895
Other - unclassified	221,730	710,981	-	-	932,711
	<u>1,306,189</u>	<u>2,942,524</u>	<u>399,581</u>	<u>-</u>	<u>4,648,294</u>
Public safety:					
Police	<u>24,820</u>	<u>836,578</u>	<u>703,719</u>	<u>-</u>	<u>1,565,117</u>
Highway and streets:					
Maintenance	62,461	367,650	861,424	-	1,291,535
Street system	-	-	-	14,571,842	14,571,842
	<u>62,461</u>	<u>367,650</u>	<u>861,424</u>	<u>14,571,842</u>	<u>15,863,377</u>
Culture and recreation:					
Aquatic center	-	3,809,971	24,262	-	3,834,233
Library	8,500	784,269	30,868	-	823,637
Parks	758,700	1,498,804	177,798	-	2,435,302
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>7,897,316</u>	<u>232,928</u>	<u>-</u>	<u>8,945,444</u>
Total governmental funds capital assets	<u>\$ 2,208,670</u>	<u>\$ 12,044,068</u>	<u>\$ 2,197,652</u>	<u>\$ 14,571,842</u>	<u>\$ 31,022,232</u>

CITY OF HERMISTON, OREGON

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

June 30, 2009 and 2008

	June 30,	
	2009	2008
<u>GOVERNMENTAL FUNDS CAPITAL ASSETS:</u>		
Land	\$ 2,208,670	\$ 2,208,670
Buildings and improvements	12,019,380	11,165,817
Machinery and equipment	2,197,652	2,073,644
Infrastructure	14,571,842	13,887,994
Construction in progress	24,688	75,366
	<hr/>	<hr/>
Total governmental funds capital assets	\$ 31,022,232	\$ 29,411,491
	<hr/> <hr/>	<hr/> <hr/>
<u>INVESTMENT IN GOVERNMENTAL FUND</u>		
<u>CAPITAL ASSETS BY SOURCE:</u>		
Unsegregated amounts, prior years	\$ 17,148,205	\$ 17,225,884
General fund	3,494,202	3,417,695
Special revenue funds	4,852,865	3,240,952
Capital project funds	5,456,960	5,456,960
Donations	70,000	70,000
	<hr/>	<hr/>
Total governmental funds capital assets	\$ 31,022,232	\$ 29,411,491
	<hr/> <hr/>	<hr/> <hr/>

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, 2009

<u>Function and Activity</u>	Governmental Funds Capital Assets June 30, 2008	Additions	Deletions	Governmental Funds Capital Assets June 30, 2009
General government:				
City hall	\$ 909,674	\$ -	\$ (12,095)	\$ 897,579
Airport	1,503,532	778,197	(4,000)	2,277,729
Parking	494,380	-	-	494,380
Inspections	39,895	6,000	-	45,895
Other - unclassified	932,711	-	-	932,711
	<u>3,880,192</u>	<u>784,197</u>	<u>(16,095)</u>	<u>4,648,294</u>
Public safety:				
Police	<u>1,558,106</u>	<u>68,595</u>	<u>(61,584)</u>	<u>1,565,117</u>
Highways and streets:				
Maintenance	1,234,338	57,197	-	1,291,535
Infrastructure	13,887,994	683,848	-	14,571,842
	<u>15,122,332</u>	<u>741,045</u>	<u>-</u>	<u>15,863,377</u>
Culture and recreation:				
Aquatic center	3,809,971	24,262	-	3,834,233
Library	816,383	7,254	-	823,637
Parks	2,372,235	63,067	-	2,435,302
CRC community building	297,393	-	-	297,393
Community center building	1,554,879	-	-	1,554,879
	<u>8,850,861</u>	<u>94,583</u>	<u>-</u>	<u>8,945,444</u>
Total governmental funds capital assets	<u>\$ 29,411,491</u>	<u>\$ 1,688,420</u>	<u>\$ (77,679)</u>	<u>\$ 31,022,232</u>

STATISTICAL SECTION

CITY OF HERMISTON, OREGON

STATISTICAL SECTION CONTENTS

June 30, 2009

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 entity's overall financial health.

	<u>Pages</u>
<u>Financial Trends</u>	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	79-83
<u>Revenue Capacity</u>	
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	84-87
<u>Debt Capacity</u>	
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	88-91
<u>Demographic and Economic Information</u>	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	92-94
<u>Operating Information</u>	
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	95-98

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 Six Fiscal Years

(Accrual Basis of Accounting)

June 30, 2009

	Fiscal Year					
	2009	2008	2007	2006	2005	2004
<u>GOVERNMENTAL ACTIVITIES:</u>						
Invested in capital assets, net of related debt	\$ 11,044,310	\$ 10,154,901	\$ 10,131,151	\$ 9,884,805	\$ 9,960,778	\$ 9,324,856
Restricted	-	-	163,822	205,077	327,059	420,776
Unrestricted	6,921,291	7,695,156	6,954,122	7,290,425	8,070,552	9,647,493
Total governmental activities net assets	17,965,601	17,850,057	17,249,095	17,380,307	18,358,389	19,393,125
<u>BUSINESS-TYPE ACTIVITIES:</u>						
Invested in capital assets, net of related debt	13,354,046	12,732,231	11,882,356	11,322,943	10,976,902	9,903,186
Restricted	-	-	-	-	-	-
Unrestricted	5,118,808	4,329,193	4,549,326	4,270,931	3,501,577	2,879,449
Total business-type activities net assets	18,472,854	17,061,424	16,431,682	15,593,874	14,478,479	12,782,635
<u>TOTAL GOVERNMENT:</u>						
Invested in capital assets, net of related debt	24,398,356	22,887,132	22,013,507	21,207,748	20,937,680	19,228,042
Restricted	-	-	163,822	205,077	327,059	420,776
Unrestricted	12,040,099	12,024,349	11,503,448	11,561,356	11,572,129	12,526,942
Total government net assets	\$ 36,438,455	\$ 34,911,481	\$ 33,680,777	\$ 32,974,181	\$ 32,836,868	\$ 32,175,760

CITY OF HERMISTON, OREGON

CHANGES IN NET ASSETS

Last Six Fiscal Years

(Accrual Basis of Accounting)

June 30, 2009

	Fiscal Year					
	2009	2008	2007	2006	2005	2004
<u>EXPENSES</u>						
Governmental activities:						
General government	\$ 2,738,726	\$ 2,205,586	\$ 2,006,173	\$ 1,991,504	\$ 2,184,415	\$ 2,270,000
Public safety	3,500,312	3,252,838	3,092,095	2,978,182	2,521,609	2,489,238
Highways and streets	1,154,939	1,195,630	1,126,117	1,136,532	1,012,189	897,918
Economic development	93,848	55,184	-			
Cultural and recreation	2,566,970	2,472,003	2,479,135	2,360,265	1,878,464	1,234,204
Interest on long-term debt	148,356	149,829	157,475	158,624	130,450	172,979
Total governmental activities expenses	<u>10,203,151</u>	<u>9,331,070</u>	<u>8,860,995</u>	<u>8,625,107</u>	<u>7,727,127</u>	<u>7,064,339</u>
Business-type activities:						
Water	2,565,373	2,631,598	2,640,632	2,438,335	2,525,746	2,252,355
Sewer	1,689,890	1,555,313	1,634,939	1,600,498	1,580,785	1,613,125
Electric	6,270,607	6,397,294	6,559,288	6,340,380	6,129,914	6,251,921
Total business-type activities net assets	<u>10,525,870</u>	<u>10,584,205</u>	<u>10,834,859</u>	<u>10,379,213</u>	<u>10,236,445</u>	<u>10,117,401</u>
Total government expenses	<u>\$ 20,729,021</u>	<u>\$ 19,915,275</u>	<u>\$ 19,695,854</u>	<u>\$ 19,004,320</u>	<u>\$ 17,963,572</u>	<u>\$ 17,181,740</u>
<u>PROGRAM REVENUES</u>						
Governmental Activities:						
Charges for services:						
General government	\$ 1,013,349	\$ 646,032	\$ 1,074,679	\$ 1,093,736	\$ 1,301,116	\$ 1,126,180
Public safety	681,836	644,475	104,110	110,257	-	52,255
Cultural and recreation	405,375	572,890	533,716	501,993	338,776	149,027
Operating grants and contributions	193,773	130,437	154,949	92,995	118,356	83,870
Capital grants and contributions	1,194,254	322,692	387,466	-	252,821	191,749
Total governmental activities program revenues	<u>3,488,587</u>	<u>2,316,526</u>	<u>2,254,920</u>	<u>1,798,981</u>	<u>2,011,069</u>	<u>1,603,081</u>
Business-type activities:						
Charges for services:						
Water	2,572,545	2,387,265	2,414,327	2,297,579	2,414,322	2,451,824
Sewer	1,564,185	1,450,424	1,453,170	1,418,119	1,416,865	1,363,445
Electric	7,462,325	7,252,122	7,217,117	7,300,481	6,920,377	6,923,223
Capital Grants and Contributions	-	-	-	-	75,000	-
Total business-type activities program revenues	<u>11,599,055</u>	<u>11,089,811</u>	<u>11,084,614</u>	<u>11,016,179</u>	<u>10,826,564</u>	<u>10,738,492</u>
Total government program revenues	<u>\$ 15,087,642</u>	<u>\$ 13,406,337</u>	<u>\$ 13,339,534</u>	<u>\$ 12,815,160</u>	<u>\$ 12,837,633</u>	<u>\$ 12,341,573</u>

CITY OF HERMISTON, OREGON

Changes in Net Assets

Last Six Fiscal Years

(Accrual Basis of Accounting)

June 30, 2009

	Fiscal Year					
	2009	2008	2007	2006	2005	2004
<u>NET (EXPENSE) REVENUE</u>						
Governmental activities	\$ (6,714,564)	\$ (7,014,544)	\$ (6,606,075)	\$ (6,826,126)	\$ (5,716,058)	\$ (5,461,258)
Business-type activities	1,073,185	505,606	249,755	636,966	590,119	621,091
Total government expenses	<u>\$ (5,641,379)</u>	<u>\$ (6,508,938)</u>	<u>\$ (6,356,320)</u>	<u>\$ (6,189,160)</u>	<u>\$ (5,125,939)</u>	<u>\$ (4,840,167)</u>
<u>GENERAL REVENUES AND OTHER</u>						
<u>CHANGES IN NET ASSETS</u>						
Governmental activities						
Taxes						
Property taxes	\$ 4,436,803	\$ 4,253,304	\$ 3,847,564	\$ 3,304,130	\$ 3,122,922	\$ 2,953,977
Transient room taxes	339,377	320,022	313,442	300,436	275,625	\$ 264,908
Franchise fee	508,594	424,780	438,831	393,501	363,315	284,502
911 taxes	138,996	172,219	-	-	-	-
Motor fuel taxes	615,027	682,152	712,278	721,384	707,943	633,688
State shared taxes	334,322	330,842	389,446	427,229	389,551	368,581
Interest and investment earnings	52,759	203,167	349,544	272,280	112,122	75,017
Other revenues	618,458	708,055	785,148	712,022	663,458	626,054
Gain (loss) on sale of capital assets	-	-	(11,096)	901	-	-
Transfers	(214,228)	520,965	(350,294)	(283,839)	(953,614)	1,051,945
Total governmental activities	<u>6,830,108</u>	<u>7,615,506</u>	<u>6,474,863</u>	<u>5,848,044</u>	<u>4,681,322</u>	<u>6,258,672</u>
Business-type activities:						
Interest and investment earnings	56,744	174,581	167,017	117,281	56,794	55,820
Other revenues	67,273	84,906	70,742	77,309	95,317	66,565
Transfers	214,228	(520,965)	350,294	283,839	953,614	(1,051,945)
Extraordinary items	-	385,614	-	-	-	-
Total business-type activities	<u>338,245</u>	<u>124,136</u>	<u>588,053</u>	<u>478,429</u>	<u>1,105,725</u>	<u>(929,560)</u>
Total government	<u>7,168,353</u>	<u>7,739,642</u>	<u>7,062,916</u>	<u>6,326,473</u>	<u>5,787,047</u>	<u>5,329,112</u>
<u>CHANGE IN NET ASSETS</u>						
Governmental activities	115,544	600,962	(131,212)	(978,082)	(1,034,736)	797,414
Business-type activities	1,411,430	629,742	837,808	1,115,395	1,695,844	(308,469)
Total government	<u>\$ 1,526,974</u>	<u>\$ 1,230,704</u>	<u>\$ 706,596</u>	<u>\$ 137,313</u>	<u>\$ 661,108</u>	<u>\$ 488,945</u>

(continued from previous page)

CITY OF HERMISTON, OREGON

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

	Fiscal Year					
	2009	2008	2007	2006	2005	2004
<u>GENERAL FUND</u>						
Reserved	\$ -	\$ -	\$ 100,000	\$ -	\$ 141,980	\$ 50,001
Unreserved	2,795,028	3,514,949	3,345,530	2,855,982	3,288,325	4,105,501
Total general fund	<u>\$ 2,795,028</u>	<u>\$ 3,514,949</u>	<u>\$ 3,445,530</u>	<u>\$ 2,855,982</u>	<u>\$ 3,430,305</u>	<u>\$ 4,155,502</u>
<u>ALL OTHER GOVERNMENTAL FUNDS</u>						
Reserved	\$ -	\$ -	\$ 83,900	\$ 39,478	\$ 34,000	\$ 314,172
Unreserved, reported in:						
Special revenue funds	3,938,040	4,047,028	3,437,527	4,231,748	4,605,609	5,446,143
Debt service fund	106,557	112,239	109,782	315,749	261,521	134,935
Total all other governmental funds	<u>\$ 4,044,597</u>	<u>\$ 4,159,267</u>	<u>\$ 3,631,209</u>	<u>\$ 4,586,975</u>	<u>\$ 4,901,130</u>	<u>\$ 5,895,250</u>

CITY OF HERMISTON, OREGON
Changes in Fund Balances, Governmental Funds

Last Six Fiscal Years

(Modified Accrual Basis of Accounting)

	Fiscal Year					
	2009	2008	2007	2006	2005	2004
<u>REVENUES</u>						
Property taxes	\$ 4,367,388	\$ 4,250,066	\$ 3,847,564	\$ 3,315,851	\$ 3,107,703	\$ 2,951,718
Transient room tax	339,377	320,022	313,442	300,436	275,625	264,908
911 tax	138,996	172,219	97,111	119,985	133,766	132,314
Franchise fees	508,594	424,780	438,831	393,501	363,315	284,502
Intergovernmental	949,349	1,012,994	1,004,613	1,067,623	1,264,905	1,114,697
Fees, licenses, and permits	5,170	5,165	3,165	3,220	2,575	2,305
Fines and forfeits	676,666	534,927	521,637	443,636	359,138	363,724
Investment interest	52,759	203,167	349,544	272,280	112,122	75,017
Charges for services	1,418,724	1,323,305	1,190,868	1,259,130	1,278,179	963,738
Miscellaneous	2,006,485	1,168,080	1,309,143	781,021	631,458	555,044
Total revenues	<u>10,463,508</u>	<u>9,414,725</u>	<u>9,075,918</u>	<u>7,956,683</u>	<u>7,528,786</u>	<u>6,707,967</u>
<u>EXPENDITURES</u>						
General government	2,639,777	2,094,823	1,920,337	1,922,393	2,111,943	2,189,074
Public safety	3,405,883	3,116,909	2,997,690	2,897,049	2,474,233	2,445,654
Highway and streets	816,243	848,896	813,344	818,743	709,759	598,981
Economic development	93,848	55,184	-	-	-	-
Cultural and recreation	2,251,261	2,151,675	2,145,084	2,062,969	1,588,492	1,070,608
Capital outlay	1,688,420	788,371	937,742	586,452	1,168,738	3,735,143
Debt service:						
Principal	40,000	128,000	118,000	109,000	104,000	146,000
Interest	148,439	154,355	159,645	164,716	169,324	174,150
Total expenditures	<u>11,083,871</u>	<u>9,338,213</u>	<u>9,091,842</u>	<u>8,561,322</u>	<u>8,326,489</u>	<u>10,359,610</u>
<u>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(620,363)</u>	<u>76,512</u>	<u>(15,924)</u>	<u>7,956,683</u>	<u>7,528,786</u>	<u>6,707,967</u>
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers in	2,208,479	3,106,565	2,481,304	1,707,601	1,932,403	2,484,455
Transfers out	(2,422,707)	(2,585,600)	(2,831,598)	(1,991,440)	(2,886,017)	(1,432,510)
Sale of capital assets	-	-	-	-	32,000	104,844
Total other financing sources (uses)	<u>(214,228)</u>	<u>520,965</u>	<u>(350,294)</u>	<u>(283,839)</u>	<u>(921,614)</u>	<u>1,156,789</u>
<u>NET CHANGE IN FUND BALANCES</u>	<u>\$ (834,591)</u>	<u>\$ 597,477</u>	<u>\$ (366,218)</u>	<u>\$ 7,672,844</u>	<u>\$ 6,607,172</u>	<u>\$ 7,864,756</u>
Debt service as a percentage of noncapital expenditures	2.01%	3.30%	3.40%	3.43%	3.82%	4.83%

CITY OF HERMISTON, OREGON

Assessed Value and Estimated Actual Value of Taxable Property,

Last Ten Fiscal Years

<u>Fiscal Year Ended June 30,</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Utilities</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value as a Percentage of Actual Value</u>
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%
2009	651,671,693	31,370,922	22,111,200	705,153,815	6.57	888,182,617	79.39%

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,									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<u>Direct rates</u>										
City of Hermiston general	6.09	6.09	6.09	5.08	5.08	5.08	4.89	4.89	4.89	4.89
City of Hermiston bond	0.48	0.50	0.17	0.65	0.68	0.70	0.73	0.75	0.96	1.10
Total direct rates	<u>6.57</u>	<u>6.59</u>	<u>6.26</u>	<u>5.73</u>	<u>5.76</u>	<u>5.78</u>	<u>5.62</u>	<u>5.64</u>	<u>5.85</u>	<u>5.99</u>
<u>Overlapping rates</u>										
Umatilla County	3.11	3.12	3.14	3.15	3.15	3.20	3.17	3.13	3.29	3.36
Hermiston School District #8	7.40	8.07	7.99	5.96	7.36	7.88	7.09	7.62	8.07	8.69
Umatilla County E.S.D.	0.56	0.56	0.56	0.46	0.46	0.46	0.46	0.46	0.46	0.46
Blue Mountain Community College	0.96	0.99	0.99	0.86	0.84	0.88	0.87	0.89	0.89	0.91
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	0.25	0.20	0.20	0.20	0.20	0.20	0.20
Total overlapping rates	<u>13.72</u>	<u>14.43</u>	<u>14.37</u>	<u>12.12</u>	<u>13.45</u>	<u>14.06</u>	<u>13.23</u>	<u>13.74</u>	<u>14.35</u>	<u>15.06</u>
Total	<u><u>20.29</u></u>	<u><u>21.02</u></u>	<u><u>20.63</u></u>	<u><u>17.85</u></u>	<u><u>19.21</u></u>	<u><u>19.84</u></u>	<u><u>18.85</u></u>	<u><u>19.38</u></u>	<u><u>20.20</u></u>	<u><u>21.05</u></u>

Information provided by the Umatilla County Assessor's Office.

CITY OF HERMISTON, OREGON

Principal Taxpayers

June 30, 2009

Taxpayer	Type of Business	Rank	2009		Rank	2000	
			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	4.5%			
HD Development of Maryland, Inc.	Retailer	2	9,327,880	1.3%			
Retail Trust #2	Shopping center	3	8,765,260	1.2%			
CMH Manufacturing West, Inc.	Manufacturing plant	4	7,687,350	1.1%			
Hermiston Station, LLC	Unknown	5	7,372,690	1.0%			
U.S. West Communications	Telephone utility	6	6,597,600	0.9%	2	6,590,203	1.8%
Wal-Mart Distribution Center #6037	Distribution center	7	6,623,090	0.9%			
Hermiston Foods LLC	Food processing	8	6,309,720	0.9%			
Umatilla Electric Co-op	Power utility	9	6,217,480	0.9%	5	2,770,600	0.8%
CDS Hermiston, LLC	Unknown	10	4,357,380	0.6%			
Port of Umatilla	Water utility		-		1	10,190,770	2.8%
Pan Pacific Retail Properties	Shopping center		-		3	5,852,000	1.6%
Marlette Homes, Inc	Manufacturing plant		-		4	4,228,500	1.1%
S.R. Innco, Inc.	Apartments		-		6	2,755,000	0.7%
Good Shepherd Hospital	Medical offices		-		7	2,588,000	0.7%
Pacific Power	Power utility		-		8	2,147,852	0.6%
Pendleton Grain Growers	Retailer		-		9	1,951,000	0.5%
William R. Stewart, Trustee	Apartments		-		10	1,950,730	0.5%
			<u>\$ 95,235,510</u>	<u>13.3%</u>		<u>\$ 41,024,655</u>	<u>11.1%</u>

Information provided by the Umatilla County Assessor's Office.

CITY OF HERMISTON, OREGON

PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
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	192,619	2,783,724	100.0
2004	3,042,382	2,833,672	93.1	207,746	3,041,418	100.0
2005	3,232,964	2,972,550	91.9	257,877	3,230,427	99.9
2006	3,395,907	3,156,735	93.0	218,324	3,375,059	99.4
2007	3,983,206	3,702,634	93.0	234,882	3,937,516	98.9
2008	4,364,595	4,083,728	93.6	180,105	4,263,833	97.7
2009	4,576,241	4,230,533	92.4	-	4,230,533	92.4

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			
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	5.81%	1,541
2008	3,450,000	-	0.52%	219	13,210,000	6,275,262	59,653	22,994,915	*	1,457
2009	3,410,000	-	0.48%	212	13,070,000	5,899,803	21,263	22,401,066	*	1,393

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

Direct and Overlapping Governmental Activities Debt

June 30, 2009

<u>Jurisdiction</u>	<u>Net General Obligation Bonded Debt Outstanding</u>	<u>Percentage Applicable to City</u>	<u>Amount Applicable to City</u>
<u>DIRECT:</u>			
City of Hermiston (1)	\$ 3,410,000	100.00%	\$ 3,410,000
<u>OVERLAPPING:</u>			
Umatilla County	21,150,000	16.92%	3,577,725
School District #8	92,925,009	43.03%	39,989,063
Blue Mountain Community College	18,290,000	16.92%	3,093,928
Total overlapping	<u>132,365,009</u>		<u>46,660,716</u>
Total direct and overlapping	<u>\$ 135,775,009</u>		<u>\$ 50,070,716</u>

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

CITY OF HERMISTON, OREGON

Computation of Legal Debt Margin

June 30, 2009

Legal Debt Margin Calculation for Fiscal Year 2009

True cash value	<u>\$705,153,815</u>	
Debt limit (3% of assessed value)		\$21,154,614
Debt applicable to limit:		
Gross bonded debt	\$ 22,379,803	
Less legal deductions:		
Water bonds	(3,790,000)	
Utility bonds	(2,109,803)	
Energy bonds	<u>(13,070,000)</u>	
 Total net debt applicable to limit		<u>3,410,000</u>
Legal debt margin		<u>\$17,744,614</u>
Total net debt applicable to the limit as a percentage of debt limit		16.12%

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Debt limit	\$ 11,056,712	\$12,175,700	\$14,031,990	\$14,820,876	\$15,787,304	\$16,840,245	\$17,699,914	\$19,340,500	\$20,077,232
Total net debt applicable to limit	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,636,000</u>	<u>3,565,000</u>	<u>3,540,000</u>	<u>3,515,000</u>	<u>3,485,000</u>	<u>3,450,000</u>
Legal debt margin	<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>	<u>\$16,627,232</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	24.53%	22.58%	21.02%	19.86%	18.02%	17.18%

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

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

CITY OF HERMISTON, OREGON

Pledged-Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenues	Debt Service (3)		Coverage
				Principal	Interest	
Utility						
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
2009	4,282,319	3,389,116	893,203	215,459	96,065	2.87
Electric						
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
2009	7,511,659	5,188,245	2,323,414	140,000	589,744	3.18

(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>
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	26,535	408,904,350	5.2
2008	15,785	*	*	5.1
2009	16,080	*	*	10.5

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

(*) Figure was not available.

CITY OF HERMISTON, OREGON

Principal Employers
Current Year and Nine Years Ago

<u>Employer</u>	<u>2009</u>			<u>2000</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Umatilla Army Depot	1250	1	10.1%			
Con-Agra Foods	1000	2	8.1%	Information not available		
Express Employment Professionals	800	3	6.5%			
Wal-Mart Distribution	800	4	6.5%			
Certified Personnel Services	725	5	5.9%			
River Point Farms	650	6	5.2%			
Good Shepherd Medical Center	465	7	3.8%			
Hermiston School District	450	8	3.6%			
Wal-Mart Supercenter	400	9	3.2%			
Union Pacific Railroad	300	10	2.4%			
			<u>55.3%</u>			

Note: Included employers in the Greater Hermiston Area.

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

CITY OF HERMISTON, OREGON

Full-Time Equivalent City Government Employees by Function/Program

Last Six Fiscal Years

<u>Function/Program</u>	Full-time Equivalent Employees as of June 30,					
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General government	11.2	11.2	11.2	11.2	11.2	11.2
Public safety	35.0	35.0	33.5	33.5	33.5	33.5
Highways and streets	6.3	6.3	6.3	6.3	6.3	6.3
Cultural and recreation	27.5	27.5	27.5	27.5	27	17
Water	10.7	10.7	10.7	10.7	10.7	10.7
Sewer	11.4	11.4	11.4	11.4	11.4	11.4
Electric	2.4	2.4	2.4	2.4	2.4	2.4
Total	<u>104.5</u>	<u>104.5</u>	<u>103</u>	<u>103</u>	<u>102.5</u>	<u>92.5</u>

Source: City of Hermiston

CITY OF HERMISTON, OREGON

Operating Indicators by Function/Program
Last Six Fiscal Years

<u>FUNCTION/PROGRAM</u>	Fiscal Year					
	2009	2008	2007	2006	2005	2004
Governmental Activities:						
General government						
Number of Senior Citizen Taxi Program tickets sold	32,976	34,766	29,077	27,879	25,103	*
Number of building inspections	*	881	1,346	2,266	*	*
* No longer tracking information						
Public Safety						
Total police incidents	36,841	26,654	26,016	25,610	*	*
Officer initiated	22,869	11,149	10,366	9,807	*	*
Calls for police service	13,972	15,505	15,650	15,803	*	*
Number of traffic stops	8,177	5,196	5,602	5,104	*	*
Highways and streets						
Estimated miles of street swept	6,800	5,000	10,242	600	*	*
Cultural and recreation						
Number of library items checked out	102,527	100,886	98,072	89,835	*	*
Number of library patrons	10,217	10,245	8,984	10,007	9,873	*
Business-type activities:						
Water						
Number of accounts	4,495	4,411	4,362	4,060	3,954	3,829
Annual consumption (in billions of gallons)	3,513	3,911	2,324	2,983	3,711	*
Sewer						
Number of accounts	4,604	4,314	4,494	4,393	4,283	*
Electricity						
Number of accounts	5,266	5,230	5,232	5,163	5,139	*
KWH sold	110,923,480	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 Six Fiscal Years

Function/Program	Fiscal Year					
	2009	2008	2007	2006	2005	2004
Governmental Activities						
General government						
Administrative buildings	2	2	2	2	2	2
Public Safety						
Police stations	1	1	1	1	1	1
Patrol units						
Cars	13	16	17	12	12	12
Bus	-	1	1	1	1	1
Motorcycles	2	2	2	2	2	2
Highways and streets						
Miles of streets	60	60	60	60	60	60
Culture and recreation						
Library collection:						
Printed materials	34,121	36,305	37,140	39,110	*	*
Audio materials	2,607	2,054	1,081	1,442	*	*
Video materials	1,759	1,618	1,339	1,407	*	*
Electronic materials	3,451	3,451	3,451	3,451	*	*
Business-type activities:						
Water						
Miles of city water line	68	66	66	60	60	60
Miles of regional water system water line	14	14	14	14	14	14
City wells	6	6	6	6	6	6
Sewer:						
Sewage pump stations	8	8	8	8	8	8
Clarifiers	4	4	4	4	4	4
Gravity Thickeners	2	2	2	2	1	1
Electric						
Miles of overhead line	37	37	37	37	*	*
Miles of underground line	26	25	25	20	*	*
Transformers	1,667	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, 2009

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: 16,080

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, 2009

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.

CITY OF HERMISTON, OREGON

AUDIT COMMENTS AND DISCLOSURES

June 30, 2009

ACCOUNTING RECORDS:

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*.

BUDGETING AND TAX LEVIES:

The City appears to have complied with the Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption, and execution of its budget and tax levy for the current year with the following exceptions:

The City did not prepare budgets for six Special Revenue Funds: the Recreation Reserve Fund, Recorders Reserve Fund, Municipal Court Fund, the Conference Center Fund, the Library Reserve Fund, and the Law Enforcement Reserve Fund.

Budget over expenditures are disclosed in Note 2 to the Financial Statements.

In October 2008, the City established the Wastewater Treatment Plant Construction Fund by resolution at a meeting of the City Council. Oregon Budget Law requires a supplemental budget when budget modifications will create a new fund.

The City appeared to be in compliance with legal requirements relating to the preparation and adoption of the budget for the next succeeding year.

ADEQUACY OF COLLATERAL SECURING DEPOSITORY BALANCES:

The City maintains its funds at a financial institution deemed to be a qualified depository by the Office of the State Treasurer.

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, 2009, is adequate. The City does review insurance coverage annually with its insurance agent. The City is not required to have any fidelity bond coverage.

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.

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.

ACCOUNTABILITY FOR INDEPENDENTLY ELECTED OFFICIALS:

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

CITY OF HERMISTON, OREGON
AUDIT COMMENTS AND DISCLOSURES
June 30, 2009

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.

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.

SINGLE AUDIT SECTION

CITY OF HERMISTON, OREGON

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

<u>Federal Grantor/Program Name:</u>	<u>Federal CFDA Number</u>	<u>Major Programs (X)</u>	<u>Amount</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
Community development block grant:	14.228	X	
Passed through Oregon Economic & Community Development Department			\$ 25,500
Passed through Oregon Housing & Community Services			<u>283,571</u>
			<u>\$ 309,071</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>			
Airport improvement program	20.106	X	<u>\$ 778,197</u>
<u>U.S. DEPARTMENT OF EDUCATION:</u>			
Post-secondary education opportunities for under- represented populations	84.116		<u>\$ 86,531</u>

See notes to schedule of
expenditures of federal awards.

CITY OF HERMISTON, OREGON

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

NOTE A - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Hermiston, Oregon and is presented on the modified accrual basis of accounting as described in note 1 to the basic financial statements. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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, 2009, which collectively comprise City of Hermiston, Oregon's basic financial statements and have issued our report thereon dated November 23, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hermiston, Oregon's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal controls over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Hermiston, Oregon's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of City of Hermiston, Oregon's financial statements that is more than inconsequential will not be prevented or detected by City of Hermiston, Oregon's internal control. We consider Findings 2009-1, 2009-2, 2009-3 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

Mayor and City Council
City of Hermiston
Hermiston, Oregon

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider Findings 2009-1, 2009-2, and 2009-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hermiston, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Hermiston, Oregon in a separate letter dated November 23, 2009.

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

Barnett & Moro, P.C.

By:



Richard L. Stoddard, Shareholder

Hermiston, Oregon

November 23, 2009

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 COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and City Council
City of Hermiston
Hermiston, Oregon

Compliance

We have audited the compliance of City of Hermiston, Oregon, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. City of Hermiston, Oregon's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Hermiston, Oregon's management. Our responsibility is to express an opinion on City of Hermiston, Oregon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hermiston, Oregon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Hermiston, Oregon's compliance with those requirements.

In our opinion, City of Hermiston, Oregon, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of City of Hermiston, Oregon, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Hermiston, Oregon's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Hermiston, Oregon's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Barnett & Moro, P.C.

By: 
Richard L. Stoddard, Shareholder
Hermiston, Oregon
November 23, 2009

CITY OF HERMISTON, OREGON

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified opinion

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes X none reported
- Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes X no

Type of auditor's report issued on compliance for major program: unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

CITY OF HERMISTON, OREGON

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

Section II-Financial Statement Findings

Finding 2009-1

Good accounting controls require that employees with access to cash not also record the transactions in the accounting records.

Because of the small number of City staff, the employee collecting utility billing proceeds is also responsible for recording collections and adjustments to the utility receivable records. Other employees, who receive cash, including the aquatic center and building department employees, should not be responsible for recording collections and adjustments to receivable records. Employees with no cash handling responsibilities should reconcile daily cash received, cash posting and adjustment posting, to the receivable records as an offsetting control. Additionally, the employee preparing and producing bank checks should not also be an authorized check signer or reconcile the bank account.

Correspondence with Banner Bank and U.S. Bank indicate that the Assistant City Recorder is an authorized signer. Her duties include preparing and producing bank checks. These lack of separation of accounting duties increase the possibility that cash will be lost.

We recommend that the City regularly evaluate the job duties of employees for proper separation of accounting duties and cash handling duties.

Finding 2009-2

Good accounting controls require that all cash and investment accounts be reconciled to statements of account on a timely basis.

The Hermiston Police Department maintains a bank account to hold seized cash pending disposition. This account is not monitored by Finance Department personnel. We recommend that the Finance Department monitor and reconcile this account monthly to reduce the possibility that cash will be lost.

Finding 2009-3

The City issued credit cards to department heads and other select employees to facilitate online and time-sensitive purchasing. City employees trusted with credit cards in the City's name are expected to submit invoices or other documents supporting expenditures each month.

Invoices totaling \$24,675 were selected for testing. Supporting documents were not available when requested for inspection. City personnel indicated that they had not been received from the employee who was issued the card. Supporting documentation was provided later. We recommend that the City consider revoking credit card privileges from employees who do not submit supporting documents on a timely basis.

Section III-Federal Award Findings and Questioned Costs

There are no federal award findings or questioned costs for the year ended June 30, 2009.

CITY OF HERMISTON, OREGON

Corrective Action Plan

Year Ended June 30, 2009

CONTACT PERSON RESPONSIBLE FOR CORRECTIVE ACTION:

Robert Irby, Finance Director
180 N.E. Second Street
Hermiston, OR 97838
Phone: (541)567-5521

CORRECTIVE ACTION PLAN:

Finding 2009-1

Good accounting controls require that employees with access to cash not also record the transactions in the accounting records.

CORRECTIVE ACTION PLANNED OR TAKEN:

Regarding accounting controls for City staff handling cash/checks for utility payments.

There are four employees on the floor of City Hall that handle customer payments on a daily basis. All four employees take payments from customers at the counter, process payments in the mail and take payments over the phone. We are going to change our procedure to a rotation of duties. Each week a different person will balance the HES, Utility and General Fund drawers. During that person's rotation, they will make a concerted effort not to process payments that coincide with that cash drawer. We will attempt to rotate these jobs to the best of our ability given the number of employees we have on the floor.

Finding 2009-2

Good accounting controls require that all cash and investment accounts be reconciled to statements of account on a timely basis.

CORRECTIVE ACTION PLANNED OR TAKEN:

The Hermiston Police Department will be asked to send over a monthly bank statement for the evidence fund account. It will be kept in the binder with the other bank statements for the City.

Finding 2009-3

The City issued credit cards to department heads and other select employees to facilitate online and time-sensitive purchasing. City employees trusted with credit cards in the City's name are expected to submit invoices or other documents supporting expenditures each month.

CORRECTIVE ACTION PLANNED OR TAKEN:

Our Accounts Payable Clerk will continue to make a concerted effort to obtain all receipts for City credit card purchases. If an employee fails to provide a receipt in a timely manner, the A/P Clerk will contact that employees direct superintendent for assistance in obtaining the receipts.

ANTICIPATED COMPLETION DATE OF ALL CORRECTIVE ACTIONS:

December 15, 2009

CITY OF HERMISTON, OREGON

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS

Year Ended June 30, 2009

QUESTIONED COSTS:

There were no questioned costs for the year ended June 30, 2008.

FINDINGS:

There were no findings for the year ended June 30, 2008.