GRESHAM
REDEVELOPMENT COMMISSION

For the Fiscal Year
Ended June 30, 2014

BASIC FINANCIAL STATEMENTS

Rockwood-West Gresham Urban Renewal area
City of Gresham, Oregon

Rockwood-West Gresham Urban Renewal Area

(a component unit of the City of Gresham, Oregon)

Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Prepared by
Finance & Management Services Department

Rockwood-West Gresham Urban Renewal Area
(a component unit of the City of Gresham, Oregon)
For the Fiscal Year Ended June 30, 2014

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GRESHAM
REDEVELOPMENT COMMISSION

Rockwood-West Gresham Urban Renewal Area
Gresham City Hall
1333 NW Eastman Parkway
Gresham, Oregon 97030
www.greshamoregon.gov/city/city-departments/urban-renewal

As of June 30, 2014

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Principal Officials:
Erik Kvarsten, City Manager
Dave Ris, City Attorney
Bernard Seeger, Finance and Management Services Director
Josh Fuhrer, GRDC Executive Director

The Commissioners and Principal Officials can be reached at the City Hall address above.

Independent Auditors Report

INDEPENDENT AUDITOR'S REPORT

Gresham Redevelopment Commissioners
Rockwood-West Gresham Urban Renewal Area
Gresham, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Rockwood-West Gresham Urban Renewal Area ("Area"), (a component unit of the City of Gresham, Oregon) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Area'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.

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 the Area as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis ("MD&A") and the budgetary comparison information for the Area's Capital Projects Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the MD&A 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 MD&A because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Capital Projects Fund budgetary comparison information has been subjected to the auditing procedures applied in the audit fo the basic financial statements, and in our opinion, is fairly stated in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Area's basic financial statements. The other schedules as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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. In our opinion, the other schedules are fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards of Audits of Oregon Municipal Corporations, we have issued our report dated February 2, 2015 on our consideration of the Area's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

ISLER CPA

Paul R. Nielson

By: Paul R. Nielson, CPA, a member of the firm

Eugene, Oregon

February 2, 2015

Management's Discussion and Analysis

Rockwood—West Gresham Urban Renewal Area (a component unit of the City of Gresham, Oregon) Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2014

This discussion and analysis highlights the financial activities and financial position of the Rockwood-West Gresham Urban Renewal Area (Area) for the year ended June 30, 2014. The Area is a blended component unit of the City of Gresham, Oregon (City). The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, variances from the budget, and specific issues related to individual funds.

FINANCIAL HIGHLIGHTS

- The Area added $4,024,938 in capital assets net of depreciation; This 29.0% increase in capital assets largely resulted from construction on the new public safety facility in Rockwood.
- Recovering property values and the addition of a permanent levy for the Multnomah County Public Library stimulated the Area's property tax increment growth by 11.2% over the previous year, in this, the eleventh year of the Area's existence.
- Through coordination with the City, the Area completed project draws of $4,683,500 utilizing a line of credit facility. The Area repaid $1,300,000 of previous draws during the year.
- On a fund basis, the Area's governmental funds reported a combined ending fund balance of $7.8 million, a decrease of $0.3 million from the prior year, reflecting major project construction activity during FY 2014.
- Fiscal 2014 saw the Area receive $94.5 thousand in federal interest subsidies for Build America Bonds issued in FY 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

Report Layout

This discussion and analysis is intended to serve as an introduction to the Area's basic financial statements. The basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The government-wide statements report information about the Area as a whole in a manner similar to private-sector companies. The two government-wide statements are the Statement of Net Position and the Statement of Activities. The Statement of Net Position includes all of the Area's assets, liabilities, deferred outflows and inflows with the difference reported as net position.

The Statement of Activities provides a focus on program costs and their matching resources. All of the current year's revenues and expenses are detailed in the statement of activities using the accrual basis of accounting (i.e. regardless of when cash is received or paid).

Program costs are paid from loan proceeds as required under Oregon law. The loans are repaid using property taxes levied for the area along with investment earnings and federal interest subsidies.

Fund Financial Statements

The fund financial statements are reported after the government-wide statements. The Area presents both of its funds as major funds. For each of these major funds, a budgetary comparison schedule is also presented.

Notes to the Financial Statements

The notes provide additional information that is critical to a full understanding of the data shown, and the accounting conventions used in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Financial Position

Net position serves as a useful indicator, over time, of a government's financial position. The following table shows a summary of the statement of net position at fiscal year end and for the previous year end:

Rockwood-West Gresham Urban Renewal Area
Summary of Net Position

	Governmental Activities	
ASSETS	**2014**	**2013**
Current and other assets	$ 7,884,061	$ 8,196,649
Capital assets	17,914,595	13,889,657
Total assets	25,798,656	22,086,306
LIABILITIES		
Accrued Liabilities	58,211	79,363
Other Accrued Liabilities	-	-
Note payable to City of Gresham	21,062,612	18,887,999
Total liabilities	21,120,823	18,967,362
NET POSITION		
Total net position	$ 4,677,833	$ 3,118,944

The Area ended the year with net position of $4,677,833 an increase of $1,558,889 from the prior year. Current and other assets decreased by $312,588 largely due to project expenditures and debt service payments, offset by proceeds of $4,683,500 drawn on the line of credit facility. The increase of $4,024,938 in capital assets net, includes completed construction on the Rockwood public safety building and a purchase of property valued at $1.9 million.

Results of Operations

As with the statement of net position, the Area reports governmental activities on a consolidated basis. A comparison of the statement of activities to the prior year is provided below:

Rockwood-West Gresham Urban Renewal Area
Summary of Changes in Net Position

	Governmental Activities	
	2014	2013
REVENUES		
Program Revenues		
Capital contributions	$ -	$ 58,000
Other revenues	47,821	13,500
Program Revenues	47,821	71,500
General Revenues		
Property taxes	3,266,015	2,938,354
Federal subsidy - Build America Bonds	94,471	105,758
Interest and investment earnings	147,140	4,282
General Revenues	3,507,626	3,048,394
Total revenues	3,555,447	3,119,894
EXPENSES		
Urban renewal	1,227,062	706,534
Interest on long-term debt	769,496	822,587
Total expenses	1,996,558	1,529,121
Change in net position	1,558,889	1,590,773
Net Position - Beginning	3,118,944	1,593,156
Adjustment due to Change in Accounting Principle	-	(64,985)
Net Position - Ending	$ 4,677,833	$ 3,118,944

Total revenues increased by $435,553 from the prior fiscal year. The increase of $327,661 in property tax increment and an increase in investment income of $142,858 were slightly offset by a decrease in Build America bond interest subsidy. Investment income was positively impacted by an improved bond market during May and June 2014, creating unrealized gains in fixed income investments. The affect was magnified by the reversal of unrealized losses from the end of fiscal 2013.

The Area's total revenues for the year were $3.6 million, a 14.0% increase from the prior year. The general revenues are restricted to the repayment of debt that is used to finance improvements identified in the urban renewal plan.

The Area collected $94.5 thousand in direct interest payment subsidies from the federal government under the Build America Bonds section of the American Recovery and Reinvestment Act of 2009.

There was a $467,437 increase in expenses from the prior year. The primary differences were a $53 thousand decrease in interest costs somewhat lowering the $520,528 increase in urban renewal expenses. This increase was primarily the result of contracted professional and technical services.

Financial Analysis of the Government's Funds

The Area uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the Area's funds is to provide information on near-term inflows, outflows, and ending balances of operating accounts. Such information is useful in assessing the Area's resources that are available for spending.

At the end of the fiscal year, the combined fund balance for the governmental funds was $7.8 million. Combined fund balance decreased by $0.3 million from the prior year.

The Rockwood UR Capital Projects Fund had an ending balance of $1.0 million, a decrease of $0.5 million from the prior year. Proceeds from line of credit draws resulted in additional resources of $4.7 million, while project expenditures of $5.3 million (offset by some service and investment revenues) resulted in the $0.5 million decrease.

The Rockwood UR Debt Service Fund had an ending balance of $6.8 million, an increase of $0.2 million from the prior year. The growth from the prior year was due to higher levels of debt service, more than offset by a sharp increase in the property tax collections primarily due to the permanent levy for the Multnomah County Public Library adding additional proceeds to the urban renewal's allocation. The ending fund balance is not available for future project spending because it is restricted by statute to debt service on urban renewal borrowings.

BUDGETARY HIGHLIGHTS

There were no differences between the original budget and the final budget in the Area's funds; no appropriation changes were required during the year.

The final budget in the Rockwood UR Capital Projects Fund includes $8.4 million in appropriations, but only $5.3 million was used. The excess appropriations were intended for additional project related costs.

The Rockwood UR Debt Service Fund failed to achieve its budgeted revenues by $190.6 thousand, mainly through investment income not reaching budget levels. Timing of line of credit draws and a future financing were the primary reasons for the imbalance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year-end, the Area had $17.9 million invested in capital assets, which reflected an increase of $4,024,938 net of depreciation, or 29.0% over the previous fiscal year.

- The Gresham Redevelopment commission completed construction of the Rockwood Public Safety Facility project in November 2013 and opened for operation in December, on time and on budget.
- Acquired the former Drake's Seven Dees site at 165th and SE Stark Street. A sale of a portion of the Drake's site was negotiated with Boys & Girls Club of Portland for the development of a new facility that will serve the needs of Rockwood area youth.

- Initiated a new phase of planning and analysis for the Rockwood Catalyst Site, including review of options for the Rockwood Community Office building.

Long-term Debt

During fiscal 2014, the Area through an agreement with the City of Gresham drew $4,683,500 on its line of credit to fund various Area project expenditures. Prior line borrowings of $1.3 million were repaid earlier in the fiscal year.

Economic Factors and Next Year's Budget and Rates

- The Area's tax assessment was certified by Multnomah County on October 7, 2014, in the amount of $3,688,006 with estimated net proceeds of $3,466,726. The assessment is determined by using the incremental increase in tax assessed value from the base year of 2004 for properties within the Area's boundaries. The tax revenue will be used to pay for debt incurred to fund urban renewal projects and improvements.
- Capital project expenditures budgeted for FY 2014-15 include: $2.2 million for work at the catalyst site, $50 thousand for industrial area investments and approximately $53 thousand for work at the Public Safety facility. The $2.3 million capital project budget is part of the Adopted Budget for the Urban Renewal Area for fiscal year 2014-15.
- The Area continues to partner with private development by providing infrastructure improvements that support future growth to the west side of Gresham, which also includes the Rockwood neighborhood. Tax increment financing will be used to fund these infrastructure improvements.
- Since program inception the Redevelopment Commission has awarded approximately $1,279,000 in New Industries grants, leveraging approximately $66.3 million in new investment in the industrial area along with the creation of nearly 380 new jobs. The Apartment Rehabilitation grants have awarded approximately $741.4 thousand to assist the rehabilitation of over 1,400 units, sparking private investment expenditures of almost $5.5 million. The newer Storefront Improvement Grant program has committed $253.7 thousand to applications which have seen approximately $1.0 million of matching investment expenditures for storefront improvements. The latest addition to the grant program is Predevelopment Services grants which will be used to assist developers initiate challenging projects in the Industrial and Town Center zones of the Urban Renewal Area. The grants awarded have totaled $118.6 thousand in anticipation of future meaningful growth and development in the Rockwood Town Center area.

Requests For Information

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Area's finances and to show the Area's accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to the City of Gresham Finance & Management Services Department, Accounting Services Division at 1333 NW Eastman Parkway, Gresham, Oregon 97030-3813.

Basic Financial Statements

Rockwood-West Gresham Urban Renewal Area

(a component unit of the City of Gresham)
Statement of Net Position
June 30, 2014

		Governmental Activities
ASSETS		
Cash and cash equivalents	$	1,082,296
Investments		4,858,518
Property taxes receivable, net		122,885
Other assets		20,362
Restricted cash and cash equivalents		323,011
Restricted investments		1,476,989
Capital assets:		
Non-depreciable		8,943,111
Depreciable, net		8,971,484
Total assets		25,798,656
LIABILITIES		
Accrued interest payable		58,211
Long-term liabilities:		
Due within one year		8,732,439
Due in more than one year		12,330,173
Total liabilities		21,120,823
NET POSITION		
Restricted for Debt Service		1,800,000
Unrestricted		2,877,833
Total Net Position	$	4,677,833

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

Rockwood-West Gresham Urban Renewal Area

(a component unit of the City of Gresham)
Statement of Activities
For the Fiscal Year Ended June 30, 2014

Functions	Direct Expenses	Program Revenue: Capital Grants and Other Revenue	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:			
Urban renewal	$ 1,227,062	$ 47,821	$ (1,179,241)
Interest on long-term debt	769,496	-	(769,496)
Total governmental activities	$ 1,996,558	$ 47,821	(1,948,737)
General Revenues:			
Property taxes for debt service			3,266,015
Federal subsidy - Build America Bonds			94,471
Interest and investment earnings			147,140
Total general revenues			3,507,626
Change in net position			1,558,889
Net position - beginning			3,118,944
Net position - ending			$ 4,677,833

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

Rockwood-West Gresham Urban Renewal Area
(a component unit of the City of Gresham)
Balance Sheet
Governmental Funds
June 30, 2014

	Rockwood UR Capital Projects Fund	Rockwood UR Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 170,617	$ 911,679	$ 1,082,296
Investments	780,159	4,078,359	4,858,518
Receivables, net	4,353	-	4,353
Property taxes receivable, net	-	122,885	122,885
Other assets	2,571	13,438	16,009
Restricted cash and cash equivalents	-	323,011	323,011
Restricted investments	-	1,476,989	1,476,989
Total assets	$ 957,700	$ 6,926,361	$ 7,884,061
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue -property taxes	$ -	$ 111,497	$ 111,497
Total deferred inflows of resources	-	111,497	111,497
Fund balances:			
Unrestricted	957,700	-	957,700
Restricted for Debt Service	-	6,814,864	6,814,864
Total fund balances	957,700	6,814,864	7,772,564
Total deferred inflows of resources and fund balances	$ 957,700	$ 6,926,361	$ 7,884,061

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

Rockwood-West Gresham Urban Renewal Area
(a component unit of the City of Gresham)
Reconciliation of the Balance Sheet of Governmental Funds to Governmental Activities on the Statement of Net Position

June 30, 2014

Total fund balances - governmental funds	$	7,772,564
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds:		
Governmental capital assets		17,914,595
Assets not available to pay for current period expenditures are deferred in the governmental funds, but are susceptible to full accrual on the statement of net position.		
Unavailable revenue from taxes and assessments		111,497
Liabilities not due and payable in the current period are not reported in a government fund, but are reported on the statement of net position.		
Notes payable		(21,062,612)
Accrued interest		(58,211)
Total net position - governmental activities	$	4,677,833

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

Rockwood-West Gresham Urban Renewal Area
(a component unit of the City of Gresham)
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	Rockwood UR Capital Projects Fund	Rockwood UR Debt Service Fund	Total Governmental Funds
REVENUES			
Taxes	$ -	$ 3,318,592	$ 3,318,592
Federal Subsidy - Build America Bonds	-	94,471	94,471
Charges for services	47,821	-	47,821
Investment Earnings (loss)	14,415	132,725	147,140
Total revenues	62,236	3,545,788	3,608,024
EXPENDITURES			
Other materials and services	5,252,000	-	5,252,000
Debt service	-	3,299,535	3,299,535
Total expenditures	5,252,000	3,299,535	8,551,535
Excess (deficiency) of revenues over (under) expenditures	(5,189,764)	246,253	(4,943,511)
OTHER FINANCING SOURCES (USES)			
Issuance of debt	4,683,500	-	4,683,500
Total other financing sources (uses)	4,683,500	-	4,683,500
Net change in fund balances	(506,264)	246,253	(260,011)
Fund balances - beginning	1,463,964	6,568,611	8,032,575
Fund balances - ending	$ 957,700	$ 6,814,864	$ 7,772,564

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

Rockwood-West Gresham Urban Renewal Area
(a component unit of the City of Gresham)
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Governmental Activities on the Statement of Activities
For the Fiscal Year Ended June 30, 2014

Net change in fund balances - governmental funds		$ (260,011)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures and do not report capital asset contributions. In the statement of activities, contributions are reported as revenues and the cost of capital assets is allocated as depreciation expense over the assets estimated useful lives:		
Capital asset expenditures	4,318,027	
Less: Depreciation expense	(293,089)	4,024,938
Debt issuances increase long-term liabilities in the statement of net position:		
Debt issued		(4,683,500)
Debt principal repayments		2,508,887
Some revenues reported in the statement of activities did not provide current financial resources and, therefore, are not reported in governmental funds. Revenues reported in governmental funds because they did not provide current financial resources in prior years are not reported in the statement of activities:		
Change in unavailable revenue - property taxes		(52,577)
Some expenses reported in the statement of activities did not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Change in accrued interest		21,152
Change in net position - governmental activities		$ 1,558,889

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

Notes to the Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The financial statements of the Rockwood-West Gresham Urban Renewal Area (Area) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

The Area is the urban renewal agency of the City of Gresham, Oregon (City). The Area was created in the fall of 2003, when voters approved the creation of an urban renewal area for 20 years with maximum principal indebtedness of $92.0 million. The City's council members make up the governing body of the Area (known as the Gresham Redevelopment Commission).

The Area is a blended component unit of the City in its basic financial statements. All significant activities over which the Gresham Redevelopment Commission (GRC) exercises oversight responsibility have been included in the component unit financial statements. This governing body has the ability to impose its will on the Area as determined on the basis of budget adoption, taxing authority, and funding.

An Intergovernmental Agreement (IGA) exists between the City and the Area for urban renewal project funding, internal service charges and debt issuance and repayment. The Area has remaining borrowing capacity of $61,109,323 at June 30, 2014. The Area's activities are reported in the Rockwood UR Capital Projects Fund and the Rockwood UR Debt Service Fund.

Basic Financial Statements

The basic financial statements include both government-wide and fund financial statements. All activities of the Area are categorized as governmental activities. Governmental activities are normally supported by taxes and intergovernmental revenues.

Government-wide financial statements portray information about the Area as a whole. These statements focus on the sustainability of the Area as an entity and the change in aggregate financial position resulting from the activities of the fiscal year. These aggregated statements consist of the statement of net position and the statement of activities.

The *Statement of Net Position* presents information on all of the Area's assets, liabilities, deferred inflows and deferred outflows with the difference reported as *net position.*

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenue includes 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. Taxes, interest subsidies and investment earnings are reported as general revenues.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds may be classified and summarized as governmental, proprietary, or fiduciary. Both of the Area's funds are classified as governmental 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 full-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.

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 become 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 Area considers revenues to be available if they are collected within 60 days of the end of the fiscal year. The major revenue source recognized under the Area's availability policy is property taxes. Expenditures generally are recorded when a liability is incurred.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation are necessary to explain the adjustments needed to transform the fund based financial statements into the government-wide presentation. The reconciliations are part of the financial statements.

GASB Statement No. 34 sets forth criteria for the determination of major funds. For the purposes of presentation, both of the Area's funds are presented as major funds, as follows:

- *Rockwood UR Capital Projects Fund*

  This fund accounts for the acquisition and development of capital improvements. Revenue and other financing sources consist of debt proceeds, investment earnings, and other miscellaneous revenues.

- *Rockwood UR Debt Service Fund*

  This fund accounts for payments of principal and interest on urban renewal debt. The primary sources of revenue are property tax increment, interest subsidy and investment earnings.

Assets, Liabilities, and Net Position or Fund Balance

Cash and Cash Equivalents, Investments, and Restricted Cash

The Area's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit and shares of the Oregon Local Government Investment Pool. The Area's investment securities, are reported at fair value based on quoted market prices as of year-end. Interest earned on cash and investments is allocated monthly based on each fund's average cash balance as a proportion of the City's total cash and investments.

Receivables

Property taxes are assessed on all taxable property as of July 1, the beginning of the fiscal year, and become a lien against the property on that date. Property taxes are levied in October. Collection dates are November 15, February 18, and May 15. Discounts are allowed if the full amount due or 2/3 of the full amount due, is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent, but are deemed to be substantially collectible or recoverable through liens.

Capital Assets

Capital assets, which include property, infrastructure assets and easements, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are expensed when incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The Area's capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land improvements	25
Transportation systems	20
Machinery and equipment	15

Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as material and service expenditures.

Net Position / Fund Balance

As required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Area's governmental fund balances are classified in one of five categories – non-spendable, restricted, committed, assigned, and unassigned. A summary of the categories are:

- Non-spendable: Items that cannot be spent because they are not in a spendable form.
- Restricted: Items that are restricted by external sources, such as creditors; grantors; contributors; or statutory requirements.
- Committed: Items that can only be used for specific purposes imposed by formal action of the entity's 'highest level of decision-making authority', the commitment must occur before the fiscal year end to be reported in this category.
- Assigned: Items constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.
- Unassigned: This category includes any balances that have none of the characteristics noted above; also incorporating any deficit fund balance.

The government-wide statements label the difference between assets, liabilities, deferred inflows and outflows as 'net position'. Components of net position are 'invested in capital assets, net of related debt', 'restricted', and 'unrestricted'.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Area prepares its budget in accordance with the legal requirements in Oregon Local Budget Law. The Commission adopts the budget, makes appropriations, and declares the tax levy no later than July 1st of the fiscal year being budgeted.

In accordance with State law an annual budget is adopted. The budget is prepared in accordance with the modified accrual basis of accounting.

The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Total expenditures (including personal services, material and services, and other expenditures) within each department are the levels of control for each fund established by the resolution. All changes and amendments to total department expenditures for each fund require the approval of the Commission.

DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

Cash and Cash Equivalents, and Investments

The Area participates in the City of Gresham's cash and investment pool. At June 30, 2014, the City's cash and investments were maintained in deposits at a local financial institution and the State of Oregon's Local Government Investment Pool ("LGIP"). The Area's portion of this pool is displayed in the Statement of Net Position and the Balance Sheet as "Cash and cash equivalents." Detail information for the Area's pooled cash and investments can be found in the City of Gresham's June 30, 2014 Financial Statements and notes to the financial statements.

The City maintains a cash and investment pool for all cash and cash equivalents in which each fund participates, including the Area. Area investments with the State of Oregon Local Government Investment Pool (LGIP) are not held in separate Area accounts. The total restricted and unrestricted cash and cash equivalents balance for the Area at year-end was $1,405,307.

Interest Rate Risk, Concentration Risk and Credit Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair value with established maturity limits and an ample reserve of liquid funds. To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The weighted average maturity (WAM) of the City's portfolio shall not exceed three and one half years.

Concentration risk is the risk of loss attributed to the magnitude of a government's investment in any one issuer. Credit risk is the risk that an issuer of an investment will not fulfill its obligations. To limit the City's exposure to concentration risk, the investment policy restricts amounts that may be invested in any one issuer. At year-end, the Area's risk concentration in U.S. Agencies was 58.4% of the portfolio (including cash and cash equivalents). The U.S. Agency holdings were divided evenly between Fannie Mae, Freddie Mac, Federal Farm Credit Bank and Federal Home Loan Board securities. To limit the City's exposure to credit risk, the investment policy outlines minimum allowable credit rating criteria.

Area investments held at year end are categorized by credit rating, maturity and fair value as follows:

	Credit Rating		Investment Maturity (Final)				
	S&P	Moody's	Under 30 days	30 Days to 1 Year	1 Year to 3 Years	Over 3 Years	June 30, 2014
Cash & Cash Equivalents	n/a	n/a	$ 1,405,307	-	-	-	$ 1,405,307
Investments: US Agencies	AA+	Aaa	-	$ 149,008	$ 452,440	$3,923,049	4,524,497
Investments: Corporates	AA-/AAA	A1/Aaa	-	302,846	1,053,850	454,314	1,811,010
							$ 7,740,814

Restricted Cash and Investments

Restricted cash and investments of $1.8 million are maintained as part of an Intergovernmental Agreement with the City. The funds provide a safeguard against an unexpected decline in tax increment revenues which might otherwise impair the ability of the Area to make required debt service payments.

Capital Assets

Capital asset activity during the fiscal year was as follows:

	Beginning Balance	Increases	Reclass	Ending Balance
Non-depreciated:				
Land	$ 7,021,913	$ 1,911,141	$ -	$ 8,933,054
Construction in progress	2,482,743	2,406,885	(4,889,628)	-
Easements	10,057	-	-	10,057
Total non-depreciated	9,514,713	4,318,026	(4,889,628)	8,943,111
Depreciable:				
Buildings	-	-	4,794,193	4,794,193
Improvements	52,675	-	-	52,675
Machinery and equipment	71,731	-	-	71,731
Infrastructure	4,717,434	-	95,435	4,812,869
Total depreciable at historical cost	4,841,840	-	4,889,628	9,731,468
Less accumulated depreciation for:				
Buildings	-	(47,942)	-	(47,942)
Improvements	(4,969)	(2,107)	-	(7,076)
Machinery and equipment	(11,955)	(4,782)	-	(16,737)
Infrastructure	(449,972)	(238,257)	-	(688,229)
Total accumulated depreciation	(466,896)	(293,088)	-	(759,984)
Depreciable, net	4,374,944	(293,088)	4,889,628	8,971,484
Capital assets, net	**$ 13,889,657**	**$ 4,024,938**	**$ -**	**$ 17,914,595**

Depreciation expense for the urban renewal governmental activity **$ 293,088**

Long-term Debt

A summary of long-term debt activity during the year follows:

Governmental Activities	Rates	Outstanding 6/30/2013	Issued	Matured/ Redeemed	Outstanding 6/30/2014
Financing Agreement -	3.55%	$ 1,384,975	$ -	$ 117,611	$ 1,267,364
Financing Agreement -	5.25%	5,661,159	-	483,863	5,177,296
Financing Agreement -	5.25%	7,754,993	-	607,413	7,147,580
		$14,801,127	$ -	$1,208,887	$13,592,240
Line of Credit	Variable	4,086,872	4,683,500	1,300,000	7,470,372
Total		**$18,887,999**	**$4,683,500**	**$2,508,887**	**$ 21,062,612**

On June 4, 2010 the Urban Renewal Area participated in a City of Gresham issuance of a Financing Agreement. The Urban Renewal portion was $18.1 million divided among three series.

- Series A 3.55% Note, was a $1.7 million tax-exempt financing for repayment of previous project borrowings.
- Series B 5.25% Note, was a $7.0 million taxable Build America Bond issuance to fund several urban renewal projects. The effective borrowing rate after federal subsidy is 3.41%.
- Series C 5.25% Note, was a $9.4 million taxable financing for repayment of previous property acquisition borrowings.

Line of credit borrowings during the year of $4.7 million were utilized to reimburse the City for project related materials and services. $1.3 million of Line of credit borrowings were repaid during the year.

The future principal and interest payments are outlined in the following schedule:

Year Ending	2010 Financing Agreement Principal	2010 Financing Agreement Interest	2014 Lines of Credit Principal	2014 Lines of Credit Interest
2015	$ 1,262,067	$ 676,001	$ 7,470,372	$112,055
2016	1,317,690	611,102	-	-
2017	1,375,874	543,323	-	-
2018	1,436,737	472,533	-	-
2019	1,500,412	398,591	-	-
2020-2023	6,699,460	786,626	-	-
	$ 13,592,240	**$3,488,176**	**$ 7,470,372**	**$112,055**

Line of credit interest is an estimate. The rate is fixed for short intermediate periods (one month to one year) and is LIBOR based.

Interest debt service transactions during the fiscal year were as follows:

Governmental Activities	Payable Beginning	Accrued	Matured/ Redeemed	Payable Ending
Interest payable	**$ 79,363**	**$788,470**	**$809,622**	**$ 58,211**

Risk Management

The Area is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Area carries commercial insurance.

The Area purchases commercial insurance for general liability and automobile claims through the City of Gresham. The operations of the self-insurance program are reported in the City's Liability Management Fund, an Internal Service Fund. Operating resources for the year consist mainly of charges to other funds and interest income. Settled claims have not exceeded insurance coverage in any of the last three fiscal years.

The Area and all funds of the City participate in the program and make payments to the internal service fund based on actuarial estimates of the amounts needed to pay prior and current-year claims and to establish a reserve for losses. Liabilities include an amount for claims that have been incurred but not reported (IBNR). IBNR claim liabilities are calculated considering the effects of inflation, recent claim settlement trends (including frequency and amount of payouts) and other economic and social factors.

The City currently provides for estimated losses to be incurred from pending claims and for IBNR claims. Changes in the claims liability amount during the current and two prior fiscal years for the Area are not available.

Related Party Transactions

The City provides services for the Area, including administration, program management, design, engineering, financial, legal, and clerical functions. The Area operates exclusively using contracted employees from the City. The Area paid $696,838 to the City for services, reimbursement for personnel, and materials and supplies, during the year. No specific future commitments to the City have been agreed upon.

Required Supplementary Information

Rockwood-West Gresham Urban Renewal Area

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Rockwood UR Capital Projects Fund
For the Fiscal Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget- Positive (Negative)
REVENUES				
Charges for services	$ -	$ -	$ 47,821	$ 47,821
Miscellaneous	21,100	21,100	3,298	(17,802)
Total revenues	21,100	21,100	51,119	30,019
EXPENDITURES				
Other materials and services	8,162,000	8,162,000	5,252,000	2,910,000
Operating contingency	250,000	250,000	-	250,000
Total expenditures	8,412,000	8,412,000	5,252,000	3,160,000
Excess of expenditures over revenues	(8,390,900)	(8,390,900)	(5,200,881)	3,190,019
OTHER FINANCING SOURCES				
Issuance of debt	6,661,710	6,661,710	4,683,500	(1,978,210)
Net change in fund balances	(1,729,190)	(1,729,190)	(517,381)	1,211,809
Fund balances - beginning	1,803,000	1,803,000	1,473,223	(329,777)
Fund balances - ending	$ 73,810	$ 73,810	$ 955,842	$ 882,032
Unrealized gain (loss) on investments			1,858	
Net position - generally accepted accounting principles basis, ending			$ 957,700	

Other Schedules

Rockwood-West Gresham Urban Renewal Area

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Rockwood UR Debt Service Fund
For the Fiscal Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget- Positive (Negative)
REVENUES				
Taxes	$ 3,336,800	$ 3,336,800	$ 3,318,592	$ (18,208)
Federal Subsidy - Build America Bonds	93,000	93,000	94,471	1,471
Miscellaneous	252,000	252,000	78,128	(173,872)
Total revenues	3,681,800	3,681,800	3,491,191	(190,609)
EXPENDITURES				
Debt service	6,372,500	6,372,500	3,299,535	3,072,965
Net change in fund balances	(2,690,700)	(2,690,700)	191,656	2,882,356
Fund balances - beginning	7,509,900	7,509,900	6,609,987	(899,913)
Fund balances - ending	$ 4,819,200	$ 4,819,200	$ 6,801,643	$ 1,982,443
Unrealized gain (loss) on investments			13,221	
Net position - generally accepted accounting principles basis, ending			$ 6,814,864	

ROCKWOOD-WEST GRESHAM URBAN RENEWAL AREA
Schedule of Property Tax Transactions
For the Fiscal Year Ended June 30, 2014

Tax Year	Receivable Balance July 1, 2013	Levy	Collections	Discounts	Adjustments	Deferred Billing Credit	Receivable Balance June 30, 2014
2013/14	$ -	$ 3,427,024	$ (3,241,840)	$ (87,257)	$ (8,793)	$ (19,830)	$ 69,304
2012/13	82,621	-	(35,150)	65	(2,992)	(17,195)	27,349
2011/12	47,527	-	(12,495)	2	(796)	(13,934)	20,304
2010/11	28,740	-	(11,197)	3	(298)	(11,807)	5,441
2009/10	15,764	-	(5,417)	-	(207)	(10,900)	(760)
2008/09	1,179	-	(371)	-	(111)	-	697
Prior	758	-	(147)	-	(61)	-	550
	$ 176,589	$ 3,427,024	$ (3,306,617)	$ (87,187)	$ (13,258)	$ (73,666)	$ 122,885

Reconciliation to fund financial statements:

	Property Tax Collections						
			60 Day Accruals				
Fund	Current Year Collections	Prior Years' Collections	August 31, 2013	August 31, 2014	Interest and Other Adjustments	Total Tax Revenues for the Fiscal Year Ended June 30, 2014	Receivable Balance June 30, 2014
Urban Renewal	$ 3,241,840	$ 64,777	$ (12,515)	$ 11,388	$ 13,102	$ 3,318,592	$ 122,885

Audit Comments and Disclosures Required by State Regulations

INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS

Gresham Redevelopment Commissioners
Rockwood-West Gresham Urban Renewal Area
A component unit of the City of Gresham, Oregon
Gresham, Oregon

McGladrey Alliance | McGladrey

We have audited the basic financial statements of the Rockwood-West Gresham Urban Renewal Area ("Area"), (a component unit of the City of Gresham, Oregon) as of and for the year ended June 30, 2014, and have issued our report thereon dated February 2, 2015. 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 Area's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 to 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on 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 Area 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.

OAR 162-10-0230 Internal Control

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's 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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report is intended solely for the information and use of the Commissioners and management of the Rockwood-West Gresham Urban Renewal Area and the Secretary of State, Audits Division, of the State of Oregon and is not intended to be and should not be used by anyone other than those specified parties.

ISLER CPA

Paul R Nielson

By: Paul R. Nielson, CPA, a member of the firm

Eugene, Oregon
February 2, 2015