

SISTERS URBAN RENEWAL AGENCY
(A Component Unit of the City of Sisters, Oregon)

Annual Financial Report

For the Fiscal Year Ended June 30, 2013

SISTERS URBAN REWAL AGENCY
(A Component Unit of the City of Sisters, Oregon)

TABLE OF CONTENTS
For the Fiscal Year Ended June 30, 2013

| | <u>Page</u> |
|--|-------------|
| OFFICIALS OF THE AGENCY | i |
| INDEPENDENT AUDITOR’S REPORT | A-B |
| MANAGEMENT’S DISCUSSION AND ANALYSIS | a-f |
| BASIC FINANCIAL STATEMENTS: | |
| Agency-wide Financial Statements: | |
| Statement of Net Position | 1 |
| Statement of Activities | 2 |
| Fund Financial Statements: | |
| Balance Sheet-Governmental Funds | 3 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 4 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities | 5 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Urban Renewal Project Fund | 6 |
| Notes to the Basic Financial Statements | 7-15 |
| SUPPLEMENTAL INFORMATION: | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) Urban Renewal Debt Service Fund | 16 |
| AUDITOR’S COMMENTS AND REPORTS: | |
| Independent Auditor’s Comments | 17-18 |



SISTERS URBAN RENEWAL AGENCY

(A COMPONENT UNIT OF THE CITY OF SISTERS, OREGON)

OFFICIALS OF THE AGENCY

JUNE 30, 2013

BOARD OF DIRECTORS

| <u>Name</u> | | <u>Term Expires</u> |
|---------------------|-------------------|----------------------------|
| Brad Boyd | Mayor | December, 2014 |
| McKibben Womack | Council President | December, 2016 |
| Catherine Childress | Council Member | December, 2016 |
| David Asson | Council Member | December, 2014 |
| Wendy Holzman | Council Member | December, 2014 |

AGENCY ADDRESS
SISTERS URBAN RENEWAL AGENCY
520 E. Cascade Ave.
P.O. Box 39
Sisters, Oregon 97759

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Certified Public Accountants and Business Advisors

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P.O. Box 1533
Pendleton, OR 97801
Phone: (541) 276-6862
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sisters Urban Renewal Agency
Sisters, Oregon

We have audited the accompanying financial statements of the governmental activities and each major fund of Sisters Urban Renewal Agency (*a component unit of the City of Sisters, Oregon*) as of and for the year ended, June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

A

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Sisters Urban Renewal Agency (a component unit of the City of Sisters, Oregon), as of June 30, 2013, and the respective changes in financial position, and the budgetary comparison for the Urban Renewal Project Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding New Accounting Policy

As described in Note I.J, during the year ended June 30, 2013, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Other Matters

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sisters – Urban Renewal Agency, Oregon's basic financial statements. The supplemental budgetary schedule for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the financial statements.

The budgetary schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 12, 2013, on our consideration of the City of Sisters' internal control over financial reporting and on tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-320. 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.

Dickey and Tremper, LLP

Dickey and Tremper, LLP
Certified Public Accountants and Consultants

December 12, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2013

The Management's Discussion and Analysis (MD&A) section of the Agency of Sisters Urban Renewal Agency (Agency) financial statements presents a narrative overview and analysis of the financial activities for the fiscal year ending June 30, 2013.

OVERVIEW OF FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements include three components:

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 statement themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner that is similar to a private-sector business. These statements are reported on the full accrual basis of accounting. Under the full accrual basis, certain revenues and expenses are reported that will not affect cash flows until future periods.

The *statement of net position* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net position. Evaluating increases or decreases in net position over time can serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information on how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in a future period. Examples of this include earned, but uncollected property taxes, and earned but unused compensated absences.

Both of the government-wide statements distinguish functions of the Agency that are principally supported by taxes and intergovernmental revenues (referred to as governmental activities). The Agency does not have other functions that are intend to recover all or a significant portion of their costs through user fees and charges (referred to as business activities).

The government-wide financial statements can be found on pages 1 and 2 of this report.

SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2013

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 Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are considered governmental funds.

Governmental Funds are used to account for Agency functions that are supported primarily by taxes and intergovernmental revenues. These are essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as the balances of available spendable resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements.

Because the focus of government funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities. These reconciliations can be found on page 5 of this report.

The Agency maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the Urban Renewal Project Fund and Urban Renewal Debt Service Fund. Individual fund data for each fund is provided in the form of combining statements found on page 3 and 4.

The Agency adopts an annual appropriated budget for all governmental funds. A budgetary comparison has been provided for each fund to demonstrate compliance with the adopted budget.

Notes to the Basic Financial Statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7 through 15 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning budgetary and actual comparisons for the Agency's two funds. These can be found on pages 6 and 16 of this report.

SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position:

The following table reflects a summary of Net Position compared to prior fiscal year.

Table 1
Urban Renewal Agency - Net Position
as of June 30

| | Governmental Activities | | Total Change |
|--------------------------|-------------------------|--------------------|--------------------|
| | 2013 | 2012 | + (-) |
| Current and other assets | \$ 491,811 | \$ 450,159 | \$ 41,652 |
| Capital Assets | 7,092 | 41,314 | (34,222) |
| Total assets | <u>498,903</u> | <u>491,473</u> | <u>7,430</u> |
| Noncurrent liabilities | 313,232 | 384,200 | (70,968) |
| Other liabilities | 109,043 | 124,933 | (15,890) |
| Total liabilities | <u>422,275</u> | <u>509,133</u> | <u>(86,858)</u> |
| Net position: | | | |
| Unrestricted | 76,628 | (17,660) | 94,288 |
| Total net position | <u>\$ 76,628</u> | <u>\$ (17,660)</u> | <u>\$ (94,288)</u> |

SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2013

Statement of Activities:

The following table compares revenues and expenses for the government activities.

Table 2
Urban Renewal Agency - Changes in Net Position

| | Governmental Activities | | Total Change |
|---|-------------------------|--------------------|------------------|
| | 2013 | 2012 | + (-) |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | \$ - | \$ - | \$ - |
| General revenues: | | | |
| Taxes | 187,212 | 131,877 | 55,335 |
| Interest and investment earnings | 2,842 | 2,968 | (126) |
| Other revenue | - | - | - |
| Total revenues | <u>190,054</u> | <u>134,845</u> | <u>55,209</u> |
| Expenses: | | | |
| Community development | 76,587 | 3,687 | 72,900 |
| Interest on long-term debt | 19,179 | 22,606 | (3,427) |
| Total expenses | <u>95,766</u> | <u>26,293</u> | <u>69,473</u> |
| Increase in net position before transfers | 94,288 | 108,552 | (14,264) |
| Net position, July 1 | <u>(17,660)</u> | <u>(126,212)</u> | <u>108,552</u> |
| Net position, June 30 | <u>\$ 76,628</u> | <u>\$ (17,660)</u> | <u>\$ 94,288</u> |

Fund-based Financial Analysis

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$447,281. The entire fund balance is not available for future discretionary spending because it has already restricted for capital projects and debt service, \$7,849, \$439,432 respectively.

SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2013

The combined ending fund balance is \$61,680 more than the prior year. This is primarily due to an increase in property tax revenue.

The *Urban Renewal Debt Service Fund* accounts for the accumulation of resources and payments for long-term debt related to the Urban Renewal (UR) Plan. Tax increment revenues are deposited to the debt service fund. Consistent with state law, the tax revenues are used to leverage debt proceeds, which are placed in the project fund for project construction.

The *Urban Renewal Project Fund* accounts for the accumulation of resources and payments for the project construction costs related to the UR plan.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Agency's investment in capital assets for June 30, 2013 is \$ 7,092 due to construction in progress for Fir Street Improvements Design and Village Green Parking Design.

Long-term debt. At the end of the current fiscal year, the Agency had total noncurrent liabilities of \$384,200. Under the debt covenants, sufficient tax increment must be received to meet the annual debt service requirements. Debt holders have a claim on urban renewal tax revenues only and not on any other City of Sisters revenue source. See the following table:

| | Government Activities | | Total Change |
|--------------------------|-----------------------|------------|--------------|
| | 2013 | 2012 | + (-) |
| General obligation bonds | \$ 384,200 | \$ 452,444 | \$ (68,244) |
| Total | \$ 384,200 | \$ 452,444 | \$ (68,244) |

During the fiscal year ended June 30, 2013 all scheduled debt payments were met and no new debt issued.

Additional information on the Agency's bonded debt can be found in the notes to the basic financial statements, on page 14.

SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

New debt of \$267,248 to fund administrative operations and the City's contribution to the Oregon Department of Transportation (ODOT) for the improvement of Cascade Avenue (US 20)

REQUESTS FOR INFORMATION

This City's financial statements are designed to provide present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need addition information, please contact the City's Finance Officer, Lynne Fujita-Conrads at City of Sisters, P.O. Box 39, Sisters, Oregon 97759 or via email to lconrads@ci.sisters.or.us.

BASIC FINANCIAL STATEMENTS

SISTERS URBAN RENEWAL AGENCY
(A Component Unit of the City of Sisters, Oregon)

STATEMENT OF NET POSITION
June 30, 2013

| | Governmental Activities |
|---------------------------------------|------------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 483,393 |
| Receivables: | |
| Property taxes | 8,418 |
| Capital assets: | |
| Construction in progress | 7,092 |
| Total assets | 498,903 |
| DEFERRED OUTFLOW OF RESOURCES | |
| | - |
| LIABILITIES | |
| Accounts payable and accrued expenses | 810 |
| Accrued interest payable | 1,265 |
| Advances from primary government | 36,000 |
| Long-term obligations: | |
| Due within one year | 70,968 |
| Due in more than one year | 313,232 |
| Total liabilities | 422,275 |
| DEFERRED INFLOW OF RESOURCES | |
| | - |
| NET POSITION | |
| Unrestricted | 76,628 |
| Total net position | \$ 76,628 |

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

SISTERS URBAN RENEWAL AGENCY
(A Component Unit of the City of Sisters, Oregon)

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) and Changes in Net Assets |
|--|------------------|----------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | | |
| Community development | \$ 76,587 | \$ - | \$ - | \$ - | \$ (76,587) |
| Interest on long-term obligations | 19,179 | - | - | - | (19,179) |
| Total governmental activities | \$ 95,766 | \$ - | \$ - | \$ - | (95,766) |
| General revenues: | | | | | |
| Property taxes levied for: | | | | | |
| Debt service | | | | | |
| | | | | | 187,212 |
| Interest and investment earnings | | | | | |
| | | | | | 2,842 |
| Total general revenues, special items, and transfers | | | | | |
| | | | | | 190,054 |
| Change in net position | | | | | |
| | | | | | 94,288 |
| Net position, beginning | | | | | |
| | | | | | (17,660) |
| Net position, ending | | | | | |
| | | | | | <u>\$ 76,628</u> |

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

SISTERS URBAN RENEWAL AGENCY
(A Component Unit of the City of Sisters, Oregon)

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

| | Urban Renewal Project Fund | Urban Renewal Debt Service Fund | Totals |
|--|----------------------------------|---------------------------------------|------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 8,659 | \$ 474,734 | \$ 483,393 |
| Receivables: | | | |
| Property taxes | - | 8,418 | 8,418 |
| Total assets | \$ 8,659 | \$ 483,152 | \$ 491,811 |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ 810 | \$ - | \$ 810 |
| Deferred revenue | - | 7,720 | 7,720 |
| Advances from primary government | - | 36,000 | 36,000 |
| Total liabilities | 810 | 43,720 | 44,530 |
| FUND BALANCES | | | |
| Restricted | 7,849 | 439,432 | 447,281 |
| Total fund balances | 7,849 | 439,432 | 447,281 |
| Total liabilities and fund balances | \$ 8,659 | \$ 483,152 | \$ 491,811 |
| Fund balance at end of year - governmental funds | | | \$ 447,281 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | | |
| Capital assets reported in the governmental activities are not financial resources, and, therefore, are not reported in the funds. | | | 7,092 |
| Long-term assets that are not available to pay for current-period expenditures are deferred in the funds. | | | 7,720 |
| Long-term liabilities and accrued interest are not due and payable in the current period, and therefore, are not reported in the funds. | | | (385,465) |
| Net position of governmental activities | | | \$ 76,628 |

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

SISTERS URBAN RENEWAL AGENCY
(A Component Unti of the City of Sisters, Oregon)

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES**

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2013

| | Urban Renewal Project Fund | Urban Renewal Debt Service Fund | Totals |
|---|----------------------------------|---------------------------------------|-------------------|
| REVENUES | | | |
| Property taxes | \$ - | \$ 188,850 | \$ 188,850 |
| Interest on investments | 151 | 2,691 | 2,842 |
| TOTAL REVENUES | <u>151</u> | <u>191,541</u> | <u>191,692</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Community development | 4,308 | - | 4,308 |
| Capital outlay | 38,057 | - | 38,057 |
| Debt service | - | 87,648 | 87,648 |
| TOTAL EXPENDITURES | <u>42,365</u> | <u>87,648</u> | <u>130,013</u> |
| REVENUES OVER (UNDER) EXPENDITURES | <u>(42,214)</u> | <u>103,893</u> | <u>61,679</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 18,080 | - | 18,080 |
| Transfers out | - | (18,080) | (18,080) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>18,080</u> | <u>(18,080)</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | (24,134) | 85,813 | 61,679 |
| FUND BALANCE, Beginning | <u>31,983</u> | <u>353,619</u> | <u>385,602</u> |
| FUND BALANCE, Ending | <u>\$ 7,849</u> | <u>\$ 439,432</u> | <u>\$ 447,281</u> |

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

SISTERS URBAN RENEWAL AGENCY
(A Component Unit of the City of Sisters Oregon)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013**

| | |
|---|-------------------------|
| Net change in fund balance - governmental funds | \$ 61,679 |
| Amounts reported for governmental activities in the Statement of Activities are different because of the following: | |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | |
| Property taxes | (1,638) |
| Repayment of long-term obligations principal is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets | |
| | 68,244 |
| 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. | |
| Change in accrued interest payable | 225 |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of the construction in progress for assets reverting to the City is capitalized until completed and contributed to the City. The cost of assets contributed to the City is expensed in the year construction is completed. | |
| Additions to capital assets | 38,057 |
| Capital assets contributed to the City | <u>(72,279)</u> |
| Change in net position - governmental activities | <u><u>\$ 94,288</u></u> |

SISTERS URBAN RENEWAL AGENCY
(A Component Unit of the City of Sisters, Oregon)

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
URBAN RENEWAL PROJECT FUND
For the Fiscal Year Ended June 30, 2013**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive / (Negative) |
|---|------------------|-----------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Interest on investments | \$ - | \$ - | \$ 151 | \$ 151 |
| TOTAL REVENUES | <u>-</u> | <u>-</u> | <u>151</u> | <u>151</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community development: | | | | |
| Materials and services | 4,100 | 4,100 | 4,308 | (208) |
| Capital outlay | - | 43,586 | 38,057 | 5,529 |
| Contingency | <u>36</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL EXPENDITURES | <u>4,136</u> | <u>47,686</u> | <u>42,365</u> | <u>5,321</u> |
| REVENUES OVER (UNDER) EXPENDITURES | <u>(4,136)</u> | <u>(47,686)</u> | <u>(42,214)</u> | <u>5,472</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund loan proceeds | <u>3,100</u> | <u>18,080</u> | <u>18,080</u> | <u>-</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>3,100</u> | <u>18,080</u> | <u>18,080</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | (1,036) | (29,606) | (24,134) | 5,472 |
| FUND BALANCE, Beginning | <u>1,036</u> | <u>29,606</u> | <u>31,983</u> | <u>2,377</u> |
| FUND BALANCE, Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,849</u> | <u>\$ 7,849</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

SISTERS URBAN RENEWAL AGENCY
(A Component Unit of the City of Sisters, Oregon)

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Sisters Urban Renewal Agency (the Agency), a component unit of the City of Sisters, Oregon, is the urban renewal agency of, and controlled by, the City of Sisters (the City). It was established on July 24, 2003 to assist in the redevelopment of blighted and deteriorated areas within the City through tax increment financing. The governing body consists of a five member advisory committee, which makes its recommendations to the Board of Directors. The Board of Directors is composed of the Mayor and City Council of the City of Sisters.

B. Inclusion of the Agency in Sisters, Oregon, Comprehensive Annual Financial Report

All significant activities and organizations for which the City exercises oversight responsibility have been included in the City's combined financial statements. The following criteria from Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 34 and 61, regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

- Financial interdependency – the City provides a financial benefit or burden relationship to the organization.
- Authoritative appointment of governing authority – Sisters City Council is the organization's governing authority.

City management has determined that the Agency meets the criteria set forth above, and, therefore, is a component unit of the City. This report is issued solely to meet a State of Oregon, Department of Revenue interpretation of Oregon Revised Statutes that requires a separate audit report.

C. Agency-wide and Fund Financial Statements

The agency-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes and intergovernmental revenues.

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

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

D. Measurement Focus, Basis of Accounting and Basis of Presentation

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

Governmental Funds are funded by a variety of resources, which include Restricted, Committed, Assigned, and Unassigned sources. Unless specifically tracked, expenditures are assumed to begin with Restricted, Committed, Assigned, and lastly, Unassigned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Significant revenues, which are susceptible to accrual under the modified accrual basis of accounting, include property taxes and federal and state grants. Other revenue items are considered to be measurable and available when received by the Agency. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgment, are recorded only when payment is due.

The Agency reports the following major governmental funds:

The *Project Fund* is the Agency's primary operation fund. It accounts for all financial resources of the Agency, which could be restricted, committed, or assigned, except those required to be accounted for in another fund. Principal sources of revenue are Bond/Loan Proceeds. Expenditures are primarily for construction projects related to the downtown core area of the Urban Renewal District.

The *Debt Service* fund accounts for the financial resources that are restricted, committed, or assigned to expenditures for repayment of principal and interest on long-term obligations used to finance construction projects related to the downtown core area of the Urban Renewal District. The principal source of revenue is Urban Renewal Tax collections.

E. Use of Estimates

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

F. Cash and Cash Equivalents

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

The Agency's bank accounts and investments are maintained in a central pool of cash and investments with the City of Sisters that is available for use by all funds. Each fund's portion of this pool is reported on the combined balance sheet as cash and cash equivalents.

The investment policy of the Agency is to invest in the Local Government Investment Pool (LGIP), U.S. Government Obligations, and interest bearing demand deposits with local banks and to transfer resources to the general checking account as the need arises. This policy is in accordance with ORS 294.035, which specifies the types of investments, authorized for municipal corporations. The Agency allocates earnings on investments to each fund based on the average monthly balances throughout the year.

Investments in the LGIP are reported at amortized cost, which approximates fair value in accordance with GASB Statement Number 31, and are considered cash equivalents for financial reporting purposes. All other investments are reported at fair value.

G. Receivables and Payables

Receivables including property taxes, accounts, entitlements, and shared revenues are reported in accordance with the policies enumerated in paragraph D above.

H. Fund Equity

Restricted Fund Balance represent amounts that constrained for debt services. The purpose of debt service is to repay debts incurred for Urban Renewal Project Fund. The unclassified balance is reported as Restricted balance under Urban Renewal Project Fund. Generally the purpose for each is indicated by the account title on the face of the balance sheet.

When the option is available to use restricted or unrestricted resources for any purpose, the Agency expends restricted resources first. When the option is available to use committed, assigned, or unassigned resources for any purpose, the Agency expends committed resources before assigned resources, and assigned resources before unassigned resources. Fund balances by classification for the year ended June 30, 2013 are as follow:

| Fund Balance | URA Project Fund | URA Debt Service Fund | Total |
|---------------------------|-----------------------------|----------------------------------|-------------------|
| Restricted for: | | | |
| Debt Service | \$ - | \$ 439,432 | \$ 439,432 |
| Capital Projects | 7,849 | - | 7,849 |
| Total Fund Balance | \$ 7,849 | \$ 439,432 | \$ 447,281 |

I. Long-Term Obligation

In the agency-wide financial statements, long-term debt obligations are reported as liabilities in the Statement of Net Position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

J. Recently Issued and Adopted Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. The Agency adopted GASB Statement 62 in the current year. The adoption of GASB 62 does not have any impact on the Agency's financial statements, except for the removal of a note disclosure describing the application of pre-November 30, 1989 guidance.

The GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and included four components assets, deferred outflows of resources, liabilities and deferred inflows of resources. The Agency adopted GASB Statement 63 in the current year. The adoption of GASB 63 does not have an impact on the Agency's financial statements, except for terminology changes to the statements.

K. Pending Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement restricts the use of the term "deferred" to only those items designed as deferred outflow or deferred inflow of resources by the standards. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

The GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB 27*. GASB 68 revises existing standards of financial reporting for most pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present

value to periods of employee service. This Statement is effective for fiscal years beginning after June 15, 2014.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Generally, Oregon Local Budget Law requires annual budgets be adopted for all funds. The modified accrual basis of accounting is used for all budgets, except Oregon Budget Law requires the repayment of interfund loans in a subsequent year to be budgeted. In the current year, the Debt Service fund repaid the city's General fund \$37,080, but \$18,080 of the loan was paid to the Project Fund. For GAAP, \$18,080 was reclassified as a transfer between funds and the remaining \$19,000 was reclassified as a balance sheet transaction. All annual appropriations lapse at fiscal year end.

The Agency begins its budgeting process by appointing Budget Committee members in the fall of each year. Budget recommendations are developed by management through early spring, with the Budget Committee meeting and approving the budget document in late spring. Public notices of the budget hearing are generally published in May or June and the hearing is held in June. The Board of Directors adopts the budget, makes appropriations, and declares the tax levy no later than June 30. Expenditure appropriations may not be legally over-expended, except in the case of grant receipts and bond sale proceeds which could not be reasonably estimated at the time the budget was adopted.

The resolution authorizing appropriations for each fund sets the level at which expenditures cannot legally exceed appropriations. The Agency established the levels of budgetary control at the materials and services, capital outlay, debt service, and all other requirement levels for all funds.

During the fiscal year ended June 30, 2013, the Agency adopted supplemental budget for the changes in Urban Renewal Debt Service fund and Urban Renewal Project fund. Expenditures exceeded appropriations for materials and services in the Urban Renewal Project Fund by \$208.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits. The Governmental Accounting Standards Board has adopted accounting principles generally accepted in the United States of America (GAAP), which includes standards to categorize deposits to give an indication of the level of custodial credit risk assumed by the Agency at June 30, 2013. If bank deposits at year end are not entirely insured or collateralized with securities held by the district or by its agent in the Agency's name, the Agency must disclose the custodial credit risk that exists.

The Agency maintains a cash pool with the City of Sisters that is available for use by all funds. Each fund type's portion of this pool is reported on the combined balance sheet as cash and cash equivalents. Please refer to the City's basic financial statements, issued under a separate cover, for additional information pertaining to the nature and collateralization of the City's deposits and investments.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Agency does not have a formal policy for custodial credit risk.

Investments. In connection with their shared funds with the City of Sisters, the Agency has invested funds in the State Treasurer's Oregon Short-Term Fund Local Government Investment Pool during the year. The Oregon Short-Term Fund is the local government investment pool for local governments and was established by the State Treasurer. It was created to meet the administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). Local Government Investment Pool (LGIP) is an unrated external investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. The amounts invested in the pool are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 40.

In addition, the Oregon State Treasury LGIP distributes investment income on an amortized cost basis and the participant's equity in the pool is determined by the amount of participant deposits, adjusted for withdrawals and distributed income. Accordingly, the adjustment to fair value would not represent an expendable increase in the Agency's cash position.

Investments in the Oregon State Treasury LGIP are made under the provision of ORS 194.180. These funds are held in the Agency's name and are not subject to collateralization requirements or ORS 295.015. Investments are stated at cost, which approximates fair value.

Credit risk. State statutes authorize the Agency to invest primarily in general obligations of the US Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial papers, and the State Treasurer's investment pool, among others. The Agency has no formal investment policy that further restricts its investment choices.

Concentration of Credit Risk. The Agency is required to provide information about the concentration of credit risk associated with its investments in one issuer that represents 5 percent or more of the total investments, excluding investments in external investment pools or those issued and explicitly guaranteed by the U.S. Government. The Agency has no such investments.

Interest Rate Risk. The Agency has no formal investment policy that explicitly limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

The Agency's cash and cash equivalents by fund at June 30, 2013 are shown below:

| | |
|---------------------------------|-------------------|
| Governmental activities: | |
| Urban Renewal Project | \$ 8,659 |
| Debt service | <u>474,734</u> |
| Total cash and cash equivalents | <u>\$ 483,393</u> |

B. Receivables

At June 30, 2013 the Agency's receivables are as follows:

| | |
|----------------|----------|
| Property taxes | \$ 8,418 |
|----------------|----------|

Property taxes are assessed and attach as an enforceable lien on property as of July 1. Taxes are levied on July 1 and are payable on November 15. They may be paid in installments due November 15, February 15, and May 15. Taxes are billed and collected by Deschutes County and remittance to the Agency is made at periodic intervals. The Agency levied taxes at its maximum taxing authority. After reductions for offsets and additional taxes and penalties, this resulted in a net levy of \$192,572. Following is a summary of property tax transactions for the year ended June 30, 2013:

| Agency | July 1, 2012 | 2012-13 Levy | Adjustments | Interest (Discounts) | Collections | June 30, 2013 |
|-------------|-----------------|-------------------|-------------------|-------------------------|---------------------|------------------|
| 2012-13 | \$ - | \$ 192,572 | \$ (1,444) | \$ (4,586) | \$ (181,985) | \$ 4,557 |
| 2011-12 | 4,200 | - | (65) | 144 | (2,749) | 1,530 |
| 2010-11 | 2,902 | - | (66) | 236 | (1,884) | 1,188 |
| 2009-10 | 1,508 | - | - | 258 | (1,443) | 323 |
| 2008-09 | 663 | - | (11) | 161 | (732) | 81 |
| 2007-08 | 65 | - | (3) | 12 | (42) | 32 |
| 2006-07 | 11 | - | (1) | 3 | (9) | 4 |
| 2005-06 | 6 | - | - | 1 | (4) | 3 |
| 2004-05 | 3 | - | - | - | (1) | 2 |
| Prior years | - | - | - | - | - | - |
| | <u>\$ 9,358</u> | <u>\$ 192,572</u> | <u>\$ (1,590)</u> | <u>\$ (3,771)</u> | <u>\$ (188,849)</u> | 7,720 |
| | | | | | Cash with County | <u>698</u> |
| | | | | | Total receivable | <u>\$ 8,418</u> |

C. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. The government-wide financial statements report *deferred revenue* only for amounts that have been received, but not earned. At

the end of the current fiscal year, *deferred revenue* reported in the governmental funds included \$7,720 in unavailable property taxes.

D. Capital Assets

The Agency constructs and refurbishes assets for the benefit of the City and businesses in the local area, and any assets constructed or improved would be property of the benefiting entity. During the current year the Agency completed construction of Main/Pine/Larch Pedestrian and Bike Path project and contributed the asset to the City totaling \$72,279. The Agency also started the design of the Fir Street Improvements and the Village Green Parking projects and incurred costs of \$7,092. The projects are still in the design stage and the Agency will contribute the asset to the City upon project completion. The Agency's portion of the design of the projects is 85% complete.

E. Long – Term Obligations

A Full Faith and Credit loan was issued on May 28, 2008 to finance the costs of East Cascade Realignment to Fire Hall and to repay the City for the interfund loan used to initially fund the costs of the project. The loan is in the name of the City, but is payable from the Agency. Security for the loan is the full faith and credit of the City, and the obligations are payable in semi-annual payments of \$42,724, including interest at 3.95%. Future maturities are as follows:

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> |
|-------------------------------|-------------------|------------------|
| 2014 | \$ 70,968 | \$ 14,482 |
| 2015 | 73,797 | 11,651 |
| 2016 | 76,741 | 8,705 |
| 2017 | 79,802 | 5,646 |
| 2018 | 82,892 | 2,463 |
| | <u>\$ 384,200</u> | <u>\$ 42,947</u> |

Changes in long-term obligations for the fiscal year ended June 30, 2013, are as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-----------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| FF&C Loan | | | | | |
| 2008 | <u>\$ 452,444</u> | <u>\$ -</u> | <u>\$ 68,244</u> | <u>\$ 384,200</u> | <u>\$ 70,968</u> |

F. Advances from Primary Government

The City of Sisters loaned the Agency \$100,000 for capital projects. The Capital Project loan is currently scheduled to be paid off to the General Fund over the next two years, with interest at 4.0%. However, the Agency is a blended component unit of the City and the loan repayment terms are subject to change. The outstanding balance at June 30, 2013 is \$36,000 and is reported as a liability in the fund financial statements.

G. Risk Management

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

H. Subsequent Events

In September 2013, the Agency approved an amendment to the Downtown Urban Renewal Plan to add construction of the Fir Street Park as a project. They also approved a resolution authorizing an interfund loan of up to \$442,000 from the City to the Urban Renewal Agency to fund up to \$100,000 in downtown façade improvements, \$135,000 for Fir Street improvements, and \$207,000 for the Fir Street Park. The first round of façade improvement grants were awarded in October 2013 for approximately \$40,000.

SUPPLEMENTAL INFORMATION

SISTERS URBAN RENEWAL AGENCY
(A Component Unit of the City of Sisters, Oregon)

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
URBAN RENEWAL DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2013**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive / (Negative) |
|---|------------------|------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes | \$ 129,600 | \$ 129,600 | \$ 188,850 | \$ 59,250 |
| Interest on investments | 2,000 | 2,000 | 2,691 | 691 |
| TOTAL REVENUES | <u>131,600</u> | <u>131,600</u> | <u>191,541</u> | <u>59,941</u> |
| EXPENDITURES | | | | |
| Debt service | 88,200 | 88,200 | 87,648 | 552 |
| Contingency | 387,162 | 372,182 | - | 372,182 |
| TOTAL EXPENDITURES | <u>475,362</u> | <u>460,382</u> | <u>87,648</u> | <u>372,734</u> |
| REVENUES OVER (UNDER) EXPENDITURES | <u>(343,762)</u> | <u>(328,782)</u> | <u>103,893</u> | <u>432,675</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund loan repayment | (22,100) | (37,080) | (37,080) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(22,100)</u> | <u>(37,080)</u> | <u>(37,080)</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | (365,862) | (365,862) | 66,813 | 432,675 |
| Budgetary basis adjustment | - | - | 19,000 | 19,000 |
| FUND BALANCE, Beginning | <u>365,862</u> | <u>365,862</u> | <u>353,619</u> | <u>(12,243)</u> |
| FUND BALANCE, Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 439,432</u> | <u>\$ 439,432</u> |

See auditor's report.

AUDITOR'S COMMENTS AND REPORTS



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Independent Auditor's Report Required by Oregon State Regulations

We have audited the basic financial statements of Sisters Urban Renewal Agency as of and for the year ended June 30, 2013, and have issued our report thereon dated December 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Sisters Urban Renewal Agency financial statements are free of material misstatement, we performed tests of its 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.**
- **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 Agency 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 the Agency budgeted contingency in its non-operating Debt Service Fund, which is not allowed by Oregon Budget Law and expenditures exceeded appropriations for materials and services in the Urban Renewal Project Fund by \$208.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the Agency internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency internal control over financial reporting.

This report is intended solely for the information and use of the board of directors/council members/commissioners and management of the Agency and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

Dickey and Tremper, LLP

Dickey and Tremper, LLP

December 12, 2013