

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

FINANCIAL REPORT
-RESTATED-

FOR THE YEAR ENDED JUNE 30, 2012



12700 SW 72nd Ave.
Tigard, OR 97223

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

For the Year Ended June 30, 2012, Restated

ANNUAL FINANCIAL REPORT

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CITY OF MADRAS
JEFFERSON COUNTY, OREGON

City Council as of June 30, 2012

<u>NAME</u>	<u>TERM EXPIRES</u>
Melanie Widmer, Mayor	December 31, 2012
Richard Ladeby	December 31, 2014
Jon Young	December 31, 2014
Jim Leach	December 31, 2014
Royce W. Embanks, Jr.	December 31, 2012
Tom Brown	December 31, 2012
Kevin O'Meara	December 31, 2012

CITY ADMINISTRATOR

Gus Burrell

FINANCE DIRECTOR

Brandie McNamee

All council members receive mail at the address listed below:

125 SW E Street
Madras, Oregon 97741

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JEFFERSON COUNTY, OREGON
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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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February 21, 2014

To the Honorable Mayor and
Members of the City Council
Madras, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Madras, Oregon, as of and for the year ended June 30, 2012 which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the City of Madras, Oregon, as of June 30, 2011, were audited by other auditors whose report dated December 12, 2011 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 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 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 basic financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of the City of Madras, Oregon, at June 30, 2012, and the respective changes in financial position, and where applicable, the cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

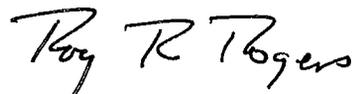
As discussed in Note 17 to the financial statements, the June 30, 2012 financial statements have been restated to correct misstatements. The previously issued auditors' report dated December 11, 2012 is not to be relied on because the previously issued financial statements were materially misstated. The previously issued auditors' report is replaced by this report.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 21, 2014 on our consideration of internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and do not provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information, as listed in the table of contents, 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 Management's Discussion and Analysis and the Schedule of Funding Progress, as listed in the table of contents, 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 Management's Discussion and Analysis and the Schedule of Funding Progress, as listed in the table of contents, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedules presented as Required Supplemental Information, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplementary information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The supplementary information, as listed in the table of contents, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The listing of city council members containing their term expiration dates, located before the table of contents, and the other information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financials statements, and accordingly, we do not express an opinion or provide any assurance on it.



Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Madras (City), we offer readers this discussion and analysis of the City's financial performance for the fiscal year ended June 30, 2012 (RESTATEd). The report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standard Board (GASB). This report should be read in conjunction with the basic financial statements and notes to the financial statements.

The June 30, 2012 financial statements originally issued in December, 2012, have been restated to correct misstatements. Refer to Note 17 of the Basic Financial Statements for further information.

FINANCIAL HIGHLIGHTS

- The City's total net assets (restated) increased \$1.7 million over the course of the fiscal year from \$40.9 million for year-end 2011, to \$42.6 million (restated) in fiscal year ended 2012. This is the result of a 3.1% increase in the governmental net assets and a 4.8% increase in the business-type net assets.
- Total capital assets for business-type activities increased \$1.4 million in 2012. Capital assets for governmental activities increased approximately \$2.0 million. Increases are primarily due to construction on various projects, including a new Police Station / City Hall facility.
- The City recognized \$1.4 million in property tax revenue in 2012, an 8.0% decrease from the previous year. Property tax revenues consist of \$1.0 million in the General Fund property taxes and \$0.4 million related to the Redevelopment Commission.
- As of the end of the fiscal year, total governmental funds had an ending fund balance (restated) of \$2.2 million, a decrease of \$0.1 million from the prior year's fund balance of \$2.3 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's financial statements are comprised of: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide the reader with a broad overview of the City's finances and are made up of the following two statements: the *Statement of Net Assets* and the *Statement of Activities*. Both of these statements are 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 Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change 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 taxes and earned, but unused compensated absents).

Both of the government-wide financial statements differentiate functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include the general fund (public safety), transportation, redevelopment commission, system development charges, parks and tourism/economic development. The business-type activities (*proprietary fund type*) of the City include the water, wastewater, and airport operations. The government-wide financial statements include not only the City but the legally separated *Madras Redevelopment Commission* (an independent Urban Renewal District) of the City of Madras for which the City is financially accountable.

Measurement focus and basis of accounting

Governmental financial reporting is characterized as having two distinct objectives for its financial reporting. These objectives are categorized as governmental activities which are supported by levying taxes and business-type (proprietary) activities which are supported by charges for services. The measurement focus for each of these activities are uniquely different, both the governmental-wide financial statements and the business-type activities focus on the changes in economic resources similar to private-sector businesses. The objective of the proprietary fund operating statement is to answer the question, *“What transactions and events have incurred that increase or decrease the fund’s total economic resources during the period?”* Therefore, both the Governmental-wide and the proprietary funds financial statements are based on full accrual accounting.

Accrual accounting measures the effects of transactions, events, and interfund activities when they occur, regardless of the timing of the related cash flows. The measurement focus for governmental funds however, is to view 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?”*

Governmental funds use modified accrual accounting in which revenues are not recognized until they are measurable and available, and expenditures are recognized in the period in which governments in general normally liquidate the related liability rather than when the liability is first incurred.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or functions. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City’s funds can be divided into two categories: governmental funds and proprietary funds. Fund financial statements focus on individual parts of the City’s government, reporting the City’s operations in more detail than the government-wide statements.

- **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. These statements tell how governmental services such as the general fund (police department), transportation operations fund, and the Redevelopment Commission General Fund were financed in the short term as well as what remains for future spending. Unlike the government-wide financial statements, 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 financial statements are followed by a reconciliation that explains the relationship or differences between governmental funds and the governmental-wide financial statements.

The City maintains thirteen individual governmental funds. Of these individual funds, the City considers three funds to be *major governmental funds*. These three major governmental funds - represented individually in the balance sheet and the statement of revenues expenditures, and change in fund balances, consists of the General Fund, Transportation Operations Fund, and the Redevelopment Commission General Fund (i.e. Urban Renewal District). The remaining ten funds are considered non-major governmental funds and are combined in a single, aggregated presentation.

As part of required supplementary information, budgetary comparison statements are presented for the reader's information. These statements compare the original adopted budget along with the final adjusted budget to the year-end actual activities.

- **Proprietary Funds** are similar to business-type activities which utilize full accrual accounting. The City maintains two different types of proprietary funds consisting of the *enterprise funds* and the *internal service funds*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for the City's Water, Wastewater and Airport operations. Internal Service Funds are an accounting device used to accumulate the allocate costs internally among the City's various functions (departments). The City uses internal service funds to allocate costs associated with administrative services, public works staff, buildings, and fleet services. These costs are considered to be indirect overhead costs that cannot be directly associated with an individual function. Therefore, these costs are allocated to other functions in a systematic method. Because these services predominantly benefit governmental activities rather than business-type functions, they are included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater and Airport operations. The Internal Service fund is shown as a separate fund in the proprietary fund financial statement.

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 fund financial statements. The notes to the basic financial statements can be found beginning on page 18 of this report.

In addition to the basic financial statements and the accompanying notes, additional pertinent information for the reader, referred to as *Required Supplementary Information* (RSI). The RSI can be found in this report following the notes to the basic financial statements. This section shows budgetary to actual financial results for the major and non-major funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) for the City's governmental and business-type activities.

The City's net assets are made up of three components and consist of: invested in capital, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets are subject to constraints that are either externally imposed by outside agencies, for example banks or grant agencies, or imposed by law through constitutional provisions or enabling legislation. The capital assets reflected within (Table 1) are stated net of accumulated depreciation.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Madras, combined net assets (restated) for fiscal year ended June 30, 2012 totaled \$42.6 million, an increase of \$1.7 million from June 30, 2011.

Table 1
CITY OF MADRAS
STATEMENT OF NET ASSETS (RESTATED)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 4,088,872	\$ 5,224,345	\$ 2,715,111	\$ 3,721,242	\$ 6,803,983	\$ 8,945,587
Capital assets	18,954,504	16,933,685	36,566,368	35,124,034	55,520,872	52,057,719
Total Assets	23,043,376	22,158,030	39,281,479	38,845,276	62,324,855	61,003,306
Liabilities:						
Current liabilities	861,253	471,201	464,483	907,233	1,325,736	1,378,434
Non-current liabilities	6,143,527	6,202,267	12,207,250	12,471,763	18,350,777	18,674,030
Total Liabilities	7,004,780	6,673,468	12,671,733	13,378,996	19,676,513	20,052,464
Net assets:						
Invested in capital assets, net of related debt	15,660,870	12,465,810	24,409,168	22,652,271	40,070,038	35,118,081
Restricted	3,245,111	962,262	1,613,516	2,386,719	4,858,627	3,348,981
Unrestricted	(2,867,385)	2,056,490	587,062	427,290	(2,280,323)	2,483,780
Total Net Assets, Restated	\$ 16,038,596	\$ 15,484,562	\$ 26,609,746	\$ 25,466,280	\$ 42,648,342	\$ 40,950,842

The largest component of the City's \$42.6 million net assets balance is investments in capital assets (e.g., land, buildings, improvements, equipment, infrastructure and construction in progress) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets are calculated by reducing the carrying value of restricted assets by amounts repayable from those assets, excluding capital-related debt. The restricted net assets represent resources subject to restrictions imposed either by external creditors or imposed by law through constitutional provisions or enabling legislation. During the fiscal year, total restricted net assets increased \$1.5 million (44.8%).

Change in Net Assets

The analysis below focuses on the change in net assets (Table 2) of the City's governmental and business-type activities.

Table 2
CITY OF MADRAS
CHANGE IN NET ASSETS (RESTATED)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue:						
Program Revenues:						
Charges for services	\$1,068,729	\$283,428	\$3,101,223	\$2,576,362	\$4,169,952	\$2,859,790
Operating grants and contributions	439,959	797,774	--	--	439,959	797,774
Capital grants and contributions	--	741,851	1,846,072	451,039	1,846,072	1,192,890
General Revenues:						
Property taxes	1,415,811	1,449,410	--	89,691	1,415,811	1,539,101
Franchise and public services tax	839,970	1,021,038	--	--	839,970	1,021,038
Investment earnings and other	51,066	123,775	45,264	21,600	96,330	145,375
Total Revenues	3,815,535	4,417,276	4,992,559	3,138,692	8,808,094	7,555,968
Expenses:						
General services	202,693	22,448	--	--	202,693	22,448
Parks	192,219	285,876	--	--	192,219	285,876
Community development	574,630	901,799	--	--	574,630	901,799
Public safety	1,766,519	1,493,591	--	--	1,766,519	1,493,591
Highway and streets	536,984	729,475	--	--	536,984	729,475
Interest on long-term obligations	62,037	146,402	--	--	62,037	146,402
Enterprise operations	--	--	3,775,512	3,562,507	3,775,512	3,562,507
Total Expenses	3,335,082	3,579,591	3,775,512	3,562,507	7,110,594	7,142,098
Change in Net Assets	480,453	837,685	1,217,047	(423,815)	1,697,500	413,870
Net assets - beginning of year	13,052,370	12,214,680	25,621,874	26,045,688	38,674,244	38,260,374
Prior Period Adjustment	2,432,191	--	(103,361)	--	181,423	--
Reconciliation to move Debt Service Fund and Debt Reserve Fund from Proprietary to Governmental	73,582	--	(73,582)	--	--	--
Net assets - end of year, restated	\$16,038,596	\$13,052,370	\$26,609,746	\$25,621,874	\$42,648,342	\$38,674,244

Governmental Activities:

Governmental activities represent 37.6% of the City's total net assets. The governmental activities net assets (restated) increased by \$0.5 million in 2012. Total revenues from governmental activities for fiscal year 2012 decreased by \$0.6 million, primarily due to decreases in operating and capital grants, as well as franchise and public services tax revenue, offset by an increase in charges for services.

In the current year, property tax revenue decreased from the prior fiscal year. Depreciating property values and other economic concerns caused by the recession continue to inhibit growth in property taxes.

Business-Type Activities:

Business-type activities represent 62.4% of the City's total net assets. These business-type activities consist of the Water, Wastewater and Airport operations and capital projects. In fiscal year end 2012, net assets (restated) increased \$1.2 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Below, (Table 3) shows the governmental funds balances for the two fiscal years ending June 30, 2012 and June 30, 2011. *Governmental funds* are divided into two categories consisting of major and non-major funds. During fiscal year end 2012, three funds were classified as major governmental funds: the General fund; Transportation Operations fund; and the Redevelopment Commission General Fund. All other funds were classified as non-major funds. A major fund is any individual fund that meets the criteria of the following combined two tests. A fund is classified as a major fund if the corresponding total revenues, expenses or (expenditures), assets or liability for all funds of that category or type (governmental or business-type) are at least 10 percent of total, aggregate governmental and business-type for all funds and at least 5 percent of the total aggregate for all funds, governmental and business-type combined.

Table 3
CITY OF MADRAS
SUMMARY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (RESTATED)
GOVERNMENTAL FUNDS

Fiscal Year 2011-2012	General Fund	Transportation Operations Fund	Redevelopment Commission General Fund	Other Governmental Funds	Total
Total revenues	\$2,035,142	\$1,193,691	\$371,701	\$284,156	\$3,884,690
Total expenditures	<u>2,019,782</u>	<u>1,116,483</u>	<u>2,686,317</u>	<u>538,015</u>	<u>6,360,597</u>
Revenues over/(under) expenditures	15,360	77,208	(2,314,616)	(253,859)	(2,475,907)
Total other financing sources/(uses)	<u>(22,511)</u>	<u>(122,000)</u>	<u>(305,258)</u>	<u>2,859,511</u>	<u>2,409,742</u>
Net change in fund balance	(7,151)	(44,792)	(2,619,874)	2,605,652	(66,165)
Fund balance - beginning	777,834	271,971	323,890	345,831	1,719,526
Prior period adjustment	--	--	463,691	--	463,691
Reconciliation to move Debt Service Fund and Debt Reserve Fund from Proprietary to Governmental	<u>--</u>	<u>--</u>	<u>--</u>	<u>73,582</u>	<u>73,582</u>
Fund balance (deficit) – Ending, restated	<u>\$770,683</u>	<u>\$227,179</u>	<u>\$(1,832,293)</u>	<u>\$3,025,065</u>	<u>\$2,190,634</u>
Fiscal Year 2010-2011	General Fund	Transportation Operations Fund	Redevelopment Commission General Fund	Other Governmental Funds	Total
Total revenues	<u>\$2,272,329</u>	<u>\$1,271,796</u>	<u>\$354,089</u>	<u>\$486,478</u>	<u>\$4,384,692</u>
Total expenditures	<u>2,087,171</u>	<u>1,232,503</u>	<u>378,217</u>	<u>557,862</u>	<u>4,255,753</u>
Revenues over/(under) expenditures	<u>185,158</u>	<u>39,293</u>	<u>(24,128)</u>	<u>(71,384)</u>	<u>128,939</u>
Total other financing sources/(uses)	<u>(64,696)</u>	<u>132,398</u>	<u>28,000</u>	<u>(15,701)</u>	<u>80,000</u>
Net change in fund balance	120,462	171,691	3,872	(87,085)	208,939
Fund balance - beginning	<u>657,372</u>	<u>100,280</u>	<u>320,018</u>	<u>432,916</u>	<u>1,510,587</u>
Fund balance - ending	<u>\$777,834</u>	<u>\$271,971</u>	<u>\$323,890</u>	<u>\$345,831</u>	<u>\$1,719,526</u>

As of fiscal year ended 2011, the City's governmental funds reported a combined, restated ending fund balance of \$2.26 million. For the current fiscal year, the ending fund balance (restated) for the General Fund decreased slightly and the net change in fund balance for Total Governmental Funds was insignificant. A decrease in revenues was offset by a decrease in expenditures. Also, total expenditures in the Redevelopment Commission General Fund increased due to repayment of a bond anticipation line of credit, which was offset by the corresponding issuance of Wastewater revenue bonds in the Other Governmental Funds.

GENERAL FUND BUDGET HIGHLIGHTS

The City adopted the operating budget for the fiscal year 2011-12 budget on June 26, 2011 in the amount of \$17,889,930. The General Fund budgetary comparison can be found on page 43. Other major governmental funds budgetary comparison can be found on pages 44 through 47.

CAPITAL ASSETS

The Capital assets of the City are those assets that are used in the performance of the City's functions including infrastructures assets. Capital Assets include buildings, equipment, land, park facilities, roads, and construction in progress. Both land owned by the City for its own use and acquired land designated for resale are considered non-depreciable assets based on generally accepted accounting principles.

Construction in progress represents capital projects that are incomplete at the end of the fiscal year. Because these projects are incomplete they are classified under non-depreciable assets. During the current fiscal year, construction-in-process increased \$2.3 million and decreased \$0.3 million for governmental and business-type activities respectively. (See table 4 for more detail).

Table 4
CITY OF MADRAS

CAPITAL ASSETS (net of depreciation) (RESTATED)						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Non-depreciable assets:						
Land	\$2,956,465	\$2,956,465	\$1,727,177	\$1,404,544	\$4,683,642	\$4,361,009
Construction in progress	2,673,941	392,955	43,163	385,547	2,717,104	778,502
Total non-depreciable assets	5,630,406	3,349,420	1,770,340	1,790,091	7,400,746	5,139,511
Capital assets being depreciated:						
Land improvements	364,150	263,735	121,700	126,126	485,850	389,861
Building and improvements	2,409,903	2,505,085	4,387,624	4,473,746	6,797,527	6,978,831
Equipment	649,777	740,071	468,310	599,800	1,118,087	1,339,871
Infrastructure	9,900,268	10,075,374	29,818,394	28,134,272	39,718,662	38,209,646
Total depreciable assets, net	13,324,098	13,584,265	34,796,028	33,333,944	48,120,126	46,918,209
Total capital assets	\$18,954,504	\$16,933,685	\$36,566,368	\$35,124,035	\$55,520,872	\$52,057,720

During the current fiscal year, total capital assets for the City of Madras, net of depreciation, increased \$3.5 million or approximately 6.7%. This consists of an increase of \$2.0 million (11.9%) for governmental activities and a \$1.4 million (4.1%) increase for business-type activities.

Governmental Activities:

For governmental activities, the increase in capital assets during the fiscal year is primarily due to the following construction projects:

- Completion of the Central Oregon Community college Trail Extension Project in conjunction with a grant from Jefferson County.
- Completion of the madras Bike and Pedestrial Trail – U.S. 97 to Highway 361 Project.
- Additional improvements to the B Street Pedestrian Implementation project.
- Upgrade to the Police Department’s radio equipment through the Homeland Security Grant Program.
- Street improvements to Mazatlan Road, Airport Service Road to the AWOS system, road grading to the Youth Fishing Pond, asphalt grindings to alleys and streets for gravel road

Business-Type Activities:

For business-type activities, the increase in capital assets during the fiscal year is primarily due to the following construction projects:

- Airport Operational Safety Improvements sponsored by Oregon Department of Transportation's ConnectOregon III program and the Federal Aviation Administration.
- Heavy Aircraft Taxiway Improvements and Runway Restriping
- Completion of a storage facility for the Southwest Wastewater Treatment Plant.

DEBT ADMINISTRATION

The table below (Table 5) shows the City's combined total outstanding debt for fiscal years ending June 30, 2012 and 2011. For more information regarding the City's outstanding debt please refer to the Note 5 to the Basic Financial Statements located on pages 27 through 32 of this report.

Table 5
CITY OF MADRAS
OUTSTANDING DEBT

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Bond Anticipation Note	\$ --	\$2,500,000	\$ --	\$ --	\$ --	\$2,500,000
Bonds	4,335,000	1,775,000	7,797,012	8,027,882	12,132,012	9,802,882
Loans and Notes	1,543,634	1,655,764	4,360,189	4,443,881	5,903,823	6,099,645
OPEB Liability	150,931	121,287	--	--	150,931	121,287
Total outstanding debt	<u>\$6,029,565</u>	<u>\$6,052,051</u>	<u>\$12,157,200</u>	<u>\$12,471,763</u>	<u>\$18,186,765</u>	<u>\$18,523,814</u>

A \$2.5 million bond anticipation note held by the Redevelopment Commission at June 30, 2011 was repaid in the current fiscal year with the issuance of Wastewater revenue bonds that are held in the Debt Service Fund, which is reported with the Other Governmental Funds.

During fiscal year 2011, Other Post Employment Benefits (OPEB) liability increased from \$121,287 in 2011 to \$150,931 in 2012. For more information on the explanation and calculation of the OPEB liability please see page 33 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of Madras economic outlook for fiscal Year 2012-13 includes the following factors to consider.

Economic Development considerations:

- Building permits for new dwelling units are trending up according to the Community Development Department.
- The 509J School District passed a general obligation bond measure in the spring of 2012 that includes building a new performance center (auditorium), and rebuilding the football stadium and track.
- The City has authorized a lease assignment to Aero Air, LLC to take over assets and lease for fire suppression activities. Aero Air intends to add approximately 35 jobs to the Madras area.
- The Oregon Department of Correction's Deer Ridge Facility intends to open a medium security unit as early as the summer of 2013.

Other budget factors include:

- The City has implemented a 16% increase in the sewer rates effective October 1, 2012. A financial consultant was hired to evaluate the current debt situation within the Wastewater Operations and Wastewater System Development Funds and concluded that refinancing and restructuring was indeed possible to lessen future rate increases upon rate payers. The City Council approved refinancing and restructuring the debt in 2012. The bond sale is scheduled for January 2013. This action is anticipated to limit rate increases in 2013-14.
- Property taxes declined from Fiscal Year 2011 to 2012. In discussions with the Tax Assessor, there is not any guidance for increasing or decreasing revenues from this projection for Fiscal year 2012-13.
- The City will continue with construction of a new Police Station/City Hall and intends to move in to the new facility in January 2013. The old facility will be demolished as required as part of a FEMA grant in deed restricting the property to open space and/or parking lot.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Madras's finances for all those with an interest in the government's finances. Madras Redevelopment Commission has issued a separate report, which is available to those who are interested. Questions concerning any of the information provided in this report or requests for additional financial information should be address to the City of Madras, Attention: Finance Director, 125 S.E. "E" Street, Madras, Oregon 97741, (541) 475-2344, or visit the City's website at www.ci.madras.or.us.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON
BASIC FINANCIAL STATEMENTS

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CITY OF MADRAS
JEFFERSON COUNTY, OREGON

STATEMENT OF NET ASSETS
June 30, 2012 (RESTATED)

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 3,466,559	\$ 163,750	\$ 3,630,309
Receivables:			
Accounts, Net	441,721	270,920	712,641
Property Taxes	155,606	-	155,606
Notes Receivable	247,629	-	247,629
Internal Balances	(1,148,740)	1,148,740	-
Prepaid Expenses	5,428	-	5,428
Inventories	-	38,630	38,630
Restricted Cash and Investments	384,609	1,093,071	1,477,680
Total Current Assets	3,552,812	2,715,111	6,267,923
Noncurrent Assets:			
Bond Issue Costs	72,369	-	72,369
Redevelopment Properties	463,691	-	463,691
Capital Assets:			
Land	2,956,465	1,727,177	4,683,642
Construction in Progress	2,673,941	43,163	2,717,104
Depreciable Assets, Net	13,324,098	34,796,028	48,120,126
Total Noncurrent Assets	19,490,564	36,566,368	56,056,932
Total Assets	23,043,376	39,281,479	62,324,855
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Expenses	514,743	68,349	583,092
Payroll Liabilities	39,034	-	39,034
Deposits	30,600	48,080	78,680
Unearned Revenue	21,810	40,336	62,146
Long-term Debt, Due Within One Year	255,066	402,718	657,784
Total Current Liabilities	861,253	559,483	1,420,736
Noncurrent Liabilities:			
Accrued Compensated Absences	156,105	-	156,105
Other Post-employment Benefits	150,931	-	150,931
Litigation	175,000	-	175,000
Accrued Interest Payable	37,923	357,768	395,691
Long-term Debt, Due After One Year	5,623,568	11,754,482	17,378,050
Total Noncurrent Liabilities	6,143,527	12,112,250	18,255,777
Total Liabilities	7,004,780	12,671,733	19,676,513
Net Assets:			
Invested in Capital Assets Net of Related Debt	15,660,870	24,409,168	40,070,038
Restricted for:			
Highways and Streets	221,819	-	221,819
Community Development	12,782	-	12,782
Improvement Fees	311,080	-	311,080
System Development	36,692	957,514	994,206
Debt Service	2,662,738	656,002	3,318,740
Unrestricted	(2,867,385)	587,062	(2,280,323)
Total Net Assets, Restated	\$ 16,038,596	\$ 26,609,746	\$ 42,648,342

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

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012 (RESTATED)**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 202,693	\$ 219,718	\$ 139,175	\$ -
Parks	192,219	69,942	-	-
Community Development	574,630	88,845	-	-
Public Safety	1,766,519	193,091	2,520	-
Highways and Streets	536,984	497,133	298,264	-
Interest Expense on Long-Term Debt	62,037	-	-	-
Total Governmental Activities	<u>3,335,082</u>	<u>1,068,729</u>	<u>439,959</u>	<u>-</u>
Business-Type Activities				
Water	456,458	467,832	-	-
Wastewater	2,700,892	2,153,118	-	19,688
Airport	618,162	480,273	-	1,826,384
Total Business-Type Activities	<u>3,775,512</u>	<u>3,101,223</u>	<u>-</u>	<u>1,846,072</u>
Total Primary Government	<u>\$ 7,110,594</u>	<u>\$ 4,169,952</u>	<u>\$ 439,959</u>	<u>\$ 1,846,072</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

 Franchise and Public Services Taxes

 Interest and Investment Earnings

 Miscellaneous

Total General revenues, Special Items and Transfers

Change in Net Assets

Prior Period Adjustment

Net Assets - Beginning

Reconciliation to move Debt Service Fund and Debt
Reserve Fund from Proprietary to Governmental

Net Assets - Ending, Restated

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

**Net (Expense) Revenue and
Changes in Net Assets**

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ 156,200	\$ -	\$ 156,200
(122,277)	-	(122,277)
(485,785)	-	(485,785)
(1,570,908)	-	(1,570,908)
258,413	-	258,413
(62,037)	-	(62,037)
(1,826,394)	-	(1,826,394)
-	11,374	11,374
-	(528,086)	(528,086)
-	1,688,495	1,688,495
-	1,171,783	1,171,783
(1,826,394)	1,171,783	(654,611)
950,174	-	950,174
465,637	-	465,637
839,970	-	839,970
10,218	5,939	16,157
40,848	39,325	80,173
2,306,847	45,264	2,352,111
480,453	1,217,047	1,697,500
2,432,191	(155,593)	2,276,598
13,052,370	25,621,874	38,674,244
73,582	(73,582)	-
\$ 16,038,596	\$ 26,609,746	\$ 42,648,342

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

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012 (RESTATED)**

	GENERAL FUND	TRANSPORTATION OPERATIONS FUND	REDEVELOPMENT COMMISSION GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash and Cash Equivalents	\$ 536,574	\$ -	\$ 284,433	\$ 185,676	\$ 1,006,683
Restricted Cash and Cash Equivalents	-	24,055	-	360,554	384,609
Receivables:					
Property Taxes	108,897	-	36,936	9,773	155,606
Accounts	118,687	253,920	-	16,079	388,686
Notes	-	-	-	247,629	247,629
Due from other funds	146,341	-	-	2,585,000	2,731,341
Prepaid Expenses	-	5,360	-	-	5,360
Redevelopment Properties	-	-	463,691	-	463,691
Total Assets	\$ 910,499	\$ 283,335	\$ 785,060	\$ 3,404,711	\$ 5,383,605
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 18,112	\$ 51,557	\$ 3,185	\$ 1,802	\$ 74,656
Payroll Liabilities	15,714	-	-	2,135	17,849
Deposits	16,600	-	-	14,000	30,600
Deferred Revenue	89,390	4,599	29,168	256,545	379,702
Due to Other Funds	-	-	2,585,000	105,164	2,690,164
Total Liabilities	139,816	56,156	2,617,353	379,646	3,192,971
Fund Balances:					
Nonspendable	-	5,360	463,691	-	469,051
Restricted	-	221,819	-	3,023,292	3,245,111
Committed	-	-	-	12,989	12,989
Assigned	71,201	-	-	25,552	96,753
Unassigned	699,482	-	(2,295,984)	(36,768)	(1,633,270)
Total Fund Balances, Restated	770,683	227,179	(1,832,293)	3,025,065	2,190,634
Total Liabilities and Fund Balances, Restated	\$ 910,499	\$ 283,335	\$ 785,060	\$ 3,404,711	\$ 5,383,605

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

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS
June 30, 2012 (RESTATED)**

Total Fund Balances, Restated		\$ 2,190,634
<p>Capital assets are not financial resources and thus are not reported in governmental funds, but are reported in the Statement of Net Assets at their net depreciable value.</p>		
Capital assets	\$ 22,450,831	
Less accumulated depreciation	<u>(3,496,327)</u>	18,954,504
<p>Other Long-Term Assets are not available to pay for current period expenditures and, therefore are deferred in the fund statements</p>		
		319,998
<p>A portion of the City's property taxes are collected after year-end but are not available soon enough to pay for the current years' operations, and therefore are not reported as revenue in the governmental funds</p>		
Property tax deferred		125,757
<p>All liabilities are reported in the Statement of Net Assets whereas in governmental funds, liabilities not due and payable in the current period are not reported.</p>		
Accrued interest payable	(37,923)	
Other Post-employment benefits liability	(150,931)	
Accrued compensated absences	(156,105)	
Litigation	(175,000)	
Long-term debt	<u>(5,878,634)</u>	
Total liabilities not due and payable in current period		(6,398,593)
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are classified as governmental activities in the Statement of Net Assets. The below adjustments are for short-term items which were not already accounted for in the adjustments made above.</p>		
Cash and cash equivalents	2,459,876	
Receivables	53,035	
Prepaid Expenditures	68	
Accounts payable and accrued expenses	(603,469)	
Payroll Liabilities	(21,185)	
Unearned revenue	(15,494)	
Internal Balances	<u>(1,026,535)</u>	
Total internal service funds		<u>846,296</u>
Total Net Assets, Restated		<u><u>\$ 16,038,596</u></u>

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

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012 (RESTATED)**

	GENERAL FUND	TRANSPORTATION OPERATIONS FUND	REDEVELOPMENT COMMISSION GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Property Taxes	\$ 1,015,065	\$ -	\$ 370,970	\$ 94,667	\$ 1,480,702
Other Taxes	218,226	-	731	64,978	283,935
Franchise Fees	395,595	395,579	-	-	791,174
Assessment	-	-	-	37,155	37,155
Licenses and Fees	3,524	-	-	9,161	12,685
Charges for Services	32,925	35,417	-	42,000	110,342
Intergovernmental	296,655	761,645	-	-	1,058,300
Fines and Forfeitures	48,018	-	-	-	48,018
System Development Charges	-	-	-	37,575	37,575
Rental Income	21,756	-	-	-	21,756
Interest on Investments	2,148	412	-	7,658	10,218
Miscellaneous	1,230	638	-	(9,038)	(7,170)
Total Revenues	2,035,142	1,193,691	371,701	284,156	3,884,690
EXPENDITURES:					
Current:					
General Government	187,820	-	-	-	187,820
Parks	193,022	-	-	-	193,022
Community Development	-	-	55,975	277,294	333,269
Public Safety	1,638,940	-	-	-	1,638,940
Highways and Streets	-	648,503	-	-	648,503
Capital Outlay	-	467,980	-	-	467,980
Debt Service	-	-	2,630,342	260,721	2,891,063
Total Expenditures	2,019,782	1,116,483	2,686,317	538,015	6,360,597
Excess of Revenues Over, (Under)					
Expenditures	15,360	77,208	(2,314,616)	(253,859)	(2,475,907)
Other Financing Sources, (Uses)					
Bond Proceeds	-	-	-	2,585,000	2,585,000
Loss on Refinancing	-	-	(10,973)	-	(10,973)
Special Payments - Grants and Loans	-	-	(254,285)	-	(254,285)
Transfers In	159,147	40,000	-	307,000	506,147
Transfers Out	(181,658)	(162,000)	(40,000)	(32,489)	(416,147)
Total Other Financing Sources (Uses)	(22,511)	(122,000)	(305,258)	2,859,511	2,409,742
Net Change in Fund Balance	(7,151)	(44,792)	(2,619,874)	2,605,652	(66,165)
Fund Balance - Beginning of Year	777,834	271,971	323,890	345,831	1,719,526
Prior Period Adjustment	-	-	463,691	-	463,691
Reconciliation to move Debt Service Fund and Debt Reserve Fund from Proprietary to Governmental	-	-	-	73,582	73,582
Fund Balance - End of Year, Restated	\$ 770,683	\$ 227,179	\$ (1,832,293)	\$ 3,025,065	\$ 2,190,634

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

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - TO
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012 (RESTATED)**

The change in net assets reported in the Statement of Activities is different because:

Net changes in fund balances - total governmental funds, restated	\$	(66,165)
<p>Capital asset additions are reported as capital outlay expenditures in governmental funds. However, the Statement of Activities allocated the cost of these assets over their estimated useful lives as depreciation expense.</p>		
Capital Asset Additions	\$ 974,314	
Accumulated Depreciation	<u>(363,834)</u>	610,480
<p>Assessment and other loan repayments collected are reported as revenue in the governmental funds when they are collected. In the Statement of Activities, revenues are recognized when the loan receivables are recorded and principle repayments collected reduce the loan receivable balances.</p>		
		(37,155)
<p>Property taxes and other revenues that do not meet the measurable and available criteria do not provide current financial resources and are recorded as deferred revenue in the governmental funds. In the Statement of Activities, these revenues are recognized as revenue when they are earned (or levied in the case of property taxes).</p>		
		(64,891)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.</p>		
Debt Principal Repaid	2,612,130	
New Debt Issuance	(2,574,027)	
Litigation	(175,000)	
Change in Compensated Absences	4,363	
Change in Other Post Employment Benefits	(13,031)	
Change in Accrued Interest Payable	<u>4,621</u>	
Total expenses not reported in governmental funds		(140,944)
<p>Internal service funds are used by management to charge the costs of central services, public works administration, building maintenance and improvement and fleet maintenance and acquisition to individual funds. The net revenues (expenses) of the internal service funds are allocated between governmental and business-type activities.</p>		
		<u>179,128</u>
Changes in net assets of governmental activities, restated	\$	<u><u>480,453</u></u>

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

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012 (RESTATED)**

	Business-Type Activities - Enterprise Funds				Governmental Activities
	WATER FUNDS	WASTEWATER FUNDS	AIRPORT FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 14,160	\$ -	\$ 149,590	\$ 163,750	\$ 2,459,876
Restricted Cash and Equivalents	49,766	1,033,219	10,086	1,093,071	-
Receivables:					
Accounts, net	39,820	215,989	15,111	270,920	53,035
Interfund Loan Receivable	-	163,382	-	163,382	-
Prepaid Expense	-	-	-	-	68
Inventories	12,129	1,799	24,702	38,630	-
Total Current Assets	115,875	1,414,389	199,489	1,729,753	2,512,979
Noncurrent Assets:					
Bond Issuance Costs	-	-	-	-	61,396
Capital Assets:					
Land	6,048	1,608,784	112,345	1,727,177	2,270,000
Construction in Progress	-	12,929	30,234	43,163	1,862,901
Depreciable Assets	1,530,470	31,534,755	9,774,376	42,839,601	1,199,539
Accumulated Depreciation	(746,877)	(5,671,089)	(1,625,607)	(8,043,573)	(477,618)
Total Noncurrent Assets	789,641	27,485,379	8,291,348	36,566,368	4,916,218
Total Assets	\$ 905,516	\$ 28,899,768	\$ 8,490,837	\$ 38,296,121	\$ 7,429,197
LIABILITIES:					
Current Liabilities					
Accounts Payable	\$ 13,012	\$ 51,176	\$ 4,161	\$ 68,349	\$ 440,087
Payroll Liabilities	-	-	-	-	21,185
Accrued Interest Payable	3,861	318,230	35,677	357,768	6,317
Deposits	26,642	21,438	-	48,080	-
Unearned Revenue	-	40,336	-	40,336	15,494
Compensated Absences Payable	-	-	-	-	85,848
Interfund Payable	-	41,177	-	41,177	163,382
Current Portion of Long-Term Debt	4,428	369,761	28,529	402,718	45,000
Total Current Liabilities	47,943	842,118	68,367	958,428	777,313
Noncurrent Liabilities:					
Other Post Employment Benefits Liability	-	-	-	-	83,011
Notes and Contracts Payable	130,385	2,925,371	1,051,250	4,107,006	-
Bonds Payable, Due After One Year	-	7,567,475	80,001	7,647,476	1,705,000
Total Noncurrent Liabilities	130,385	10,492,846	1,131,251	11,754,482	1,788,011
Total Liabilities	178,328	11,334,964	1,199,618	12,712,910	2,565,324
Net Assets:					
Invested in Capital Assets, Net of Related Debt	654,828	16,622,772	7,131,568	24,409,168	834,822
Restricted for System Development	49,766	907,748	-	957,514	-
Restricted for Debt Services	-	645,916	10,086	656,002	-
Unrestricted (deficit)	22,594	(611,632)	149,565	(439,473)	4,029,051
Total Net Assets, Restated	\$ 727,188	\$ 17,564,804	\$ 7,291,219	\$ 25,583,211	\$ 4,863,873

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

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

RECONCILIATION OF PROPRIETARY FUNDS STATEMENT OF NET ASSETS
TO STATEMENT OF NET ASSETS
June 30, 2012 (RESTATED)

Net assets - total enterprise funds, restated \$ 25,583,211

Amounts reported for business-type activities in the statement of net assets
are different because:

Internal service funds are used by management to charge the costs of certain
activities to individual funds. The assets and liabilities of the internal service funds
are classified as governmental activities, but the business-type activities made
payments.

Internal loans receivable 1,026,535

Net assets of business - type activities, restated \$ 26,609,746

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

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

For the Year Ended June 30, 2012 (RESTATED)

	Business-Type Activities - Enterprise Funds				Governmental Activities
	WATER FUNDS	WASTEWATER FUNDS	AIRPORT FUNDS	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUES:					
Charges for Services	\$ 428,598	\$ 1,850,540	\$ 264,599	\$ 2,543,737	\$ 2,557,863
Licenses and Fees	-	-	-	-	41,819
Rental Income	-	57,240	184,467	241,707	-
Miscellaneous	1,349	11,248	26,728	39,325	6,313
Total Operating Revenues	429,947	1,919,028	475,794	2,824,769	2,605,995
OPERATING EXPENSES:					
Personal Services	-	-	-	-	1,448,763
Materials and Services	420,762	1,751,767	369,693	2,542,222	798,361
Depreciation	29,799	548,839	198,664	777,302	108,272
Total Operating Expenses	450,561	2,300,606	568,357	3,319,524	2,355,396
Operating Income (Loss)	(20,614)	(381,578)	(92,563)	(494,755)	250,599
Nonoperating Revenues (Expenses):					
Repayment of Interfund Loan	-	64,772	-	64,772	-
Interest on Investments	99	5,425	415	5,939	9,689
Interest Expense	(5,897)	(410,186)	(49,805)	(465,888)	(81,003)
Total Non-Operating Revenues (Expenses)	(5,798)	(339,989)	(49,390)	(395,177)	(71,314)
Income (Loss) Before Contributions and Transfers	(26,412)	(721,567)	(141,953)	(889,932)	179,285
Capital Contributions					
Intergovernmental	-	-	1,826,384	1,826,384	350,750
System Development Charges	-	18,190	-	18,190	-
Assessments	-	1,498	-	1,498	-
Total Capital Contributions	-	19,688	1,826,384	1,846,072	350,750
Transfers					
Transfers In	-	-	-	-	47,000
Transfers Out	-	-	-	-	(137,000)
Total Transfers	-	-	-	-	(90,000)
Change in Net Assets	(26,412)	(701,879)	1,684,431	956,140	440,035
Prior Period Adjustment	-	(1,134)	(154,459)	(155,593)	2,199,330
Beginning Net Assets	753,600	18,341,399	5,761,247	24,856,246	2,224,508
Reconciliation to move Debt Service Fund and Debt Reserve Fund from Proprietary to Governmental					
	-	(73,582)	-	(73,582)	-
Ending Net Assets, Restated	\$ 727,188	\$ 17,564,804	\$ 7,291,219	\$ 25,583,211	\$ 4,863,873

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

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS - TO
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012 (RESTATED)**

The change in net assets reported in the Statement of Activities is different because:

Net changes in fund balances - total enterprise funds, restated	\$ 956,140
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Internal service funds are used by management to charge the costs of central services, public works administration, building maintenance and improvement and fleet maintenance and acquisition to individual funds. The net revenues (expenses) of the internal service funds are allocated between governmental and business-type activities.

260,907

Changes in net assets of enterprise activities, restated	\$ <u><u>1,217,047</u></u>
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The notes to the basic financial statements are an integral part of this statement.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012 (RESTATED)

	Business-Type Activities - Enterprise Funds				Governmental Activities
	WATER FUNDS	WASTEWATER FUNDS	AIRPORT FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:					
Receipts from Customers and Uses	\$ 443,000	\$ 1,965,762	\$ 887,648	\$ 3,296,410	\$ 11,094
Receipts from interfund services provided	-	64,772	9,900	74,672	2,556,481
Payments to Suppliers	(158,514)	(572,200)	(488,248)	(1,218,962)	(498,323)
Payments to Employees	-	-	-	-	(1,424,105)
Payments for Interfund Services Used	(261,379)	(1,178,087)	(53,782)	(1,493,248)	-
Net Cash Provided from (used by) Operating Activities	<u>23,107</u>	<u>280,247</u>	<u>355,518</u>	<u>658,872</u>	<u>645,147</u>
Cash Flows From Noncapital Financing Activities					
Transfer To Other Funds	-	-	-	-	(90,000)
Cash Flows from Capital and Related Financing Activities					
Proceeds from Intergovernmental Revenue	-	1,498	1,671,925	1,673,423	350,749
System Development Charges	-	18,190	-	18,190	-
Notes Receivable Principal Collections	-	169,941	-	169,941	-
Interfund Loans	-	163,382	(108,740)	54,642	(61,201)
Interest Revenue	99	5,425	415	5,939	-
Acquisition of Capital Assets	-	(391,143)	(1,672,900)	(2,064,043)	(1,518,613)
Principal Paid on Long-Term Obligations	(4,981)	(503,210)	(27,168)	(535,359)	(22,442)
Interest Paid on Long-Term Obligations	(6,093)	(410,186)	(59,374)	(475,653)	(91,090)
Net Cash Flows from (used by) Capital and Related Financing Activities	<u>(10,975)</u>	<u>(946,103)</u>	<u>(195,842)</u>	<u>(1,152,920)</u>	<u>(1,342,597)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,132	(665,856)	159,676	(494,048)	(787,450)
Balances - Beginning of the Year	51,794	1,772,657	-	1,824,451	3,247,326
Reconciliation to move Debt Service Fund and Debt Reserve Fund from Proprietary to Governmental	-	(73,582)	-	(73,582)	-
Balances - End of the Year, Restated	<u>\$ 63,926</u>	<u>\$ 1,033,219</u>	<u>\$ 159,676</u>	<u>\$ 1,256,821</u>	<u>\$ 2,459,876</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided from (used by)					
Operating Activities:					
Operating Income	\$ (20,614)	\$ (381,578)	\$ (92,563)	\$ (494,755)	\$ 250,599
Cash Flow Reported in Other Activities:					
Depreciation Expense	29,799	548,839	198,664	777,302	108,274
(Increase) Decrease in Assets					
Receivables	8,560	67,400	408,436	484,396	(36,714)
Inventory	707	-	13,318	14,025	-
Increase (Decrease) in Liabilities					
Accounts Payable and Accrued Expenses	162	1,480	(166,500)	(164,858)	335,897
Deposits	4,493	3,770	-	8,263	-
Retainage	-	-	(5,837)	(5,837)	-
Unearned Revenues	-	40,336	-	40,336	(4,292)
Compensated Absences Payable	-	-	-	-	(13,140)
Other Postemployment Benefits	-	-	-	-	4,523
Net Cash Provided from (used by) Operating Activities	<u>\$ 23,107</u>	<u>\$ 280,247</u>	<u>\$ 355,518</u>	<u>\$ 658,872</u>	<u>\$ 645,147</u>

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

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Madras, Oregon, have been prepared in conformity with accounting principles generally accepted in the United State of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the accounting policies are described below.

THE FINANCIAL REPORTING ENTITY

The City, an Oregon Municipal Corporation, is organized with an elected mayor and council consisting of seven members. The council is charged with the affairs of the City and employs a City Administrator who manages the daily affairs and is responsible for incorporating the various council actions and policies into the daily affairs. The accounting and reporting policies conform to generally accepted accounting principles for local governments. A full range of municipal services are provided to the community, which include police protection, traffic control and improvement, street maintenance and improvement, water, sanitary, sewer, and surface water management services, planning and zoning regulation, building inspection and regulation, and parks and recreational activities.

Management, in determining what potential component entities should be included for financial reporting purposes, considered accountability for fiscal matters, other manifestations of oversight responsibility, scope of public service, and special financing relationships. Fiscal accountability, the most significant of all criteria, refers to conditions of financial interdependence between two entities including budgetary adoption, taxing authority, responsibility for debt, control over or responsibility for financial management. Other manifestations of oversight responsibility encompass the ability to select governing authority, designate management, or significantly influence operations. The scope of public service evaluates the benefits derived in terms of the citizenry served or the geographic boundaries included.

The accompanying financial statements present the City (primary government) and its blended component unit (Madras Redevelopment Commission), an entity for which the City is considered to be financially responsible. Component units, as defined by the Governmental Accounting Standards Board (GASB) Statement No. 39, are separate organizations that are included in the City of Madras's reporting entity because of the significance of their operational or financial relationships with the City.

MADRAS REDEVELOPMENT COMMISSION

The Madras Redevelopment Commission (the Commission or the Agency) is the Urban Renewal Agency for the City of Madras, and was formed to undertake urban renewal projects and activities pursuant to the City's redevelopment plan. The Board of Directors of the Agency consists of a eight member board with three members of the Madras City Council and five members at large appointed by the Madras City Council. The City is required to certify to the County Assessor any incremental taxes to be levied for the benefit of the Agency. Since the City Council appoints its governing board and services are provided almost entirely within the City of Madras, it has been included as a blended component unit in the financial statements. Complete financial statements for the Agency may be obtained at the City's administrative offices, 125 SW E Street, Madras, Oregon 97741-1685.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

extent on fees and charges for support. Eliminations have been made to eliminate the double counting of internal activities. Direct expenses are not eliminated from the various functional categories.

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., general government, public safety, streets, etc.) is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Each fund is considered to be a separate accounting entity. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Remaining governmental funds are aggregated and reported as non-major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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.

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, 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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be measurable to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

The following major governmental funds are reported:

General Fund

This is the primary operating fund. It accounts for the financial operations, which are not accounted for in any other fund. Principal sources of revenue are property taxes, intergovernmental revenues, licenses and fees, charges for services, and other miscellaneous revenues. Primary expenditures are for police and transfers to other funds. In addition, the activities for the Parks fund and Industrial Site fund are reported as separate budgetary funds, but do not qualify as Special Revenue funds for external reporting under GASB 54. These funds have been reported as sub-funds of the Combined General Fund.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Transportation Operations Fund

Accounts for revenues received from state gasoline tax, which are to be expended for the construction, maintenance and use of the City streets.

Redevelopment Commission General Fund

This fund accounts for the City's urban renewal projects. Revenues are from property taxes and issuance of debt, and expenditures are for the elimination of blighted conditions and urban development as defined in the City's Urban Renewal Plan.

The following non-major governmental funds types are combined and reported as other governmental fund:

Special Revenue Funds

These funds account for revenues derived from specific taxes or other earmarked revenue sources including gas taxes, licenses and fees, intergovernmental revenues, sales and services, and charges for services that are restricted to finance particular functions or activities.

Improvement Fee Fund

This fund accounts for financial resources to be used for improvements to street systems that are dirt, gravel, or very poor condition roadways. Principal resources include intergovernmental revenues, transfers from the Transportation Operations Fund, and interest on investments.

Debt Service Funds

These funds account for payments of principal and interest on the city's loans. Revenues are primarily from property taxes from the county.

Capital Projects Funds

These funds are used to account for expenditures on major construction projects or equipment acquisition. The principal sources of revenues are proceeds from long-term obligations issued to finance capital acquisitions and improvements.

MRC Reinvestment Fund

This fund accounts for receipts from the repayment of redevelopment loans and the resources available for future projects.

The following major proprietary funds are reported:

Water Funds

This fund accounts for the activities of the water distribution system. Revenue is derived primarily from water service charges.

Wastewater Funds

This fund accounts for the activities of the wastewater collection and treatment system. Revenue is derived primarily from sewer service charges.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The Airport Funds

This fund accounts for the activities associated with the operations and capital improvements of the City's municipal airport.

Additionally, the following fund types are reported:

Internal Service Fund

Accounts for equipment maintenance activities and services furnished internally to other departments on a cost reimbursement basis. Charges are made to the various departments to support these activities. The activities, which include central services, public works administration, building maintenance and improvement, and fleet maintenance and acquisition, are reflected as the internal service fund in the fund financial statements. These activities are allocated between the governmental and proprietary activities based on the percentage of expenses reimbursed by governmental funds and proprietary funds.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. All Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989 have been applied, unless those pronouncements conflict or contradict Governmental Accounting Standards Board (GASB) pronouncements. Subsequent private-sector guidance will not be followed.

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.

BUDGETS

A budget is prepared for all funds, in accordance with the modified accrual basis of accounting and legal requirements set forth in the Oregon Local Budget Law. The Parks fund and Industrial Site fund are budgeted as separate funds for Oregon Budget Law, but they are combined with the General fund under GAAP. The budget process begins 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 published generally in early spring with a public hearing being held approximately three weeks later. The Council may amend the budget 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 30th.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS (CONTINUED)

Expenditure budgets are appropriated at the following levels for each fund other than the General Fund:

LEVEL OF CONTROL

Personal Services	Interfund Transactions
Materials and Services	Debt Service
Capital Outlay	Operating Contingency
Special Payments	

The General Fund is appropriated at the department level along with transfers and contingencies. 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 Council approval as long as appropriation levels (the legal level of control) are not changed. Supplemental appropriations may occur if the Council approves them due to a need which exists which was not determined at the time the budget was adopted.

Budget amounts shown in the basic financial statements reflect the original budget amount, several appropriation transfers and supplemental budgets. Expenses of the various funds were within authorized appropriations for the year ended June 30, 2012, except as noted below:

General Fund – Non-Departmental - \$8,378
General Fund – Transfers Out - \$5,613
Redevelopment Commission General Fund – Special Payments - \$254,285
Redevelopment Commission General Fund – Transfers Out - \$40,000
Tourism/Economic Development Fund – Transfers Out - \$2,489
Airport Construction Fund – Transfers Out - \$50,000
Building Fund – Debt Service - \$131,651

BUDGETARY BASIS OF ACCOUNTING

While the financial position, results of operations, and changes in fund balance/net assets is reported on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis of accounting differs from generally accepted accounting principles. The budgetary statements provided as part of supplementary information elsewhere in this report are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The primary differences between the budgetary basis and GAAP basis are that capital outlay is expensed when purchased, depreciation and amortization expenses are not reported, property taxes are recognized as revenue when received instead of when levied, inventory is expensed as purchased, and proceeds of long-term borrowing are recognized as an “other financing source” and principal paid is considered an expenditure when paid. Bond issue costs are recognized as expenditures when bonds are issued (rather than amortizing over the life of the bonds).

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.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and investments

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, and cash and investments in the investment pool. Investments, including equity in pooled cash and investments, approximate fair value.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/ from other funds" (i.e., the current portion of inter fund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Property taxes are levied on and become a lien against the property on July 1, when they are levied, in the year in which they are due. Collection dates are November 15, February 15, and May 15 following the lien date. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent. In the fund financial statements, property taxes receivable that are collected by the County prior to year end are reported as revenue. The remaining balance is reported as deferred revenue. Management has determined that no provision for uncollectible property taxes is considered necessary. In the government-wide financial statements, property taxes are recognized as revenue when earned.

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, as assessment revenue is recognized upon collection. The assessments are repaid over a ten year period on a semi-annual basis including interest. The interest rate charged on the assessments range from 6.5% to 7% depending when the project was assessed. 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. Uncollected property taxes are shown in the combined balance sheet. Uncollected taxes are deemed by management 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. Receivables of the enterprise funds are recognized as revenue when earned, including services provided but not billed. Receivables in governmental and enterprise funds are stated net of an allowance for uncollectibles.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Supply Inventories

Inventories are valued at cost or estimated cost, which approximate market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased (Purchase Method). Inventories in the governmental funds are offset by a fund balance reserve in the government fund financial statements to indicate they do not represent "available spendable resources." In the government-wide financial

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Supply Inventories (Continued)

statements, inventories are not offset by a fund balance reserve. Management has determined that there were no significant inventories at year end that had been purchased by governmental funds. The inventory amounts presented in the proprietary funds for materials and supplies are based on estimated quantities and costs.

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 City purchases property through the redevelopment commission to be refurbished and sold. At June 30, 2012, the redevelopment properties consist of a non-depreciable property purchased to refurbish and sell, in the amount of \$463,691.

Capital assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure (e.g., streets, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as tangible assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one operating cycle. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capitalized costs for a majority of the older assets are based on estimated costs established by engineering studies performed by personnel, since there was no election to report major general infrastructure retroactively.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation on exhaustible assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	
Buildings and improvements	50 - 75
Plant in Service	20 - 50
Machinery and equipment	7 - 15

Capital assets include contributions of capital assets from outside developers. Revenues from these capital contributions are reflected in business-type activities funds as capital contributions. These revenues are not reported in the governmental fund financial statements, but are reflected in the statement of activities as capital contributions revenue in the governmental activities. Capital assets contributed by governmental funds to business-type activities are reflected in the business-type financial statements as contributions. The contribution is not reflected in the governmental fund financial statements, but is reclassified as a transfer to/from governmental fund type to business-type in the statement of activities.

Compensated absences

It is the policy to permit employees to accumulate earned but unused vacation and compensatory time. Liabilities for unused vacation pay and compensatory time are recorded in the Statement of Net Assets and proprietary fund financial statements when vested or earned by employees. A liability for these amounts is reported in governmental funds only if it has matured, for example, because of employee resignations or retirements.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. 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.

Net Assets/Fund Equity

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net assets are 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 the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of external constraints placed on net 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 assets – consists of all other net assets that are not included in the other categories previously mentioned.

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes 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. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications – nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents prepaid items.
- 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. Authority to make assignments has been delegated to the City Manager and the Finance Director.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets/Fund Equity (Continued)

- 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.

It is the policy of the City that General Fund resources are to be expended – when multiple fund balance types are available for a specific purpose – in the following order: Restricted, Committed, Assigned, and Unassigned. All other funds are to expend fund balances in the following order: Assigned, Committed and Restricted.

2. CASH AND INVESTMENTS

A cash pool is maintained that is available for use by all funds.

Cash and Investments (recorded at cost) consisted of:

Deposits with Financial Institutions:

Petty Cash	\$	100
Demand Deposits		1,812,550
Investments		3,295,339
Total Cash and Investments	\$	<u>5,107,989</u>

Reconciliation of Cash as reported in financial statements:

Unrestricted Statement of Net Assets	\$	3,238,992
Restricted Statement of Net Assets		1,868,997
Total Cash and Investments	\$	<u>5,107,989</u>

Deposits

Deposits with financial institutions consist of 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. The total bank balance amounted to \$1,929,105, of which \$927,291 was covered by federal depository insurance and the remainder was deposited at an approved depository as identified by the Treasury, in accordance with Oregon Revised Statutes.

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 Oregon Short-Term Fund Local Government Investment Pool.

Investments are valued at fair value as required by GASB 31. At June 30, 2012, the value of the Pool shares as reported in the Oregon Short Term Fund represent the full fair value position of LGIP.

As of June 30, 2012, there were the following investments and maturities:

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in months)</u>		
		<u>Less than 3</u>	<u>3-17</u>	<u>18-59</u>
Local Government Investment Pool	\$ 3,295,339	\$ 3,295,339	\$ -	\$ -

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. There are no investments that have a maturity date over 3 months.

Custodial 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.

Concentration of Credit Risk

There is no limit placed on the amount invested in any one issuer. 100% of the investments are in the Local Government Investment Pool. Investments in the Oregon Local Investment Pool is limited as to the amount. With the exception of pass-through funds, the maximum amount of pooled investments that can be placed in the Oregon Local Government Investment Pool is limited by the State.

3. ACCRUED COMPENSATED ABSENCES

The compensated absences balances at June 30, 2012 were as follows:

<u>Compensated Absences</u>	<u>Beginning Balance</u>	<u>Prior Period Adjustment</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental	\$ 23,392	\$ 150,216	\$ 156,105	\$ (173,608)	\$ 156,105
	<u>\$ 23,392</u>				<u>\$ 156,105</u>

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2012 was as follows:

GOVERNMENTAL ACTIVITIES CAPITAL ASSETS					
Description	June 30, 2011	Prior Period Adjustments	Additions	Disposals	June 30, 2012
Capital assets not being Depreciated					
Land	\$ 686,465	\$ 2,270,000	\$ -	\$ -	\$ 2,956,465
Assets available for sale	463,691	(463,691)	-	-	-
Construction in Progress	427,048	(34,093)	2,280,986	-	2,673,941
Total Capital Assets not being Depreciated	1,577,204	1,772,216	2,280,986	-	5,630,406
Other Capital Assets					
Land Improvements	550,553	-	130,000	-	680,553
Buildings and Improvements	2,974,488	-	-	-	2,974,488
Equipment	2,213,104	7,125	39,355	-	2,259,584
Infrastructure	10,513,216	350,000	42,584	-	10,905,800
Total other Capital Assets	16,251,361	357,125	211,939	-	16,820,425
Less Accumulated Depreciation					
Land Improvements	286,818	-	29,585	-	316,403
Buildings and Improvements	469,403	-	95,182	-	564,585
Equipment	1,473,033	7,125	129,649	-	1,609,807
Infrastructure - streets	784,342	3,500	217,690	-	1,005,532
Total Accumulated Depreciation	3,013,596	10,625	472,106	-	3,496,327
Total Capital Assets Being Depreciated, Net	13,237,765	346,500	(260,167)	-	13,324,098
Total Governmental Activities	\$ 14,814,969	\$ 2,118,716	\$ 2,020,819	\$ -	\$ 18,954,504

See Note 18 for an explanation of the adjustments to capital assets.

Depreciation Expense for governmental activities is charged to functions as follows:

Function	Governmental Funds
General Services	\$ 25,404
Community Development	89,280
Public Safety	221,687
Highway and Streets	109,628
Culture and Recreation	26,107
Total	\$ 472,106

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. CAPITAL ASSETS (CONTINUED)

Capital asset activity for business type activities for the year ended June 30, 2012 was as follows:

Description	BUSINESS TYPE ACTIVITIES				
	June 30, 2011	Prior Period Adjustments	Additions	Disposals	June 30, 2012
Capital Assets not being Depreciated					
Land	\$ 1,404,544	\$ -	\$ 322,633	\$ -	\$ 1,727,177
Construction in Progress	710,057	(324,510)	1,897,001	(2,239,385)	43,163
Total Capital Assets not being Depreciated	2,114,601	(324,510)	2,219,634	(2,239,385)	1,770,340
Other Capital Assets					
Land Improvement	132,765	-	-	-	132,765
Buildings & Improvements	4,940,429	-	-	-	4,940,429
Equipment	1,280,645	-	-	-	1,280,645
Infrastructure	34,076,326	170,049	2,239,387	-	36,485,762
Total other Capital Assets	40,430,165	170,049	2,239,387	-	42,839,601
Less Accumulated Depreciation					
Land Improvement	6,639	-	4,426	-	11,065
Buildings & Improvements	466,683	-	86,122	-	552,805
Equipment	680,845	-	131,490	-	812,335
Infrastructure	6,110,972	1,132	555,264	-	6,667,368
Total Accumulated Depreciation	7,265,139	1,132	777,302	-	8,043,573
Total Capital Assets being Depreciated, Net	33,165,026	168,917	1,462,085	-	34,796,028
Total Business Type Activities	\$ 35,279,627	\$ (155,593)	\$ 3,681,719	\$ (2,239,385)	\$ 36,566,368

Depreciation expense for business type activities is charged to functions as follows:

Function	Business Type Funds
Water	\$ 29,799
Wastewater	548,839
Airport	198,664
Total	\$ 777,302

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG TERM DEBT

Long term debt information is presented separately with respect to governmental and business-type activities. The following table shows the fiscal year changes in long-term debt outstanding, along with the current portion for each.

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
Bond Anticipation Note	\$ 2,500,000	\$ -	\$ (2,500,000)	\$ -	\$ -
Contracts, Loans and Notes	1,655,764	-	(112,130)	1,543,634	115,066
Bonds Payable	1,775,000	2,585,000	(25,000)	4,335,000	140,000
OPEB Liability	121,287	29,644	-	150,931	-
Governmental activity					
Long-term obligations	<u>6,052,051</u>	<u>2,614,644</u>	<u>(2,637,130)</u>	<u>6,029,565</u>	<u>255,066</u>
Business - type activities:					
Bonds Payable	8,027,882	-	(230,870)	7,797,012	248,755
Contracts, Loans and Notes	4,443,881	-	(83,692)	4,360,189	153,963
Business - type activity					
Long-term obligations	<u>\$ 12,471,763</u>	<u>\$ -</u>	<u>\$ (314,562)</u>	<u>\$ 12,157,200</u>	<u>\$ 402,718</u>

See page 81 of report for a detailing of the long-term debt.

Contracts, Loans and Notes – Governmental Activities

The City entered into an intergovernmental agreement with Jefferson County to finance the cost of the J Street improvements. Jefferson County issued \$2,265,000 of full faith and credit obligations and the City is responsible to repay the County for 54.92% of the annual debt service. The City's portion of the debt requires interest payments December 1 of each year and principal and interest payments June 1 of each year. The obligations are secured by the full faith and credit of the City with interest rates ranging from 2% to 4%. The final payment is due June 1, 2019.

In addition, the City has a Special Public Works Fund loan payable to provide additional financing for the J Street improvements. The loan is payable in annual installments of \$69,326 through 2031 including interest at 4.77%.

Future maturities of the combined notes and contracts payable are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 115,066	\$ 62,585	\$ 177,651
2014	118,010	58,408	176,418
2015	120,961	53,421	174,382
2016	123,921	48,990	172,911
2017	134,635	44,360	178,995
2018-2022	401,282	152,733	554,015
2023-2027	235,070	96,424	331,494
2028-2032	294,689	39,947	334,636
	<u>\$ 1,543,634</u>	<u>\$ 556,868</u>	<u>\$ 2,100,502</u>

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG TERM DEBT (CONTINUED)

Contracts, Loans and Notes – Business Type Activities - Water Fund

The City received a Special Public Works Fund loan through the Oregon Economic and Community Development Department for water and wastewater system improvements. The loan is divided between the Water Fund and the Wastewater Fund in the business type activities. The Water Fund is responsible for 70% of the outstanding liability. The loan requires annual payments of \$16,005, including interest at 4.97%. The final payment is due December 1, 2030. The Water Fund portion of the annual payments is \$11,075.

Future maturities for the Water Fund Portion are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 4,428	\$ 6,647	\$ 11,075
2014	4,648	6,427	11,075
2015	4,879	6,196	11,075
2016	5,121	5,954	11,075
2017	5,376	5,699	11,075
2018-2022	31,162	24,213	55,375
2023-2027	39,713	15,662	55,375
2028-2031	39,486	4,814	44,300
	<u>\$ 134,813</u>	<u>\$ 75,612</u>	<u>\$ 210,425</u>

Contracts, Loans and Notes – Business Type Activities - Wastewater Fund

The City received a Special Public Works Fund loan through the Oregon Business Development Division for water and wastewater system improvements. The loan is divided between the Water Fund and the Wastewater Fund in the business type activities. The Wastewater Fund is responsible for 30% of the outstanding liability. The loan requires annual payments of \$16,005, including interest at 4.97%. The final payment is due December 1, 2030. The Wastewater Fund portion of the annual payments is \$4,930.

In addition, the City has a Clean Water State Revolving Fund loan payable to provide additional financing for the wastewater effluent disposal system improvements project. The loan was finalized at \$3,165,514 and the City began making payments in December 2011. An interest only payment at 2.98% interest is due six months after the project completion date and thereafter, semi-annual principal and interest payments are due for 20 years. The loan also requires an annual fee of 0.5% of the outstanding loan amount. Amortization of the outstanding balance is included below. After re-payment has begun, the City is required to have a loan reserve of \$112,431.

Future maturities of the Wastewater Fund notes and contracts payable, including the Clean Water State Revolving Fund loan of 3,169,359, are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 125,774	\$ 94,736	\$ 220,510
2014	129,589	90,921	220,510
2015	133,520	86,990	220,510
2016	137,571	82,939	220,510
2017	141,746	78,764	220,510
2018-2022	775,963	326,587	1,102,550
2023-2027	901,241	201,309	1,102,550
2028-2031	823,955	57,242	881,197
	<u>\$ 3,169,359</u>	<u>\$ 1,019,488</u>	<u>\$ 4,188,847</u>

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG TERM DEBT (CONTINUED)

Contracts, Loans and Notes- Business Type Activities – Airport Funds

The City has a Special Public Works loan through the State of Oregon Business Development Division for the construction of a 30,000 square foot aircraft hangar and related infrastructure at the Madras Airport. The loan is authorized for \$1,078,650 and at June 30, 2011, the full amount had been received. The first payment date is the earlier of December 1, 2011 or the December following the project completion. Commencing on the first payment date and December 1 of each year, 25 level installment payments of principal and interest at 4.99% are required.

Amortization of the outstanding balance is as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 23,761	\$ 52,695	\$ 76,456
2014	24,947	51,510	76,457
2015	26,191	50,265	76,456
2016	27,498	48,958	76,456
2017	28,870	47,586	76,456
2018-2022	167,455	214,826	382,281
2023-2027	213,617	168,663	382,280
2028-2032	272,506	109,775	382,281
2033-2036	271,173	34,652	305,825
	<u>\$ 1,056,018</u>	<u>\$ 778,930</u>	<u>\$ 1,834,948</u>

Bonds Payable – Business Type Activities – Wastewater Fund

The City issued general obligation bonds to finance the Wastewater system. Bond principal is paid annually and interest at the rate of 5% is paid semi-annually. A property tax is levied to meet this obligation.

The Wastewater Fund sold four revenue bond issues to the Rural and Economic Community Development Department, which were used to finance improvements to the City's wastewater treatment plant. The bond principal and interest is payable annually with interest rates from 4.5% to 5.0%. Final payment is due July 20, 2040.

Future maturities of the combined bond issues are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 243,987	\$ 374,988	\$ 618,975
2014	253,012	362,963	615,975
2015	180,433	350,492	530,925
2016	189,266	341,659	530,925
2017	198,531	332,394	530,925
2018-2022	1,112,585	1,508,430	2,621,015
2023-2027	1,262,791	1,223,784	2,486,575
2028-2032	1,602,615	883,960	2,486,575
2033-2037	1,533,734	477,315	2,011,049
2038-2041	1,116,294	133,306	1,249,600
	<u>\$ 7,693,248</u>	<u>\$ 5,989,291</u>	<u>\$ 13,682,539</u>

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG TERM DEBT (CONTINUED)

Bonds Payable – Business Type Activities – Airport Fund

The City Airport fund issued revenue bonds to the Rural and Economic Community Development Department in a prior year to finance airport improvements. The bonds require annual payments of \$10,086, including interest at 5.125% interest. The bonds are payable from revenue generated by the airport enterprise.

Future maturities are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 4,768	\$ 5,318	\$ 10,086
2014	5,012	5,074	10,086
2015	5,269	4,817	10,086
2016	5,539	4,547	10,086
2017	5,823	4,263	10,086
2018-2022	33,912	16,518	50,430
2023-2027	43,441	6,890	50,331
	<u>\$ 103,764</u>	<u>\$ 47,427</u>	<u>\$ 151,191</u>

Bonds Payable – Governmental and Internal Service Activities

The City has obtained a long-term bond payable for the design and construction of a new City Hall and Police Station on the corner of 4th Street and E Street in Madras. The funding is through a Certificate of Participation, Series 2011 B, Local Oregon Capital Assets Program. Interest is to be paid semi-annually on June 1 and December 1. The obligations are secured by the full faith and credit of the City with interest rates ranging from 3% to 5.2%.

The Madras Redevelopment Commission established a bond anticipation line of credit to finance projects of the Agency. The line of credit is authorized for \$2,500,000 and is to be repaid from proceeds of a bond sale that the Agency has authorized. The interest rate on the line of credit is set at 63.5% of the BBA Libor Daily Floating Rate plus 2.6% with a 3.076% floor. As of June 30, 2011, the Agency has a balance of \$2,500,000 and the interest rate was 3.076%. Interest is paid quarterly and all principal is payable on June 30, 2012.

The Agency converted the note to a long-term bond for the amount of \$2,585,000 provided by the Local Oregon Capital Assets Program. The interest coupon rate is between 1.10 and 3.5% and will be paid off by June 1, 2032.

Amortization of the outstanding balance is as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 140,000	\$ 161,354	\$ 301,354
2014	145,000	154,508	299,508
2015	150,000	151,083	301,083
2016	155,000	148,483	303,483
2017	155,000	144,758	299,758
2018-2022	865,000	619,438	1,484,438
2023-2027	1,030,000	476,907	1,506,907
2028-2032	1,255,000	258,088	1,513,088
2033-2036	440,000	47,580	487,580
	<u>\$ 4,335,000</u>	<u>\$ 2,162,199</u>	<u>\$ 6,497,199</u>

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. EMPLOYEE RETIREMENT PLAN

Two pension plans are contributed to and are administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying employees hired after August 29, 2003. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. As of January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account. Both PERS plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to PERS, P.O. Box 23700, Tigard, OR 97281-3700 or by calling 503-598-7377.

Members of PERS are required to contribute 6% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The employer is allowed to pay any or all of the employees' contribution in addition to the required employer's contribution. For the fiscal year ended June 30, 2012, contributions on behalf of the employees were not made. ORS 238.225 requires contributions at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPSRP rates for the year ended June 30, 2012 was 10.22% for general members and 12.93% for police.

The PERS rates for the year ended June 30, 2012 was 14.86%. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Total contributions to PERS for the years ending June 30, 2010, 2011, and 2012 were \$288,336, \$284,681, and \$318,666 respectively, which equaled the required contribution for the year.

7. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description. A program is provided for the availability for retirees and their spouses to purchase healthcare insurance at the same group rates as the City pays for its active employees'. No plan has been established to account for this activity. Since the former employees' service has caused this benefit to be available, generally accepted accounting principles requires that the costs of these services be calculated and shown as a cost of operations and/or as a liability for providing a future benefit in the financial statements. Disclosure of the liability is mandatory.

Funding Policy. There is no plan to fund these benefits, and an actuary has calculated that there was no implied subsidy included in healthcare costs for the year ended June 30, 2012.

Annual OPEB Cost and Net OPEB Obligation. The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year, the amount implicitly contributed to the "plan" through the normal payments to healthcare insurance providers and changes to the OPEB obligation.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

7. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

	6/30/2011	6/30/2012
Annual Required Contribution (ARC)	\$ 52,233	\$ 62,114
Interest on Net Pension Obligation	3,797	4,608
Adjustment to Annual Required Contribution	<u>(5,956)</u>	<u>(7,829)</u>
Annual OPEB Cost	50,074	58,893
Contributions Made	<u>(19,247)</u>	<u>(23,164)</u>
Increase in Net Pension Obligation	30,827	35,729
Net OPEB Obligation (Asset) at Beginning of the Year	84,375	115,202
Net OPEB Obligation (Asset) at End of the Year	<u>\$ 115,202</u>	<u>\$ 150,931</u>
Percentage of APC Contributed	42%	39%

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2012, along with preceding fiscal years, were as follows:

Year Ended	OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
6/30/2010	\$ 48,222	20%	\$ 84,375
6/30/2011	50,074	38%	115,202
6/30/2012	58,893	39%	150,931

Funding status and funding progress. As of August 1, 2010 the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$413,797, of which none was funded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the plan and the annual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and assumptions. Projections of benefits for financial reporting purposes are based on the substitutive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of the benefit costs, if any, to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

- Discount rate: 4.0% for unfunded liabilities.

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

7. POST EMPLOYEMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

- Health Cost Trend for medical and vision: increases of 8.5% for the first year, 7.5% in the second year, 6.5% in the third year, 6.0% in the fourth year through the 23rd year, 5.5% for the 24th through the 47th year, and 5.0% thereafter.
- Annual Payroll Increase: 3.75% compounded annually.
- Disability: Not used.
- Retirement: Based on the Oregon PERS assumptions.
- Withdrawal: Based on the Oregon PERS assumptions.
- Mortality: Generally, the RP-2000 healthy combined male and female mortality tables set back two years.
- Excluded employees: Temporary and part-time employees, elected officials and volunteers.
- PERS service: Estimated based on elapsed time from date of hire to the most recent valuation.
- Future retiree coverage: 100% of active members upon retirement.
- Spousal age: Females spouses are assumed to be two years younger than male spouses.

8. OPERATING LEASES

There are two operating leases in effect. Approximate future minimum rental commitments under these lease agreements are as follows:

Year Ending	Amount
June 30, 2013	\$ 925
Total	\$ 925

The total rental expense under these leases was approximately \$9,027 for the year ended June 30, 2012.

9. INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2012 are as follows:

	Transfers to other funds	Transfers from other funds
GOVERNMENTAL FUNDS		
General	\$ (181,658)	\$ -
Transportation Operations	(162,000)	40,000
Redevelopment Commission	(40,000)	2,585,000
Parks	-	159,147
Tourism/Economic Development	(32,489)	60,000
Community Development	-	85,000
Debt Service	(2,585,000)	-
SDC Street Improvement	-	162,000
PROPRIETARY FUNDS		
Airport Construction	(50,000)	-
Airport Operations	-	50,000
INTERNAL SERVICE FUNDS		
Central Services	(85,000)	-
Fleet	-	47,000
Public Works	(52,000)	-
Total Fund Transfers	\$ (3,188,147)	\$ 3,188,147

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

9. INTERFUND TRANSFERS (CONTINUED)

Transfers are used to move revenues from the fund that statute or budget requires to collect and to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

10. RESTRICTED NET ASSETS

The balance of the restricted net asset accounts are as follows:

	<u>Governmental</u>	<u>Business-Type</u>
Highways and Streets	\$ 221,819	\$ -
Debt Service	2,662,738	656,002
Community Development	12,782	-
Improvement Fees	311,080	-
System Development Charges:		
SDC Street Improvement	1,070	-
SDC Street Reimbursement	35,622	-
SDC Water Improvement	-	49,766
SDC Wastewater Improvement	-	907,748
Total restricted assets	<u>\$ 3,245,111</u>	<u>\$ 1,613,516</u>

11. PROPERTY TAX LIMITATIONS

The State of Oregon has a constitutional limit on property taxes for schools and nonschool government operations. The limitation provides that property taxes for nonschool operations are limited to \$10.00 for each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt.

An additional limit reduces the amount of operating property tax revenues available. This reduction was accomplished by rolling property values for 1997-98 back to their 1995-96 values less 10% and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The Constitution also sets restrictive voter approval requirements for most tax and many fee increases and new bond issues.

12. RISK MANAGEMENT

There is exposure to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions, injuries to employees, and natural disasters for which commercial insurance is carried. There have been no significant reductions in coverage from the prior year. Settled claims have not exceeded coverage in any of the last three fiscal years.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

13. COMMITMENTS

The City swapped land with the School District during FY07 and part of the agreement is for the land received by the School District to be brought into the City limits and that the City will extend water and sewer lines to the property. If the City fails to extend the utility lines, they may have to pay \$2,270,000 plus accrued interest at 4.5% to purchase the land; or pay the current market value for the land received from the school district; or the school district may grant an extension of time to the City to perform its obligations. The City and School District agreed on an extension of time, until such time as the School District needs the services. The City will have 6 months to complete their obligations.

The City entered into a new option agreement with a local land developer for the sale of 67 acres within the City limits and 542 acres outside the City limits, which is separated into various parcels. \$50,000 was paid as part of the agreement for the first five year term of additional eight years by paying \$10,000 annually beginning December 1, 2014. The option may be exercised through phases consisting of not less than ten acre contiguous parcels and the prices for each phase shall be at fair market value, but in no event will the purchase price be less than \$9,000 per acre.

The City's SPWF loan/grant agreement includes a job creation requirement that should cause Butler Air to create or retain 35 FTE for a one year period consisting of four consecutive calendar quarters that begins no earlier than 1/1/2010 and no later than 12/31/2013. The potential penalty is \$5,000 per job requirement not met. The IOF grant agreement requires that within two years of execution of this agreement, the City shall provide to the State, documentation from Madras Airport that two FTE have been retained and 13 FTE positions created. On June 20, 2012 this agreement was amended reducing the required number of newly created jobs from 13 to 8 FTE positions and to grant an additional 36 months to meet the job creation requirement. If such documentation cannot be provided within the above stated time limit, City shall reimburse the State IOF Funds in proportion to the jobs created versus target number of jobs created. The State may grant a time extension on the reimbursement or a time extension to provide additional job growth.

The City is committed to providing the Bean Foundation either 120 acres of land or cash in the value of 120 acres. The City holds the option to either deed assets of land or to pay the cash, which is based upon if land development sales do not occur within the Yarrow development.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

13. COMMITMENTS (CONTINUED)

The Madras Redevelopment Commission has an agreement with a developer to promote the construction of a movie theater. The Commission will make the first of five annual payments in the amount of \$100,000 each upon completion of construction and issuance of a certificate of ownership. The Agency made the first payment in July 2012.

The Madras Redevelopment Commission has an agreement with a local hotel to provide \$105,000 for each of five years to promote the development of the new hotel and meeting room, beginning with the date the hotel opened, which occurred in October 2007.

The following chart shows all construction contract obligations at June 30, 2012:

<u>Contractor</u>	<u>Project</u>	<u>Amount</u>
ODOT	US 97 Fairgrounds Road to L Street	\$ 113,766
ODOT	US 97 Fairgrounds Road to Culver Hwy	15,200
L3 Construction	M-Hill Project	20,722
7 Peaks Paving	M-Hill Project	69,697
Culvre Electric	M-Hill Project	12,676
Devco Engineering	M-Hill Project	1,308
CS Construction	Police Station/City Hall	3,036,798
Steele Associates	Police Station/City Hall	66,131
	Total	<u>\$ 3,336,298</u>

14. CONTINGENCIES & LITIGATION

A number of federal and state assisted programs are participated in. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grant. Management believes that such disallowance, if any, will be immaterial.

15. RELATED PARTY TRANSACTIONS

The Madras Redevelopment Commission (MRC), a blended component unit, provides funds to local businesses to improve and refurbish properties in the Urban Renewal District through a combination of grants and loans, as described in Note III. B. In a prior year, a local business owned by a Commissioner was awarded \$57,425, which consisted of a 50% grant and 50% loan payable to the Commission. The outstanding loan balance at year end was \$20,095 and is payable in monthly installments through January 2020. This award was consistent with MRC's policy and was discussed and approved during a monthly public meeting of the Urban Renewal District. This particular commissioner did not participate in the deliberation or vote.

16. DEFICIT FUND BALANCE

As of the year ended June 30, 2012, deficit fund balances existed in the Redevelopment Commission General Fund in the amount of \$1,832,293, in the SDC Park Improvement Fund in the amount of \$14,354, in the SDC Storm Water Improvement Fund in the amount of \$88,970, and in the SDC Wastewater Reimbursement Fund in the amount of \$41,177. In each instance, these negative fund balances are to be corrected by prudent fiscal management and by ensuring that revenues exceed expenditures in the coming year.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

17. RESTATEMENTS – CORRECTIONS OF MISSTATEMENTS

The beginning net assets and beginning fund balances for the governmental and proprietary funds have been restated due to the Debt Service Fund being combined with the Wastewater Fund, a proprietary fund, in the prior year. In the current year, the Debt Service Fund must be reported as a governmental fund due to the fact that it is now used to maintain debt for the Redevelopment Commission General Fund, which is a governmental fund.

The previously issued 2012 financial statements are restated for the following reasons: to include a single audit which was required by the City, to adjust revenues and related deferred revenue amounts that should have been included in accounts receivable for the current fiscal year, to reflect the correct interfund receivables and payables between different funds in the City, to correct the amount reported as capital assets and accrued compensated absences due to errors noted in the calculations, to add deposits payable back to the Wastewater Operations Fund that was inadvertently not included, to properly reflect correct revenue and expenditure amounts in the proper budgetary categories in the budgetary schedules, to change the presentation of the notes receivable and related deferred revenue to be included on the governmental fund financial statements in addition to the agency-wide statements for the Redevelopment Commission General Fund, and to include redevelopment properties on the governmental fund statements for the Redevelopment Commission General Fund. The accompanying financial statements have been restated to reflect those changes.

The effects of the restatement on the previously issued 2012 financial statements are summarized as follows:

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

17. RESTATEMENTS – CORRECTIONS OF MISSTATEMENTS (CONTINUED)

Statement of Net Assets
as of June 30, 2012:

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>Restated</u>
Assets:			
Cash and Cash Equivalents	\$5,117,162	\$ (9,173)	\$5,107,989
Accounts Receivable, Net	657,747	54,894	712,641
Redevelopment Properties	-	463,691	463,691
Capital Assets, net	53,022,047	2,498,825	55,520,872
Liabilities:			
Accounts Payable and Accrued Expenses	581,841	1,251	583,092
Deposits	40,642	38,038	78,680
Unearned Revenue	38,410	23,736	62,146
Accrued Compensated Absences	17,790	138,315	156,105
Litigation	-	175,000	175,000
Net Assets	40,016,445	2,631,897	42,648,342

Statement of Activities
For the Year Ended June 30, 2012:

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>Restated</u>
Net (Expenses) Revenue:			
General Government	\$ 514,806	\$ 36,989	\$ 551,795
Parks	(118,657)	(3,620)	(122,277)
Community Development	(348,597)	(137,188)	(485,785)
Public Safety	(1,893,661)	322,753	(1,570,908)
Highways and Streets	319,788	334,220	654,008
Water	30,446	(24,566)	5,880
Wastewater	(644,136)	90,768	(553,368)
Airport	1,845,602	(162,863)	1,682,739
Revenue:			
Property Taxes	1,131,027	284,784	1,415,811
Franchise and Public Services Taxes	281,333	(196,021)	85,312
Interest and Investment Earnings	42,825	(26,668)	16,157
Miscellaneous	62,040	18,133	80,173
Prior Period Adjustment	181,423	2,095,175	2,276,598
Net Assets - Ending	40,016,445	2,631,897	42,648,342

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

17. RESTATEMENTS – CORRECTIONS OF MISSTATEMENTS (CONTINUED)

*Combined Balance Sheet - Governmental Funds
as of June 30, 2012:*

	Previously Reported	Increase (Decrease)	Restated
Assets:			
Cash and Cash Equivalents	\$ 1,314,350	\$ 76,942	\$ 1,391,292
Property Taxes Receivable	145,833	9,773	155,606
Accounts Receivable	377,765	10,921	388,686
Notes Receivable	-	247,629	247,629
Due from Other Funds	146,341	2,585,000	2,731,341
Redevelopment Properties	-	463,691	463,691
Liabilities:			
Accounts Payable and Accrued Liabilities	73,406	1,250	74,656
Deposits	14,000	16,600	30,600
Deferred Revenue	139,757	239,945	379,702
Due to Other Funds	105,164	2,585,000	2,690,164
Fund Equity	1,639,473	551,161	2,190,634

*Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2012:*

	Previously Reported	Increase (Decrease)	Restated
Revenues:			
Property Taxes	\$ 1,386,035	\$ 94,667	\$ 1,480,702
Charges for Services	344,831	(234,489)	110,342
Intergovernmental	1,047,379	10,921	1,058,300
Rental Income	22,394	(638)	21,756
Interest on Investments	9,945	273	10,218
Miscellaneous	1,365	(8,535)	(7,170)
Expenditures:			
Community Development	356,512	(23,243)	333,269
Highways and Streets	810,503	(162,000)	648,503
Capital Outlay	770,261	(302,281)	467,980
Debt Service	2,809,513	81,550	2,891,063
Other Financing Sources (Uses):			
Bond Proceeds	-	2,585,000	2,585,000
Loss on Refinancing	-	(10,973)	(10,973)
Special Payments - Grants and Loans	-	(254,285)	(254,285)
Transfers	2,664,027	(2,574,027)	90,000
Prior Period Adjustment	-	463,691	463,691
Reconciliation moving Debt Service and Debt Reserve from Proprietary to Governmental	-	73,582	73,582
Ending Fund Balance	1,639,473	551,161	2,190,634

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

17. RESTATEMENTS – CORRECTIONS OF MISSTATEMENTS (CONTINUED)

*Statement of Net Assets - Proprietary Funds
as of June 30, 2012:*

	Previously Reported	Increase (Decrease)	Restated
Assets:			
Cash and Cash Equivalents - Proprietary	\$1,342,936	\$ (86,115)	\$1,256,821
Property Taxes Receivable - Proprietary	9,773	(9,773)	-
Accounts Receivable - Proprietary	257,926	12,994	270,920
Accounts Receivable - Internal Services	22,056	30,979	53,035
Interfund Loan Receivable - Proprietary	114,000	49,382	163,382
Bond Issuance Costs - Proprietary	10,973	(10,973)	-
Capital Assets, net - Proprietary	36,756,856	(190,488)	36,566,368
Capital Assets, net - Internal Services	2,574,824	2,279,998	4,854,822
Liabilities:			
Deposits - Proprietary	26,642	21,438	48,080
Unearned Revenue - Proprietary	-	40,336	40,336
Compensated Absences Payable - Internal Services	11,212	74,636	85,848
Interfund Payable - Proprietary	155,177	(114,000)	41,177
Interfund Payable - Internal Services	-	163,382	163,382
Long-Term Debt - Proprietary	14,742,200	(2,585,000)	12,157,200
Net Assets - Proprietary	23,180,958	2,402,253	25,583,211
Net Assets Internal Services	2,790,914	2,072,959	4,863,873

*Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds
For the Year Ended June 30, 2012:*

	Previously Reported	Increase (Decrease)	Restated
Revenues:			
Operating Revenues - Proprietary	\$2,798,101	\$ 26,668	\$2,824,769
Operating Revenues - Internal Services	2,830,578	(224,583)	2,605,995
Capital Contributions - Proprietary	2,028,653	(168,133)	1,860,520
Capital Contributions - Internal Services	319,771	30,979	350,750
Expenditures:			
Operating Expenses - Proprietary	3,413,678	(79,706)	3,333,972
Operating Expenses - Internal Services	2,361,428	(6,032)	2,355,396
Non-Operating Expenses - Proprietary	410,975	(15,798)	395,177
Non-Operating Expenses - Internal Services	132,515	(61,201)	71,314
Transfers - Proprietary	2,574,027	(2,574,027)	-
Prior Period Adjustment - Proprietary	(103,361)	(52,232)	(155,593)
Prior Period Adjustment - Internal Services	-	2,199,330	2,199,330
Reconciliation to move Debt Service and Debt Reserve			
Funds from Proprietary to Governmental	-	(73,582)	(73,582)
Ending Fund Balance - Proprietary	23,180,958	2,402,253	25,583,211
Ending Fund Balance - Internal Services	2,790,914	2,072,959	4,863,873

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

18. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was made to the government-wide Statement of Activities due to the discovery of an error in calculating accrued compensated absences which caused the ending net assets to be overstated by \$150,216. Another prior period adjustment was made to the government-wide Statement of Activities to correctly report the total capital assets when it was discovered that there were multiple items not included in the capital asset schedule. This caused the ending net assets to be understated by \$1,963,123. A final prior period adjustment was made to add Redevelopment Properties in the amount of \$463,691 to the Redevelopment Commission Fund in the governmental fund financial statements. The land previously reported as capital assets on the agency-wide financial statements was acquired with the intent of sale, meaning that it qualifies as a financial asset and will convert to cash in due course.

19. SUBSEQUENT EVENTS

On September 9, 2013 the City entered into a Settlement and Release Agreement to resolve litigation that was known in the current year. The settlement amount of \$175,000 that was paid during the 2013-14 fiscal year has been accrued on the government-wide financial statements to account for this settlement.

On January 1, 2013 the City obtained a Full Faith and Credit Refunding Obligation in the amount of \$10,495,000 with the intent to refund some of its outstanding debt.

On February 13, 2014 the City was advised that a client owing the City \$27,072 in system development charges filed for bankruptcy. It appears likely that these costs will be uncollectable.

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CITY OF MADRAS
JEFFERSON COUNTY, OREGON
REQUIRED SUPPLEMENTARY DATA

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CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
OTHER POST EMPLOYMENT BENEFITS
June 30, 2012

PLAN I (HEALTH INSURANCE)
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b)-(a) AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
8/1/2010	\$ -	\$ 413,797	\$ 413,797	0.00%	\$ 1,897,484	21.81%
8/1/2008	-	321,032	321,032	0.00%	1,837,504	17.47%
8/1/2006	-	330,572	330,572	0.00%	NA	NA

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2012	\$ 58,893	39 %
2011	50,074	38
2010	48,222	20
2009	51,367	11

The above table presents the most recent actuarial valuations for the District's post-retirement health insurance and it provides information that approximates the funding progress of the plan.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012 (RESTATED)

<u>GENERAL FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Taxes				
Property Taxes	\$ 1,020,903	\$ 1,020,903	\$ 1,015,065	\$ (5,838)
Hotel/Motel Tax	120,000	120,000	218,226	98,226
Franchise Fees	335,800	335,800	395,595	59,795
Licenses and Permits	6,000	6,000	2,274	(3,726)
Intergovernmental	167,572	275,852	296,655	20,803
Fines	55,000	55,000	48,018	(6,982)
Interest	500	500	1,843	1,343
Miscellaneous	1,000	1,000	1,230	230
Total Revenue	<u>1,706,775</u>	<u>1,815,055</u>	<u>1,978,906</u>	<u>163,851</u>
EXPENDITURES				
Police Department	1,753,191	1,788,191	(1) 1,638,940	149,251
Non-Departmental	100,000	168,280	(1) 176,658	(8,378)
Total Expenditures	<u>1,853,191</u>	<u>1,956,471</u>	<u>1,815,598</u>	<u>140,873</u>
Excess of Revenues Over, (Under) Expenditures	(146,416)	(141,416)	163,308	304,724
OTHER FINANCING SOURCES (USES)				
Transfers Out	(171,045)	(176,045)	(1) (181,658)	(5,613)
Net Change in Fund Balance	(317,461)	(317,461)	(18,350)	299,111
Beginning Fund Balance	691,212	691,212	717,832	26,620
Ending Fund Balance, Restated	<u>\$ 373,751</u>	<u>\$ 373,751</u>	\$ 699,482	<u>\$ 325,731</u>
Reconciliation to Governmental Fund Balance as required by GASB #54				
Ending Fund Balance, Restated:				
Parks Fund			14,729	
Industrial Site Fund			56,472	
			<u>\$ 770,683</u>	

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012

TRANSPORTATION OPERATIONS FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
Franchise Fees	\$ 335,800	\$ 335,800	\$ 395,579	\$ 59,779
Intergovernmental	867,515	1,212,715	761,645	(451,070)
Interest on Investments	50	50	412	362
L.I.D. Payments	500	500	638	138
Charges for Services	1,000	1,000	35,417	34,417
Total Revenues	<u>1,204,865</u>	<u>1,550,065</u>	<u>1,193,691</u>	<u>(356,374)</u>
EXPENDITURES:				
Current				
Highways and Streets				
Materials and Services	656,530	667,530 (1)	648,503	19,027
Capital outlay	662,322	1,007,522 (1)	467,980	539,542
Contingency	4,000	4,000 (1)	-	4,000
Total Expenditures	<u>1,322,852</u>	<u>1,679,052</u>	<u>1,116,483</u>	<u>562,569</u>
Excess of Revenues Over, (Under)				
Expenditures	(117,987)	(128,987)	77,208	(206,195)
Other Financing Sources (Uses):				
Transfers in	40,000	40,000	40,000	-
Transfers out	-	(162,000) (1)	(162,000)	-
Total Other Financing Sources (Uses)	<u>40,000</u>	<u>(122,000)</u>	<u>(122,000)</u>	<u>-</u>
Net Change in Fund Balance	<u>(77,987)</u>	<u>(250,987)</u>	<u>(44,792)</u>	<u>206,195</u>
Beginning Fund Balance	87,423	260,423	271,971	11,548
Ending Fund Balance	<u>\$ 9,436</u>	<u>\$ 9,436</u>	<u>\$ 227,179</u>	<u>\$ 217,743</u>

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

For the Year Ended June 30, 2012 (RESTATED)

REDEVELOPMENT COMMISSION GENERAL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
Taxes				
Property Taxes	\$ 346,390	\$ 346,390	\$ 370,970	\$ 24,580
Interest	500	500	731	231
Total Revenues	<u>346,890</u>	<u>346,890</u>	<u>371,701</u>	<u>24,811</u>
EXPENDITURES:				
Materials and Services	46,550	71,959 (1)	55,975	15,984
Capital Outlay	320,000	320,000 (1)	-	320,000
Debt Services	234,220	2,919,220 (1)	2,630,342	288,878
Contingency	15,000	4,591 (1)	-	4,591
Total Expenditures	<u>615,770</u>	<u>3,315,770</u>	<u>2,686,317</u>	<u>629,453</u>
Excess of Revenues Over, (Under) Expenditures	(268,880)	(2,968,880)	(2,314,616)	654,264
Other Financing Sources (Uses):				
Loss on Refinancing of Debt	-	-	(10,973)	(10,973)
Special Payments - Grants and Loans	-	- (1)	(254,285)	(254,285)
Transfers In	-	2,700,000	2,585,000	(115,000)
Transfers Out	-	- (1)	(40,000)	(40,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>2,700,000</u>	<u>2,279,742</u>	<u>(420,258)</u>
Net Change in Fund Balance	(268,880)	(268,880)	(34,874)	234,006
Prior Period Adjustment	-	-	463,691	463,691
Beginning Fund Balance	<u>268,880</u>	<u>268,880</u>	<u>323,890</u>	<u>55,010</u>
Ending Fund Balance, Restated	<u>\$ -</u>	<u>\$ -</u>	<u>752,707</u>	<u>\$ 752,707</u>

**RECONCILIATION TO GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES**

Interfund Loan

(2,585,000)

FUND BALANCE, ENDING, RESTATED

\$ (1,832,293)

(1) Appropriation Level

'Because the Madras Redevelopment Commission is a separate legal entity, the \$2,700,000 supplemental budget shown as "Transfers In" above was approved as Issuance of Debt. To accurately report the Redevelopment Commission as a component unit of the City, the transaction is reported on the City's financial statements as an interfund transfer in/out for budget basis and an interfund loan for modified accrual basis in the Generally Accepted Accounting Principles.

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012**

<u>PARKS FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Regulatory Fees	\$ 400	\$ 400	\$ 1,250	\$ 850
Charges for Services	59,000	59,000	32,925	(26,075)
Interest on Investments	50	50	98	48
Total Revenues	<u>59,450</u>	<u>59,450</u>	<u>34,273</u>	<u>(25,177)</u>
EXPENDITURES:				
Community Development: Materials and Services	<u>187,457</u>	<u>197,457 (1)</u>	<u>193,022</u>	<u>4,435</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>111,045</u>	<u>121,045</u>	<u>159,147</u>	<u>38,102</u>
Net Change in Fund Balance	(16,962)	(16,962)	398	17,360
Beginning Fund Balance	<u>16,962</u>	<u>16,962</u>	<u>14,331</u>	<u>(2,631)</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,729</u>	<u>\$ 14,729</u>

Note: This fund's activities have been combined with the General Fund activities in accordance with GASB #54 due to its financing resources being derived primarily from General Fund transfers.

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012

<u>INDUSTRIAL SITE FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Interest on Investments	\$ 75	\$ 75	\$ 207	\$ 132
Land Lease Income	21,400	21,400	21,756	356
Total Revenues	<u>21,475</u>	<u>21,475</u>	<u>21,963</u>	<u>488</u>
EXPENDITURES:				
Materials and Services	22,040	22,040 (1)	11,162	10,878
Capital Outlay	36,224	36,224 (1)	-	36,224
Contingency	6,424	6,424 (1)	-	6,424
Total Expenditures	<u>64,688</u>	<u>64,688</u>	<u>11,162</u>	<u>53,526</u>
Net Change in Fund Balance	(43,213)	(43,213)	10,801	54,014
Beginning Fund Balance	<u>43,213</u>	<u>43,213</u>	<u>45,671</u>	<u>2,458</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,472</u>	<u>\$ 56,472</u>

Note: This fund's activities have been combined with the General Fund activities in accordance with GASB #54 due to its financing resources being derived primarily from General Fund transfers.

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SUPPLEMENTARY DATA

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
June 30, 2012 (RESTATED)

	SPECIAL REVENUE FUND			DEBT SERVICE FUNDS	
	TOURISM/ECONOMIC DEVELOPMENT FUND	COMMUNITY DEVELOPMENT FUND	IMPROVEMENT FEE FUND	DEBT SERVICE FUND	DEBT RESERVE FUND
	FUND	FUND	FUND	FUND	FUND
ASSETS:					
Cash and Cash Equivalents	\$ -	\$ 42,239	\$ -	\$ 76,881	\$ 61
Restricted Cash and Cash Equivalents	-	12,782	311,080	-	-
Receivables:					
Property Taxes	-	-	-	9,773	-
Accounts	16,037	-	-	-	-
Notes	-	-	-	-	-
Due from other funds	-	-	-	2,585,000	-
Total Assets	\$ 16,037	\$ 55,021	\$ 311,080	\$ 2,671,654	\$ 61
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 1,250	\$ 552	\$ -	\$ -	\$ -
Payroll Liabilities	-	2,135	-	-	-
Deposits	-	14,000	-	-	-
Deferred Revenue	-	-	-	8,916	-
Due to Other Funds	1,798	-	-	-	-
Total Liabilities	3,048	16,687	-	8,916	-
Fund Balances:					
Restricted	-	12,782	311,080	2,662,738	-
Committed	12,989	-	-	-	-
Assigned	-	25,552	-	-	-
Unassigned	-	-	-	-	61
Total Fund Balances, Restated	12,989	38,334	311,080	2,662,738	61
Total Liabilities and Fund Balances, Restated	\$ 16,037	\$ 55,021	\$ 311,080	\$ 2,671,654	\$ 61

CAPITAL PROJECTS FUNDS					TOTAL
SDC PARK IMPROVEMENT FUND	SDC STREET IMPROVEMENT FUND	SDC STORM WATER IMPROVEMENT FUND	SDC STREET REIMBURSEMENT FUND	MRC REINVESTMENT FUND	OTHER GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ -	\$ 66,495	\$ 185,676
-	1,070	-	35,622	-	360,554
-	-	-	-	-	9,773
-	-	42	-	-	16,079
-	-	-	-	247,629	247,629
-	-	-	-	-	2,585,000
<u>\$ -</u>	<u>\$ 1,070</u>	<u>\$ 42</u>	<u>\$ 35,622</u>	<u>\$ 314,124</u>	<u>\$ 3,404,711</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,802
-	-	-	-	-	2,135
-	-	-	-	-	14,000
-	-	-	-	247,629	256,545
14,354	-	89,012	-	-	105,164
<u>14,354</u>	<u>-</u>	<u>89,012</u>	<u>-</u>	<u>247,629</u>	<u>379,646</u>
-	1,070	-	35,622	-	3,023,292
-	-	-	-	-	12,989
-	-	-	-	-	25,552
(14,354)	-	(88,970)	-	66,495	(36,768)
<u>(14,354)</u>	<u>1,070</u>	<u>(88,970)</u>	<u>35,622</u>	<u>66,495</u>	<u>3,025,065</u>
<u>\$ -</u>	<u>\$ 1,070</u>	<u>\$ 42</u>	<u>\$ 35,622</u>	<u>\$ 314,124</u>	<u>\$ 3,404,711</u>

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012 (RESTATED)**

	SPECIAL REVENUE FUND			DEBT SERVICE FUNDS	
	TOURISM/ECONOMIC DEVELOPMENT FUND	COMMUNITY DEVELOPMENT FUND	IMPROVEMENT FEE FUND	DEBT SERVICE FUND	DEBT RESERVE FUND
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ 94,667	\$ -
Other Taxes	64,978	-	-	-	-
Assessment	-	-	-	-	-
Licenses and Fees	-	9,161	-	-	-
Charges for Services	-	42,000	-	-	-
System Development Charges	-	-	-	-	-
Interest on Investments	14	271	963	212	61
Miscellaneous	-	135	-	(9,173)	-
Total Revenues	64,992	51,567	963	85,706	61
EXPENDITURES:					
Current:					
Community Development	85,347	191,947	-	-	-
Debt Service	-	-	-	81,550	-
Total Expenditures	85,347	191,947	-	81,550	-
Excess of Revenues Over, (Under) Expenditures	(20,355)	(140,380)	963	4,156	61
Other Financing Sources, (Uses)					
Bond Proceeds	-	-	-	2,585,000	-
Transfers In	60,000	85,000	-	-	-
Transfers Out	(32,489)	-	-	(2,585,000)	-
Total Other Financing Sources (Uses)	27,511	85,000	-	-	-
Net Change in Fund Balance	7,156	(55,380)	963	4,156	61
Fund Balance - Beginning of Year	5,833	93,714	310,117	-	-
Reconciliation to move Debt Service Fund and Debt Reserve Fund from Proprietary to Governmental	-	-	-	73,582	-
Fund Balance - End of Year, Restated	12,989	38,334	311,080	77,738	61
RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Interfund Loan	-	-	-	2,585,000	-
FUND BALANCE, ENDING, RESTATED	\$ 12,989	\$ 38,334	\$ 311,080	\$ 2,662,738	\$ 61

CAPITAL PROJECTS FUNDS					TOTAL
SDC PARK IMPROVEMENT FUND	SDC STREET IMPROVEMENT FUND	SDC STORM WATER IMPROVEMENT FUND	SDC STREET REIMURSEMENT FUND	MRC REINVESTMENT FUND	OTHER GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,667
-	-	-	-	-	64,978
-	-	-	-	37,155	37,155
-	-	-	-	-	9,161
-	-	-	-	-	42,000
3,277	31,227	530	2,541	-	37,575
-	-	-	104	6,033	7,658
-	-	-	-	-	(9,038)
<u>3,277</u>	<u>31,227</u>	<u>530</u>	<u>2,645</u>	<u>43,188</u>	<u>284,156</u>
-	-	-	-	-	277,294
-	179,171	-	-	-	260,721
-	179,171	-	-	-	538,015
3,277	(147,944)	530	2,645	43,188	(253,859)
-	-	-	-	-	2,585,000
-	162,000	-	-	-	307,000
-	-	-	-	-	(2,617,489)
-	162,000	-	-	-	274,511
3,277	14,056	530	2,645	43,188	20,652
(17,631)	(12,986)	(89,500)	32,977	23,307	345,831
-	-	-	-	-	73,582
(14,354)	1,070	(88,970)	35,622	66,495	440,065
-	-	-	-	-	2,585,000
<u>\$ (14,354)</u>	<u>\$ 1,070</u>	<u>\$ (88,970)</u>	<u>\$ 35,622</u>	<u>\$ 66,495</u>	<u>\$ 3,025,065</u>

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Year Ended June 30, 2012 (RESTATED)

TOURISM/ECONOMIC DEVELOPMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
Other Taxes	\$ 60,000	\$ 60,000	\$ 64,978	\$ 4,978
Interest on Investments	200	200	14	(186)
Total Revenues	<u>60,200</u>	<u>60,200</u>	<u>64,992</u>	<u>4,792</u>
EXPENDITURES:				
Community Development: Materials and Services	122,545	92,545 (1)	85,347	7,198
Total Expenditures	<u>122,545</u>	<u>92,545</u>	<u>85,347</u>	<u>7,198</u>
Excess of Revenues Over, (Under) Expenditures	(62,345)	(32,345)	(20,355)	11,990
OTHER FINANCING SOURCES (USES)				
Transfers in	60,000	60,000	60,000	-
Transfers out	-	(30,000) (1)	(32,489)	(2,489)
Total Other Financing Sources (Uses)	<u>60,000</u>	<u>30,000</u>	<u>27,511</u>	<u>9,501</u>
Net Change in Fund Balance	(2,345)	(2,345)	7,156	9,501
Beginning Fund Balance	<u>2,345</u>	<u>2,345</u>	<u>5,833</u>	<u>3,488</u>
Ending Fund Balance, Restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,989</u>	<u>\$ 12,989</u>

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012**

COMMUNITY DEVELOPMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
Licenses and Fees	\$ 12,000	\$ 12,000	\$ 9,161	\$ (2,839)
Charges for Services	42,000	42,000	42,000	-
Interest on Investments	500	500	271	(229)
Miscellaneous	-	-	135	135
Total Revenues	54,500	54,500	51,567	(2,933)
EXPENDITURES:				
Community Development				
Personal Services	141,876	141,876 (1)	134,951	6,925
Materials and Services	58,651	58,651 (1)	56,996	1,655
Total Expenditures	200,527	200,527	191,947	8,580
Excess of Revenues Over, (Under)				
Expenditures	(146,027)	(146,027)	(140,380)	5,647
OTHER FINANCING SOURCES (USES)				
Transfers in	85,000	85,000	85,000	-
Net Change in Fund Balance	(61,027)	(61,027)	(55,380)	5,647
Beginning Fund Balance	78,548	78,548	93,714	15,166
Ending Fund Balance	<u>\$ 17,521</u>	<u>\$ 17,521</u>	<u>\$ 38,334</u>	<u>\$ 20,813</u>

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012**

	<u>IMPROVEMENT FEE</u>			
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Interest on Investments	\$ 100	\$ 100	\$ 963	\$ 863
Net Change in Fund Balance	100	100	963	863
Beginning Fund Balance	<u>309,198</u>	<u>309,198</u>	<u>310,117</u>	<u>919</u>
Ending Fund Balance	<u>\$ 309,298</u>	<u>\$ 309,298</u>	<u>\$ 311,080</u>	<u>\$ 1,782</u>
(1) Appropriation Level				

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012 (RESTATED)**

DEBT SERVICE FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
Property Taxes	\$ 89,250	\$ 89,250	\$ 94,667	\$ 5,417
Interest	200	200	212	12
Miscellaneous	-	-	(9,173)	(9,173)
Total Revenues	89,450	89,450	85,706	(3,744)
EXPENDITURES:				
Debt Service	81,550	81,550 (1)	81,550	-
Excess of Revenues Over, (Under) Expenditures	7,900	7,900	4,156	(3,744)
Other Financing Sources (Uses):				
Bond Proceeds	-	2,700,000	2,585,000	(115,000)
Transfers Out	-	(2,700,000) (1)	(2,585,000)	115,000
Net Change in Fund Balance	7,900	7,900	4,156	(3,744)
Beginning Fund Balance	69,274	69,274	73,582	4,308
Ending Fund Balance, Restated	\$ 77,174	\$ 77,174	77,738	\$ 564
RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES				
Interfund Loan			2,585,000	
FUND BALANCE, ENDING, RESTATED			\$ 2,662,738	

(1) Appropriation Level

Because the Madras Redevelopment Commission is a separate legal entity, the \$2,700,000 supplemental budget shown as "Transfers Out" above was approved as a Special Payment (Loan to MRC). To accurately report the Redevelopment Commission as a component unit of the City, the transaction is reported on the City's financial statements as an interfund transfer in/out for budget basis and an interfund loan for modified accrual basis in the Generally Accepted Accounting Principles.

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012 (RESTATED)**

DEBT RESERVE FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Interest	\$ -	\$ -	\$ 61	\$ 61
EXPENDITURES:				
Debt Service	-	114,000 (1)	-	114,000
Excess of Revenues Over, (Under) Expenditures	-	(114,000)	61	114,061
Other Financing (Uses):				
Transfers in	-	114,000	-	(114,000)
Net Change in Fund Balance	-	-	61	61
Beginning Fund Balance	-	-	-	-
Ending Fund Balance, Restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61</u>	<u>\$ 61</u>

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2012

SDC PARK IMPROVEMENT FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
System Development Charges	\$ 7,948	\$ 7,948	\$ 3,277	\$ (4,671)
Net Change in Fund Balance	7,948	7,948	3,277	(4,671)
Beginning Fund Balance	(17,393)	(17,393)	(17,631)	(238)
Ending Fund Balance	<u>\$ (9,445)</u>	<u>\$ (9,445)</u>	<u>\$ (14,354)</u>	<u>\$ (4,909)</u>

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012

SDC STREET IMPROVEMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
System Development Charges	\$ 200,000	\$ 200,000	\$ 31,227	\$ (168,773)
EXPENDITURES:				
Debt Service	178,788	179,288 (1)	179,171	117
Contingency	-	(500) (1)	-	(500)
Total Expenditures	178,788	178,788	179,171	(383)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	162,000	162,000
Net Change in Fund Balance	21,212	21,212	14,056	(169,156)
Beginning Fund Balance	(15,679)	(15,679)	(12,986)	2,693
Ending Fund Balance	\$ 5,533	\$ 5,533	\$ 1,070	\$ (4,463)

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012**

SDC STORM WATER IMPROVEMENT FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES				
System Development Charges	\$ 7,386	\$ 7,386	\$ 530	\$ 6,856
Net Change in Fund Balance	7,386	7,386	530	(6,856)
Beginning Fund Balance	<u>(87,406)</u>	<u>(87,406)</u>	<u>(89,500)</u>	<u>(2,094)</u>
Ending Fund Balance	<u>\$ (80,020)</u>	<u>\$ (80,020)</u>	<u>\$ (88,970)</u>	<u>\$ (8,950)</u>

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012**

SDC STREET REIMBURSEMENT FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
System Development Charges	\$ 24,000	\$ 24,000	\$ 2,541	\$ (21,459)
Interest on Investments	20	20	104	84
Total Revenues	<u>24,020</u>	<u>24,020</u>	<u>2,645</u>	<u>(21,375)</u>
EXPENDITURES:				
Capital Outlay	<u>50,000</u>	<u>50,000</u> (1)	-	<u>50,000</u>
Net Change in Fund Balance	(25,980)	(25,980)	2,645	28,625
Beginning Fund Balance	<u>32,949</u>	<u>32,949</u>	<u>32,977</u>	<u>28</u>
Ending Fund Balance	<u>\$ 6,969</u>	<u>\$ 6,969</u>	<u>\$ 35,622</u>	<u>\$ 28,653</u>

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012**

<u>MRC REINVESTMENT FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Assessments	\$ 20,000	\$ 20,000	\$ 37,155	\$ 17,155
Interest on Investments	3,100	3,100	6,033	2,933
Total Revenues	23,100	23,100	43,188	20,088
Net Change in Fund Balance	23,100	23,100	43,188	20,088
Beginning Fund Balance	18,825	18,825	23,307	4,482
Ending Fund Balance	<u>\$ 41,925</u>	<u>\$ 41,925</u>	<u>\$ 66,495</u>	<u>\$ 24,570</u>

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
WATER FUNDS**

For the Year Ended June 30, 2012 (RESTATED)

	<u>SDC WATER IMPROVEMENT</u>	<u>WATER OPERATIONS</u>	<u>TOTAL</u>
REVENUES:			
Charges for Services	\$ 154	\$ 428,444	\$ 428,598
Interest on Investments	-	99	99
Miscellaneous	-	1,349	1,349
Total Revenues	154	429,892	430,046
EXPENDITURES:			
Materials and Services	-	420,762	420,762
Debt Service	-	11,075	11,075
Total Expenditures	-	431,837	431,837
Net Change in Fund Balance	154	(1,945)	(1,791)
Beginning Fund Balance	49,612	28,400	78,012
Ending Fund Balance	<u>\$ 49,766</u>	<u>\$ 26,455</u>	76,221
RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES			
Capital Assets, Net of Depreciation			789,641
Long-term Debt			(134,813)
Accrued Interest Payable			<u>(3,861)</u>
NET ASSETS, ENDING, RESTATED			<u><u>\$ 727,188</u></u>

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012**

SDC WATER IMPROVEMENT FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Charges For Services				
System Development Fees	\$ 150	\$ 150	\$ 154	\$ 4
EXPENDITURES:				
Capital Outlay	49,649	49,649 (1)	-	49,649
Net Change in Fund Balance	(49,499)	(49,499)	154	49,653
Beginning Fund Balance	49,499	49,499	49,612	113
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,766</u>	<u>\$ 49,766</u>

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012

WATER OPERATIONS FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
Charges for Services	\$ 424,673	\$ 424,673	\$ 428,444	\$ 3,771
Interest on Investments	300	300	99	(201)
Miscellaneous	-	-	1,349	1,349
	<u>424,973</u>	<u>424,973</u>	<u>429,892</u>	<u>4,919</u>
Total Revenues				
EXPENDITURES:				
Materials and Services	\$ 426,116	\$ 426,116 (1)	\$ 420,762	\$ 5,354
Debt Service	11,075	11,075 (1)	11,075	-
Contingency	8,514	8,514 (1)	-	8,514
	<u>445,705</u>	<u>445,705</u>	<u>431,837</u>	<u>13,868</u>
Total Expenditures				
Net Change in Fund Balance	(20,732)	(20,732)	(1,945)	18,787
Beginning Fund Balance	<u>20,732</u>	<u>20,732</u>	<u>28,400</u>	<u>7,668</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,455</u>	<u>\$ 26,455</u>

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
WASTEWATER FUNDS
For the Year Ended June 30, 2012 (RESTATED)

	SDC WASTEWATER IMPROVEMENT	SDC WASTEWATER REIMBURSEMENT	WASTEWATER OPERATIONS	TOTAL
REVENUES:				
Charges for Services	\$ 15,426	\$ 2,764	\$ 1,850,540	\$ 1,868,730
Intergovernmental	10,630	-	-	10,630
Assessments	-	-	1,498	1,498
Rental Income	-	-	57,240	57,240
Interest on Investments	4,880	-	545	5,425
Miscellaneous	-	-	618	618
Total Revenues	30,936	2,764	1,910,441	1,944,141
EXPENDITURES:				
Materials and Services	-	-	1,644,587	1,644,587
Capital Outlay	335,562	-	56,713	392,275
Debt Service	759,249	-	195,326	954,575
Total Expenditures	1,094,811	-	1,896,626	2,991,437
Excess of Revenues Over, (Under) Expenditures	(1,063,875)	2,764	13,815	(1,047,296)
Other Financing Sources (Uses): Repayment of Interfund Loan	64,772	-	-	64,772
Net Change in Fund Balance	(999,103)	2,764	13,815	(982,524)
Beginning Fund Balance	1,906,851	(43,941)	216,494	2,079,404
Ending Fund Balance	<u>\$ 907,748</u>	<u>\$ (41,177)</u>	<u>\$ 230,309</u>	<u>1,096,880</u>
RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES				
Interfund Loan				163,382
Capital Assets, Net of Depreciation				27,485,379
Long-term Debt				(10,862,607)
Accrued Interest Payable				<u>(318,230)</u>
NET ASSETS, ENDING, RESTATED				<u><u>\$ 17,564,804</u></u>

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

For the Year Ended June 30, 2012 (RESTATED)

SDC WASTEWATER IMPROVEMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
Charges For Services				
System Development Fees	\$ 13,902	\$ 13,902	\$ 15,426	\$ 1,524
Grant Revenue	-	25,000	10,630	(14,370)
Interest	2,000	2,000	4,880	2,880
	15,902	40,902	30,936	(9,966)
EXPENDITURES:				
Capital Outlay	-	348,000 (1)	335,562	12,438
Debt Service	657,648	1,076,368 (1)	759,249	317,119
	657,648	1,424,368	1,094,811	329,557
Excess of Revenues Over, (Under) Expenditures	(641,746)	(1,383,466)	(1,063,875)	(339,523)
Other Financing Sources (Uses):				
Repayment of Interfund Loan	64,772	64,772	64,772	-
Transfers Out	-	(114,000) (1)	-	114,000
	(576,974)	(1,432,694)	(999,103)	319,591
Net Change in Fund Balance				
Beginning Fund Balance	1,906,073	2,761,793	1,906,851	(854,942)
Ending Fund Balance, Restated	\$ 1,329,099	\$ 1,329,099	\$ 907,748	\$ (421,351)

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2012

SDC WASTEWATER REIMBURSEMENT FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Charges For Services				
System Development Fees	\$ 2,368	\$ 2,368	\$ 2,764	\$ 396
Net Change in Fund Balance	2,368	2,368	2,764	396
Beginning Fund Balance	<u>(45,990)</u>	<u>(45,990)</u>	<u>(43,941)</u>	<u>2,049</u>
Ending Fund Balance	<u>\$ (43,622)</u>	<u>\$ (43,622)</u>	<u>\$ (41,177)</u>	<u>\$ 2,445</u>

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012 (RESTATED)

WASTEWATER OPERATIONS FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
Charges for Services	\$ 1,871,549	\$ 1,944,349	\$ 1,850,540	\$ (93,809)
Assessments	1,800	1,800	1,498	(302)
Building and Land Rentals	1,000	1,000	57,240	56,240
Interest on Investments	1,000	1,000	545	(455)
Miscellaneous	-	-	618	618
Total Revenues	<u>1,875,349</u>	<u>1,948,149</u>	<u>1,910,441</u>	<u>(37,708)</u>
EXPENDITURES:				
Materials and Services	1,629,587	1,647,587 (1)	1,644,587	3,000
Capital Outlay	30,000	102,800 (1)	56,713	46,087
Debt Service	195,326	195,326 (1)	195,326	-
Contingency	16,000	16,000 (1)	-	16,000
Total Expenditures	<u>1,870,913</u>	<u>1,961,713</u>	<u>1,896,626</u>	<u>65,087</u>
Net Change in Fund Balance	4,436	(13,564)	13,815	27,379
Beginning Fund Balance	<u>212,475</u>	<u>230,475</u>	<u>216,494</u>	<u>(13,981)</u>
Ending Fund Balance, Restated	<u>\$ 216,911</u>	<u>\$ 216,911</u>	<u>\$ 230,309</u>	<u>\$ 13,398</u>

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
AIRPORT FUNDS

For the Year Ended June 30, 2012 (RESTATED)

	AIRPORT OPERATIONS	AIRPORT CONSTRUCTION	TOTAL
REVENUES:			
Charges for Services	\$ 264,599	\$ -	\$ 264,599
Intergovernmental	-	1,859,002	1,859,002
Rental Income	184,467	-	184,467
Interest on Investments	374	41	415
Miscellaneous	60	26,668	26,728
Total Revenues	449,500	1,885,711	2,335,211
EXPENDITURES:			
Materials and Services	368,072	-	368,072
Capital Outlay	-	1,828,980	1,828,980
Debt Service	86,542	-	86,542
Total Expenditures	454,614	1,828,980	2,283,594
Excess of Revenues Over, (Under) Expenditures	(5,114)	56,731	51,617
Other Financing Sources (Uses):			
Transfers In	50,000	-	50,000
Transfers Out	-	(50,000)	(50,000)
Total Other Financing Sources (Uses)	50,000	(50,000)	-
Net Change in Fund Balance	44,886	6,731	51,617
Beginning Fund Balance	88,789	54,922	143,711
Ending Fund Balance	\$ 133,675	\$ 61,653	195,328
RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES			
Capital Assets, Net of Depreciation			8,291,348
Long-term Debt			(1,159,780)
Accrued Interest Payable			(35,677)
NET ASSETS, ENDING, RESTATED			\$ 7,291,219

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012

AIRPORT OPERATIONS FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
Charges for Services	\$ 170,400	\$ 252,400	\$ 264,599	\$ 12,199
Rental Income	158,983	158,983	184,467	25,484
Interest on Investments	50	50	374	324
Miscellaneous	3,000	3,000	60	(2,940)
Total Revenues	332,433	414,433	449,500	35,067
EXPENDITURES:				
Materials and Services	270,132	384,112 (1)	368,072	16,040
Debt Service	86,543	86,543 (1)	86,542	1
Contingency	-	(13,000) (1)	-	(13,000)
Total Expenditures	356,675	457,655	454,614	3,041
Excess of Revenues Over, (Under) Expenditures	(24,242)	(43,222)	(5,114)	38,108
Other Financing Sources (Uses): Transfers In	50,000	50,000	50,000	-
Net Change in Fund Balance	25,758	6,778	44,886	38,108
Beginning Fund Balance	25,031	44,011	88,789	44,778
Ending Fund Balance	\$ 50,789	\$ 50,789	\$ 133,675	\$ 82,886

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2012**

AIRPORT CONSTRUCTION FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:				
Intergovernmental	\$ 1,689,624	\$ 1,789,624	\$ 1,859,002	\$ 69,378
Land Sales	25,000	25,000	26,668	1,668
Interest	-	-	41	41
Total Revenues	<u>1,714,624</u>	<u>1,814,624</u>	<u>1,885,711</u>	<u>71,087</u>
EXPENDITURES:				
Capital outlay	1,702,624	1,862,624 (1)	1,828,980	33,644
Contingency	50,000	- (1)	-	-
Total Expenditures	<u>1,752,624</u>	<u>1,862,624</u>	<u>1,828,980</u>	<u>33,644</u>
Excess of Revenues Over, (Under) Expenditures	(38,000)	(48,000)	56,731	104,731
Other Financing Sources (Uses): Transfers Out	-	- (1)	(50,000)	(50,000)
Net Change in Fund Balance	(38,000)	(48,000)	6,731	54,731
Beginning Fund Balance	116,884	126,884	54,922	(71,962)
Ending Fund Balance	<u>\$ 78,884</u>	<u>\$ 78,884</u>	<u>\$ 61,653</u>	<u>\$ (17,231)</u>

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2012 (RESTATED)

	CENTRAL SERVICES	PUBLIC WORKS STAFF	BUILDINGS	FLEET	TOTAL
ASSETS:					
Current Assets:					
Cash and Investments	\$ 229,460	\$ 520,631	\$ 1,604,527	\$ 105,258	\$ 2,459,876
Accounts Receivable	(268)	22,324	30,979	-	53,035
Prepaid Expense	68	-	-	-	68
Total Current Assets	<u>229,260</u>	<u>542,955</u>	<u>1,635,506</u>	<u>105,258</u>	<u>2,512,979</u>
Noncurrent Assets:					
Bond Issuance Costs	-	-	61,396	-	61,396
Land	-	-	2,270,000	-	2,270,000
Construction in Progress	-	-	1,862,901	-	1,862,901
Depreciable Assets	5,718	7,125	129,200	1,057,496	1,199,539
Accumulated Depreciation	(3,622)	(7,125)	(15,311)	(451,560)	(477,618)
Total Noncurrent Assets	<u>2,096</u>	<u>-</u>	<u>4,308,186</u>	<u>605,936</u>	<u>4,916,218</u>
Total Assets	<u>\$ 231,356</u>	<u>\$ 542,955</u>	<u>\$ 5,943,692</u>	<u>\$ 711,194</u>	<u>\$ 7,429,197</u>
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 11,361	\$ 24,925	\$ 390,638	\$ 13,163	\$ 440,087
Payroll Liabilities	10,884	10,301	-	-	21,185
Accrued Interest Payable	-	-	6,317	-	6,317
Unearned Revenue	356	15,138	-	-	15,494
Compensated Absences Payable	33,231	52,617	-	-	85,848
Interfund Payable	-	-	-	163,382	163,382
Current Portion of Long-term Debt	-	-	45,000	-	45,000
Total Current Liabilities	<u>55,832</u>	<u>102,981</u>	<u>441,955</u>	<u>176,545</u>	<u>777,313</u>
Noncurrent Liabilities					
Other Post Employment Benefits Liability	22,639	60,372	-	-	83,011
Bonds Payable	-	-	1,705,000	-	1,705,000
Total Noncurrent Liabilities	<u>22,639</u>	<u>60,372</u>	<u>1,705,000</u>	<u>-</u>	<u>1,788,011</u>
Total Liabilities	<u>78,471</u>	<u>163,353</u>	<u>2,146,955</u>	<u>176,545</u>	<u>2,565,324</u>
Net Assets:					
Invested in Capital Assets, Net of of Related Debt	2,096	-	226,790	605,936	834,822
Unrestricted	150,789	379,602	3,569,947	(71,287)	4,029,051
Total Net Assets, Restated	<u>\$ 152,885</u>	<u>\$ 379,602</u>	<u>\$ 3,796,737</u>	<u>\$ 534,649</u>	<u>\$ 4,863,873</u>

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS**

For the Year Ended June 30, 2012 (RESTATED)

	CENTRAL SERVICES	PUBLIC WORKS STAFF	BUILDINGS	FLEET	TOTAL
OPERATING REVENUES:					
Licenses and Fees	\$ 27,761	\$ 14,058	\$ -	\$ -	\$ 41,819
Charges for Services	727,323	1,164,085	407,183	259,272	2,557,863
Miscellaneous	530	4,861	-	922	6,313
Total Operating Revenues	<u>755,614</u>	<u>1,183,004</u>	<u>407,183</u>	<u>260,194</u>	<u>2,605,995</u>
OPERATING EXPENSES:					
Personal Services	466,190	982,573	-	-	1,448,763
Materials and Services	230,702	234,808	125,844	207,007	798,361
Depreciation	1,906	-	2,584	103,782	108,272
Total Operating Expenses	<u>698,798</u>	<u>1,217,381</u>	<u>128,428</u>	<u>310,789</u>	<u>2,355,396</u>
Operating Income (loss)	56,816	(34,377)	278,755	(50,595)	250,599
NONOPERATING REVENUES (EXPENSES):					
Intergovernmental	-	-	350,750	-	350,750
Interest on Investments	675	1,912	6,798	304	9,689
Interest Expense	-	-	(77,432)	(3,571)	(81,003)
Total Nonoperating Revenues (Expense)	<u>675</u>	<u>1,912</u>	<u>280,116</u>	<u>(3,267)</u>	<u>279,436</u>
Net Income Before Transfers	57,491	(32,465)	558,871	(53,862)	530,035
TRANSFERS					
Transfers In	-	-	-	47,000	47,000
Transfers Out	(85,000)	(52,000)	-	-	(137,000)
Total Transfers	<u>(85,000)</u>	<u>(52,000)</u>	<u>-</u>	<u>47,000</u>	<u>(90,000)</u>
Change in Net Assets	(27,509)	(84,465)	558,871	(6,862)	440,035
Prior Period Adjustment	(36,276)	(44,392)	2,279,998	-	2,199,330
Beginning Net Assets	<u>216,670</u>	<u>508,459</u>	<u>957,868</u>	<u>541,511</u>	<u>2,224,508</u>
Ending Net Assets, Restated	<u>\$ 152,885</u>	<u>\$ 379,602</u>	<u>\$ 3,796,737</u>	<u>\$ 534,649</u>	<u>\$ 4,863,873</u>

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2012 (RESTATED)**

	CENTRAL SERVICES	PUBLIC WORKS STAFF	BUILDINGS	FLEET	TOTAL
Cash Flows from Operating Activities:					
Receipts From Customers and Users	\$ 755,243	\$ 1,173,344	\$ 378,790	\$ 260,198	\$ 2,567,575
Increase (Decrease) in Amounts Owed to Suppliers	(9,381)	(7,661)	319,321	411	302,690
Payments to Suppliers	(230,770)	(234,808)	(128,428)	(207,007)	(801,013)
Payments to Employees	(461,554)	(962,551)	-	-	(1,424,105)
 Net Cash Provided (Used) by Operating Activities	 <u>53,538</u>	 <u>(31,676)</u>	 <u>569,683</u>	 <u>53,602</u>	 <u>645,147</u>
Cash Flows From Noncapital Financing Activities					
Transfer To/From Other Funds	(85,000)	(52,000)	-	47,000	(90,000)
 Net Cash Flows From Noncapital Financing Activities	 <u>(85,000)</u>	 <u>(52,000)</u>	 <u>-</u>	 <u>47,000</u>	 <u>(90,000)</u>
Cash Flows from Capital and Related Financing Activities:					
Purchases of Capital Assets	-	-	(1,479,257)	(39,356)	(1,518,613)
Interest earned/Interest paid on Loan	675	1,912	(90,411)	(3,266)	(91,090)
Capital Contributions	-	-	350,749	-	350,749
Principal Paid on Capital Debt	-	-	(22,442)	-	(22,442)
Loan Payment to Other Fund	-	-	-	(61,201)	(61,201)
 Net Cash Provided (Used) by Capital and Related Financing Activities	 <u>675</u>	 <u>1,912</u>	 <u>(1,241,361)</u>	 <u>(103,823)</u>	 <u>(1,342,597)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 <u>(30,787)</u>	 <u>(81,764)</u>	 <u>(671,678)</u>	 <u>(3,221)</u>	 <u>(787,450)</u>
Balances - Beginning of the Year	<u>260,247</u>	<u>602,395</u>	<u>2,276,205</u>	<u>108,479</u>	<u>3,247,326</u>
Balances - End of the Year	<u>\$ 229,460</u>	<u>\$ 520,631</u>	<u>\$ 1,604,527</u>	<u>\$ 105,258</u>	<u>\$ 2,459,876</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating Income	\$ 56,816	\$ (34,377)	\$ 278,755	\$ (50,595)	\$ 250,599
Cash Flow Reported in Other Activities:					
Depreciation Expense	1,906	-	2,586	103,782	108,274
Changes in Assets and Liabilities:					
Receivables	268	(6,007)	(30,979)	4	(36,714)
Unearned Revenue	(639)	(3,653)	-	-	(4,292)
Accrued Expenses	1,435	14,730	319,321	411	335,897
Other Post Employment Benefits	4,523	-	-	-	4,523
Accrued Compensated Absences	(10,771)	(2,369)	-	-	(13,140)
 Net Cash Provided (Used) by Operating Activities	 <u>\$ 53,538</u>	 <u>\$ (31,676)</u>	 <u>\$ 569,683</u>	 <u>\$ 53,602</u>	 <u>\$ 645,147</u>

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

For the Year Ended June 30, 2012 (RESTATED)

CENTRAL SERVICES FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Licenses and Fees	\$ 29,000	\$ 29,000	\$ 27,761	\$ (1,239)
Charges for Services	723,592	723,592	727,323	3,731
Interest on Investments	1,000	1,000	675	(325)
Miscellaneous	-	-	530	530
	<u>753,592</u>	<u>753,592</u>	<u>756,289</u>	<u>2,697</u>
EXPENDITURES:				
Current				
Personal Services	562,308	497,308 (1)	472,438	24,870
Materials & Services	173,500	246,000 (1)	230,702	15,298
Contingency	10,000	2,500 (1)	-	2,500
	<u>745,808</u>	<u>745,808</u>	<u>703,140</u>	<u>2,500</u>
Excess of Revenues Over, (Under) Expenditures	7,784	7,784	53,149	45,365
Other Financing Sources (Uses): Transfers Out	<u>(85,000)</u>	<u>(85,000) (1)</u>	<u>(85,000)</u>	<u>-</u>
Net Change in Fund Balance	(77,216)	(77,216)	(31,851)	45,365
Beginning Fund Balance	<u>246,637</u>	<u>246,637</u>	<u>238,510</u>	<u>(8,127)</u>
Ending Fund Balance	<u>\$ 169,421</u>	<u>\$ 169,421</u>	206,659	<u>\$ 37,238</u>

RECONCILIATION TO GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES

Capital Assets, Net of Depreciation	2,096
Compensated Absences	(33,231)
Other Post Employment Liability	<u>(22,639)</u>
NET ASSETS, ENDING, RESTATED	<u>\$ 152,885</u>

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Year Ended June 30, 2012 (RESTATED)

<u>PUBLIC WORKS STAFF FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Licenses and Fees	\$ 7,500	\$ 7,500	\$ 14,058	\$ 6,558
Charges for Services	1,169,948	1,169,948	1,167,940	(2,008)
Interest on Investments	1,500	1,500	1,912	412
Miscellaneous	-	-	4,861	4,861
Total Revenues	<u>1,178,948</u>	<u>1,178,948</u>	<u>1,188,771</u>	<u>9,823</u>
EXPENDITURES:				
Current:				
Personal Services	1,036,331	1,001,331 (1)	972,852	28,479
Materials and Services	231,500	256,500 (1)	234,808	21,692
Total Expenditures	<u>1,267,831</u>	<u>1,257,831</u>	<u>1,207,660</u>	<u>-</u>
Excess of Revenues Over, (Under) Expenditures	(88,883)	(78,883)	(18,889)	59,994
Other Financing Sources (Uses):				
Transfers Out	-	(52,000) (1)	(52,000)	-
Net Change in Fund Balance	(88,883)	(130,883)	(70,889)	59,994
Beginning Fund Balance	412,250	454,250	563,480	109,230
Ending Fund Balance	<u>\$ 323,367</u>	<u>\$ 323,367</u>	492,591	<u>\$ 169,224</u>
RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES				
Compensated Absences			(52,617)	
Other Post Employment Liability			(60,372)	
NET ASSETS, ENDING, RESTATED			<u>\$ 379,602</u>	

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

For the Year Ended June 30, 2012 (RESTATED)

	<u>BUILDING FUND</u>			
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Charges for Services	\$ 407,183	\$ 407,183	\$ 407,183	\$ -
Intergovernmental	2,200,000	2,200,000	350,750	(1,849,250)
Interest	1,500	1,500	6,798	5,298
Total Revenues	<u>2,608,683</u>	<u>2,608,683</u>	<u>764,731</u>	<u>(1,843,952)</u>
EXPENDITURES:				
Materials & Services	118,000	130,000 (1)	125,844	4,156
Capital Outlay	4,295,000	4,295,000 (1)	1,479,255	2,815,745
Debt Service	-	(12,000) (1)	119,651	(131,651)
Total Expenditures	<u>4,413,000</u>	<u>4,413,000</u>	<u>1,724,750</u>	<u>2,688,250</u>
Net Change in Fund Balance	(1,804,317)	(1,804,317)	(960,019)	844,298
Beginning Fund Balance	<u>2,229,042</u>	<u>2,229,042</u>	<u>2,204,887</u>	<u>(24,155)</u>
Ending Fund Balance, Restated	<u>\$ 424,725</u>	<u>\$ 424,725</u>	1,244,868	<u>\$ 820,143</u>
RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES				
Capital Assets, Net of Depreciation			4,246,790	
Bond Issuance Costs			61,396	
Accrued Interest Payable			(6,317)	
Long-Term Debt			<u>(1,750,000)</u>	
NET ASSETS, ENDING, RESTATED			<u>\$ 3,796,737</u>	

(1) Appropriation Level

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

For the Year Ended June 30, 2012 (RESTATED)

<u>FLEET FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Charges for Service	\$ 259,272	\$ 259,272	\$ 259,272	\$ -
Interest on Investments	100	100	304	204
Miscellaneous	-	-	922	922
Total Revenues	<u>259,372</u>	<u>259,372</u>	<u>260,498</u>	<u>1,126</u>
EXPENDITURES:				
Current:				
Materials and Services	171,500	208,500 (1)	207,007	1,493
Capital Outlay	35,000	40,000 (1)	39,355	645
Debt Service	64,772	64,772 (1)	64,772	-
Total Expenditures	<u>271,272</u>	<u>313,272</u>	<u>311,134</u>	<u>2,138</u>
Excess of Revenues Over, (Under)				
Expenditures	(11,900)	(53,900)	(50,636)	3,264
Other Financing Sources (Uses):				
Transfers In	-	5,000	47,000	42,000
Net Change in Fund Balance	(11,900)	(48,900)	(3,636)	45,264
Beginning Fund Balance	<u>100,932</u>	<u>137,932</u>	<u>95,731</u>	<u>(42,201)</u>
Ending Fund Balance, Restated	<u>\$ 89,032</u>	<u>\$ 89,032</u>	<u>92,095</u>	<u>\$ 3,063</u>
RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES				
Interfund Loan			(163,382)	
Capital Assets, Net of Depreciation			<u>605,936</u>	
NET ASSETS, ENDING, RESTATED			<u>\$ 534,649</u>	

(1) Appropriation Level

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2012

	CFDA Number	Current Year Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Passed Through Multnomah County, Oregon		
Community Development Block Grants/Entitlement Grants	14.218	\$ 28,566
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	<u>11,950</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		<u>40,516</u>
U.S. DEPARTMENT OF TRANSPORTATION		
Passed Through the State of Oregon Association of Chiefs of Police		
Occupant Protection Incentive Grants	20.602	3,080
Passed Through Oregon Department of Transportation		
Occupant Protection Incentive Grants	20.602	43,684
Airport Improvement Program	20.106	<u>350,798 (1)</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>397,562</u>
U.S. DEPARTMENT OF ENERGY		
Passed Through the State of Oregon Department of Energy		
Energy Efficiency and Conservation Block Grant Program	81.128	<u>57,240</u>
TOTAL U.S. DEPARTMENT OF ENERGY		<u>57,240</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
Passed Through the State of Oregon Office of Emergency Management		
State Homeland Security Program	97.073	34,673
Flood Mitigation Assistance	97.029	<u>350,750 (1)</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		<u>385,423</u>
TOTALS		<u><u>\$ 880,741</u></u>

(1) Indicates major program

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

SCHEDULE OF TAX COLLECTIONS AND UNPAID BALANCES

For the Year Ended June 30, 2012

TAX YEAR	<u>General Fund</u>				CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED 06/30/12
	IMPOSED LEVY OR BALANCE UNCOLLECTED 07/01/11	DEDUCT DISCOUNTS	ADJUSTMENT TO ROLLS	ADD INTEREST		
Current:						
2011-12	\$ 1,034,503	\$ 25,024	\$ (3,239)	\$ 883	\$ 958,676	\$ 48,447
Prior years						
2010-11	59,806	(42)	(1,491)	2,498	31,068	29,787
2009-10	32,436	(3)	(293)	2,589	15,490	19,245
2008-09	18,696	(2)	(235)	2,757	11,431	9,789
2007-08	5,440	(2)	(170)	1,732	6,194	810
2006-07 & Prior	1,195	-	(226)	91	241	819
Total Prior	117,573	(49)	(2,415)	9,667	64,424	60,450
Total	<u>\$ 1,152,076</u>	<u>\$ 24,975</u>	<u>\$ (5,654)</u>	<u>\$ 10,550</u>	<u>\$ 1,023,100</u>	<u>\$ 108,897</u>

RECONCILIATION TO REVENUE:

Cash Collections by County Treasurer Above	\$ 1,023,100
Accrued June 30, 2011	(14,425)
Miscellaneous	9,382
Payments in lieu of taxes	<u>(2,992)</u>
Total Revenue per Fund Budgetary Statement	<u>\$ 1,015,065</u>

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

SCHEDULE OF TAX COLLECTIONS AND UNPAID BALANCES

For the Year Ended June 30, 2012

TAX YEAR	<u>Debt Service Fund</u>				CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED 06/30/12
	IMPOSED LEVY OR BALANCE UNCOLLECTED 07/01/11	DEDUCT DISCOUNTS	ADJUSTMENT TO ROLLS	ADD INTEREST		
Current:						
2011-12	\$ 96,019	\$ 2,323	\$ (301)	\$ 82	\$ 88,981	\$ 4,496
Prior years						
2010-11	4,902	(4)	(128)	205	2,547	2,436
2009-10	2,998	-	(27)	239	1,432	1,778
2008-09	1,727	-	(22)	255	1,056	904
2007-08	404	-	(13)	129	461	59
2006-07 & Prior	146	-	(28)	11	29	100
Total Prior	10,177	(4)	(218)	839	5,525	5,277
Total	<u>\$ 106,196</u>	<u>\$ 2,319</u>	<u>\$ (519)</u>	<u>\$ 921</u>	<u>\$ 94,506</u>	<u>\$ 9,773</u>

RECONCILIATION TO REVENUE:

Cash Collections by County Treasurer Above	\$ 94,506
Accrued June 30, 2011	(695)
Miscellaneous	856
Total Revenue per Fund Budgetary Statement	<u>\$ 94,667</u>

**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

SCHEDULE OF TAX COLLECTIONS AND UNPAID BALANCES

For the Year Ended June 30, 2012

<u>Redevelopment Commission General Fund</u>						
TAX YEAR	IMPOSED LEVY OR BALANCE UNCOLLECTED 07/01/11	DEDUCT DISCOUNTS	ADJUSTMENT TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED 06/30/12
Current:						
2011-12	\$ 381,091	\$ 9,218	\$ (1,193)	\$ 325	\$ 353,158	\$ 17,847
Prior years						
2010-11	19,735	(14)	(326)	824	10,252	9,995
2009-10	9,788	(1)	(88)	781	4,675	5,807
2008-09	5,460	(1)	(69)	805	3,339	2,858
2007-08	1,391	-	(44)	443	1,584	206
2006-07 & Prior	324	-	(61)	25	65	223
Total Prior	36,698	(16)	(588)	2,878	19,915	19,089
Total	<u>\$ 417,789</u>	<u>\$ 9,202</u>	<u>\$ (1,781)</u>	<u>\$ 3,203</u>	<u>\$ 373,073</u>	<u>\$ 36,936</u>

RECONCILIATION TO REVENUE:

Cash Collections by County Treasurer Above	\$ 373,073
Accrued June 30, 2011	(4,328)
Miscellaneous	3,032
Payments in lieu of taxes	<u>(807)</u>
Total Revenue per Fund Budgetary Statement	<u>\$ 370,970</u>

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

OTHER INFORMATION

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**CITY OF MADRAS
JEFFERSON COUNTY, OREGON**

**SCHEDULE OF OUTSTANDING DEBT PRINCIPAL
AND INTEREST TRANSACTIONS
For the Year Ended June 30, 2012 (RESTATED)**

	INTEREST RATE	DATE OF ISSUE	OUTSTANDING JULY 1, 2011	ISSUED	MATURED AND PAID	OUTSTANDING JUNE 30, 2012	INTEREST MATURED AND PAID
GOVERNMENTAL FUNDS							
Bond Anticipation Note	3.067%	1/31/2005	\$ 2,500,000	\$ -	\$ 2,500,000	\$ -	\$ -
2012 Refunding Bond	1.1-2.5%	5/15/2012	-	2,585,000	-	2,585,000	-
Notes & Contracts Payable:							
2004 Full Faith & Credit	2.0-4.0%	8/31/2004	746,992	-	82,380	664,612	28,171
Special Public Works Fund	4.00%	7/15/2005	908,772	-	29,750	879,022	38,487
Total Governmental Funds			4,155,764	2,585,000	2,612,130	4,128,634	66,658
ISF Building Fund (Governmental Activities)							
Building Loan	3.0-5.2%	3/1/2011	1,775,000	-	25,000	1,750,000	-
Total ISF Building Fund			1,775,000	-	25,000	1,750,000	-
Total Governmental Activities			5,930,764	2,585,000	2,637,130	5,878,634	66,658
ENTERPRISE FUNDS							
Water Fund							
Notes & Contracts Payable:							
Special Public Works Fund	4.97%	12/23/2004	139,794	-	4,981	134,813	6,857
Wastewater Fund							
Notes & Contracts Payable:							
Special Public Works Fund	4.97%	12/23/2004	59,924	-	884	59,040	3,057
Oregon DEQ	2.98%	7/19/2006	3,165,513	-	55,195	3,110,318	347,697
Bonds Payable:							
Sewer General Obligation	5.00%	8/1/1975	231,000	-	70,000	161,000	11,550
1991 revenue bonds	5.00%	5/10/1991	258,282	-	20,696	237,586	12,914
1993 revenue bonds	5.00%	8/11/1993	2,113,137	-	51,129	2,062,008	105,657
1997 revenue bonds	4.50%	4/1/1999	851,123	-	15,778	835,345	38,301
2000 revenue bonds	4.85%	7/20/2000	4,466,042	-	68,731	4,397,311	217,719
Total Wastewater Fund			11,145,021	-	282,413	10,862,608	736,895
Airport Fund							
Notes & Contracts Payable:							
Special Public Works Fund	4.99%	10/2/2008	1,078,650	-	22,632	1,056,018	53,825
Bonds Payable:							
1996 Revenue bonds	5.13%	7/19/1996	108,298	-	4,536	103,762	5,550
Total Airport Fund			1,186,948	-	27,168	1,159,780	59,375
Total Enterprise Fund			12,471,763	-	314,562	12,157,200	803,127
Total			\$ 18,402,527	\$ 2,585,000	\$ 2,951,692	\$ 18,035,834	\$ 869,785

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CITY OF MADRAS
JEFFERSON COUNTY, OREGON

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

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
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 - (503) 620-2632 • FAX (503) 684-7523

February 21, 2014

Independent Auditors' Report Required by Oregon State Regulations

We have audited the restated basic financial statements of the City of Madras, Oregon as of and for the year ended June 30, 2012, and have issued our report thereon dated February 21, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

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 162-10-000 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.**
- **Programs funded from outside sources.**
- **Highway revenues used for public highways, roads, and streets.**
- **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 City of Madras, Oregon 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:

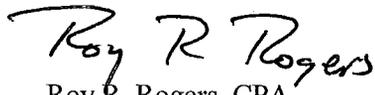
1. Expenditures of all the various funds were within authorized appropriations, except as noted on page 19 of the notes to the financial statements.
2. Negative expenditures were budgeted in the following funds; Airport Operations – Contingency (\$13,000), Building Fund – Debt Service (\$12,000), and SDC Street Improvement Fund – Capital Outlay (\$500).

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the 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.

We noted matters involving the internal control structure and its operation that we consider to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants, which are noted in the schedule of findings and questioned costs on page 88.

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

A handwritten signature in black ink that reads "Roy R Rogers". The signature is written in a cursive style with a large, prominent "R" in the middle.

Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

GRANT COMPLIANCE REVIEW

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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 - (503) 620-2632 • FAX (503) 684-7523

February 21, 2014

To the Honorable Mayor and
Members of the City Council
City of Madras, Oregon

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

We have audited the restated financial statements of City of Madras as of and for the year ended June 30, 2012, and have issued our report thereon dated February 21, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2012-FS-4 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We noted certain matters that we reported to management of the City of Madras on the Schedule of Findings and Questioned Costs on page 88.

The responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the responses and, accordingly, we express no opinion on them.

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


Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
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 - (503) 620-2632 • FAX (503) 684-7523

February 21, 2014

To the Honorable Mayor and
Members of the City Council
City of Madras, Oregon

**Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on
Internal Control Over Compliance in Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of City of Madras with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. City of Madras' major federal programs are identified in the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. Our responsibility is to express an opinion on compliance based on our audit.

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

In our opinion, City of Madras complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

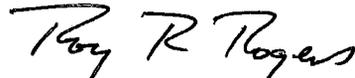
Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.

CITY OF MADRAS
JEFFERSON COUNTY, OREGON

SCHEDULE FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(s) indentified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Any GAGAS audit findings disclosed that are required to be reported in accordance with section 505(d)(2) of OMB Circular A-133? yes no

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(s) indentified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs: Unqualified

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

IDENTIFICATION OF MAJOR PROGRAMS

<u>CFDA NUMBER</u>	<u>NAME OF FEDERAL PROGRAM CLUSTER</u>
20.106	Airport Improvement Program
97.029	Flood Mitigation Assistance

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

Auditee qualified as low-risk auditee? yes no

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SCHEDULE FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

2012-FS-1

Condition: There is a lack of segregation of duties within the business department due to a limited number of staff.

Criteria: Duties should be segregated so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction.

Effect: The possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

Cause: There is a limited number of available personnel due to the size of the city.

Recommendations: We recommend that the Council continually monitor the financial activities to mitigate this risk and consider additional fidelity insurance.

Management's Response: Management agrees with this condition and notes that further staff reductions within the Finance department continued to limit segregation of duties. Management is in the process of reviewing staff workloads and accounting processes and procedures with the intention of balancing process efficiencies with adequate internal controls. Regular financial reports will be provided to City Administrator and City Council to better allow them to monitor financial activities. Additional fidelity insurance will be considered.

2012-FS-2

Condition: The City does not have a written internal control policies and procedures document.

Criteria: Audit reporting requirements emphasize the importance management should place on the design and implementation of effective internal controls. A control system should not only include (among other things) a properly designed accounting system, source document retention, anti-fraud controls, safeguards over assets and controls to ensure accurate financial reporting, but also documentation of internal controls within a well-maintained policies and procedures manual.

Effect: The likelihood is much higher that the internal controls created to protect the city and ensure accurate financial reporting will not be implemented properly by personnel, increasing the city's risk of unintentional or intentional errors or irregularities.

Cause: As creating an internal control policies and procedures manual is a time-consuming project, the city has not had the personnel available to create an accurate manual.

Recommendations: We recommend the City adopt formal policies/procedures for all accounting areas, especially as they pertain to internal controls and the identification of key controls.

Management's Response: Management agrees with this condition. Formal policies and procedures for all accounting areas, with specific attention paid to internal controls and identification of key controls continues to be a goal of the Finance department. Written policies and procedures will be a priority for the Finance department in the coming year.

2012-FS-3

Condition: There were multiple instances where controls over the bank reconciliation process were not being adhered to closely (ie. reconciliations were not being prepared timely, missing documented approval, etc.).

Criteria: Bank reconciliations should be prepared within a month of receiving the bank statement and reviewed in a timely manner by a person independent of the reconciliation process.

Effect: The likelihood of an unintentional or intentional error or irregularity existing and not being detected that could result in a material misstatement of the financial statements is increased the later the bank reconciliations are prepared and reviewed.

Cause: The city has a limited number of personnel to maintain its accounting department, so at times certain internal control procedures are not followed due to lack of time to complete the work.

Recommendations: We recommend that management require bank reconciliations be prepared within a month of receiving the bank statement and that documentation be maintained showing the signature and date the bank reconciliations are prepared and reviewed.

Management's Response: Management agrees with this condition and notes that reduced staff and increasing workloads continue to be a challenge. Documentation is now maintained showing the signature and date that reconciliations are prepared and reviewed. Preparation of bank reconciliations within a month of receiving the bank statement continues to be a Finance department goal.

2012-FS-4

Condition and Criteria: We reviewed the budget changes for the 2011-12 fiscal year and received a budget schedule outlining the beginning budget with the changes made arriving at the final adjusted budget. When comparing the resolutions indicating the change, it appears that there were several errors made, including incorrect entries of enacted budget changes into the accounting system and supplemental budgets that were not balanced.

Effect: This caused the City to not be in compliance with Oregon minimum Standards and Budget Law and also provides inaccurate information to management.

Cause: It is our understanding that this was made mistakenly. The beginning budget was balanced; however, supplemental budgets enacted during the year were not balanced.

Recommendations: We recommend additional training in the area of Oregon Budget Law and both the Department of Revenue and our office are available for questions during the year in the proper enactment of supplemental budgets. In addition, we recommend secondary review of all entries, including budget adjustments, to the accounting system.

Management's Response: Due to the turnover in staff the budget adjustments were not being maintained consistently within management. The current Finance Director is scheduled for Oregon Budget Law training. All supplemental budgets will include complete general ledger coding and prior approval of City Administrator before being presented to Council. Once supplemental budgets are approved and entered into the system, a printout of the budget entry will be reviewed again prior to year end to confirm all budget adjustments were in compliance with Oregon Budget Law.

2012-FS-5

Condition: There were multiple errors, omissions, and inconsistencies that were material in nature that were discovered and corrected by Management subsequent to issuance of the audited financial statements, requiring restatement of the Financial Report for the Year ended June 30, 2012.

Criteria: Accounting records and reporting should be reviewed by management in a timely manner to ensure that all transactions are accounted for properly.

Effect: The previously-issued Financial Report for the Year ended June 30, 2012 included material misstatements, requiring restatement.

Cause: Accounting errors, omissions and inconsistencies made by prior Management, as well as errors, omissions and inconsistencies made by the audit firm in drafting the financial statements, were not caught by prior Management or the audit firm prior to issuance. The cause of the errors, omissions and inconsistencies, is not known.

Recommendations: We recommend that management review accounting records and reports to ensure that there are no material errors, and if errors are discovered, these should be corrected.

Management's Response: Management agrees with this condition and notes that the error and inconsistencies were discovered by Management in preparation for the subsequent fiscal year's audit. Current Management is committed to producing and reviewing accurate financial statements prior to the fiscal year audit and issuance of the financial statements.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV – SCHEDULE OF PRIOR FINANCIAL STATEMENT FINDINGS

2011-FS-1

Condition and Criteria: In the review of the City's bank accounts, we found that between June 1, 2011 and June 2, 2011 the City had insufficient funds in its Bank of the West account causing an overdraft. The bank honored several significant checks, and the City transferred money the following day to cover those and any other checks processing subsequently.

Effect: The City relied on the bank to honor checks written without funding in the account. This leaves the potential for large bank fees and possible returned checks for insufficient funds.

Cause: The cause of the deficiency appears to be due to the staff not closely monitoring bank balances and a transition and a transition of staff at the City. However, the negative balance was noticed, and cash was transferred the following day.

Recommendations: We recommend that the City be actively monitoring the cash transactions. If all items are entered into the accounting system timely, finance will be aware instantly.

Management's Response: The main cash accounts are monitored on a weekly basis by the Finance Director. A formal communication process is in place between the Finance Director and Accounting Clerk to ensure adequate funds are available for the bi-weekly accounts payable processing and monthly payroll.

Status of Finding: We did not note any overdrafts during our testing in the current year.

2011-FS-2

Condition and Criteria: We reviewed the budget changes for the 2010-11 fiscal year and received a budget schedule outlining the beginning budget with the changes made arriving at the final adjusted budget. When comparing the resolutions indicating the change, it appears that there were several errors made, including incorrect entries of enacted budget changes into the accounting system and supplemental budgets that were not balanced.

Effect: This caused the City to not be in compliance with Oregon minimum Standards and Budget Law and also provides inaccurate information to management.

Cause: It is our understanding that this was made mistakenly. The beginning budget was balanced; however, supplemental budgets enacted during the year were not balanced.

Recommendations: We recommend additional training in the area of Oregon Budget Law and both the Department of Revenue and our office are available for questions during the year in the proper enactment of supplemental budgets. In addition, we recommend secondary review of all entries, including budget adjustments, to the accounting system.

Management's Response: Both the Finance Director and Accounting Clerk are scheduled for Oregon Budget Law training. Additionally staff will implement a review procedure similar to the adjusting journal entry procedure.

Status of Finding: This finding was not corrected during the 2011-12 fiscal year – it was noted as a significant deficiency in the current year – reference 2012-FS-4 above.

2011-FS-3

Condition and Criteria: The City performs quality assurance services for proposed developments and collects fees from the developers to perform the services. The City reconciles the individual deposit balance on monthly spreadsheets. However, the City did not reconcile the individual deposit balances to the amounts recorded in the general ledger for deferred revenue and revenue until the audit fieldwork.

Effect: An adjustment of about \$7,000 was required to properly report the deferred revenue and revenue on the modified accrual basis of accounting.

Cause: The cause of the deficiency appears to be due to the time available to perform the reconciliation and the workload of the Finance Department has increased substantially in the past several years.

Recommendations: We recommend that the deposits be reconciled to the general ledger on a monthly basis.

Management's Response: Management has planned to start billing the Quality Assurance fees through the account receivable system on a monthly basis and doing a detailed review on a quarterly basis. Management is also working on improving communication with public works to make the process better and to determine the appropriate time to start billing the fees. Management is aware of the substantial workload of the Finance staff and has authorized overtime as needed. Management is also aware of the need for at least one additional skilled FTE, but is not able to fund this position given current economic conditions.

Status of Finding: No adjustments to quality assurance deferred revenue and revenue were required in the current year.

2011-FS-4

Condition and Criteria: The City experienced an unexpected change in the Finance Director position at year end. The prior Finance Director had started to implement some of our prior year internal control suggestions and had increased the review over the monthly payroll process. However, there are still several areas where additional segregation of duties, cross training of staff, and additional reviews could be implemented to strengthen to controls. There are some compensating controls, but key areas include payroll direct deposits and quarterly reports, secondary review of bank reconciliations, calculation of sewer EDU's, improvement districts, receipting, and preparation of adjusting journal entries.

Cause and Effect: Limited segregation of duties, reviews, and cross training is inherent in most organizations with staff levels the size of the City, but it allows for additional opportunities for errors or inappropriate activity to occur.

Recommendations: We recommend that management perform a detailed review of internal control and implement additional segregation of duties, reviews and cross training on major functions.

Management's Response: The following controls have been implemented:

1. Payroll and related
 - a. Review by the Finance Director of the employee payroll exception report, as well as final approval to submit direct deposits.
 - b. Quarterly payroll reports are reviewed by the Finance Director prior to submission.
2. Bank reconciliations are reviewed and signed-off by the City Administrator on a monthly basis.
3. Cash receipts are reviewed every morning by the Accounting Clerk and approved by the Finance Director as part of the daily deposit procedures.
4. Utility Billing- Customer lists as well as account adjustments are submitted to the Finance Director for approval.
5. Adjusting Journal Entries - Entries prepared by the Finance Director are entered and reviewed by the Account Clerk, and vice versa.

Status of Finding: Several of the suggested internal controls have been implemented and are currently in place. However, due to additional loss in staff resources and turnover in the Finance Director position, limited segregation of duties, reviews, and cross training continues to be an opportunity for improvement. A similar finding was noted as a significant deficiency in the current year – reference 2012-FS-1.

2011-FS-5

Condition and Criteria: There were several adjustments required to correct the balances and reporting of accrued payroll liabilities. These adjustments included reversal of the prior year accrual, corrections to the accrual of gross payroll and the related taxes and benefits, reclassifications of liabilities and expenditures between funds, and an adjustment between the funds to balance the individual funds.

Effect: Adjustments were required to properly report the activity and balances as of June 30, 2011 and to correct the reporting between funds.

Cause: The cause appears to be due to changes in staff, a lack of time available to properly reconcile the activity, and a lack of a detailed secondary review of the adjustments recorded.

Recommendations: We recommend additional secondary reviews of accruals and other year-end adjustments and a comparison of the June 30 account balances to the prior year amounts, while considering current year expectations. We also recommend additional training in governmental accounting, to become proficient in this area.

Management's Response: Procedures to establish a monthly and year end close process are in progress. This includes a complete review of revenue and expenses, as well as balance sheet reconciliations.

Status of Finding: No adjustments to accrued payroll liabilities were required in the current year.

2011-FS-6

Condition and Criteria: The City's controls over the fiscal year-end financial reporting rely largely on manual adjustments to record activity on the modified accrual basis of accounting. There was a large increase in both the number and size of audit adjustments, there were adjustments material to the financial statements discovered through the audit process.

Effect: Adjustments material to the financial statements were required to properly report accounts receivable, accounts payable, payroll liabilities, notes receivable, and deferred revenue.

Cause: There were changes in staff in the finance department during the year and the interim Finance Director was still getting acquainted with the City and the nuances associated with governmental accounting. The workload of the finance department; communication between the various departments of the city; and a lack of secondary reviews of accruals also contributed to the condition.

Recommendations: The City should consider providing additional resources to the finance department and communication between the various departments of the city should be improved. In addition, there should be additional secondary reviews of accruals and other year-end adjustments and a comparison of the June 30 account balances to the prior year amounts, while considering current year expectations. Also, the finance director should attend formal training in governmental accounting, to become proficient in this area.

Management's Response: Procedures to establish a monthly and year end close process are in progress. This includes a complete review of revenue and expenses, as well as balance sheet reconciliations. Many of the audit adjustments were discovered and corrections recommended by staff. Management is acutely aware of staffing needs and will reinstate the incremental funding of a FTE accounting position beginning with the fiscal year 2013. This will be a two to three year process.

Status of Finding: A similar finding was noted as a material weakness in the reissued Financial Report for the Year ended June 20, 2012 – reference 2012-FS-5.

SECTION V – SCHEDULE OF PRIOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-FA-1

Federal Program: Airport Improvement Program

Condition and Criteria: As described above in 2011-FS-6, the City's controls over the fiscal year-end financial reporting rely largely on manual adjustments to record activity on the modified accrual basis of accounting. There were adjustments related to the accrual of revenues and expenditures related to the airport improvement project.

Effect: Adjustments were required to properly report accounts receivable and accounts payable related to the airport improvement project.

Cause: There were changes in staff in the finance department during the year and the interim Finance Director was still getting acquainted with the City and the nuances associated with governmental accounting. The workload of the finance department; communication between the various departments of the city; and a lack of secondary reviews of accruals also contributed to the condition.

Recommendations: The City should consider providing additional resources to the finance department. In addition, there should be additional secondary reviews of accruals and other year-end adjustments and a comparison of the June 30 account balances to the prior year amounts, while considering current year expectations. Also, the finance director should attend formal training in governmental accounting, to become proficient in this area.

Management's Response: Procedures to establish a monthly and year end close process are in progress. This includes a complete review of revenue and expenses, as well as balance sheet reconciliations. Additionally, staff is utilizing the accounts receivable system to track progress billings for grants and other programs. Improved communications between Public Works and Finance is providing the secondary review. Regarding additional staffing, see Management Response it items 2011-FS-4 and 2011-FS-6.

Status of Finding: There were no adjustments required to properly report accounts receivable and accounts payable related to the airport improvement project in the current year.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION

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

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