

November 13, 2014

Patrick Quinton, Executive Director, Portland Development Commission
Board of Commissioners, Portland Development Commission

We have completed our audit of the financial statements of the Portland Development Commission (PDC or Commission) for the year ended June 30, 2014 and have issued our report thereon dated November 13, 2014. In planning and performing our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures and for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

During the course of the audit, we noted certain other matters involving the internal control structure, operations, and financial reporting that are presented for your consideration that we would categorize as 'best practices' which are reported to you below. Our comments and recommendations have been discussed with appropriate members of management, and are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, and to perform any desired additional study of these matters.

Our comments are as follows:

Best Practice Observations

Intergovernmental Agreements

Observation - The Commission enters into intergovernmental agreements (IGAs) with other organizations when necessary or prudent in the provision of services to its stakeholders. These IGAs create or result in accounting and financial reporting matters for the Commission to address. As an example, management identified an IGA that was entered into with the City of Portland Bureau of General Services (BGS) that commenced during 1998. The IGA provided for the management and maintenance of a property by the City. The IGA allowed BGS to collect rents and authorize expenses for the daily operation of the property consistent with a budget developed with PDC and allowed for net operating income to be used for major maintenance, capital projects and operating reserves. Amounts of net operating income in excess of those earmarked for reserves were to be returned by the City to PDC. Management identified that no funds had been remitted to PDC by the City. In addition, the IGA required periodic reporting by the City to PDC. The reporting required by the IGA did not take place.

MOSS-ADAMS_{LLP}

PDC management identified the existence of this IGA and its provisions as a result of its efforts to improve its management of the various properties it owns and controls over related financial reporting. In our review of the IGA, we became aware the terms and provisions were not clear as to how PDC's share of the net rental income was to be calculated, when payments were to be made, nor substantive enough about the true spirit and intent of the parties.

Recommendation: We commend PDC for its efforts to identify and communicate with finance IGA's that are still active with accounting and reporting implications, and recommend that those efforts continue until the risk that others exist that are not communicated to finance is reduced to an acceptable level. Further, we recommend that PDC involve its finance staff in the initial development and approval of IGA's. This will improve internal communication of financial accounting and reporting matters, and to obtain input from finance staff as necessary in the drafting of the agreement provisions so that the spirit and intent of the parties and the related accounting and reporting matters are clear.

Property Held for Sale

Observation - During our audit, we noted that the Commission's Property Held for Sale (PHFS) account is not composed entirely of real estate. Property Held for Sale includes intangible assets, option payments for future purchases, deposits, and possibly other types of assets in addition to real property. These various types of assets come with different rights and obligations, different liquidity or disposition objectives, and their ultimate purpose or future use by PDC may be different.

Recommendation: We recommend the Commission disclose the separate categories of Property Held for Sale in order to provide more transparency to the constituents as to the rights, obligations, liquidity, and ultimate disposition of the various types of assets included within this asset classification. This could be accomplished through disclosure in the financial statement notes rather than creating new accounts for various types of assets held for sale.

Interfund Reimbursements/Transfers

Observation – PDC periodically acquires properties with certain costs incurred by multiple funds and or where there is discretion as to where future sale proceeds may be reported within its various funds. During our audit we noted that proceeds from the sale of a property that was initially donated to, and improved by, multiple PDC funds was not properly allocated and recorded between the funds involved according to management's intent. The property was donated to PDC several years ago by a third party. PDC subsequently invested approximately \$2.7 million of TIF funds from the North Macadam URA to rehabilitate the property and make it marketable. During the year, the property was sold for approximately \$5.6 million. Management had approved, and made necessary revisions to the budget for, proceeds from the sale to be split between two funds with an amount equal to the TIF funds invested to be reimbursed to the North Macadam URA.

MOSS-ADAMS_{LLP}

However, the entire amount of proceeds from the sale were deposited into, and recognized by, the Business Management Fund. Management became aware of this during the post-closing process and made the correction via a transfer before the financial statements were finalized.

Recommendation: We recommend the Commission implement a formal policy addressing the guidance on the remaining properties owned, as well as possible future acquisitions, that would be necessary to support decisions on how to split sale proceeds among its various funds when management has such discretion.

We wish to thank Faye Brown, Catherine Kaminski, Michele Whaley, and their staff for their support and assistance during our audit, as well as LaVonne Griffin-Valade, City Auditor, and Fiona Earle of the City Auditor's office who were very professional and pleasant to work with regarding the administration of our audit contract.

Moss Adams, LLP

Moss Adams LLP

cc: LaVonne Griffin-Valade, City Auditor
Fiona Earle, Audit Contract Manager