

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

Annual Financial Report

For the Fiscal Year Ended June 30, 2011

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

TABLE OF CONTENTS
For the Fiscal Year Ended June 30, 2011

	<u>Page</u>
OFFICIALS OF THE AGENCY	i
INDEPENDENT AUDITOR’S REPORT	A-B
MANAGEMENT’S DISCUSSION AND ANALYSIS	a-f
BASIC FINANCIAL STATEMENTS:	
Agency-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet-Governmental Funds	3
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	4
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	5
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Urban Renewal Capital Projects Fund	6
Notes to the Basic Financial Statements	7-14
SUPPLEMENTAL INFORMATION:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) Urban Renewal Debt Service Fund	15
AUDITOR’S COMMENTS AND REPORTS:	
Independent Auditor’s Comments	16-17

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

**OFFICIALS OF THE AGENCY
JUNE 30, 2011**

BOARD OF DIRECTORS

<u>Name</u>	<u>Term Expires</u>
Lon Kellstrom – Mayor	December, 2012
David Asson – Council President	December, 2014
Wendy Holzman – Council Member	December, 2014
Pat Thompson – Council Member	December, 2012
Sharlene Weed – Council Member	December, 2012

AGENCY ADDRESS

Sisters Urban Renewal Agency
520 E. Cascade Ave.
Sisters, OR 97759



Dickey and Tremper, LLP
Certified Public Accountants and Business Advisors

110 SE First Street
P.O. Box 1533
Pendleton, OR 97801
Phone: (541) 276-6862
Toll Free: 1-800-332-6862
Fax: (541) 276-9040
Web: www.dickeyandtremper.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Sisters Urban Renewal Agency (*a component unit of the City of Sisters, Oregon*) as of and for the year ended, June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic 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 basic 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 Sisters Urban Renewal Agency, as of June 30, 2011, the respective changes in financial position, and the budgetary comparison for the Urban Renewal Project 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 f be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America,

A

Members of: American Institute of Certified Public Accountants
National Association of Certified Valuation Analysts
Oregon Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (Continued)

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sisters – Urban Renewal Agency, Oregon's financial statements as a whole. The supplemental budgetary schedule for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the financial statements. The budgetary schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Dickey and Tremper, LLP
Certified Public Accountants and Consultants

November 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2011

The Management's Discussion and Analysis (MD&A) section of the Agency of Sisters Urban Renewal Agency (Agency) financial statements presents a narrative overview and analysis of the financial activities for the fiscal year ending June 30, 2011.

OVERVIEW OF FINANCIAL STATEMENTS

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

1. Government-wide financial statements;
2. Fund financial statements; and
3. Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statement themselves.

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

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

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

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

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

SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2011

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or functions. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are considered governmental funds.

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

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

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

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

Notes to the Basic Financial Statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7 through 14 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary and actual comparisons for the Agency's two funds. These can be found on pages 6 and 15 of this report.

SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets:

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

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

	Governmental Activities		Total Change
	2011	2010	+ (-)
Current and other assets	\$ 468,741	\$ 464,805	\$ 3,936
Capital Assets	-	100,000	(100,000)
Total assets	<u>468,741</u>	<u>564,805</u>	<u>(96,064)</u>
Noncurrent liabilities	452,444	518,069	(65,625)
Other liabilities	142,509	216,459	(73,950)
Total liabilities	<u>594,953</u>	<u>734,528</u>	<u>(139,575)</u>
Net assets:			
Unrestricted	(126,212)	(169,723)	43,511
Total net assets	<u>\$ (126,212)</u>	<u>\$ (169,723)</u>	<u>\$ 43,511</u>

SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2011

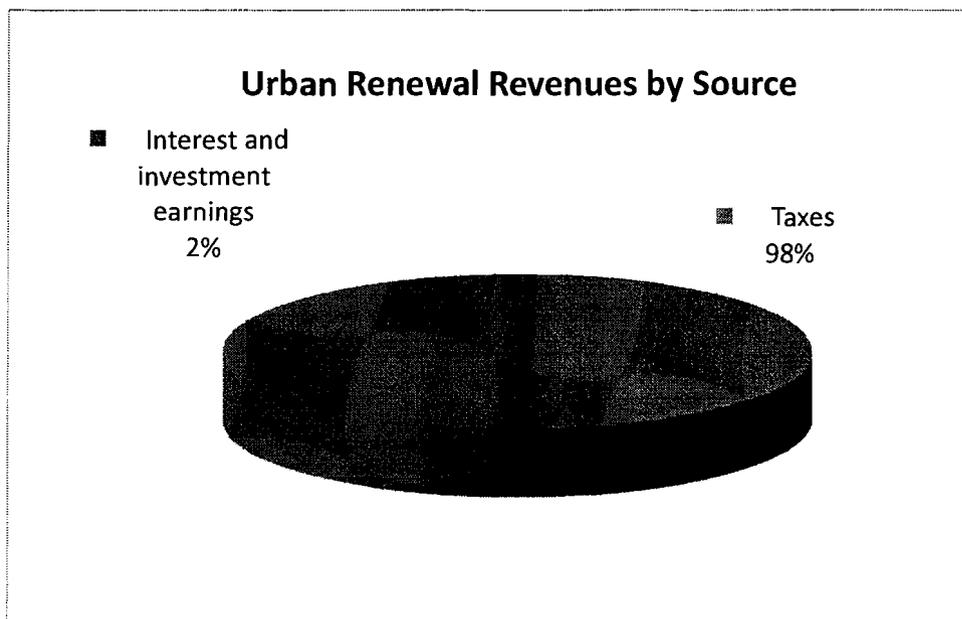
Statement of Activities:

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

Table 2
Urban Renewal Agency - Changes in Net Assets

	<u>Governmental Activities</u>		<u>Total Change</u>
	<u>2011</u>	<u>2010</u>	<u>+ (-)</u>
Revenues:			
Program revenues:			
Charges for services	\$ -	\$ -	\$ -
General revenues:			
Taxes	171,747	134,095	37,652
Interest and investment earnings	3,764	4,599	(835)
Other revenue	-	-	-
Total revenues	<u>175,511</u>	<u>138,694</u>	<u>36,817</u>
Expenses:			
Community development	103,269	59,260	44,009
Interest on long-term debt	28,731	34,960	(6,229)
Total expenses	<u>132,000</u>	<u>94,220</u>	<u>37,780</u>
Increase in net assets before transfers	43,511	44,474	(963)
Net assets, July 1	(169,723)	(214,197)	44,474
Prior period adjustment	-	-	-
Net assets, June 30	<u>\$ (126,212)</u>	<u>\$ (169,723)</u>	<u>\$ 43,511</u>

The following chart shows the share of revenues supporting Urban Renewal activities.



SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2011

Fund-based Financial Analysis

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

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

As of the end of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$381,968. The entire fund balance is not available for future discretionary spending because it has already restricted for capital projects and debt service, \$2,376, \$379,592 respectively.

The combining ending fund balance is \$78,920 more than the prior year. This is mainly a result of no new capitals during and increase property tax collections than anticipated.

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Agency's investment in capital assets for June 30, 2011 is zero due to no new construction in progress projects.

Long-term debt. At the end of the current fiscal year, the Agency had total noncurrent liabilities of \$518,070. Under the debt covenants, sufficient tax increment must be received to meet the annual debt service requirements. Debt holders have a claim on urban renewal tax revenues only and not on any other City of Sisters revenue source. See the following table:

**SISTERS URBAN RENEWAL AGENCY
Management's Discussion and Analysis
For the Year Ended, June 30, 2011**

	Government Activities		Total Change
	2011	2010	+ (-)
General obligation bonds	\$ 518,070	\$ 581,178	\$ (63,108)
Total	<u>\$ 518,070</u>	<u>\$ 581,178</u>	<u>\$ 63,108</u>

During the fiscal year ended June 30, 2011 all scheduled debt payments were met and no new debt issued.

Additional information on the Agency's bonded debt can be found in the notes to the basic financial statements, on page 13-14.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

No projects budgeted for FY 2011/12.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 455,943
Receivables:	
Property taxes	<u>12,798</u>
Total assets	<u>468,741</u>
LIABILITIES	
Accounts payable and accrued expenses	178
Accrued interest payable	1,705
Advances from primary government	75,000
Long-term obligations:	
Due within one year	65,626
Due in more than one year	<u>452,444</u>
Total liabilities	<u>594,953</u>
NET ASSETS	
Unrestricted	<u>(126,212)</u>
Total net assets	<u>\$ (126,212)</u>

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

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

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	\$ 103,269	\$ -	\$ -	\$ -	\$ (103,269)
Interest on long-term obligations	28,731	-	-	-	(28,731)
Total governmental activities	\$ 132,000	\$ -	\$ -	\$ -	(132,000)
General revenues:					
Property taxes levied for:					
Debt service					171,747
Interest and investment earnings					<u>3,764</u>
Total general revenues, special items, and transfers					<u>175,511</u>
Change in net assets					43,511
Net assets, beginning					<u>(169,723)</u>
Net assets, ending					<u>\$ (126,212)</u>

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

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

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	Urban Renewal Project Fund	Urban Renewal Debt Service Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 2,554	\$ 453,389	\$ 455,943
Receivables:			
Property taxes	-	12,798	12,798
Total assets	\$ 2,554	\$ 466,187	\$ 468,741
LIABILITIES			
Accounts payable and accrued liabilities	\$ 178	\$ -	\$ 178
Deferred revenue	-	11,595	11,595
Advances from primary government	-	75,000	75,000
Total liabilities	178	86,595	86,773
FUND BALANCES			
Restricted	2,376	379,592	381,968
Total fund balances	2,376	379,592	381,968
Total liabilities and fund balances	\$ 2,554	\$ 466,187	\$ 468,741
Fund balance at end of year - governmental funds			\$ 381,968
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Long-term assets that are not available to pay for current-period expenditures are deferred in the funds.			11,595
Long-term liabilities and accrued interest are not due and payable in the current period, and therefore, are not reported in the funds.			(519,775)
Net assets of governmental activities			\$ (126,212)

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

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

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011**

	Urban Renewal Project Fund	Urban Renewal Debt Service Fund	Totals
REVENUES			
Property taxes	\$ -	\$ 170,473	\$ 170,473
Interest on investments	22	3,742	3,764
TOTAL REVENUES	<u>22</u>	<u>174,215</u>	<u>174,237</u>
EXPENDITURES			
Current:			
Community development	3,269	-	3,269
Debt service	-	92,048	92,048
TOTAL EXPENDITURES	<u>3,269</u>	<u>92,048</u>	<u>95,317</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(3,247)</u>	<u>82,167</u>	<u>78,920</u>
NET CHANGE IN FUND BALANCE	(3,247)	82,167	78,920
FUND BALANCE, Beginning	<u>5,623</u>	<u>297,425</u>	<u>303,048</u>
FUND BALANCE, Ending	<u>\$ 2,376</u>	<u>\$ 379,592</u>	<u>\$ 381,968</u>

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

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011**

Net change in fund balance - governmental funds \$ 78,920

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes 1,274

Repayment of long-term obligations principal is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets

63,109

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 208

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of the construction in progress for assets reverting to the City is capitalized until completed and contributed to the City. The cost of assets contributed to the City is expensed in the year construction is completed.

Capital assets contributed to the City (100,000)

Change in net assets - governmental activities \$ 43,511

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
URBAN RENEWAL PROJECT FUND**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive / (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ 200	\$ 200	\$ 22	\$ (178)
TOTAL REVENUES	<u>200</u>	<u>200</u>	<u>22</u>	<u>(178)</u>
EXPENDITURES				
Current:				
Community development:				
Materials and services	3,600	3,600	3,269	331
Contingency	960	960	-	960
TOTAL EXPENDITURES	<u>4,560</u>	<u>4,560</u>	<u>3,269</u>	<u>1,291</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(4,360)</u>	<u>(4,360)</u>	<u>(3,247)</u>	<u>1,113</u>
NET CHANGE IN FUND BALANCE	(4,360)	(4,360)	(3,247)	1,113
FUND BALANCE, Beginning	<u>4,360</u>	<u>4,360</u>	<u>5,623</u>	<u>1,263</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,376</u>	<u>\$ 2,376</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

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

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

All significant activities and organizations for which the City exercises oversight responsibility have been included in the City's combined financial statements. The following criteria from Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 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 organization.
- Authoritative appointment of governing authority – Sisters City Council is the organization's governing authority.

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

C. Agency-wide and Fund Financial Statements

The agency-wide financial statements (i.e., the Statement of Net 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.

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

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

The Agency reports the following major governmental funds:

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

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

E. Use of Estimates

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

F. Cash and Cash Equivalents

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

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

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

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

G. Receivables and Payables

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

H. Fund Equity

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

As June 30, 2011, the fund balance details by classification are listed below:

Fund Balance	URA Project Fund	URA Debt Service Fund	Total
Restricted for:			
Debt Service	\$ -	\$ 379,592	\$ 379,592
Capital Projects	2,376	-	2,376
Total Fund Balance	<u>\$ 2,376</u>	<u>\$ 379,592</u>	<u>\$ 381,968</u>

Resolution 2011-12 was approved by City Council to authorize City Manager to assign resources and ending fund balance. Designations of fund balance represent tentative management plans that are subject to change.

I. Long-Term Obligations

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

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Generally, Oregon Local Budget Law requires annual budgets be adopted for all funds. The modified accrual basis of accounting is used for all budgets, except Oregon Budget Law requires the repayment of interfund loans in a subsequent year to be budgeted. All annual appropriations lapse at fiscal year end.

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

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

During the fiscal year ended June 30, 2011, no supplemental budgets were adopted. The Board of Directors must authorize all appropriation transfers and supplementary budgetary appropriations.

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, 2011. If bank deposits at year end are not entirely insured or collateralized with securities held by the district or by its agent in the Agency's name, the Agency must disclose the custodial credit risk that exists.

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

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

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

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

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

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

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

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

The Agency's cash and cash equivalents by fund at June 30, 2011 are shown below:

Governmental activities:	
General	\$ 2,554
Debt service	<u>453,389</u>
Total cash and cash equivalents	<u>\$ 455,943</u>

B. Receivables

At June 30, 2011, the Agency's receivables are as follows:

Property taxes	\$ 12,798
----------------	-----------

Property taxes are assessed and attach as an enforceable lien on property as of July 1. Taxes are levied on July 1 and are payable on November 15. They may be paid in installments due November 15, February 15, and May 15. Taxes are billed and collected by Deschutes County and remittance to the Agency is made at periodic intervals. The Agency levied taxes at its maximum taxing authority. After reductions for offsets and additional taxes and penalties, this resulted in a net levy of \$177,215. Following is a summary of property tax transactions for the year ended June 30, 2011:

Agency	July 1, 2010	2010-11 Levy	Adjustments	Interest (Discounts)	Collections	June 30, 2011
2010-11	\$ -	\$ 177,215	\$ (1,014)	\$ (4,012)	\$ (165,079)	\$ 7,110
2009-10	6,665	-	(56)	214	(3,975)	2,848
2008-09	2,733	-	(27)	192	(1,548)	1,350
2007-08	779	-	(8)	121	(645)	247
2006-07	110	-	(4)	23	(107)	22
2005-06	25	-	(2)	4	(13)	14
2004-05	8	-	(1)	1	(4)	4
2003-04	-	-	-	-	-	-
2002-03	-	-	-	-	-	-
Prior years	-	-	-	-	-	-
	<u>\$ 10,320</u>	<u>\$ 177,215</u>	<u>\$ (1,112)</u>	<u>\$ (3,457)</u>	<u>\$ (171,371)</u>	<u>\$ 11,595</u>
					Cash with County	<u>1,203</u>
					Total receivable	<u>\$ 12,798</u>

C. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. The government-wide financial statements report *deferred revenue* only for amounts that have been received, but not earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds included \$11,595 in unavailable property taxes.

D. Capital Assets

The Agency constructs and refurbishes assets for the benefit of the City and businesses in the local area, and any assets constructed or improved would be property of the benefiting entity. During the current year the Agency completed the Hood and Main Sidewalk Improvements of \$100,000. The improvement was contributed to the City upon project completion.

E. Long – Term Obligations

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

Year Ending June 30	Principal	Interest
2012	\$ 65,626	\$ 19,822
2013	68,244	17,204
2014	70,968	14,482
2015	73,797	11,651
2016	76,741	8,705
2017	79,802	5,646
2018	82,892	2,463
	<u>\$ 518,070</u>	<u>\$ 79,973</u>

Changes in long-term obligations for the fiscal year ended June 30, 2011, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
FF&C Loan 2008	<u>\$ 581,178</u>	<u>\$ -</u>	<u>\$ 63,109</u>	<u>\$ 518,069</u>	<u>\$ 65,626</u>

F. Advances from Primary Government

The City of Sisters loaned the Agency \$500,000 in prior years for street improvements and sidewalk extensions for the East Cascade Avenue re-alignment and \$100,000 for capital projects. The Agency had made a final payment of \$50,000 on its street improvement loan. Capital Project loan is currently scheduled to be paid off to the General Fund over the next four years, with interest at 4.0%. However, the Agency is a blended component unit of the City and the loan repayment terms are subject to change. The outstanding balance at June 30, 2011 is \$75,000 and is reported as a current liability in the fund financial statements.

G. Risk Management

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

SUPPLEMENTAL INFORMATION

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

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
URBAN RENEWAL DEBT SERVICE FUND**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		Positive / (Negative)
REVENUES				
Property taxes	\$ 133,000	\$ 133,000	\$ 170,473	\$ 37,473
Interest on investments	3,000	3,000	3,742	742
TOTAL REVENUES	<u>136,000</u>	<u>136,000</u>	<u>174,215</u>	<u>38,215</u>
EXPENDITURES				
Debt service	93,200	93,200	92,048	1,152
Contingency	199,701	199,701	-	199,701
TOTAL EXPENDITURES	<u>292,901</u>	<u>292,901</u>	<u>92,048</u>	<u>200,853</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(156,901)</u>	<u>(156,901)</u>	<u>82,167</u>	<u>239,068</u>
OTHER FINANCING SOURCES (USES)				
Interfund loan repayment	(75,000)	(75,000)	(75,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(75,000)</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(231,901)	(231,901)	7,167	239,068
Budgetary basis adjustment	-	-	75,000	75,000
FUND BALANCE, Beginning	<u>231,901</u>	<u>231,901</u>	<u>297,425</u>	<u>65,524</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 379,592</u>	<u>\$ 379,592</u>

AUDITOR'S COMMENTS AND REPORTS

Independent Auditor's Report Required by Oregon State Regulations

We have audited the basic financial statements of Sisters Urban Renewal Agency as of and for the year ended June 30, 2011, and have issued our report thereon dated November 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Sisters Urban Renewal Agency financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

In connection with our testing nothing came to our attention that caused us to believe the Agency was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations

OAR 162-10-0230 Internal Control

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

We noted certain matters that we reported to management of the Agency, in a separate letter dated November 7, 2011.

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

Dickey and Tremper, LLP

Dickey and Tremper, LLP
November 7, 2011