

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

Annual Financial Report

For the Fiscal Year Ended June 30, 2008

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, 2008**

BOARD OF DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Term Expires February 28,</u>
Patty Woll, Chairman	804 SE Rancho Lane Madras, Oregon 97741	2011
Mike Lepin	48 NE Nordic Lane Madras, OR 97741	2009
Carolyn Fording	1315 NE Westview Drive Madras, OR 97741	2011
Doeshia Jacobs	PO Box 673 Madras, OR 97741	2009
Blanca Reynoso	212 SW 5 th Street Madras, OR 97741	2011
Melanie Widmer	287 NE 16 th Street Madras, OR 97741	2009
Royce Embanks	733 SE Turner Street Madras, OR 97741	2011
Helmer Wallan	PO Box 35 Madras, OR 97741	2009
Frank Morton	721 SW Lorraine Madras, OR 97741	2009

AGENCY ADDRESS

Administrative Offices
71 SE D Street
Madras, OR 97741



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Certified Public Accountants and Business Advisors

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Pendleton, OR 97801
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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, 2008, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 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 Madras Redevelopment Commission, as of June 30, 2008, the respective changes in financial position, and the budgetary comparison for the General Fund and Reinvestment Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages a through f is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 basic financial statements. The Auditor's 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dickey and Tremper, LLP

Dickey and Tremper, LLP
Certified Public Accountants and Consultants

February 9, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

**THE
MADRAS REDEVELOPMENT COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
For
FISCAL YEAR 2008**

Introduction. This is the fourth Management Discussion and Analysis (MD&A) for the Madras Urban Renewal District (District) and its management agency the Madras Redevelopment Commission (MRC). The report will refer to and interchangeably use “District” and “MRC.” This MD&A is for fiscal year FY 2008, which covers the period July 1, 2007 through June 30, 2008. It is the intent of the MRC to use the MD&A for both its required purposes and as a teaching tool to help better inform the public about the “why” behind revenues, expenditures, trends, and how they affect the ability of the MRC to meet its responsibility to achieve the goals and objectives set forth in the “Madras Urban Renewal Plan” (July 2002), “Report on the Madras Urban Renewal Plan” (July 2002) and “Urban Revitalization Action Plan” (Final Draft February 2005). For more specific financial detail about the MRC, the reader is encouraged to review the Independent Auditor’s Report and audit.

History

The Urban Renewal Plan and Report on the Urban Renewal Plan were adopted by the Madras City Council on August 13, 2002 (City Ordinance No. 700). While the various documents and reports are very comprehensive and detailed, the purpose of the Renewal Plan is to:

1. Eliminate blighted conditions.
2. Reverse physical and economic decline.
3. To use tax increment financing with a bonded limit of \$14 million to achieve these remedies.

The Urban Renewal Plan identified no less than 8 major “goals” with 24 sub category objectives. Within its four full years of operation the District has made progress with 4 of the major goals and 13 of the sub objectives. This remains a remarkable start for any new organization. None-the-less, these goals and objectives address many vexing problems and it will take many years of sustained effort before one can say the tasks are complete.

On June 24th, 2003, the Madras City Council adopted City Ordinance 709, which created the Madras Redevelopment Commission and transferred the City’s Urban Renewal Agency powers to the MRC. The City Council retains appointing authority of the nine (9) member MRC Board. The MRC and District remain what is called a “subordinate dependent organization” of the City and for which the City exercises oversight and responsibility.

The MD&A itself is a financial reporting requirement that must meet very specific criteria. The information contained in the MD&A is in addition to and separate from the annual independent audit that the Madras Redevelopment Commission/Urban Renewal District . The MD&A is written by the City Administrator, Mike Morgan, and is included with the annual audit documents.

Summary

FY 2008 was the fifth year of the URD's existence with funding. This fifth year might best be described as the second "incubation" year. In the prior four years the MRC had made as series of investments in façade projects, hotel inducement, north Y landscaping, land purchase and blight removal. During the fourth year, the MRC did not commit itself to any new major activities. The MRC did receive anticipated payments for the sale of properties on 4th Street and 5th Street. This had the effect of bringing the fund balances back into positive territory. The MRC also made the first of five \$105,000 payments of its contract obligation to the Inn at Cross Keys Station (for building the large meeting room). The MRC did engage in several planning sessions.

1. The end of the year fund balance was positive. This results from the planned receipt of revenue for property sales that were agreed to in the prior year but the cash was not received until later in FY 2008.

- FY 2008 = \$233,770
- FY 2007 = \$(535,086)
- FY 2006 = \$269,475
- FY 2005 = \$127,523

GAAP

The MRC (and all local governments in Oregon) is required to use "U.S. Generally Accepted Accounting Principles" (GAAP), in the governing of its financial practices and reporting. A brief understanding of GAAP, helps set the stage for the more detailed MD&A.

GAAP sets the minimum standards to be used by state and local government. There are GAAP standards for the private sector, federal government and state/local government. GAAP standards or rules are established for local government through the independent standard setting process administered by the Government Accounting and Standards Board (GASB). The GASB itself is overseen and operates under the auspices of the Financial Accounting Foundation (FAF), which appoints GASB's seven-member board. (FAF also provides similar oversight for the federal and private sector boards.) GASB members broadly represent the accounting, academic, user and professional groups. Pursuant to federal law and State minimum requirements, the MRC is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act, amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular

A-133, “Audits of State, Local Governments, and Non-Profit Organizations.” In FY 2006, the MRC did not receive any governmental or private grants.

MD&A

The Management Discussion and Analysis is an introduction to the financial statements that explains the reasons behind certain key numbers in the audit and major trends that affect the MRC and its ability to address elements of the Urban Renewal Plan. The MD&A is not an audit. The independent audit represents part of the MRC’s safeguards, which are designed to assure financial accountability to various institutions and the taxpayers of the Urban Renewal District. The MRC is audited by the same firm which audits the City, Dickey and Tremper, LLP.

The MRC is considered a subordinate dependent organization of the City of Madras (the auditor uses the phrase “component unit”) and as such enjoys the various risk reduction systems established by the City including internal controls, budgetary controls, cash management, risk management and internal audit practices, to protect MRC assets.

The MD&A must address eight separate general areas:

1. Discussion of the basic financial statements.
2. Condensed comparative data.
3. Overall analysis.
4. Fund analysis.
5. Budget variances in the general fund.
6. Capital asset and long-term debt activity.
7. Infrastructure.
8. Other potentially significant matters.

GASB 34 created one other major change for government. State and local governments (such as the MRC) must now use full accrual accounting. This means that government must have a balance sheet that includes the historical cost of all assets, their depreciation and their book value.

The public is probably surprised to know that government had never been required to include all assets and depreciation of assets in its financial statement or use a true balance sheet. Instead, government had used a modified accrual system that ignored vast amounts of its assets and liabilities. While the modified accrual system was a major improvement over the archaic cash accounting system, it too fell short of accounting for all the finances of the institution. This change makes government reporting much more like the private sector, and much more thorough.

For the MRC, full accrual accounting affects the bottom line because the MRC buys blighted property for clean-up and then resells the property back into the private market. Thus, while these property acquisitions are listed as expenditures, they are more akin to investments.

In addition, and the reader may be surprised to read this, the Oregon Constitution limits expenditures of Urban Renewal Agencies to “debt” payments. Over the years, “debt” has been broadly interpreted for practical reasons. None the less, to achieve its Plan goals, the MRC is authorized to finance up to \$14 million. Thus, over the years the reader will see that the total debt of the MRC has and will increase, but this is according to plan and law.

There is no increase in property taxes to pay this debt. Instead, this debt is paid from new tax revenue generated from increasing tax values in the URD. Taxpayers not in the URD see a portion of their taxes going to the URD, but, this is exactly proportional to the increase in taxes within the URD, not additional taxes. For those not familiar with Tax Increment Financing for URDs this is a difficult concept to fathom. It certainly was for this author. But, the bottom line is that your taxes did not increase because of the Urban Renewal District.

#1. Discussion of the Basic Financial Statement

- ❖ The MRC has a Net Asset (deficit):

FY 2008 = (\$1,509,594)
FY 2007 = (\$812,841)
FY 2006 = (\$243,208)
FY 2005 = (\$284,276)

- ❖ The MRC had a net fund balance (cash) as of June 30, of

FY 2008 = \$307,171
FY 2007 = \$100,545
FY 2006 = \$279,022
FY 2005 = \$127,524
FY 2004 = \$61,465

- ❖ Net Assets of the Urban Renew District will continue to be a “negative” number because the District bonds for projects. Bonding is not whimsical. The amount a URD can bond for is based on careful, independent financial analysis. The District retains the ability to meet the debt payment obligations associated with this borrowing.
- ❖ During FY 2008, the MRC was not taking on new projects. This self-imposed pause in activity is designed to give the District a chance to sell off the cleaned-up property and repay its short term City loan. The MRC has indicated that in late FY 2009 or early FY 2010, it will entertain a second round of Façade projects. This also positions the MRC to support emerging and unexpected opportunities.

#2. Condensed Comparative Data

The MRC is a very simple, one fund budget. As such, there is no issue with comparing a “government-wide” finance statement with individual fund statements.

#3. Overall Analysis

GASB 34 requires that the Management Discussion and Analysis provide a separate and distinct government-wide analysis. This section is required to discuss why (reasons) there are significant changes in Urban Renewal District’s financial situation and important economic factors during the current financial reporting period (FY 2008). The most significant year to year change in the MRC is a larger beginning cash balance. This results from the MRC recording revenue in FY 2008 from property sales. The MRC had a positive ending fund cash balance in FY 2008, compared to a negative balance the prior year.

#4. Fund Analysis

As of the end of Fiscal Year 2008, the MRC reported a “Total Net Assets” as deficit of \$1,509,594. This includes the \$463,691 value of District owned property. The entire deficit is planned for and the means of repayment has been identified.

#5. Budget Variances in the General Fund

There was no negative variance (expenditures exceeding authorization) between the final adopted budget and the final expenditures for the year.

#6. Capital Assets and Long-term Debt Activity

Capital Assets. The net capital assets of the District are \$463,691, less the accounts payable and long-term debt for a total Net Asset (Deficit) (\$1,509,594).

Long term debt. The long term debt has not changed since last year and stands at \$2,500,000 line of credit. The MRC has the means to repay this debt over time from property tax proceeds of the District.

#7. Infrastructure

The District has no infrastructure to maintain. However, the District did invest \$553,181 in construction pursuant to the District Plan (North Y landscaping). The City of Madras has the responsibility for maintaining these improvements.

#8. Other Potentially Significant Matters

The Management Discussion and Analysis is also required to address... *“currently known facts, decisions, or conditions that are expected to have a significant effect on financial*

position (net assets) or results of operations (revenues, expenses, and other changes in net assets.” The audit addresses future obligations of the District including: \$525,000 for the Hotel/Convention Center inducement (the first payment of \$105,000 was made in October 2007 – FY 2008, leaving a balance of \$420,000) and; debt obligation for the \$2,525,385 line of credit (with interest). Because the total obligations are known with a relatively high degree of accuracy there is no known additional risk issue.

Staff advised the MRC to be cautious in predicting property tax revenue trends for the next several years and to complete recapturing its anticipated revenue from re-sale of blighted properties.

Staff has advised the MRC to remain cautious on taking on any new projects, and to complete the projects already initiated. This will give the expenditure/revenue ratio time to stabilize. However, the MRC is THE economic development tool of the City and needs to be positioned in such a way that it can assist in the development of unexpected economic opportunities.

BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 307,171
Receivables:	
Accounts	1,982
Property taxes	15,450
Notes	227,737
Capital assets:	
Assets available for sale	<u>463,691</u>
Total assets	<u>1,016,031</u>
LIABILITIES	
Accounts payable and accrued expenses	240
Accrued interest payable	25,385
Long-term obligations:	
Due within one year	<u>2,500,000</u>
Total liabilities	<u>2,525,625</u>
NET ASSETS	
Unrestricted (deficit)	<u>(1,509,594)</u>
Total net assets	<u>\$ (1,509,594)</u>

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

STATEMENT OF ACTIVITIES
June 30, 2008

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	\$ 722,284	\$ -	\$ -	\$ 893	\$ (721,391)
Interest on long-term obligations	<u>163,952</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(163,952)</u>
Total governmental activities	<u>\$ 886,236</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 893</u>	<u>(885,343)</u>
General revenues:					
Property taxes levied for:					
Debt service					250,003
Interest and investment earnings					10,473
Miscellaneous					11,376
Gain (loss) on sale of property					<u>(83,262)</u>
Total general revenues, special items, and transfers					<u>188,590</u>
Change in net assets					(696,753)
Net assets (deficit), beginning					<u>(812,841)</u>
Net assets (deficit), ending					<u>\$ (1,509,594)</u>

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

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

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General Fund	Reinvestment Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 230,555	\$ 76,616	\$ 307,171
Receivables:			
Property taxes	15,450	-	15,450
Accounts	1,982	-	1,982
Notes	-	227,737	227,737
Total assets	\$ 247,987	\$ 304,353	\$ 552,340
LIABILITIES			
Accounts payable and accrued liabilities	\$ 240	\$ -	\$ 240
Deferred revenue	13,977	227,737	241,714
Total liabilities	14,217	227,737	241,954
FUND BALANCES			
Unreserved, reported in:			
Major funds	233,770	76,616	310,386
Total fund balances	233,770	76,616	310,386
Total liabilities and fund balances	\$ 247,987	\$ 304,353	\$ 552,340

Fund balance at end of year - governmental funds \$ 310,386

Amounts reported for 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.	241,714
Long-term liabilities and accrued interest are not due and payable in the current period, and therefore, are not reported in the funds.	(2,525,385)

Net assets (deficit) of governmental activities \$ (1,509,594)

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, 2008**

	General Fund	Reinvestment Fund	Totals
REVENUES			
Property taxes	\$ 247,932	\$ -	\$ 247,932
Assessments	-	18,430	18,430
Interest on investments	4,794	5,679	10,473
Miscellaneous	1,376	10,000	11,376
TOTAL REVENUES	<u>254,102</u>	<u>34,109</u>	<u>288,211</u>
EXPENDITURES			
Current:			
Community development	43,301	-	43,301
Capital outlay	125,802	-	125,802
Debt service	190,381	-	190,381
TOTAL EXPENDITURES	<u>359,484</u>	<u>-</u>	<u>359,484</u>
REVENUES OVER (UNDER)	<u>(105,382)</u>	<u>34,109</u>	<u>(71,273)</u>
OTHER FINANCING SOURCES (USES)			
Sale of property	-	889,056	889,056
Transfers in	874,238	-	874,238
Transfers out	-	(874,238)	(874,238)
TOTAL OTHER FINANCING SOURCES (USES)	<u>874,238</u>	<u>14,818</u>	<u>889,056</u>
NET CHANGE IN FUND BALANCE	768,856	48,927	817,783
FUND BALANCE (DEFICIT), Beginning	<u>(535,086)</u>	<u>27,689</u>	<u>(507,397)</u>
FUND BALANCE, Ending	<u>\$ 233,770</u>	<u>\$ 76,616</u>	<u>\$ 310,386</u>

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

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, 2008**

Net change in fund balance - governmental funds	\$ 817,783
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	2,071
Notes receivable	(17,537)
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	26,429
Governmental funds report capital outlays as expenditures and proceeds from the sale of capital assets as revenues. However, in the Statement of Activities, the cost of capital assets held for rehabilitation and sale are capitalized until disposed and capital expenditures to be repaid by property owners under the loan program are recorded as a note receivable.	
Adjusted basis of assets disposed	(972,318)
Construction in progress contributed to the City	(553,181)
Change in net assets - governmental activities	<u>\$ (696,753)</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 (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
For the Fiscal Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 264,740	\$ 264,740	\$ 247,932	\$ (16,808)
Interest on investments	-	-	4,794	4,794
Miscellaneous	-	-	1,376	1,376
TOTAL REVENUES	<u>264,740</u>	<u>264,740</u>	<u>254,102</u>	<u>(10,638)</u>
EXPENDITURES				
Current:				
Community development:				
Materials and services	55,000	55,000	43,301	11,699
Capital outlay	554,457	379,956	125,802	254,154
Debt service	141,500	193,754	190,381	3,373
TOTAL EXPENDITURES	<u>750,957</u>	<u>628,710</u>	<u>359,484</u>	<u>269,226</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(486,217)</u>	<u>(363,970)</u>	<u>(105,382)</u>	<u>258,588</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	524,818	899,056	874,238	(24,818)
Interfund loan repayment	-	(563,725)	(563,725)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>524,818</u>	<u>335,331</u>	<u>310,513</u>	<u>(24,818)</u>
NET CHANGE IN FUND BALANCE	38,601	(28,639)	205,131	233,770
Budgetary basis adjustment	-	-	563,725	563,725
FUND BALANCE (DEFICIT), Beginning	<u>(38,601)</u>	<u>28,639</u>	<u>(535,086)</u>	<u>(563,725)</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,770</u>	<u>\$ 233,770</u>

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

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, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
REVENUES				
Assessments	\$ 16,000	\$ 16,000	\$ 18,430	\$ 2,430
Interest on investments	-	-	5,679	5,679
Miscellaneous	-	-	10,000	10,000
TOTAL REVENUES	<u>16,000</u>	<u>16,000</u>	<u>34,109</u>	<u>18,109</u>
EXPENDITURES				
Current:				
Materials and services	5,000	5,000	-	5,000
Contingency	30,000	30,000	-	30,000
TOTAL EXPENDITURES	<u>35,000</u>	<u>35,000</u>	<u>-</u>	<u>35,000</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(19,000)</u>	<u>(19,000)</u>	<u>34,109</u>	<u>53,109</u>
OTHER FINANCING SOURCES (USES)				
Sale of property	524,818	899,056	889,056	(10,000)
Transfers out	(524,818)	(899,056)	(874,238)	24,818
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>14,818</u>	<u>14,818</u>
NET CHANGE IN FUND BALANCE	(19,000)	(19,000)	48,927	67,927
FUND BALANCE, Beginning	<u>19,000</u>	<u>19,000</u>	<u>27,689</u>	<u>8,689</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,616</u>	<u>\$ 76,616</u>

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

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, 2008

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, except the general fund, which has recorded loan repayments to the City as a financial use. 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, 2008, appropriation increases and transfers were approved, and a supplemental budget was adopted. 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, 2008. If bank deposits at year end are not entirely insured or collateralized with securities held by the Agency or by its agent in the Agency's name, the Agency must disclose the custodial credit risk that exists. The Agency maintains one bank account. The remaining deposits are held by the City of Madras and Jefferson County on the Agency's behalf. The Agency's deposits with financial institutions are comprised entirely of bank demand deposits. For deposits in excess of federal depository insurance, Oregon Revised Statutes require the depository institution to maintain on deposit with a collateral pool manager, securities having a value not less than 25% of the outstanding certificates of participation issued by the pool

manager. For the fiscal year ended June 30, 2008, the carrying amount of the Agency's deposits was \$55,790 and the bank balance was \$55,519. These deposits are held in the name of the Agency. The entire bank balance was covered by federal depository insurance and collateral certificates in the Agency's name.

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

Investments. 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, 2008 are shown below:

Carrying amount of deposits	\$ 55,790
Investments in LGIP	<u>251,381</u>
Total cash and cash equivalents	<u>\$ 307,171</u>

Cash and cash equivalents by fund are as follows:

Governmental activities:	
General	\$ 230,555
Reinvestment	<u>76,616</u>
Total cash and cash equivalents	<u>\$ 307,171</u>

B. Receivables

At June 30, 2008, the Agency's receivables are as follows:

Accounts	\$ 1,982
Property taxes	15,450
Notes	<u>227,737</u>
Total receivables	<u>\$ 245,169</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 \$256,817. Following is a summary of property tax transactions for the year ended June 30, 2008:

	Balances					Balances	
	July 1, 2007	2007-08 Levy	(Discounts) Adjustments	Interest	Collections	June 30, 2008	
2007-08	\$ -	\$ 256,817	\$ (7,332)	\$ 115	\$ (238,733)	\$ 10,867	
2006-07	8,005	-	(49)	203	(4,897)	3,262	
2005-06	2,656	-	(42)	188	(1,943)	859	
2004-05	1,849	-	(132)	223	(1,521)	419	
2003-04	274	-	(30)	42	(243)	43	
	<u>\$ 12,784</u>	<u>\$ 256,817</u>	<u>\$ (7,585)</u>	<u>\$ 771</u>	<u>\$ (247,337)</u>	<u>\$ 15,450</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 \$13,977 in unavailable property taxes and \$227,737 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, 2008, the capital assets of the Agency consist of a non-depreciable property purchased to refurbish and sell, in the amount of \$463,691. Construction in progress for benefit of the City, totaling \$553,181, was transferred to the City during the fiscal year and land in the amount of \$972,318 was disposed of during the fiscal year for a net sales price of \$889,056.

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 prime rate, plus .80%. As of June 30, 2008, the agency has drawn the full \$2,500,000 and the interest rate was 3.975%. Interest is payable quarterly, and all principal is payable on June 1, 2009.

Changes in long-term obligations for the fiscal year ended June 30, 2008, 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>\$ 2,500,000</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 four years.

G. Subsequent Events

In December 2008, the Madras Redevelopment Commission agreed to share the cost of burying utility lines on a piece of property the Agency sold to Mid Oregon Credit Union during the fiscal year. It is estimated the Agency's portion of the costs to complete this project will total \$30,750.

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 first payment in October 2007.

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 operating as designed and no significant deficiencies or material weaknesses were noted.

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, 2008.

Collateral

Oregon Revised Statutes (ORS) Chapter 295 provides that public officials maintain sufficient collateral certificates to secure deposits of public funds, in excess of those insured by the Federal Deposit Insurance Corporation.

Our review of the Agency's deposited funds did not disclose any instances where the Agency exceeded Federal Deposit Insurance Corporation ("FDIC") coverage including additional certificates of collateral participation in effect at the time.

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 2007-08 and the preparation and adoption of the budget for 2008-09. The Agency has complied with statutory requirements in all material respects for the current and ensuing years 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, 2008, 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, 2008, 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.