

MADRAS REDEVELOPMENT COMMISSION
(A Component Unit of the City of Madras, Oregon)

Annual Financial Report

For the Fiscal Year Ended June 30, 2010

MADRAS REDEVELOPMENT COMMISSION
(A Component Unit of the City of Madras, Oregon)

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**MADRAS REDEVELOPMENT COMMISSION
(A Component Unit of the City of Madras, Oregon)**

**OFFICIALS OF THE AGENCY
JUNE 30, 2010**

BOARD OF DIRECTORS

<u>Name</u>	<u>Address</u>	Term Expires <u>February</u>
Patty Woll, Chair	804 SE Rancho Lane Madras, Oregon 97741	2011
Melanie Widmer, Vice Chair	287 NE 16 th Street Madras, OR 97741	2013
Kevin O'Meara	85 NW Poplar Street Madras, OR 97741	2013
Doeshia Jacobs	PO Box 673 Madras, OR 97741	2013
Carolyn Fording	1315 NE Westview Drive Madras, OR 97741	2011
Blanca Reynoso	212 SW 5 th Street Madras, OR 97741	2011
Tom Brown	PO Box 668 Madras, OR 97741	2011
Helmer Wallen	PO Box 35 Madras, OR 97741	2013

AGENCY ADDRESS

Administrative Offices
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Madras, OR 97741



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Dickey and Tremper, LLP
Certified Public Accountants and Business Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Madras Redevelopment Commission
Madras, Oregon

We have audited the accompanying financial statements of the governmental activities and each major fund of Madras Redevelopment Commission (*a component unit of the City of Madras, Oregon*) as of and for the year ended, June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Madras Redevelopment Commission, as of June 30, 2010, the respective changes in financial position, and the budgetary comparison for the General Fund and Reinvestment Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages a through g 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.

A

INDEPENDENT AUDITOR'S REPORT (Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Madras Redevelopment Commission's financial statements as a whole. The auditors comments and reports, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Madras Redevelopment Commission. 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 financial statements as a whole.

Dickey and Trempér, LLP

Dickey and Trempér, LLP
Certified Public Accountants and Consultants

April 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS



Madras Redevelopment Commission

71 SE D Street Madras Oregon 97741
Phone: 541-475-3388 Fax: 541-475-3959

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is management's discussion and analysis (MD&A) of the financial performance of the Madras Redevelopment Commission (Commission), a component unit of the City of Madras (City), for the fiscal year ended June 30, 2010. The report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standard Board (GASB). The MD&A should be read in conjunction with the basic financial statements and notes to the financial statements.

History

The Madras Redevelopment Commission was formed by City Ordinance No. 709 on June 24, 2003 and transferred the power of the Urban Renewal Agency of the City of Madras, to the Madras Redevelopment Commission pursuant to ORS 457.055. The Urban Renewal District lies primarily in the downtown corridor and extends to Lee Street to the north and Hall Street to the south. The Commission is managed by a governing board of nine members, three of which are elected Council Members for the City of Madras, and six members appointed at large, by the Madras City Council. Members of the Commission serve staggering three year term. The primary objectives of the Urban Renewal District is to 1) Eliminate blight conditions; 2) Reverse physical and economic decline; and 3) Use tax increment financing with a bonded limit of \$14 million to achieve its objectives.

Financial Highlights

- The Madras Redevelopment Commission entered into its seventh façade project offering a combination matching grant and loan. This latest façade project, in the downtown corridor, is a matching grant of \$28,623 with a 10 year loan for the same amount. Total receivable for the façade program as of June 30, 2010 is \$227,291.
- During the current year, the Commission began negotiations with a developer to build a movie theater in Madras. The Commission is offering to pay \$100,000 per year up to five years to Madras Cinema 5 LLC upon completion of the five screen movie complex. Construction of the new theater began in the fall of 2010.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves beginning of page 8 of this report.

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

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

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

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 function. The Commission, 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 Commission are considered governmental funds

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

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

- The Commission maintains two individual governmental funds. These individual funds comprise of the *General Fund* and the *Reinvestment Fund*; are presented separately in the governmental funds balance sheet and in the governmental funds statement of revenue, expenses and change in fund balance, beginning on page 3.

The commission adopts an annual appropriated budget for all governmental funds. A budgetary comparison has been provided for each fund to demonstrate compliance with the adopted budget. These budgetary comparison statements can be found starting on page 6 of this report.

The financial statements also include notes that provide additional information that is essential to the full understanding of the data provided in the government-wide and funds financial statements. The notes to the basic financial statements can be found beginning on page 8 of this report.

In addition to the basic financial statements and the accompanying notes, lies additional pertinent information for the reader referred to as *Auditor's Comments and Reports*. This information can be found in this report following the notes to the basic financial statements.

Financial Analysis of the Government-wide Statements

Net Assets

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

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, combined net assets for fiscal year ended June 30, 2010 totaled a deficit of (\$1,442,660,) a reduction of \$80,727 from June 30 2009, deficit of (\$1,523,387.)

Table 1
Madras Redevelopment Commission
NET ASSETS

	Governmental Activities		Net Change
	2010	2009	Increase (Decrease)
Assets:			
Cash and cash equivalents	\$ 345,693	\$ 297,820	\$ 47,873
Receivables	261,072	241,163	19,909
Capital assets			
Assets available for Sale	463,691	463,691	-
Total Assets	1,070,456	1,002,674	67,782
Liabilities:			
Current liabilities	13,116	26,061	(12,945)
Non-current liabilities	2,500,000	2,500,000	-
Total Liabilities	2,513,116	2,526,061	(12,945.00)
Net assets:			
Unrestricted (deficit)	(1,442,660)	(1,523,387)	80,727
Total Net Assets	\$ (1,442,660)	\$ (1,523,387)	\$ 80,727

At the end of the fiscal year 2010, total receivables increased \$19,909 from year ended 2009. This was a result of an increase in property tax receivables of \$7,176 and a net increase in note receivables relating to the façade program of \$12,339. During the year, the Commission issued only one façade loan in the amount of \$28,622. In 2005 the Commission introduced its façade program to businesses located in the downtown business corridor. This program offered qualifying merchants the opportunity to obtain a combination of a grant and a low interest loan to revitalize their storefronts and give the downtown businesses a fresh curb side appeal.

In December 2004 the Commission authorized the issuance of a Bond Anticipation Loan (BAN) in the amount of \$2.5 million to be used primarily for blight removal and improve infrastructure projects within the Urban Renewal District. This loan is set at a variable rate tied to the British Bankers Association (BBA), London Interbank Offered Rate (LIBOR). The interest on this line of credit is set at 63.5 percent of the LIBOR Daily Floating Rate plus 2.6 percent with a minimum rate of 3.076 percent. During the current fiscal year, the Commission paid a total of \$77,983 in interest expense toward this loan; the interest remained fixed at 3.076 percent throughout the entire year. The first principal payment on the loan is due by June 30, 2012. The outstanding balance on this loan remains unchanged during the current fiscal year.

Change in Net Assets

Below, Table 2 reflects the change in net assets for fiscal year 2010 and 2009. During the current year, total property tax revenue increased by \$20,719 as a result of an increased in the taxable assessed value of properties located within the Urban Renewal District. Total Capital outlay decreased in fiscal year 2010 by \$36,740 as a result of the Commission's decision to fund fewer capital improvement projects. During the current year, the Commission authorized capital expenditures towards one façade project while in the preceding year; the Commission authorized infrastructure improvements relating to the North Y project and Sahalee Park project. Operating expenditures decreased \$9,536 in fiscal year ended 2010 primarily as a result of a reduction in professional services expense. Debt service also decreased in 2010 as a result of a decrease in the interest rate on the \$2.5 million bond anticipation loan. The average interest rate on this loan during fiscal year 2009 was 3.97 percent while during the current year the rate dropped to 3.076 percent.

Table 2
MADRAS REDEVELOPMENT COMMISSION
CHANGE IN NET ASSETS

	Governmental Activities		Net Change
	2010	2009	Increase (Decrease)
Revenue:			
Property taxes	\$ 334,482	\$ 313,763	\$ 20,719
Interest on Investments	7,029	7,893	(864)
Total Revenues	<u>341,511</u>	<u>321,656</u>	<u>19,855</u>
Expenses:			
Community development	182,602	256,928	(74,326)
Interest on long-term obligations	78,182	78,521	(339)
Total Expenses	<u>260,784</u>	<u>335,449</u>	<u>(74,665)</u>
Increase (decrease) in Net Assets before other revenue and transfers	80,727	(13,793)	94,520
Change in Net Assets	<u>80,727</u>	<u>(13,793)</u>	<u>94,520</u>
Net assets (deficit) - beginning of year	(1,523,387)	(1,509,594)	(13,793)
Net assets (deficit) - end of year	<u>\$ (1,442,660)</u>	<u>\$ (1,523,387)</u>	<u>\$ 80,727</u>

Fund Financial Analysis

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

As of the end of the current fiscal year, the Commission's combined governmental funds reported an ending fund balance of \$349,279, an increase of \$61,243 from June 30, 2009. This increase was the result of a decrease in combined operating expenditures and an increase in property tax revenue.

Budgetary Highlights

Both the General fund and the Reinvestment fund reported a positive ending fund variance. While property tax revenue was actually \$46,470 less than budget; total operating expenditure for the general fund was \$195,973 less than what the Commission originally budgeted.

Capital Assets and Debt Administration

Capital Assets:

The Commission's total capital assets consist of land that was previously purchased by the commission and is held for future investment. The total book value of this land as of June 30, 2010 is \$463,691.

Debt Administration:

At the end of the current fiscal year, the Commission's total outstanding debt consists of \$2,500,000, representing the bond anticipation note. The first principal payment on this note is due by June 30, 2012. The Commission anticipates refunding this note into a 15 year bond during fiscal year end 2012.

Economic Factors and Next Year's Budget

Despite the increase in foreclosures of residential properties within the City of Madras, the taxable assessed value of commercial property within the Urban Renewal District appears to be unaffected by the current economy. Major factors expected to affect the fiscal year 2010-11 budget include the following:

- Property tax revenue for fiscal year 2010-2011 is anticipated to increase approximately 3.2 percent.
- During fiscal year 2009 the Commission began negotiations with an outside developer to build a five screen movie theater within the Madras Urban Renewal District. As part of the agreement, the commission agreed to pay the developer \$100,000 per year up to five years. This first payment to the developer is scheduled within 30 day upon completion of the movie theater and successfully obtaining a certificate of occupancy.

The grand opening of the Madras Cinema 5 is tentatively scheduled for late spring 2011. It is estimated that the property value of this new complex will generate approximate \$50,000 of additional property tax revenue to the Commission beginning fiscal year end 2012.

- During the upcoming fiscal year, the Commission anticipates awarding only one façade improvement project with the recipient being the Madras Bowl, a local bowling center which has been in the community for more than 20 years. This \$150,000 façade project is slated to be funded over a two year period with a capital outlay of \$75,000 in fiscal year 2010-2011 and the remaining \$75,000 issued in 2011-2012.
- The Commission has also committed \$80,000 over a two year period as matching funds towards a Transportation Enhancement (TE) grant offered through the Oregon Department of Transportation. This \$1.1 million TE project will construct streetscape improvements between "L" Street and Fairground Road.
- During 2007 the Commission negotiated with a privately owned hotel to construct a two story hotel with conference facility located just north of the downtown business corridor. The Commission offered to pay the hotel \$105,000 for five years as part of a plan to increase transient business traffic to the city. The Commission will continue to pay \$105,000 per year through fiscal year end 2012.

Request for Information

This financial report is designed to provide a general overview of the Madras Redevelopment Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be address to the City of Madras/Madras Redevelopment Commission, Attention Finance Director, 71 S.E. "D" Street, Madras, Oregon 97741, (541) 475-2344, or visit the City's website at <http://www.ci.madras.or.us>.

BASIC FINANCIAL STATEMENTS

MADRAS REDEVELOPMENT COMMISSION
(A Component Unit of the City of Madras, Oregon)

STATEMENT OF NET ASSETS
June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 345,693
Receivables:	
Accounts	2,511
Property taxes	31,270
Notes	227,291
Capital assets:	
Assets available for sale	<u>463,691</u>
Total assets	<u>1,070,456</u>
LIABILITIES	
Accounts payable and accrued expenses	513
Accrued interest payable	12,603
Long-term obligations:	
Due in more than one year	<u>2,500,000</u>
Total liabilities	<u>2,513,116</u>
NET ASSETS	
Unrestricted (deficit)	<u>(1,442,660)</u>
Total net assets (deficit)	<u>\$ (1,442,660)</u>

MADRAS REDEVELOPMENT COMMISSION
(A Component Unit of the City of Madras, Oregon)

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

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	\$ 182,602	\$ -	\$ -	\$ -	\$ (182,602)
Interest on long-term obligations	<u>78,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(78,182)</u>
Total governmental activities	<u>\$ 260,784</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(260,784)</u>
General revenues:					
Property taxes levied for:					
Debt service					334,482
Interest and investment earnings					<u>7,029</u>
Total general revenues, special items, and transfers					<u>341,511</u>
Change in net assets					80,727
Net assets (deficit), beginning					<u>(1,523,387)</u>
Net assets (deficit), ending					<u>\$ (1,442,660)</u>

MADRAS REDEVELOPMENT COMMISSION
(A Component Unit of the City of Madras, Oregon)

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	Reinvestment Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 316,431	\$ 29,262	\$ 345,693
Receivables:			
Property taxes	31,270	-	31,270
Accounts	2,511	-	2,511
Notes	-	227,291	227,291
Total assets	\$ 350,212	\$ 256,553	\$ 606,765
LIABILITIES			
Accounts payable and accrued liabilities	\$ 513	\$ -	\$ 513
Deferred revenue	29,682	227,291	256,973
Total liabilities	30,195	227,291	257,486
FUND BALANCES			
Unreserved, reported in:			
Major funds	320,017	29,262	349,279
Total fund balances	320,017	29,262	349,279
Total liabilities and fund balances	\$ 350,212	\$ 256,553	\$ 606,765

Fund balance at end of year - governmental funds \$ 349,279

Amounts reported in the governmental activities in the Statement of Net Assets are different because:

Capital assets reported in the governmental activities are not financial resources, and, therefore, are not reported in the funds.	463,691
Long-term assets that are not available to pay for current-period expenditures are deferred in the funds.	256,973
Long-term liabilities and accrued interest are not due and payable in the current period, and therefore, are not reported in the funds.	<u>(2,512,603)</u>

Net assets (deficit) of governmental activities \$ (1,442,660)

MADRAS REDEVELOPMENT COMMISSION
(A Component Unti of the City of Madras, Oregon)

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010**

	General Fund	Reinvestment Fund	Totals
REVENUES			
Property taxes	\$ 327,138	\$ -	\$ 327,138
Assessments	-	15,711	15,711
Interest on investments	1,565	5,464	7,029
TOTAL REVENUES	328,703	21,175	349,878
EXPENDITURES			
Current:			
Community development	48,407	-	48,407
Capital outlay	162,245	-	162,245
Debt service	77,983	-	77,983
TOTAL EXPENDITURES	288,635	-	288,635
REVENUES OVER (UNDER) EXPENDITURES	40,068	21,175	61,243
NET CHANGE IN FUND BALANCE	40,068	21,175	61,243
FUND BALANCE, Beginning	279,949	8,087	288,036
FUND BALANCE, Ending	\$ 320,017	\$ 29,262	\$ 349,279

MADRAS REDEVELOPMENT COMMISSION
(A Component Unit of the City of Madras, 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, 2010**

Net change in fund balance - governmental funds	\$ 61,243
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	7,344
Notes receivable	12,339
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	<u>(199)</u>
Change in net assets - governmental activities	<u><u>\$ 80,727</u></u>

MADRAS REDEVELOPMENT COMMISSION
(A Component Unit of the City of Madras, Oregon)

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 373,608	\$ 373,608	\$ 327,138	\$ (46,470)
Interest on investments	5,000	5,000	1,565	(3,435)
TOTAL REVENUES	<u>378,608</u>	<u>378,608</u>	<u>328,703</u>	<u>(49,905)</u>
EXPENDITURES				
Current:				
Community development:				
Materials and services	56,000	60,500	48,407	12,093
Capital outlay	272,608	268,108	162,245	105,863
Debt service	145,000	145,000	77,983	67,017
Contingency	11,000	11,000	-	11,000
TOTAL EXPENDITURES	<u>484,608</u>	<u>484,608</u>	<u>288,635</u>	<u>195,973</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(106,000)</u>	<u>(106,000)</u>	<u>40,068</u>	<u>146,068</u>
NET CHANGE IN FUND BALANCE	(106,000)	(106,000)	40,068	146,068
FUND BALANCE, Beginning	<u>251,000</u>	<u>251,000</u>	<u>279,949</u>	<u>28,949</u>
FUND BALANCE, Ending	<u>\$ 145,000</u>	<u>\$ 145,000</u>	<u>\$ 320,017</u>	<u>\$ 175,017</u>

MADRAS REDEVELOPMENT COMMISSION
(A Component Unit of the City of Madras, Oregon)

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
REINVESTMENT FUND
For the Fiscal Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
REVENUES				
Assessments	\$ 18,000	\$ 18,000	\$ 15,711	\$ (2,289)
Interest on investments	500	500	5,464	4,964
TOTAL REVENUES	<u>18,500</u>	<u>18,500</u>	<u>21,175</u>	<u>2,675</u>
EXPENDITURES				
Current:				
Materials and services	19,300	19,300	-	19,300
TOTAL EXPENDITURES	<u>19,300</u>	<u>19,300</u>	<u>-</u>	<u>19,300</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(800)</u>	<u>(800)</u>	<u>21,175</u>	<u>21,975</u>
NET CHANGE IN FUND BALANCE	(800)	(800)	21,175	21,975
FUND BALANCE, Beginning	<u>800</u>	<u>800</u>	<u>8,087</u>	<u>7,287</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,262</u>	<u>\$ 29,262</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

MADRAS REDEVELOPMENT COMMISSION
(A Component Unit of the City of Madras, Oregon)

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Madras Redevelopment Commission (the Agency), a component unit of the City of Madras, Oregon, is the urban renewal agency of and controlled by the City of Madras (the City). The governing body consists of a nine member board with three members of the Madras City Council and six members at large appointed by the Madras City Council.

B. Inclusion of the Agency in Madras, 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. 39, "Determining Whether Certain Organizations are Component Units", regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

- Financial interdependency – the City receives financial support or provides financial benefit to the Agency.
- Authoritative appointment of governing authority – three members of the governing body are members of the City Council and the remaining members are appointed by the City Council.

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 Assets 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.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 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 *General Fund* is the Agency's primary operation fund. It accounts for all financial resources of the Agency, except those required to be accounted for in another fund. Principal sources of revenue are property taxes and capital grants. Expenditures are primarily for the redevelopment of blighted areas and construction of public infrastructure assets for the City of Madras.

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

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 merged with the City of Madras, which are maintained in a central pool of cash and investments. 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 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

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for specific uses. Generally the purpose for each is indicated by the account title on the face of the balance sheet.

I. Long-Term Obligations

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

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. 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 rate 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.

Unexpected additional resources may be added to the budget and appropriated for expenditure through the use of a supplemental budget. The supplemental budget process requires a hearing before the public, publication in the newspaper, and approval by the Board of Directors. Oregon Local Budget Law also provides certain specific exceptions to the supplemental budget process to increase appropriations. Management must obtain Board authorization for all appropriation transfers and supplementary budgetary appropriations.

During the year ended June 30, 2010, appropriation increases and transfers were approved. Appropriations are limited to a single fiscal year; therefore, all spending authority of the Agency lapses as of year-end.

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, 2010. If bank deposits at year end are not entirely insured or collateralized by the Agency or by its agent in the Agency's name, the Agency must disclose the custodial credit risk that exists. The Agency's deposits with financial institutions are comprised of bank demand deposits and certificates of deposit. For deposits in excess of federal depository insurance, Oregon Revised Statutes require that Public officials report to the Office of the State Treasurer (OST) all bank depositories in which they deposit public funds and bank depositories will then report financial information and total public funds deposits quarterly to OST. OST will then calculate the required collateral that must be pledged by the bank based on this information and the depository's FDIC assigned capitalization category. Bank

depositories will then have a shared liability in the event of a bank loss. For the fiscal year ended June 30, 2010, the carrying amount of the Agency's deposits was \$7,309 and the bank balance was \$7,009. All deposits are held in the name of the City or the Madras Redevelopment Commission (blended component unit). All of the Agency's deposits were covered by federal depository insurance.

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

Investments. The Agency has invested funds in the State Treasurer's Oregon Short-Term Fund Local Government Investment Pool during the year through the City of Madras. 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 U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial papers, and the State Treasurer's 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 at June 30, 2010 are shown below:

Carrying amount of deposits	\$ 7,309
Investments in LGIP	<u>338,784</u>
Total cash and cash equivalents	<u>\$ 345,693</u>

Cash and cash equivalents by fund are as follows:

Governmental activities:	
General	\$ 316,431
Reinvestment	<u>29,262</u>
Total cash and cash equivalents	<u>\$ 345,693</u>

B. Receivables

At June 30, 2010, the Agency's receivables are as follows:

Accounts	\$ 2,511
Property taxes	31,270
Notes	<u>227,291</u>
Total receivables	<u>\$ 241,162</u>

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 Jefferson 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 \$344,635. Following is a summary of property tax transactions for the year ended June 30, 2010:

	July 1, 2009	2009-10 Levy	(Discounts) Adjustments	Interest	Collections	June 30, 2010
2009-10	\$ -	\$ 344,635	\$ (10,994)	\$ 37	\$ (314,849)	18,829
2008-09	17,056	-	(36)	417	(8,946)	8,491
2007-08	4,709	-	(14)	203	(1,872)	3,026
2006-07	1,960	-	(13)	224	(1,387)	784
2005-06	281	-	(9)	44	(229)	87
2004-05	72	-	(9)	3	(17)	49
2003-04	16	-	(9)	1	(4)	4
	<u>\$ 24,094</u>	<u>\$ 344,635</u>	<u>\$ (11,084)</u>	<u>\$ 929</u>	<u>\$ (327,304)</u>	<u>\$ 31,270</u>

The Agency has expended funds to improve and refurbish buildings for the benefit of businesses in the local area through a combination grant and loan program, and notes receivable have been recorded to reflect the amount the property owners will repay under the program. The loan portion of the assistance is payable over a maximum of 120 months, with no interest for the first 24 months, 2% interest for 25 to 60 months, and 5% interest from 61 to 120 months. The loans are secured by the improved property and are considered fully collectible.

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, the various components of *deferred revenue* reported in the governmental funds included \$29,682 in unavailable property taxes and \$227,291 of unavailable revenue from notes receivable.

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. In addition, the Agency purchases property to be refurbished and sold. At June 30, 2010, the capital assets of the Agency consist of a non-depreciable property purchased to refurbish and sell, in the amount of \$463,691.

E. Long – Term Obligations

The Madras Redevelopment Commission established a bond anticipation line of credit to finance projects of the Agency. The line of credit is authorized for \$2,500,000 and is to be repaid from proceeds of a bond sale that the Agency has authorized. The interest rate on the line of credit is set at 63.5% of the BBA Libor Daily Floating Rate plus 2.6% with a 3.076% floor. As of June 30, 2010, the Agency has drawn the full \$2,500,000 and the interest rate was 3.076%. Interest is payable quarterly, and all principal is payable on June 30, 2012.

Changes in long-term obligations for the fiscal year ended June 30, 2010, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bond Anticipation Line of Credit	<u>\$ 2,500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,500,000</u>	<u>\$ -</u>

F. 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 five years.

G. Related Party Activity

The Agency provides funds to local businesses to improve and refurbish properties in the Urban Renewal District through a combination of grants and loans, as described in Note III. B. During the year, one of the Agency's Board of Directors was awarded \$57,425, which consisted of a 50% grant and 50% loan payable to the Agency. The outstanding loan balance at year end was \$26,822, and is payable in monthly installments through January 2020. This award was consistent with the Agency's policy and was discussed and approved during a monthly public meeting of the Urban Renewal District. This particular director did not participate in the deliberation or vote.

H. Commitments and Contingencies

The Madras Redevelopment Commission has an agreement with a local hotel to provide \$105,000 for each of five years to promote the development of the new hotel and meeting room, beginning with the date the hotel opened, which occurred in October 2007. The Agency made the fourth payment in October, 2010.

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

The Commission committed up to \$150,000 in additional façade improvement funds payable over the next two fiscal years. \$75,000 is payable as loan funds and the remaining amount will be a grant.

AUDITOR'S COMMENTS AND REPORTS

INDEPENDENT AUDITOR'S COMMENTS

Oregon Administrative Rules 162-10-000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments, and disclosures required in audit reports. The required schedules, comments, and disclosures not included in the preceding section of this report are set forth following:

Accounting Systems and Internal Controls

We found that the accounting records of the Agency were generally well maintained and adequate for audit purposes. The internal controls for the Agency are generally operating as designed, however, there were deficiencies reported in accordance with SAS 115 and other matters involving internal control, which we have reported to management in a separate letter dated April 29, 2011.

Investments

Our review of deposit and investment balances indicated that the Agency was in compliance with ORS 294, as it pertains to investment of public funds, during the year ended June 30, 2010.

Collateral

Oregon Revised Statutes (ORS) Chapter 295 provides that public officials must ensure the banks they are doing business with are on the Office of the State Treasurer's (OST) list of qualified depositories. Public officials are also required to report to the OST all bank depositories in which they deposit public funds.

Our review of the Agency's deposited funds did not disclose any instances where the Agency deposited funds with unapproved depositories or did not properly notify the OST of what depositories held their public funds, as required by ORS 295.

Indebtedness

We reviewed compliance relating to short-term and long-term debt, including limitations on the amount of debt, which may be incurred, liquidation of debt within the prescribed period, and compliance with provisions of bond indentures or other agreements. We found no instances in which the Agency had not complied with these legal or contractual provisions relating to short-term and long-term debt.

Budget

We reviewed the preparation, adoption and execution of the Agency's budget for 2009-10 and the preparation and adoption of the budget for 2010-11. The Agency has complied with statutory requirements in all material respects for the current and ensuing year's budget.

Insurance And Fidelity Bonds

The Agency is covered by insurance and fidelity bonds under the City's policies. We reviewed the City's insurance and fidelity bond coverage at June 30, 2010, and ascertained that such policies appeared to be in force. We are not competent by training to comment whether the insurance policies of the City in force at June 30, 2010, are adequate. The City has complied with provisions of ORS 221.903 regarding bonding of City personnel.

Programs Funded From Outside Sources

We selected and tested, to the extent deemed appropriate, transactions, records, and reports relative to programs funded wholly or partially by other governmental agencies.

The results of our tests indicate, for the items tested, the Agency complied with laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies, and, for the items tested, financial reports and related data were materially in agreement with and supported by accounting records.

Highway Funds

The Agency does not receive Highway Funds.

Public Contracts And Purchasing

We have reviewed the Agency's compliance with ORS 279, pertaining to the awarding of public contracts and the construction of public improvements. Our review disclosed no conditions, which we considered to be matters of noncompliance of the Agency's bidding procedures or quote procedures.

Statement of Accountability for Independently Elected Officials

This statement is not applicable to the Madras Redevelopment Commission.