

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

To the Audit Committee of the
Portland Development Commission, Portland Oregon
(A Component Unit of the City of Portland), and
LaVonne Griffin-Valade, Auditor, City of Portland

We have audited the financial statements of the Portland Development Commission (a Component Unit of the City of Portland, Oregon) (the "Commission") as of and for the year ended June 30, 2014, and have issued our report thereon dated November 13, 2014. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

As stated in our professional services contract dated May 17, 2012, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements 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 Commission's internal control over financial reporting. Accordingly, we considered the Commission's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.



OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility for other information in the financial statements does not extend beyond the financial information identified in our report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. However, we have read the information and nothing came to our attention that caused us to believe that such information or its manner of presentation is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our planning meeting held with you August 13, 2014.

SIGNIFICANT AUDIT FINDINGS AND ISSUES

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Commission are described in Note 1 to the financial statements. There were no changes in the application of existing policies during 2014 except for the following:

- As described in Note 1.5 to the financial statements, the Commission revised the definition of Property Held for Sale to include certain intangible assets. The implementation of this change resulted in no appreciable change to the financial statements.
- As described in Note 1.10 to the financial statements, the Commission implemented a new accounting standard of the Government Accounting Standards Board (GASB) related to nonexchange financial guarantees. The implement of this standard resulted in no appreciable change to the financial statements.

We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

MOSS-ADAMS_{LLP}

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The determination of the allowance for discounts and uncollectible loans and other receivables,
- Useful lives of property and equipment,
- Claims liability,
- Employee benefit plan accruals,
- Overhead allocations, and
- Pollution remediation costs.

Based upon our audit procedures, we concur with the significant estimates and assumptions made by management in the preparation of the financial statements.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Loans receivable and the related allowances,
- Properties held for sale,
- Employee pension plan disclosures,
- Contingent liabilities, and
- Environmental risk.

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.



Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements as a whole.

There was one corrected misstatement related to the allocation of proceeds from the sale of a property. Proceeds from the sale of approximately \$5.6 million were recognized by the Business Management Fund. Approximately \$2.7 million of proceeds should have been transferred to the North Macadam Urban Renewal Fund based on investments from tax increment financing made to the property prior to the sale. The need to record this transfer was identified by management as a result of our audit inquiries, and has been recorded in the financial statements.

During the fiscal year, management recognized approximately \$1.7M of rental income and associated receivable with respect to an Intergovernmental Agreement (IGA) entered into with the City of Portland (COP) for property management of the Union Station in November 1998. Since the inception of this IGA, no revenue had been recognized by PDC. After investigation by both COP and PDC, it was determined that about \$1.7M was owed to PDC. Of this amount, approximately \$500K was due to FY 2014 activity, the remaining \$1.2M was due to prior period activity. As a result, prior period assets and net position were understated by \$1.2M, and the current year revenues are overstated by \$1.2M. The amounts involved are immaterial to the financial statements, and we concur with management's current year reporting of this rental activity.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.



Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 13, 2014.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the audit committee and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams, LLP

Eugene, Oregon
November 13, 2014