

**MADRAS REDEVELOPMENT COMMISSION
(Jefferson County, Oregon)**

**(The Urban Renewal District of the City of Madras)
(A Component Unit of the City of Madras, Oregon)**

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

**MADRAS REDEVELOPMENT COMMISSION
(Jefferson County, Oregon)**

**(The Urban Renewal District of the City of Madras)
(A Component Unit of the City of Madras)**

AGENCY COMMISSIONERS AS OF JUNE 30, 2014

<u>Name</u>	<u>Term Expires</u>
Doug Lofting, Chair	February 1, 2017
Tom Brown	February 1, 2015
Melanie Widmer	February 1, 2017
Doeshia Jacobs	February 1, 2017
Rob Berg	February 1, 2015
Blanca Reynoso	February 1, 2015
Chuck Schmidt	February 1, 2017

Commissioners receive mail at the address listed below.

**FINANCE DIRECTOR
Brandie McNamee**

**COMMISSIONERS ADDRESS
Administrative Offices
125 SW E Street
Madras, OR 97741**

MADRAS REDEVELOPMENT COMMISSION
(Jefferson County, Oregon)

(The Urban Renewal District of the City of Madras)
(A Component Unit of the City of Madras)

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Agency Commissioners
Madras Redevelopment Commission
Madras, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the governmental activities and each major fund of the Madras Redevelopment Commission (a component unit of the City of Madras), as of and for the year ended June 30, 2014, which collectively comprise the basic financial statements. These basic financial statements are the responsibility of management. Our responsibility is to express opinions on these basic financial statements based on our audit. The financial statements as of June 30, 2013, were audited by other auditors whose report dated March 20, 2014, issued an unqualified opinion on those statements. We audited the adjustments described in Note 10 that were applied to restate the beginning balances as of July 1, 2013. In our opinion, such adjustments are appropriate and have been properly applied.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major funds of Madras Redevelopment Commission as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information for the general fund and the reinvestment fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Madras Redevelopment Commission's basic financial statements. The Schedule of Property Tax Transactions is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated November 7, 2014 on our considerations of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of this report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

SGA CPAs & Consultants, LLP
SGA CPAs & Consultants, LLP

November 7, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS



Madras Redevelopment Commission

125 SE E Street Madras Oregon 97741
Phone: 541-475-2344 Fax: 541-475-7061

Management's Discussion and Analysis

This is management's discussion and analysis (MD&A) of the financial performance of the Madras Redevelopment Commission (MRC), the urban renewal district of the City of Madras (City), for the fiscal year ending June 30, 2014. The report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standard Board (GASB). The MD&A should be read in conjunction with the basic financial statements and notes to the financial statements.

History

The Madras Redevelopment Commission (MRC) was formed by City Ordinance No. 709 on June 24, 2003 and transferred the power of the Urban Renewal Agency of the City of Madras, to the Madras Redevelopment Commission pursuant to ORS 457.055. The Urban Renewal District lies primarily in the downtown corridor and extends to Lee Street to the north and Hall Street to the south. The Commission is managed by a governing board of eight members. The primary objectives of the Urban Renewal District are to 1) Eliminate blighted conditions; 2) Reverse physical and economic decline; and 3) Use tax increment financing to achieve its objectives to a \$14 million maximum indebtedness.

Financial Highlights

- The MRC provided \$100,000 to Madras Cinema, the third annual distribution of five annual payments that were agreed upon within an MOU developed during 2009-2010. The Madras Cinema has proven to be a successful addition to Jefferson Square development within the Urban Renewal District.
- The MRC continued the downtown flower program and paint program throughout 2013-2014.
- The MRC met the debt obligation payment of \$100,000 per the intergovernmental agreement with City of Madras for the \$2.5 million long term obligation issued in 2011-2012.
- The MRC made a \$70,000 payment to the City of Madras to assist with the debt obligations for the City Hall/Police Station which serves as a central civic facility in accordance with the Madras Urban Renewal Plan.
- Due to the delay in sale of redevelopment properties located at SE Fifth Street and 228 SW Fourth Street, an impairment loss is required to be reported per accounting standards in the amount of \$133,995. This results in the property value decreasing from \$463,691 to \$329,698 which is consistent with current fair market values for those sites and is reflected in the Statement of Net Position.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the MRC's basic financial statements. The financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report contains required supplementary information and other supplementary information in addition to the basic financial statements themselves beginning on page 25 of this report.

The Government-Wide Financial Statements are designed to provide the reader with a broad overview of the Commission's finances and are made up of the following two statements: the *Statement of Net Position* and the *Statement of Activities*. Both of these statements were prepared using accounting methods similar to those used by private-sector businesses, which use the economic resources measurement focus, and the accrual basis of accounting.

- The *Statement of Net Position* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *Net Position*. Over time, increases or decreases in Net Asset may serve as a useful indicator of whether the financial asset of the Commission is improving or deteriorating.
- The *Statement of Activities* presents information showing how the Commission's Net Position changed during the most recent fiscal year. All changes in Net Position are reported as soon as the underlying event giving rise to the changes occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected property tax, which is earned but not physically collected by the Commission in this fiscal year).

Both of these government-wide financial statements distinguish functions of the Commission that are principally supported by taxes and assessments. The Commission does not have other functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as business-type activities).

The MRC adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* for the year ended June 30, 2014.

Fund Financial Statements

Local governments use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission are considered governmental funds.

Governmental fund financial statements, unlike the government-wide statements, use modified accrual accounting which focuses on viewing changes in current financial resources. The objective is to answer the question, "*What are the transactions or events of the current period that have increased or decreased the resources available for spending in the near future?*" Therefore, under the modified accrual accounting, revenues are not recognized until they are measurable and available, and expenditures are recognized in the period in which liabilities are liquidated rather than when the liability is first incurred.

Unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. However, this information does not encompass the additional long-term focus of the government-wide statements. Therefore, both the governmental funds statements are followed by a reconciliation that explains the relationship or differences between governmental funds and the governmental-wide financial statements.

The MRC maintains two individual governmental funds, the *General Fund* and the *Reinvestment Fund*. The two funds are presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balance, beginning on page 11.

The MRC adopts an annual appropriated budget for all governmental funds. A budgetary comparison has been provided for each fund to demonstrate compliance with the adopted budget. These budgetary comparison statements can be found starting on page 25 of this report.

The financial statements also include notes that provide additional information that is essential to the full understanding of the data provided in the government-wide and funds financial statements. The notes to the basic financial statements can be found beginning on page 15 of this report. In addition to the basic financial statements and the accompanying notes lies additional pertinent information for the reader referred to as *Auditor's Comments and Reports*. This information can be found in this report following the notes to the basic financial statements.

Financial Analysis of the Government-Wide Statements

Net Position

Our analysis focuses on the Net Position (Table 1) and changes in Net Position (Table 2) for the Madras Redevelopment Commission's government-wide financial statements.

Table 1

MADRAS REDEVELOPMENT COMMISSION NET POSITION

	Governmental Activities		Net Change	
	2014	2013	Amount	Percentage
Assets:				
Cash and cash equivalents	\$ 264,083	\$ 306,574	\$ (42,491)	-13.9%
Receivables	227,906	258,043	(30,137)	-11.7%
Redevelopment Properties	329,698	463,691	(133,993)	-28.9%
Total Assets	821,687	1,028,308	(206,621)	-20.1%
Liabilities:				
Current liabilities	721	1,700	(979)	-57.6%
Non-current liabilities	2,390,000	2,490,000	(100,000)	-4.0%
Total Liabilities	2,390,721	2,491,700	(100,979)	-4.1%
Net Position:				
Unrestricted (deficit)	(1,569,035)	(1,463,392)	(105,643)	7.2%
Total Net Position	\$ (1,569,035)	\$ (1,463,392)	\$ (105,643)	7.2%

As noted earlier, net position may serve over time as a useful indicator of the MRC's financial asset. Total negative net position on June 30, 2014 was \$1.56 million versus \$1.46 million on June 30, 2013. Typically the MRC operates at a deficit net position (i.e., debt) balance, which is consistent with Oregon constitutional requirements for an Urban Renewal District. This debt is then repaid over time via the District's tax income.

As of the end of the fiscal year 2013-14, total receivables decreased \$30.1 thousand from the prior year, primarily as a result of payments on facade improvement loans. The MRC facade improvement loan program is now complete. This program offered qualifying merchants the opportunity to obtain a combination of a grant and a low-interest loan to revitalize their storefronts and give the downtown businesses a fresh curb side appeal (i.e. remove blight).

Change in Net Position

Below, Table 2 reflects the change in Net Position for fiscal year 2012-13 to fiscal year 2013-14.

Table 2
MADRAS REDEVELOPMENT COMMISSION
CHANGE IN NET POSITION

	Governmental Activities		Net Change	
	2014	2013	Increase/Decrease Amount	Percentage
Revenue:				
Property taxes	\$ 325,681	\$ 353,795	\$ (28,114)	-7.95%
Interest on investments	16,633	8,281	8,352	100.86%
Miscellaneous	-	1,215	(1,215)	-100.00%
Total Revenues	342,314	363,291	(20,977)	-5.77%
Expenses:				
Community development	313,962	337,682	(23,720)	-7.02%
Total Expenses	313,962	337,682	(23,720)	-7.02%
Change in Net Position	28,352	25,609	2,743	10.71%
Prior Period Adjustment	(133,995)	-	(133,995)	100.00%
Net Position - beginning of year	(1,463,392)	(1,489,001)	25,609	-1.72%
Net Position - end of year	\$ (1,569,035)	\$ (1,463,392)	\$ (105,643)	7.22%

During the fiscal year 2013-14, total property tax revenue decreased \$28.1 thousand, which is consistent with the related taxable assessed value of properties located within the Urban Renewal District that continue to decrease. Operating expenditures were substantially lower than the prior year due to fewer business grants provided to local businesses.

Fund Financial Analysis

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balance spending recourses. Such information is useful in assessing the government's financing requirements. Fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the conclusion of fiscal year 2013-14, the MRC's combined governmental funds reported an ending fund balance of \$0.6 million, down from the prior year fund balance of \$0.78 million. The decrease in fund balance is primarily driven by the \$133 thousand impairment loss on the value of the redevelopment properties along with the \$28 thousand decrease in property tax revenue. The combination of grants and loans, debt service, and administrative expenses exceeded property tax, assessments, and other revenues. Assessments refer to payments from borrowers for their loans from the MRC associated with the facade improvement program.

Debt Administration

At the end of the fiscal year 2013-14, the MRC's total outstanding debt consists of a \$2,390,000 balance advanced from the City of Madras, reported as Due to Other Governmental Agencies on the Statement of Activities. The terms of the advance match the City's related bond issuance of which the original amount of the advance was \$2,585,000 with a 20-year term, issue date of 5/15/2012 and maturing in 6/1/2032.

Economic Factors and Next Year's Budget

Major factors anticipated in the 2014-15 budget include the following:

- The downturn in the national, state, and regional economies is continuing to affect the local economy, whereby declining property values within the urban renewal district in 2008-2013 have reduced the amount of property tax collected by the MRC. Measure 5 compression is also having a compression effect on property tax revenues. While property values have stabilized, there is a lagging effect of the 2008-2013 property declines that will likely impact property tax revenues for the next couple years.
- During fiscal year 2009 the MRC executed a Memorandum of Understanding (MOU) with a developer to build a five-screen movie theater within the Madras Urban Renewal District. As part of the MOU, the MRC agreed to pay the developer \$100,000 per year for five years. The fourth of five payments in the amount of \$100,000 is forecasted in fiscal year 2014-15.
- During fiscal year 2014-15, the MRC will contribute \$75,000 towards meeting debt obligations of the new Police Station/City Hall for the City of Madras located in the urban renewal district.
- The Madras Urban Renewal Plan was completed in July 2002 and is due to be updated. Staff has completed a Request for Proposal (RFP) for consulting services to update the urban renewal plan.
- To fund the fifth and final payment of the Madras Cinema MOU in July 2015 and support the costs of updating the Urban Renewal Plan, staff are researching borrowing options to cash flow the expenditures. This will be needed to ensure ample fund balance is available to keep the urban renewal district on track.

Request for Information

This financial report is designed to provide a general overview of the Madras Redevelopment Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be address to the City of Madras/Madras Redevelopment Commission, Attention: Finance Director, 125 S.E. "E" Street, Madras, Oregon 97741, (541) 475-2344.

The City's website address is [http//www.ci.madras.or.us](http://www.ci.madras.or.us).

BASIC FINANCIAL STATEMENTS

MADRAS REDEVELOPMENT COMMISSION
(Jefferson County, Oregon)

(The Urban Renewal District of the City of Madras, Oregon)
(A Component Unit of the City of Madras, Oregon)

STATEMENT OF NET POSITION

JUNE 30, 2014

ASSETS:	
Cash and cash equivalents	\$ 264,083
Receivables:	
Property taxes	28,832
Notes	199,074
Redevelopment properties	<u>329,698</u>
 Total Assets	 <u>821,687</u>
 LIABILITIES:	
Accounts payable	721
Long-term obligations:	
Due to other governmental agencies	<u>2,390,000</u>
 Total Liabilities	 <u>2,390,721</u>
 NET POSITION:	
Unrestricted	<u>(1,569,035)</u>
 Total Net Position	 <u><u>\$ (1,569,035)</u></u>

See accompanying notes to the basic financial statements.

MADRAS REDEVELOPMENT COMMISSION
(Jefferson County, Oregon)

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STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Community Development	\$ 313,962	\$ -	\$ -	\$ (313,962)
Total Governmental Activities	\$ 313,962	\$ -	\$ -	(313,962)
General Revenues:				
Property taxes levied for general service				325,681
Interest and investment earnings				16,633
Total General Revenues				342,314
Change in Net Position				28,352
Prior Period Adjustment				(133,995)
Net Position - Beginning				(1,463,392)
Net Position - Ending				\$ (1,569,035)

See accompanying notes to the basic financial statements.

MADRAS REDEVELOPMENT COMMISSION
(Jefferson County, Oregon)

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BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2014

	Governmental Fund Types		
	General Fund	Reinvestment Fund	Total Governmental
Current assets			
Cash and investments	\$ 126,128	\$ 137,955	\$ 264,083
Receivables:			
Property taxes	28,832	-	28,832
Notes	-	199,074	199,074
Total current assets	154,960	337,029	491,989
Non-current assets			
Redevelopment properties	329,698	-	329,698
Total Assets	\$ 484,658	\$ 337,029	\$ 821,687
LIABILITIES, DEFERRED INFLOWS AND FUND EQUITY:			
Current liabilities:			
Accounts payable	\$ 721	\$ -	\$ 721
Deferred inflows			
Unearned property taxes	22,442	-	22,442
Unearned project fees	-	199,074	199,074
Total Deferred Inflows	22,442	199,074	221,516
Fund equity:			
Restricted	461,495	137,955	599,450
Total Liabilities and Fund Equity	\$ 484,658	\$ 337,029	\$ 821,687

See accompanying notes to the basic financial statements.

MADRAS REDEVELOPMENT COMMISSION
(Jefferson County, Oregon)

(The Urban Renewal District of the City of Madras, Oregon)
(A Component Unit of the City of Madras, Oregon)

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION

JUNE 30, 2014

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

Fund Balances	\$ 599,450
Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.	
Due to other governmental agencies	(2,390,000)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
Unearned revenue	<u>221,515</u>
Net Position	<u><u>\$ (1,569,035)</u></u>

See accompanying notes to the basic financial statements.

MADRAS REDEVELOPMENT COMMISSION
(Jefferson County, Oregon)

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(A Component Unit of the City of Madras, Oregon)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Reinvestment Fund</u>	<u>Total Governmental</u>
REVENUES:			
Property taxes	\$ 331,164	\$ -	\$ 331,164
Assessments		27,329	27,329
Interest on investments	1,945	11,821	13,766
	<u>333,109</u>	<u>39,150</u>	<u>372,259</u>
EXPENDITURES:			
Current:			
Community development	58,452	-	58,452
Debt service	179,000	-	179,000
	<u>237,452</u>	<u>-</u>	<u>237,452</u>
Excess of Revenues Over (Under)			
Expenditures	<u>95,657</u>	<u>39,150</u>	<u>134,807</u>
OTHER FINANCING SOURCES (USES)			
Special payments - grants and loans	<u>(176,510)</u>	<u>-</u>	<u>(176,510)</u>
	<u>(176,510)</u>	<u>-</u>	<u>(176,510)</u>
Net Change in Fund Balance	(80,853)	39,150	(41,703)
Prior Period Adjustment	(133,995)	-	(133,995)
Beginning Fund Balance	<u>676,343</u>	<u>98,805</u>	<u>775,148</u>
Ending Fund Balance	<u>\$ 461,495</u>	<u>\$ 137,955</u>	<u>\$ 599,450</u>

MADRAS REDEVELOPMENT COMMISSION
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**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2014

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

Net Change in Fund Balance	\$ (41,703)
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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes in liability balances between years.

Long term debt principal payments	100,000
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This adjustment combines the net changes in deferred taxes between years.

Property taxes	(5,483)
Notes receivable	(24,462)
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Change in Net Position	<hr/> <u>\$ 28,352</u>
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**MADRAS REDEVELOPMENT COMMISSION
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NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Madras Redevelopment Commission (the Agency), the Urban Renewal Agency of the City of Madras, Oregon, is the urban renewal agency of and controlled by the City of Madras (the City). The Agency was formed by City Ordinance No. 709 on June 23, 2003 and transferred the power of the Urban Renewal Agency of the City of Madras, Oregon to the Madras Redevelopment Commission pursuant to ORS 457.055. The governing body consists of eight commissioners appointed by the Madras City Council.

Inclusion of the Agency in Madras, Oregon, Annual Financial Report

All significant activities and organizations for which the City exercises oversight responsibility have been included in the City's combined financial statements.

City management has determined the Agency meets the criteria set forth under generally accepted accounting principles requiring reporting as a component unit of the City of Madras. This report is issued solely to meet a State of Oregon, Department of Revenue interpretation of Oregon Revised Statutes that requires a separate audit report.

Agency-wide and Fund Financial Statements

The agency-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the Agency. Governmental activities are supported by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MADRAS REDEVELOPMENT COMMISSION
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NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Basis of Presentation

The agency-wide financial statements are reported using the economic resources measurement focus and the 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The agency-wide financial statements have applied all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental accounting Standards Board (GASB) pronouncements.

When both restricted and unrestricted resources are available for use, it is the policy to use restricted resources first, then unrestricted resources as they are needed.

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. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Significant revenues, which are susceptible to accrual under the modified accrual basis of accounting, include property taxes and federal and state grants. Other revenue items are considered to be measurable and available when received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgment, are recorded only when payment is due.

The following major governmental funds are reported:

The *General Fund* is the primary operation fund. It accounts for all financial resources, except those required to be accounted for in another fund. Principal sources of revenue are property taxes and capital grants. Expenditures are primarily for the redevelopment of blighted areas and construction of public infrastructure assets for the City of Madras.

The *Reinvestment Fund* accounts for receipts from the repayment of redevelopment loans and the resources available for future projects.

**MADRAS REDEVELOPMENT COMMISSION
(Jefferson County, Oregon)**

**(The Urban Renewal District of the City of Madras)
(A Component Unit of the City of Madras)**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Use of 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 affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The bank accounts and investments are merged with the City of Madras, which are maintained in a central pool of cash and investments. The investment policy is to invest in the Local Government Investment Pool (LGIP), U.S. Government Obligations, and interest bearing demand deposits with local banks and to transfer resources to the general checking account as the need arises. This policy is in accordance with ORS 294.035, which specifies the types of investments, authorized for municipal corporations. Earnings on investments are allocated to each fund based on the average monthly balances throughout the year.

Investments in the LGIP are reported at cost, which approximates fair value, and are considered cash equivalents for financial reporting purposes. All other investments are reported at fair value.

Property Taxes and Property Taxes Receivable

Property taxes receivable is recorded to indicate the amount of uncollected taxes that are expected to be received in the future. Such taxes are offset by a liability to indicate that these amounts have been recorded as receipts in the governmental statements. Ad valorem property taxes are levied and become a lien on all taxable property as of July 1. Property taxes are levied on November 15. 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 Jefferson County and remittance is made at periodic intervals.

The State of Oregon imposes a constitutional limit on property taxes for schools and non-school government operations. The limitation provides that property taxes for non-school operations are limited to \$10 for each \$1,000 of property market value. The State further reduced property taxes using a rate and value limit in 1997, and limiting future tax value growth of each property to no more than 3% year, subject to certain exceptions.

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NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Receivables and Payables

Receivables including property taxes, accounts, entitlements, and shared revenues are reported in accordance with the measurement focus previously disclosed.

Activities between funds that are representative of lending and borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to or due from other funds". As of June 30, 2014, there were no activities between funds. Receivables for federal and state grants, and state, county and local shared revenue are recorded as revenue in all funds as earned. The receivables for state, county and local shared revenue are recorded in accounts receivable.

Assessments are recognized as receivables at the time property owners are assessed on property improvements. These assessments are liens on the affected properties. These receivables are offset by deferred revenue in the governmental funds, as assessment revenue is recognized upon collection.

Management has determined that no provision for uncollectible assessments is considered necessary. In the government-wide financial statements, assessment receivables are recognized as revenue when earned.

Investment earnings (e.g., accrued interest receivable) are recorded as revenue in all fund types as earned on investments.

Long-Term Obligations

In the agency-wide financial statements, long-term debt obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the lives of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Equity

The Agency reports fund balance using fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds, using the following classifications:

- Nonspendable fund balance represents amounts that are not in a spendable form.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body. By resolution, the decision-making for assigning amounts are delegated to the Urban Renewal Administrator and the Finance Director.
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.
- There are no nonspendable, committed, unassigned or assigned fund balances.

The governing body has approved the following order of spending regarding fund balance categories: Restricted resources are spent first when both restricted and unrestricted (committed, assigned or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed (if applicable), assigned (if applicable) and unassigned.

Net Position

Net position comprises the various net earnings from operations, non-operating revenues, expenses and contributions of capital. Net position is classified in the following three categories:

Invested in capital assets, net of related debt - consists of all capital assets, net of accumulated depreciation and reduced by any outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Restricted - consists of external constraints placed on asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - consists of all other assets that are not included in the other categories previously mentioned.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

A budget is prepared for each governmental fund type in accordance with the legal requirements set forth in the Oregon Local Budget Law. The budget process begins early in each fiscal year with the establishment of the budget committee. Recommendations are developed through late winter with the budget committee approving the budget in early spring. Public notices of the budget hearing are generally published in early spring with a public hearing being held approximately three weeks later. The budget may be amended prior to adoption. However, budgeted expenditures for each fund may not be increased by more than ten percent. The budget is then adopted, appropriations are made and the tax levy declared no later than June 30.

The expenditure budgets are appropriated at the following levels:

<u>Level of Control</u>	
Materials and Services	Operating Contingency
Capital Outlay	Special Payments
Debt Service	

Expenditures cannot legally exceed the above appropriation levels except in the case of grants which could not be estimated at the time of budget adoption. Appropriations lapse at the fiscal year end. Management may amend line items in the budget without Commissioner approval as long as appropriation levels (the legal level of control) are not changed. Supplemental appropriations may occur if the Commissioners approve them due to a need which exists which was not determined at the time the budget was adopted.

Budget amounts shown in the financial statements reflect the original and final budget amounts. Expenditures in all funds were within authorized appropriations, except for an overexpenditure of Special Payments in the General Fund of \$176,510. MRC Resolution 2014-02 attempted to move funds from Capital Outlay to Special Payments, however the Special Payment category was not an original appropriation and could not be appropriated under Oregon Local Budget Law.

**MADRAS REDEVELOPMENT COMMISSION
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NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 3 - CASH AND INVESTMENTS

State statutes govern the cash management policies. Statutes authorize investing in banker's 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 and Investments

The cash and cash equivalents at June 30, 2014 are shown below:

Carrying amount of deposits	\$ 161,615
Investment in LGIP	<u>102,468</u>
Total cash and cash equivalents	<u><u>\$ 264,083</u></u>

Cash and cash equivalents by fund are as follows:

Governmental activities:	
General	\$ 126,128
Reinvestment	<u>137,955</u>
Total cash and cash equivalents	<u><u>\$ 264,083</u></u>

Deposits

Deposits consist of bank demand deposits. All deposits at June 30, 2014 were covered. The total bank balance per the bank statements for all pooled cash is \$161,615. Of this balance, \$138,949 was covered by Federal Depository Insurance. State statute (ORS 295.002) allows public officials to deposit public funds in one or more depositories currently qualified pursuant to ORS 295.001 to 295.108. As long as the bank depository has entered into an agreement (ORS 295.008(2)(b)) and has deposited securities pursuant to state statutes (ORS 295.015(1)), there now may be on deposit at any one bank depository and its branches, a sum in excess of the amount insured by the Federal Deposit Insurance Corporation. At June 30, 2014, all funds were held in qualified banks.

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of bank failure, the deposits may not be returned. There is no deposit policy for custodial risk. As of June 30, 2014, none of the bank balance was exposed to custodial credit risk because funds were held in qualified banks.

**MADRAS REDEVELOPMENT COMMISSION
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NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 3 - CASH AND INVESTMENTS- continued

Investments

The investment balances at year end were as follows:

	<u>Fair Value</u>	<u>Percent of Investment Portfolio</u>	<u>Rating</u>
Investment type:			
Local Government			
Investment Pool	\$ 102,468	100%	Not Rated

Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the value of the deposit will not be recovered. There is no formal investment policy for custodial credit risk. All of the investments are within the LGIP. Oregon Revised Statutes do not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE.

Concentration of Credit Risk

At June 30, 2014, 100% of total investments were in the Local Government Investment Pool. State statutes do not limit the percentage of investments in this instrument.

NOTE 4 - NOTES RECEIVABLE AND UNEARNED INCOME

Funds are expended to improve and refurbish buildings for the benefit of businesses in the local area through a combination grant and loan program, and notes receivable have been recorded to reflect the amount the property owners will repay under the program. The loan portion of the assistance is payable over a maximum of 120 months. The loans are secured by the improved property and are considered fully collectible.

Governmental funds report deferred inflows representing unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. The government-wide financial statements report deferred inflows only for amounts that have been received, but not earned. At the end of the current fiscal year, the various components of deferred inflows reported in the governmental funds included \$22,442 in unavailable property taxes and \$199,074 of unavailable revenue from notes receivable.

MADRAS REDEVELOPMENT COMMISSION
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NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 5 - REDEVELOPMENT PROPERTIES

Assets are constructed and refurbished for the benefit of the City and businesses in the local area, and any assets constructed or improved are generally property of the benefiting entity. In addition, the Agency purchases property to be refurbished and sold. At June 30, 2014, the redevelopment properties consist of a non-depreciable property purchased to refurbish and sell, in the amount of \$329,698.

Because these properties are considered to be investments, they are reported at fair value; increases and decreases in the property's estimated value are reported as unrealized gain or loss on investments.

NOTE 6 - LONG TERM DEBT

During fiscal year 2011-12, a \$2,500,000 bond anticipation line of credit was paid off using proceeds from an advance from the City of Madras. The advance was the direct result of a new bond issuance by the City specifically meant to refinance the Agency's bond anticipation line of credit. The terms of the advance from the City of Madras match the related bond issuance, with interest at 63.5% of the BBA Libor Daily floating Rate plus 2.6% with a 3.076% floor.

Changes in long-term obligations for the fiscal year ended June 30, 2014, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Due to other governmental agencies	<u>\$ 2,490,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 2,390,000</u>	<u>\$ 100,000</u>

Future payments are as follows:

<u>Due in</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 100,000	\$ 77,000	\$ 177,000
2016	105,000	75,900	180,900
2017	105,000	73,800	178,800
2018	110,000	71,700	181,700
2019	110,000	68,950	178,950
2020-2024	625,000	283,500	908,500
2025-2029	725,000	167,125	892,125
2030-2033	<u>510,000</u>	<u>36,050</u>	<u>546,050</u>
Total	<u>\$ 2,390,000</u>	<u>\$ 854,025</u>	<u>\$ 3,244,025</u>

**MADRAS REDEVELOPMENT COMMISSION
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NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 7 - RISK MANAGEMENT

There is exposure to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; and natural disasters for which the Agency carries commercial insurance coverage in the name of the City. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage for the past three years.

NOTE 8 - RELATED PARTY ACTIVITY

The Agency provides funds to local businesses to improve and refurbish properties in the Urban Renewal District through a combination of grants and loans. During fiscal year 2009-10, one of the Agency's Commissioners was awarded \$57,425, which consisted of a 50% grant and 50% loan payable to the Agency. The outstanding loan balance at year end was \$13,749, and is payable in monthly installments through January 2020. This award was consistent with the Agency's policy and was discussed and approved during a monthly public meeting of the Urban Renewal District. The commissioner did not participate in the deliberation or vote.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Agency entered into an agreement with the developer of Madras Cinema to pay a sum not to exceed \$500,000 to assist with development costs. The agreement provides that the cinema must be operated a minimum of four days per week, year round. The Agency made the third payment during this fiscal year, and remains committed for two more annual payments totaling \$200,000 while Madras Cinema continues to operate as agreed.

NOTE 10 - PRIOR PERIOD ADJUSTMENT

Redevelopment properties held for sale must be recorded at fair value under generally accepted accounting principles. The lots currently held for sale were purchased prior to the 2008 recession, when real estate market values declined sharply in Central Oregon. The current market value of these properties was less than cost. Accordingly, a prior period adjustment has been recorded reflecting this decrease in value which took place in fiscal year 2008-09. The amount of the adjustment was \$133,995.

REQUIRED SUPPLEMENTARY INFORMATION

MADRAS REDEVELOPMENT COMMISSION
(Jefferson County, Oregon)

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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ACTUAL AND BUDGET
GENERAL FUND

YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES:				
Property taxes	\$ 349,000	\$ 349,000	\$ 331,164	\$ (17,836)
Interest on investments	500	500	1,945	1,445
Total Revenues	349,500	349,500	333,109	(16,391)
EXPENDITURES:				
Current:				
Materials and services	55,600	62,600	58,452	(4,148)
Capital outlay	184,500	185,000	-	(185,000)
Debt service	179,000	179,500	179,000	(500)
Contingency	10,000	2,000	-	(2,000)
Total Expenditures	429,100	429,100	237,452	(191,648)
Excess of Revenues Over (Under)				
Expenditures	(79,600)	(79,600)	95,657	175,257
OTHER FINANCING SOURCES (USES)				
Intergovernmental revenues				
Special payments - grants and loans	-	-	(176,510)	(176,510)
Total Other Financing Sources (Uses)	-	-	(176,510)	(176,510)
Net Change in Fund Balance	(79,600)	(79,600)	(80,853)	(1,253)
Prior Period Adjustment	-	-	(133,995)	(133,995)
Beginning Fund Balance	192,067	192,067	676,343	484,276
Ending Fund Balance	\$ 112,467	\$ 112,467	\$ 461,495	\$ 349,028

MADRAS REDEVELOPMENT COMMISSION
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ACTUAL AND BUDGET
REINVESTMENT FUND

YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES:				
Assessments	\$ 27,000	\$ 27,000	\$ 27,329	\$ 329
Interest on investments	-	-	11,821	11,821
Total Revenues	<u>27,000</u>	<u>27,000</u>	<u>39,150</u>	<u>12,150</u>
Net Change in Fund Balance	27,000	27,000	39,150	12,150
Beginning Fund Balance	<u>73,493</u>	<u>73,493</u>	<u>98,805</u>	<u>25,312</u>
Ending Fund Balance	<u><u>\$ 100,493</u></u>	<u><u>\$ 100,493</u></u>	<u><u>\$ 137,955</u></u>	<u><u>\$ 37,462</u></u>

SUPPLEMENTARY INFORMATION

MADRAS REDEVELOPMENT COMMISSION
(Jefferson County, Oregon)

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**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED
GENERAL FUND**

YEAR ENDED JUNE 30, 2014

Tax Year	Original Levy or Balance Uncollected at July 1, 2013	Deduct Discounts	Adjustment to Rolls	Interest	Cash Collections by County Treasurer	Balance Uncollected or Unsegregated at June 30, 2014
Current:						
2013-14	\$ 331,526	\$ 8,268	\$ 305	\$ 166	\$ 311,272	\$ 11,847
Prior Years:						
2012-13	15,596	-	33	491	8,230	7,824
2011-12	9,541	-	12	605	4,738	5,396
2010-11	6,453	-	12	742	4,008	3,175
2009-10	2,522	-	11	651	2,971	191
2008-09	241	-	14	35	123	139
2007-08	111	-	12	5	13	91
2006-07 & Prior	183	-	13	1	2	169
Total Prior	34,647	-	107	2,530	20,085	16,985
Total	\$ 366,173	\$ 8,268	\$ 412	\$ 2,696	\$ 331,357	\$ 28,832

Reconciliation to Revenue:

Cash collections by County Treasurer above	\$ 331,357
June 30, 2013 accrual	(6,582)
June 30, 2014 accrual	6,389
Total Revenue	<u>\$ 331,164</u>

**INDEPENDENT AUDITORS' REPORT REQUIRED
BY OREGON STATE REGULATIONS**



**INDEPENDENT AUDITORS' REPORT REQUIRED
BY OREGON STATE REGULATIONS**

We have audited the restated basic financial statements of the Madras Redevelopment Commission as of and for the year ended June 30, 2014 and have issued our report thereon dated November 7, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295)**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

In connection with our testing nothing came to our attention that caused us to believe the Madras Redevelopment Commission was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except as follows:

1. Expenditures of all the various funds were within authorized appropriations, except as described in Note 2 in the notes to the financial statements.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered 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 the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

This report is intended solely for the information and use of the Commissioners, management, the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

SGA CPAs & Consultants, LLP

SGA CPAs & Consultants, LLP

November 7, 2014