

COLUMBIA COUNTY DEVELOPMENT AGENCY  
(A COMPONENT UNIT OF COLUMBIA COUNTY)

COLUMBIA COUNTY, OREGON

\*\*\*\*\*

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2009

COLUMBIA COUNTY DEVELOPMENT AGENCY  
(A COMPONENT UNIT OF COLUMBIA COUNTY)

COLUMBIA COUNTY, OREGON

T A B L E O F C O N T E N T S

	<u>PAGE</u>
Agency Officials	i
Independent Auditors' Report	1
Management's Discussion and Analysis	2-4
BASIC FINANCIAL STATEMENTS:	
Statement of Net Assets	5
Statement of Activities	6
Balance Sheet – Governmental Fund	7
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Governmental Fund	8
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund to Statement of Activities	9
NOTES TO THE BASIC FINANCIAL STATEMENTS	10
SUPPLEMENTARY DATA	
Schedule of Property Tax Transactions and Balances of Taxes Uncollected	15
AUDITORS' COMMENTS AND DISCLOSURES	16

COLUMBIA COUNTY DEVELOPMENT AGENCY  
(A COMPONENT UNIT OF COLUMBIA COUNTY)

COLUMBIA COUNTY, OREGON

AGENCY BOARD MEMBERS AS OF JUNE 30, 2009

<u>Name</u>	<u>Term Expires</u>
Rita Bernhard, Chair	January 2011
Anthony Hyde	January 2013
Earl Fisher	January 2013

All Board Members receive mail at the address below.

ADMINISTRATION

Columbia County Commissioners Office  
230 Strand Street  
St. Helens, OR 97051



**PAULY, ROGERS AND CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

- 
- 
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
  - (503) 620-2632 • FAX (503) 684-7523

November 20, 2009

Agency Board  
Columbia County Development Agency  
St. Helens, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited governmental activities and major fund of the Columbia County Development Agency, as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements as noted in the table of contents. These basic financial statements are the responsibility of management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 financial position of the governmental activities and the major fund of the Columbia County Development Agency, as of June 30, 2009, and the respective changes in financial position thereof and respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United State of America.

The Management's Discussion and Analysis, as listed on the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of expressing opinions on the basic financial statements taken as a whole. The supplementary data as noted in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary data 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.

**PAULY, ROGERS AND CO., P.C.**

COLUMBIA COUNTY DEVELOPMENT AGENCY  
(A COMPONENT UNIT OF COLUMBIA COUNTY)

COLUMBIA COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

COLUMBIA COUNTY DEVELOPMENT AGENCY  
COLUMBIA COUNTY, OREGON

STATEMENT OF NET ASSETS  
June 30, 2009

---

ASSETS

Cash and cash equivalents	\$ 2,345,392
Property Taxes Receivable	71,058
Due from other governments	<u>7,452</u>
 Total Assets	 <u>2,423,902</u>

LIABILITIES:

Accounts Payable	<u>6,528</u>
 Total Liabilities	 <u>6,528</u>

NET ASSETS:

Unrestricted	<u>2,417,374</u>
 Total Net Assets	 <u><u>\$ 2,417,374</u></u>

See accompanying notes to basic financial statements

COLUMBIA COUNTY DEVELOPMENT AGENCY  
COLUMBIA COUNTY, OREGON

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2009

---

GENERAL REVENUES:

Property taxes	\$ 80,169
Interest	71,909
Forest land sales and royalties	<u>2,739</u>
Total general revenues	<u>154,817</u>

EXPENSES:

Governmental Activities:

Economic Development	118,871
Debt Service	<u>1,413,821</u>

Total expenses	<u>1,532,692</u>
----------------	------------------

Change in net assets	(1,377,875)
----------------------	-------------

NET ASSETS, BEGINNING	<u>3,795,249</u>
-----------------------	------------------

NET ASSETS, ENDING	<u><u>\$ 2,417,374</u></u>
--------------------	----------------------------

See accompanying notes to basic financial statements

COLUMBIA COUNTY DEVELOPMENT AGENCY  
COLUMBIA COUNTY, OREGON

BALANCE SHEET - GOVERNMENTAL FUND  
June 30, 2009

---

ASSETS:

Cash and Investments	\$ 2,345,392
Property taxes receivable	71,058
Due from other governments	<u>7,452</u>
Total Assets	<u>\$ 2,423,902</u>

LIABILITIES:

Accounts Payable	\$ 6,528
Deferred Revenue-Property taxes	<u>68,388</u>
Total Liabilities	<u>74,916</u>

FUND BALANCE:

Unrestricted	<u>2,348,986</u>
Total fund balance	<u>2,348,986</u>
Total liabilities and fund balance	<u>\$ 2,423,902</u>

Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets:

Total fund balance	\$ 2,348,986
Deferred Revenue related to Property Taxes	<u>68,388</u>
Net assets of governmental activities	<u>\$ 2,417,374</u>



COLUMBIA COUNTY DEVELOPMENT AGENCY  
COLUMBIA COUNTY, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GOVERNMENTAL FUND  
 For the Year Ended June 30, 2009

GENERAL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES:				
Property Taxes	\$ 780,000	\$ 780,000	\$ 139,705	\$ (640,295)
Interest on Investments	51,000	51,000	71,909	20,909
Forest, land, sales & royalties	-	-	2,739	2,739
Total Revenues	831,000	831,000	214,353	(616,647)
EXPENDITURES:				
Debt Service	1,005,200	2,505,200 (1)	1,413,821	1,091,379
Materials and service	350,000	350,000 (1)	118,871	231,129
Contingency	2,575,500	1,075,500 (1)	-	1,075,500
Total Expenditures	3,930,700	3,930,700	1,532,692	1,306,629
Revenues over (under) expenditures	(3,099,700)	(3,099,700)	(1,318,339)	1,781,361
Net changes in fund balances	(3,099,700)	(3,099,700)	(1,318,339)	1,781,361
FUND BALANCES, BEGINNING	3,200,000	3,200,000	3,667,325	467,325
FUND BALANCES, ENDING	\$ 100,300	\$ 100,300	\$ 2,348,986	\$ 2,248,686

(1) Appropriation Level

See accompanying notes to basic financial statements

COLUMBIA COUNTY DEVELOPMENT AGENCY  
COLUMBIA COUNTY, OREGON

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUND TO STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

---

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the agency-wide statement of activities

Net change in fund balance - total governmental fund	\$ (1,318,339)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund. This is the effect of the change in property taxes receivable during the year.	<u>(59,536)</u>
Changes in net assets of governmental activities	<u><u>\$ (1,377,875)</u></u>

See accompanying notes to basic financial statements

COLUMBIA COUNTY DEVELOPMENT AGENCY  
(A COMPONENT UNIT OF COLUMBIA COUNTY)

COLUMBIA COUNTY, OREGON

NOTES TO THE BASIC FINANCIAL STATEMENTS

COLUMBIA COUNTY DEVELOPMENT AGENCY

COLUMBIA COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). 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 accounting policies are described below.

A. THE FINANCIAL REPORTING ENTITY

Columbia County Development Agency (the Agency) (a component unit of Columbia County) was organized in June 2001, with an effective date of September 2001, under the provisions of the Oregon Revised Statutes, Chapter 457, to provide rehabilitation of blighted and deteriorated areas within the County's designated urban renewal area. The fiscal year ended June 30, 2003, was the first year property taxes were levied. As provided by ORS 457, the Board of County Commissioners of Columbia County is designated as the governing body of the Columbia County Urban Renewal Agency. Principal funding sources are property tax revenues and interest earnings. Fiscal and accounting functions are handled by personnel of Columbia County.

The Agency is a legally separate entity governed by the Board of County Commissioners. The Agency Board of Commissioners is not financially accountable for any other governmental entity. Financial accountability is determined in accordance with criteria set forth in accounting principles generally accepted in the United States of America, primarily on the basis of authority to appoint the voting majority of an organization's governing board, ability to impose its will on that organization, the potential for that organization to provide specific benefits or impose specific financial burdens and that organization's fiscal dependency. The Agency is a component unit of Columbia County due to the fact that the Board of County Commissioners of Columbia County are the governing body and as such, are able to impose their will on the Agency. Therefore, the Agency is included in the financial statements of Columbia County for the year ended June 30, 2009.

B. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS)

Government-wide financial statements consist of the statement of net assets and the statement of activities display information as a whole. Funds are used to report financial position and the results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities. The statement of activities presents a comparison between direct expenses and program revenues for each function of the governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

FUND FINANCIAL STATEMENTS

These statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. There is only one fund which is a governmental fund.

COLUMBIA COUNTY DEVELOPMENT AGENCY

COLUMBIA COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION (CONTINUED)

The financial transactions are recorded in the General fund. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

*General Fund* - The General Fund is used to record expenditures related to capital improvements projects. Major sources of revenue and other financing sources are specific taxes that are legally restricted to expenditures for specific purposes.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe which transactions are recorded with the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the government-wide presentation

D. BUDGETS

On or before June 30 of each year a resolution is adopted approving the budget, appropriating the expenditures, and levying the property taxes. Prior to enacting this resolution, the proposed budget is presented to a budget committee consisting of members of the Board and a like number of interested citizens. The budget committee presents the budget to the Board for budget hearings prior to enactment of the resolution. All funds are budgeted as required by Oregon Local Budget Law.

COLUMBIA COUNTY DEVELOPMENT AGENCY

COLUMBIA COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BUDGETS (CONTINUED)

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Expenditure categories of personal services, materials and services, capital outlay, debt service transfers, and contingency are the legal level of control for all other funds. The detail budget document, however, is required to contain more specific information for the above mentioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and adoption by the Board. Management may modify original and supplemental budgets by the use of appropriation transfers between the legal levels of control within a fund. Such transfers require approval by the Board. Management may not amend the budget without seeking the approval of the Board. Appropriations lapse as of year-end. At year-end all expenditures were within appropriated amounts.

E. PROPERTY TAXES RECEIVABLE AND PROPERTY TAX CALENDAR

Property taxes receivable is recorded to indicate the amount of uncollected taxes receivable in the future. Such taxes are offset by a liability to indicate that these amounts have to be recorded as receipts. Ad valorem property taxes are levied and become a lien on all taxable property as of July 1. Collection dates are November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent. Taxes are billed and collected by Columbia County and remittance are made at periodic intervals.

F. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. RECEIVABLES AND PAYABLES

Uncollected property taxes are shown in the government wide statement of net assets. Uncollected taxes are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established. Property taxes collected within approximately sixty days of fiscal year- end are recognized as revenue.

The remaining balance of taxes receivable is recorded as deferred revenue because it is not deemed available to finance operations of the current period.

H. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. There are no reservations or designations of fund balance at June 30, 2009.

COLUMBIA COUNTY DEVELOPMENT AGENCY

COLUMBIA COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

---

2. CASH AND INVESTMENTS

State statutes govern cash management policies. Statutes authorize investing in bankers' acceptances, time certificates of deposit, repurchase agreements, obligations of the United States and its agencies and instrumentalities, and the Oregon State Treasurer's Local Government Investment Pool.

DEPOSITS

Deposits with financial institutions include bank demand deposits. Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury.

Cash is pooled with Columbia County. Please refer to Columbia County's basic financial statements, issued under separate cover, for additional information pertaining to the nature and collateralization of the County's cash and investments.

Cash at June 30, 2009 consisted of an investment in the State Treasurer's Local Government Investment Pool with a value of \$2,345,392.

INVESTMENTS

State statutes authorize investment primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial papers and the State Treasurer's Investment Pool, among others. The fair value in the State Treasurer's Local Government Investment Pool is 99.11% of the cash value of the pool shares at June 30, 2009.

As of June 30, 2009, the following investments and maturities are reported:

Investment Type	Fair Value	Investment Maturities (in months)		
		Less than 3	3-17	18-59
State Treasurer's Investment Pool	2,345,392	2,345,392	-	-
Total	\$ 2,345,392	\$ 2,345,392	\$ -	\$ -

The State Treasurer's Local Government Investment Pool (LGIP), is a cash and investment pool available for use by all state funds and local governments and is maintained by the State Treasurer. The LGIP is an open-ended, no-load diversified portfolio offered to eligible participants, including any municipality, political subdivision, or public corporation of the state. Currently, there are more than 1,500 participants in the Pool. Local government pooled assets are reported as an Investment Trust Fund in Oregon's Comprehensive Annual Financial Report. The Oregon Short-Term Fund Board, established by the Oregon Legislature, advises the Oregon Investment Council and the Oregon State Treasury in the management and investments of the LGIP. In addition, the the Columbia County Treasury Pool is utilized under the warrant system as well as maintaining deposits from property tax collection proceeds.

COLUMBIA COUNTY DEVELOPMENT AGENCY

COLUMBIA COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

---

2. CASH AND INVESTMENTS (CONTINUED)

Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned. There is no deposit policy for custodial credit risk. As of June 30, 2009, none of the bank balance was exposed to custodial credit risk because it was either insured or collateralized.

Interest Rate Risk

This is the risk of exposure of the investments to fair value losses arising from increasing interest rates. There is no formal investment policy that limits investment maturities. State policies are followed.

Concentration Risk

Concentration risk is the risk of loss due to a large portion of investments with a single issuer. At June 30, 2009, 100% of total investments were in the State Treasurer's Investment Pool. State statutes do not limit the percentage of investments in this instrument.

3. DEFERRED REVENUE

Deferred revenue as of June 30, 2009 consists of uncollected property taxes not deemed available to finance operations of the current period.

4. RISK MANAGEMENT

There is exposure to various risks of loss related to: torts, errors and omissions; and natural disasters. Commercial insurance is purchased to minimize exposure to these risks. There has been no reduction in commercial insurance coverage from fiscal year 2008 to 2009. Settled claims for have not exceeded this commercial coverage.

5. COMMITMENTS

Tax increment revenues are pledged to repay loans made to Columbia County for infrastructure improvements at Port Westward. The Oregon Economic & Community Development Department (OECDD) has supported the development of the Agency by committing loans in the amount of \$5,340,761 for access and road corridor improvements. The loans will be finalized in the near future and will be repaid with tax increment revenues.

Tax increment revenues are pledged to repay a loan from OECDD incurred by the Port of St. Helens to build a water intake and discharge system in the plan area. The loan is a construction loan and has not been finalized at the end of the fiscal year. The loan will have a 25 year term, 5% interest, with a maximum amount of \$8,668,500. For the first eight years, payments will be interest only followed by seventeen years of interest and principal payments. If the net tax increment revenues are insufficient to pay the full amount of accrued interest on the loan, the balance will be carried forward.



COLUMBIA COUNTY DEVELOPMENT AGENCY  
(A COMPONENT UNIT OF COLUMBIA COUNTY)

COLUMBIA COUNTY, OREGON

SUPPLEMENTARY DATA

COLUMBIA COUNTY DEVELOPMENT AGENCY  
COLUMBIA COUNTY, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES  
OF TAXES UNCOLLECTED  
For the Year Ended June 30, 2009

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED 7/1/08	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED AT 6/30/09
Current:						
2008-2009	\$ 80,380	\$ 1,981	\$ 83	\$ 44	\$ 74,534	\$ 3,904
Prior Years:						
2007-2008	120,183	-	(769)	4,040	62,857	56,557
2006-2007	15,539	-	(125)	1,052	6,454	8,960
2005-2006	2,485	-	(49)	432	1,641	795
2004-2005	1,433	-	(53)	328	1,026	354
2003-2004 & Prior	306	-	284	67	102	488
Total Prior	139,946	-	(712)	5,919	72,080	67,154
Total	\$ 220,326	\$ 1,981	\$ (629)	\$ 5,963	\$ 146,614	\$ 71,058

RECONCILIATION TO REVENUE:

Cash Collections by County Treasurer Above	\$ 146,614
Accrual of Receivables:	
June 30, 2008	(12,209)
June 30, 2009	3,125
Taxes in Lieu	2,175
Total Revenue	\$ 139,705

COLUMBIA COUNTY DEVELOPMENT AGENCY  
(A COMPONENT UNIT OF COLUMBIA COUNTY)

COLUMBIA COUNTY, OREGON

2008-09 AUDITORS' COMMENTS AND DISCLOSURE



---

2008-2009 AUDITORS' COMMENTS AND DISCLOSURES

---

Oregon Administrative Rules 162-10-000 through 162-16-000 of the Minimum Standards for Audits of Oregon Municipal Corporations, enumerate the basic financial statements, schedules, comments and disclosures required in audit reports. Certain required disclosures, statements and schedules are set forth in preceding pages of this report. Additional required comments and disclosures related to our audit of such statements and schedules are set forth as follows:

REPORT ON INTERNAL ACCOUNTING CONTROL

We have audited the basic financial statements of the Columbia County Development Agency, for the year ended June 30, 2009, and have issued our report thereon dated November 20, 2009.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatements.

In planning and performing our audit of the basic financial statements for the year ended June 30, 2009, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the basic financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Because of a limited number of available personnel, it is not always possible to adequately segregate certain duties so that no one individual has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

We did not note any matters involving the internal control structure and its operation that we consider to be significant deficiency under standards established by the American Institute of Certified Public Accountants. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected by internal controls.

REPORT ON INTERNAL ACCOUNTING CONTROL (CONTINUED)

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 internal controls. We did not identify any significant deficiencies that we considered to be material weaknesses.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses as defined above. We noted other matters which we included in our management letter dated November 20, 2009.

This report is intended solely for the information and use of the Board, management, and the State of Oregon, Secretary of State, Division of Audits and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

ACCOUNTING RECORDS

The accounting records are adequate for audit.

BUDGET TRANSACTIONS

There were no expenditures which exceeded authorized appropriation levels.

2008-2009 and 2009-2010 BUDGETS

The budgets adopted for the current and ensuing fiscal year were examined during the audit. Based on our testing we are not aware of any budget preparation and adoption procedures that were not in compliance with the Oregon Local Budget Law.

COLLATERAL SECURING BANK DEPOSITS

Deposits appeared to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury throughout the year based upon our testing. Deposits in the State Local Government Investment Pool are not required to be collateralized.

PUBLIC CONTRACTS AND PURCHASING

The procedures for awarding public contracts were reviewed and based on our testing appeared to be in compliance with ORS Chapter 279, with one exception. During our testing, we noted one check disbursement of a road department expenditure that did not have sufficient evidence retained of the quote process.

INSURANCE AND FIDELITY BONDS

The insurance coverage provided appears to meet legal requirements. We do not have the professional expertise to state whether the insurance coverage is adequate.

STATUTORY BONDED DEBT LIMITATION

There was no outstanding bonded debt at June 30, 2009.

PROGRAMS FUNDED FROM OUTSIDE SOURCES

There was no federal funding received for the year ended June 30, 2009.

STATE HIGHWAY FUNDS

There were no programs funded by State Highway Funds for the year ended June 30, 2009.

INDEPENDENT ELECTED OFFICIALS

No elected official collected or received funds on behalf of the Agency.

PAULY, ROGERS AND CO., P.C.