

LINCOLN CITY URBAN RENEWAL AGENCY

Annual Financial Report

Year Ended June 30, 2010

LINCOLN CITY URBAN RENEWAL AGENCY

AGENCY OFFICIALS

JUNE 30, 2010

	<u>Term Expires</u>
Lori Hollingsworth 1640 NE 14th Lincoln City, Oregon 97367	December 31, 2010
Ed Kuntz PO Box 1119 Lincoln City, Oregon 97367	December 31, 2012
Rick Brissette, (Chair) 3543 NW Keel Avenue Lincoln City, Oregon 97367	December 31, 2012
Dick Anderson 960 SW Hwy. 101, #347 Lincoln City, Oregon 97367	December 31, 2010
Gary Ellingson 3417 SW Anchor Ave. Lincoln City, Oregon 97367	December 31, 2010
Chester Noreikis 1421 NW 19 th Lincoln City, Oregon 97367	December 31, 2012
Sharon Connor 2725 NE 49 th Court Lincoln City, Oregon 97367	December 31, 2010

City Manager

David Hawker

Finance Director

Debbie Mammone

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

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INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

February 9, 2011

Agency Officials
Lincoln City Urban Renewal Agency
(A component unit of the City of Lincoln City, Oregon)
Lincoln City, Oregon

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We have audited the accompanying financial statements of the governmental activities and each major fund of the Lincoln City Urban Renewal Agency (the Agency), a component unit of the City of Lincoln City, Oregon, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. 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 Agency, as of June 30, 2010 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis as listed in the Table of Contents 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 inquiries 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.

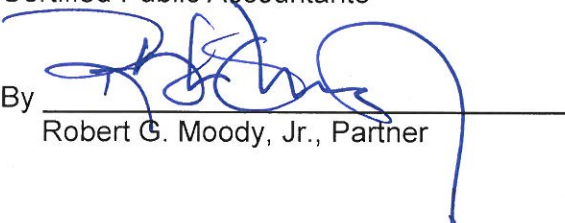
INDEPENDENT AUDITOR'S REPORT (Continued)

Agency Officials
Lincoln City Urban Renewal Agency
(A component Unit of City of Lincoln City)
February 9, 2011
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying Required Supplementary Information, comprised of the budgetary comparisons for the General Fund and the Property Rehabilitation Fund as listed in the Table of Contents, 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. The Other Supplementary Information as listed in the Table of Contents is also presented for purposes of additional analysis and is not a required part of the basic financial statements. The information described in this paragraph 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.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By



Robert G. Moody, Jr., Partner

MANAGEMENT'S DISCUSSION AND ANALYSIS

LINCOLN CITY URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lincoln City Urban Renewal Agency (the Agency), we offer readers of the Lincoln City Urban Renewal Agency's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget. Please read this analysis in conjunction with the Agency's financial statements, which follow.

FINANCIAL HIGHLIGHTS

The net assets of the Agency (total assets less total liabilities) at June 30, 2010 were \$18,142,586, an increase of \$1,330,667 in comparison with the prior year. Short-term liabilities decreased by \$123,946 in comparison with the prior year, and long-term liabilities decreased by \$1,724,784. Governmental activities revenue decreased \$30,083, largely due to a decrease in interest earnings. Governmental expenses decreased \$36,326.

REPORT LAYOUT

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's annual financial report consists of several sections. Taken together they provide a comprehensive financial look at the Agency. The components of the report include the following:

Independent auditor's report

Management's discussion and analysis (this report)

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 similar to a private sector business.

- 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.
- The Statement of Activities present revenue and expense information showing how the Agency's net assets changed during the most recent fiscal year.

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 objectives. Governmental fund statements follow the more traditional presentation of financial statements. The Agency maintains three major governmental funds. These statements include balance sheets, statements of revenues,

expenditures, and changes in fund balances, and reconciliations of fund statements to the Agency-wide statements.

Notes to basic financial statements

The notes provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Agency's financial condition.

Required supplementary information

Budget information for the general and major special revenue funds is included in this section. The schedules report revenues, expenditures, changes in fund balances, and budgetary information.

Other supplementary information

This section includes revenues, expenditures, changes in fund balance, and budgetary information for the Tax Increment Fund, a debt service fund.

Other schedules

This section contains the annual report required by ORS. 457.460

Reports by independent certified public accountants

Supplemental communication on Agency compliance and internal controls as required by Oregon statutes and Governmental Auditing Standards.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Assets

Net assets may serve as a useful indicator of a government's financial position. The Lincoln City Urban Renewal Agency's assets exceed liabilities by \$18,142,586 at the close of the fiscal year ended June 30, 2010. This is an increase of \$1,330,667 (or 7.9%), due primarily to a reduction of long-term debt.

STATEMENT OF NET ASSETS

	<u>2010</u>	<u>2009</u>
Assets:		
Cash and investments	\$ 4,566,095	\$ 4,846,071
Receivables	896,909	962,520
Capital Assets	<u>19,974,664</u>	<u>20,147,140</u>
Total assets	<u>25,437,668</u>	<u>25,955,731</u>
Liabilities:		
Other liabilities	22,541	146,487
Long-term debt outstanding	<u>7,272,541</u>	<u>8,997,325</u>
Total liabilities	<u>7,295,082</u>	<u>9,143,812</u>
Net Assets:		
Invested in capital assets, net of related debt	12,702,122	11,149,814
Restricted for debt service	2,562,022	1,812,621
Unrestricted	<u>2,878,442</u>	<u>3,849,484</u>
Total net assets	<u>\$ 18,142,586</u>	<u>\$ 16,811,919</u>

Statement of Activities

Total revenues decreased by \$30,083 (or 1.0%), largely due to a decrease in interest earnings. Total expenditures decreased by \$36,326. Taxable assessed value increased 4.0%.

STATEMENT OF ACTIVITIES

	<u>Years Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Revenues:		
General revenues:		
Property taxes levied for debt service	\$ 2,849,547	\$ 2,762,986
Interest	31,653	117,795
Other	32,924	63,426
Total revenues	<u>2,914,124</u>	<u>2,944,207</u>
Expenses:		
General government	1,270,085	1,215,778
Interest on long-term obligations	<u>313,372</u>	<u>404,005</u>
Total expenses	<u>1,583,457</u>	<u>1,619,783</u>
Change in net assets	1,330,667	1,324,424
Net assets - beginning	<u>16,811,919</u>	<u>15,487,495</u>
Net assets - ending	<u>\$ 18,142,586</u>	<u>\$ 16,811,919</u>

BUDGET HIGHLIGHTS

There were no changes made to the original General Fund Budget during the year. The budgets for the years ended June 30, 2009 and 2010 were prepared and adopted in compliance with legal requirements.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year ending June 30, 2010, the Agency had invested \$19,974,664 in a broad range of capital assets, including land, buildings and infrastructure improvements. This amount represents a net decrease (including additions and deductions) of \$172,486 over the prior year. Additions (net) include assets acquired or under construction at year-end, less assets that were disposed of during the fiscal year.

CHANGE IN CAPITAL ASSETS

	Years Ended June 30,	
	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 25,276,583	\$ 23,785,535
Less: accumulated depreciation	<u>(5,129,443)</u>	<u>(4,349,376)</u>
Net capital assets - beginning	20,147,140	19,436,159
Additions (net)	680,645	1,491,048
Depreciation - current year	<u>(853,121)</u>	<u>(780,067)</u>
Net capital assets - ending	<u>\$ 19,974,664</u>	<u>\$ 20,147,140</u>

For the fiscal year ending June 30, 2011, the City's Urban Renewal Agency has budgeted \$200,000 for property acquisition and \$1,996,716 for capital projects, related primarily to:

OceanLake: NW15th Street Improvement Project / Streetscape
Taft: SW 50th Storm Drain Construction, Sidewalks
Cutler City: Beach Access Design, Trail Construction
Property Rehab and Economic Development Programs

LONG-TERM DEBT

The Agency did not issue any bonds during the fiscal year ending June 30, 2010. The Agency does not have a bond rating. Bonds are sold as private placements with Bank of America. 100% of tax increment revenues and the special levy are pledged to the Bank of America. The Agency repaid \$1,509,786 in principal during the year. The Agency's outstanding debt decreased from \$8,997,325 to \$7,272,541. Additional information on long-term obligations may be found in Note 5 to the financial statements.

The Agency has budgeted to issue \$2,000,000 of bonds during the fiscal year ending June 30, 2011.

ECONOMIC FACTORS

As required by ORS 457.190(3)(a), the Agency has included in its current plan the maximum amount of indebtedness that may be issued or incurred under the plan in the total amount of \$43,000,000. As of June 30, 2010 there is \$11,975,000 remaining.

REQUESTS FOR INFORMATION

The Agency's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Agency's finances and to demonstrate the Agency's accountability. If you have questions about the report or need additional financial information, please contact the City's Finance Director at 801 SW Hwy 101, Lincoln Square, Lincoln City, Oregon 97367. Copies of this report are also available at the Driftwood Library.

BASIC FINANCIAL STATEMENTS

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

STATEMENT OF NET ASSETS

JUNE 30, 2010

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 4,566,095
Receivables	896,909
Capital assets:	
Land, improvements and construction in progress	6,060,071
Other capital assets, net	<u>13,914,593</u>
TOTAL ASSETS	<u><u>25,437,668</u></u>

LIABILITIES

Accounts payable	22,541
Long-term obligations:	
Due within one year	1,951,648
Due in more than one year	<u>5,320,893</u>
TOTAL LIABILITIES	<u><u>7,295,082</u></u>

NET ASSETS

Invested in capital assets	12,702,122
Restricted for debt service	2,562,022
Unrestricted	<u>2,878,442</u>
TOTAL NET ASSETS	<u><u>\$ 18,142,586</u></u>

See notes to basic financial statements.

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

	<u>Governmental Activities</u>
PROGRAM EXPENSES:	
General government	\$ 1,270,085
Interest on long-term obligations	<u>313,372</u>
TOTAL PROGRAM EXPENSES	<u>1,583,457</u>
GENERAL REVENUES:	
Property taxes levied for debt services	2,849,547
Unrestricted investment earnings	31,653
Miscellaneous	<u>32,924</u>
TOTAL GENERAL REVENUES	<u>2,914,124</u>
CHANGES IN NET ASSETS	1,330,667
NET ASSETS, beginning of year	<u>16,811,919</u>
NET ASSETS, end of year	<u><u>\$ 18,142,586</u></u>

See notes to basic financial statements.

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2010

	General	Property Rehabilitation Program	Tax Increment	Totals
ASSETS:				
Cash and investments	\$ 1,435,563	\$ 597,905	\$ 2,532,628	\$ 4,566,096
Receivables	-	603,794	293,115	896,909
TOTAL ASSETS	1,435,563	1,201,699	2,825,743	5,463,005
LIABILITIES:				
Accounts payable	22,144	397	-	22,541
Deferred revenue	-	603,794	263,721	867,515
TOTAL LIABLITES	22,144	604,191	263,721	890,056
FUND BALANCE:				
Unreserved	1,413,419	597,508	2,562,022	4,572,949
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,435,563</u>	<u>\$ 1,201,699</u>	<u>\$ 2,825,743</u>	
RECONCILIATION OF FUND BALANCE TO NET ASSETS:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds net of accumulated depreciation of \$6,833,095				19,974,663
Other long-term assets are not available for current-period expenditures and therefore are deferred in the funds				867,515
Long-term obligations are not due and payable in the current period and therefore are not reported in the funds.				(7,272,541)
TOTAL NET ASSETS				<u>\$ 18,142,586</u>

See notes to basic financial statements.

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Property Rehabilitation Program</u>	<u>Tax Increment</u>	<u>Totals</u>
REVENUES:				
Property taxes	\$ -	\$ -	\$ 2,793,590	\$ 2,793,590
Rents	33,109	-	-	33,109
Interest on investments	12,786	3,915	14,952	31,653
Loan repayments	-	150,777	-	150,777
TOTAL REVENUES	<u>45,895</u>	<u>154,692</u>	<u>2,808,542</u>	<u>3,009,129</u>
EXPENDITURES:				
Current:				
Personal services	190,391	-	-	190,391
Materials and services	198,972	-	-	198,972
Debt service	260,632	-	1,821,377	2,082,009
Capital outlay	680,646	-	-	680,646
Other payments	-	27,600	-	27,600
TOTAL EXPENDITURES	<u>1,330,641</u>	<u>27,600</u>	<u>1,821,377</u>	<u>3,179,618</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND CHANGE IN FUND BALANCES	(1,284,746)	127,092	987,165	(170,489)
FUND BALANCES, beginning of year	<u>2,698,165</u>	<u>470,416</u>	<u>1,574,857</u>	<u>4,743,438</u>
FUND BALANCES, end of year	<u>\$ 1,413,419</u>	<u>\$ 597,508</u>	<u>\$ 2,562,022</u>	<u>\$ 4,572,949</u>

See notes to basic financial statements.

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2010

CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (170,489)

*Amounts reported for governmental activities in the Statement of Activities
are different due to the following:*

Governmental funds report capital outlays as expenditure while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. The difference between these two amounts is:

Expenditures for capital assets	680,645
Less current year depreciation	(853,121)

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

Taxes	25,957
Loan repayments	(120,962)

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

Principal payments	1,724,784
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued interest	43,853
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TOTAL CHANGE IN NET ASSETS \$ 1,330,667

NOTES TO BASIC FINANCIAL STATEMENTS

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Agency was organized under ORS 457. It is a municipal corporation created by the City of Lincoln City to facilitate urban renewal within the boundaries of the City. The Agency is a component unit of the City of Lincoln City. The City Council (Council) serves as the governing body and is accountable for the fiscal matters of the Agency.

Urban Renewal Areas

Tax Increment Bonds for urban renewal plan areas are authorized by state law to “1) eliminate and prevent the development or spread of urban blight and deterioration; and 2) encourage needed urban conservation and rehabilitation and provide for redevelopment of blighted or deteriorated areas.”

Projects are financed in urban renewal plan areas as follows:

- The Agency selects an urban renewal plan area and defines its boundaries.
- The County Assessor “freezes” the assessed value of property within the urban renewal area. This is referred to as the “frozen” value.
- Any increase in assessed value above the frozen value is called the “incremental value.” The tax revenue generated by the tax rate times the incremental value is provided for use in paying the principal and interest on any indebtedness incurred to finance the Urban Renewal project.
- Urban Renewal Tax Increment revenues are used to repay the indebtedness of the Agency. The proceeds of the indebtedness finance the Agency’s activities.

As required by ORS 457.190(3)(a), the Agency has included in its current plan the maximum amount of indebtedness that may be issued or incurred under the plan in the amount of \$43,000,000.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the Agency, including all of its financial activities. Governmental activities are financed primarily through property taxes and proceeds from borrowings.

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Government-wide Financial Statements (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for the Agency's programs. The Agency does not allocate indirect expenses. Program revenues include grants and contributions that are restricted to meeting operational requirements. Revenues that are not classified as program revenues, including property taxes, earnings on investments, and the gain on sale of property, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major funds, each displayed in a separate column. Each of the Agency's three funds are presented as major funds. They are as follows:

- General
- Property Rehabilitation Program
- Tax Increment

These funds account for the general administration of the Agency and for the acquisition and rehabilitation of blighted and deteriorated areas within the designated urban renewal areas, as well as debt service related to the Agency's operations.

Measurement Focus and Basis of Accounting

Government-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 at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Agency receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis of accounting, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Agency considers all revenues reported in the governmental funds to be available if they are collected within thirty days after year-end. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term obligations, and claims and judgments.

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from debt and acquisitions under capital leases are reported as other financing sources and uses, respectively.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

Budgets

Annual budgets are adopted on the modified accrual basis of accounting for all funds. The budgetary process begins by appointing Budget Committee members each year. Budget recommendations are developed by management and staff through early spring, with the Budget Committee approving the budget document in late spring. Public notices of the budget hearing are published prior to the public hearing held in June. The Agency Board adopts the budget and authorizes appropriations no later than June 30.

The ordinance authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. All funds establish the levels of budgetary control at the personal services, materials and services, capital outlay, debt service, and contingency category levels. Unexpected additional resources may be added to the budget through the use of a supplemental budget and transfers of appropriation resolutions. Supplemental budgets less than 10% of the fund's original budget may be adopted by the Agency Board at a regular meeting. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publication in newspapers and approval by the Agency Board. Original and supplemental budgets may be modified by the use of appropriation transfers between category levels. Such transfers require approval by the Agency Board. No supplemental budgets or appropriation transfers were made during the year. All annual appropriations lapse at fiscal year end.

Cash and Cash Equivalents and Investments

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. Investments are stated at fair value. All cash, cash equivalents and investments are held by the City of Lincoln City on behalf of the Agency. The Agency considers these items as a demand deposit account, whereby funds may be deposited or withdrawn without prior notice or penalty. Interest earnings are allocated from the City based on the proportion of the Agency's funds to the total of the City of Lincoln City funds.

Reference should be made to the City of Lincoln City's Annual Financial Report for the year ended June 30, 2010, for compliance with Oregon Revised Statutes relating to the collateralization of deposits and categorization of investments.

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes Receivable

Real and personal property taxes are levied and assessed and become a lien against the property as of July 1 each year. Property taxes are payable in three installments, following the lien date, on November 15, February 15 and May 15. Discounts are allowed if the amount is paid by November 15 or February 15. Taxes unpaid and outstanding on May 15 are considered delinquent.

Capital Assets

Purchased or constructed capital assets are recorded at estimated historical cost with subsequent additions at cost. Donated capital assets are recorded at their estimated fair value at the time of donation. Capital assets are assets with an initial cost of more than \$1,000 and an estimated life of one year or more. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated on a straight-line basis over the following estimated lives:

<u>Asset</u>	<u>Years</u>
Buildings	25-40
Urban renewal projects	25-40
System improvements	25-40
Vehicles	5-10
Equipment and furniture	5-10
Books and art	5-10

Pension/Other Postemployment Benefits

The Agency's employees are employees of the City. Employees of the City participate in the Oregon Public Employees Retirement Plan administered by the Oregon Public Employees Retirement System. Personnel costs including pension costs for the Agency employees are charged back to the Agency, and reflected in Urban Renewal expenditures/expenses.

Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

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 while premiums or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt services expenditures.

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Agency is covered under the City of Lincoln City's commercial insurance policies. The Agency does not engage in risk financing activities where risk is retained (self-insurance). There has been no significant reduction in insurance coverage from the prior year for any category of risk and settled claims from these risks have not exceeded commercial insurance limits in any of the past three fiscal years.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

2. RECEIVABLES

The Agency's receivables at June 30, 2010 are shown below:

	<u>Property Rehabilitation Program</u>	<u>Tax Increment</u>	<u>Totals</u>
Rehabilitation loans	\$ 603,794	\$ -	\$ 603,794
Property taxes	-	293,115	293,115
Totals	<u>\$ 603,794</u>	<u>\$ 293,115</u>	<u>\$ 896,909</u>

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2010

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Transfers/ Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 5,996,892	\$ -	\$ -	\$ 5,996,892
Construction in progress	641,332	(578,153)	-	63,179
Total capital assets not being depreciated	<u>\$ 6,638,224</u>	<u>\$ (578,153)</u>	<u>\$ -</u>	<u>\$ 6,060,071</u>
Capital assets being depreciated:				
Buildings	\$ 1,757,559	\$ -	\$ -	\$ 1,757,559
Urban renewal projects	1,401,476	56,062	-	1,457,538
System improvements	15,401,090	1,202,736	-	16,603,826
Vehicles	19,581	-	-	19,581
Equipment and furniture	28,403	-	(1,295)	27,108
Books and art	30,250	-	-	30,250
Total capital assets being depreciated	18,638,359	1,258,798	(1,295)	19,895,862
Less accumulated depreciation	(5,129,443)	(853,121)	1,295	(5,981,269)
Total capital assets being depreciated, net	<u>\$ 13,508,916</u>	<u>\$ 405,677</u>	<u>\$ -</u>	<u>\$ 13,914,593</u>

4. DEFERRED REVENUE

Resources owned by the Agency, which are measurable but not available, and are therefore deferred in the funds, consist of the following.

	Property Rehabilitation Program	Tax Increment	Totals
Rehabilitation loans	\$ 603,794	\$ -	\$ 603,794
Property taxes	-	263,721	263,721
Totals	<u>\$ 603,794</u>	<u>\$ 263,721</u>	<u>\$ 867,515</u>

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2010

5. LONG-TERM OBLIGATIONS

	Balance June 30, 2009	Additions	Reductions	Balances June 30, 2010	Due within one year
<u>Tax Increment Bonds</u>					
Urban Renewal Bonds, Series 2003					
Original issue amount \$3 million, final maturity December 2013, interest at 3.9 percent					
Principal	1,494,584	-	309,942	1,184,642	322,209
Urban Renewal Bonds, Series 2004					
Original issue amount \$5 million, final maturity June 2014, interest at 4.0 percent					
Principal	2,747,954	-	506,732	2,241,222	527,308
Urban Renewal Bonds, Series 2007					
Original issue amount \$5 million, final maturity June 2014, interest at 4.40 percent					
Principal	3,789,784	-	693,112	3,096,672	724,117
2005 Contract payable - Lincoln County School					
Original contract amount \$1.6 million, final maturity October 2012, District interest from 3.0 to 5.0 percent					
Principal	965,003	-	214,998	750,005	378,015
	<u>\$ 8,997,325</u>	<u>\$ -</u>	<u>\$ 1,724,784</u>	<u>\$ 7,272,541</u>	<u>\$ 1,951,649</u>

The future maturities of all obligations outstanding as of June 30, 2010 are as follows:

Fiscal Year	Urban Renewal Bonds						Contracts Payable		Totals	
	Series 2003		Series 2004		Series 2007		Lincoln County School District			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010-11	\$ 322,209	\$ 41,526	\$ 527,308	\$ 81,804	\$ 724,117	\$ 124,415	\$ 378,014	\$ 31,985	\$ 1,951,648	\$ 279,730
2011-12	334,960	28,775	548,718	60,393	756,507	92,024	244,409	15,591	1,884,594	196,783
2012-13	348,215	15,519	570,999	38,113	790,347	58,184	127,582	3,198	1,837,143	115,014
2013-14	179,258	2,626	594,197	14,929	825,701	22,831	-	-	1,599,156	40,386
	<u>\$ 1,184,642</u>	<u>\$ 88,446</u>	<u>\$ 2,241,222</u>	<u>\$ 195,239</u>	<u>\$ 3,096,672</u>	<u>\$ 297,454</u>	<u>\$ 750,005</u>	<u>\$ 50,774</u>	<u>\$ 7,272,541</u>	<u>\$ 631,913</u>

6. RELATED PARTY TRANSACTIONS

The Agency utilizes the City for staff support, accounting, information technology, human resources and other services. Total expenses/expenditures related to these services for the year ended June 30, 2010 were \$103,915.

7. SUBSEQUENT EVENTS

In October 2010, the Agency paid in full the outstanding contract with the Lincoln County School District. The total amount paid was \$768,806, including accrued interest.

REQUIRED SUPPLEMENTARY INFORMATION

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

GENERAL FUND

YEAR ENDED JUNE 30, 2010

	<u>Budget</u> <u>Original</u> <u>and Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES:			
Rents	\$ 27,000	\$ 33,109	\$ 6,109
Interest on investments	50,000	12,786	(37,214)
TOTAL REVENUES	<u>77,000</u>	<u>45,895</u>	<u>(31,105)</u>
EXPENDITURES:			
Personal services	213,862	190,391	23,471
Materials and services	262,080	198,972	63,108
Capital outlay	1,963,348	680,646	1,282,702
Debt service	260,632	260,632	-
TOTAL EXPENDITURES	<u>2,699,922</u>	<u>1,330,641</u>	<u>1,369,281</u>
EXCESS OF EXPENDITURES OVER REVENUES AND CHANGE IN FUND BALANCE	(2,622,922)	(1,284,746)	1,338,176
FUND BALANCE, beginning of year	<u>2,622,922</u>	<u>2,698,165</u>	<u>75,243</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ 1,413,419</u>	<u>\$ 1,413,419</u>

LINCOLN CITY URBAN RENEWAL AGENCY
 (A Component Unit of the City of Lincoln City, Oregon)

**SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

PROPERTY REHABILITATION PROGRAM FUND

YEAR ENDED JUNE 30, 2010

	Budget Original and Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Loan repayments	\$ 140,000	\$ 150,777	\$ 10,777
Interest on investments	7,000	3,915	(3,085)
TOTAL REVENUES	147,000	154,692	7,692
EXPENDITURES:			
Capital outlay	618,252	27,600	590,652
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND CHANGE IN FUND BALANCE	(471,252)	127,092	598,344
FUND BALANCE, beginning of year	471,252	470,416	(836)
FUND BALANCE, end of year	\$ -	\$ 597,508	\$ 597,508

OTHER SUPPLEMENTARY INFORMATION

LINCOLN CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Lincoln City, Oregon)

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

TAX INCREMENT FUND

YEAR ENDED JUNE 30, 2010

	<u>Budget</u> Original and Final	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Property taxes	\$ 2,793,288	\$ 2,793,590	\$ 302
Interest on investments	37,000	14,952	(22,048)
TOTAL REVENUES	<u>2,830,288</u>	<u>2,808,542</u>	<u>(21,746)</u>
EXPENDITURES:			
Debt service	1,821,378	1,821,377	1
Reserve for future expenditures	1,279,001	-	1,279,001
Bond reserves	1,300,000	-	1,300,000
TOTAL EXPENDITURES	<u>4,400,379</u>	<u>1,821,377</u>	<u>2,579,002</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND CHANGE IN FUND BALANCE	(1,570,091)	987,165	2,557,256
FUND BALANCE, beginning of year	<u>1,570,091</u>	<u>1,574,857</u>	<u>4,766</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ 2,562,022</u>	<u>\$ 2,562,022</u>

LINCOLN CITY URBAN RENEWAL AGENCY
 (A Component Unit of the City of Lincoln City, Oregon)

PROPERTY TAX TRANSACTIONS

YEAR ENDED JUNE 30, 2010

	Balance July 1, 2009	Levy	Net Interest (Discount) and Adjustments	Collections	Balance June 30, 2010
Current	\$ -	\$ 2,900,701	\$ (73,715)	\$ (2,676,304)	\$ 150,682
Prior	237,764	-	15,321	(110,652)	142,433
Totals	<u>\$ 237,764</u>	<u>\$ 2,900,701</u>	<u>\$ (58,394)</u>	<u>(2,786,956)</u>	<u>\$ 293,115</u>

OTHER SCHEDULES

LINCOLN CITY URBAN RENEWAL AGENCY

NOTICE OF PREPARATION AND FILING OF

FINANCIAL STATEMENT

In accordance with ORS. 457.460, a Financial Statement for the Lincoln City Urban Renewal Agency has been prepared and is on file with the City of Lincoln City and the Lincoln City Urban Renewal Agency. The information contained in the statement is available to all interested persons. A summary of the Financial Statement and Budget follows:

LINCOLN CITY URBAN RENEWAL AGENCY BUDGET

FISCAL YEAR 2010-11

	<u>GENERAL FUND</u>	<u>TAX INCREMENT FUND</u>	<u>PROPERTY REHABILITATION FUND</u>
REVENUE			
Estimated Beginning			
Balance	\$ 1,364,881	\$ 2,586,229	\$ 602,916
Interest	16,000	15,600	4,500
Loan Repayments			120,000
Transfers In			
Tax Increment Proceeds		2,868,405	
Other Income	33,600		
Bond Sales	<u>2,000,000</u>		
Total Revenue	<u>3,414,481</u>	<u>5,470,234</u>	<u>727,416</u>
EXPENDITURES			
Personal Services	236,462		
Materials & Services	279,503		
Capital Outlay	2,488,516		300,000
Reserve For Future Years		1,648,855	
Property Rehabilitation			427,416
Debt Service	<u>410,000</u>	<u>3,821,379</u>	
Total Expenditures	<u>\$ 3,414,481</u>	<u>\$ 5,470,234</u>	<u>\$ 727,416</u>

LINCOLN CITY URBAN RENEWAL AGENCY

REVENUE AND EXPENDITURES

FISCAL YEAR 2009-10

	<u>GENERAL FUND</u>	<u>TAX INCREMENT FUND</u>	<u>PROPERTY REHABILITATION FUND</u>
REVENUE			
Beginning Balance	\$ 2,698,164	\$ 1,574,857	\$ 470,416
Interest	12,786	14,952	3,915
Loan Repayments			150,777
Transfers In			
Tax Increment Proceeds		2,793,590	
Grants/Other Revenue	33,109		
Bond Sales			
Total Revenue	<u>2,744,059</u>	<u>4,383,399</u>	<u>625,108</u>
EXPENDITURES			
Personal Services	190,391		
Materials & Services	198,969		
Capital Outlay	680,645		
Transfers			
Property Rehabilitation			27,600
Debt Service	<u>260,632</u>	<u>1,821,378</u>	
Total Expenditures	<u>1,330,637</u>	<u>1,821,378</u>	<u>27,600</u>
ENDING FUND BALANCE	<u>\$ 1,413,422</u>	<u>\$ 2,562,021</u>	<u>\$ 597,508</u>

The Tax Increment Proceeds (revenue) received by the Agency are used to pay for indebtedness incurred in carrying out the Urban Renewal Plan. The outstanding obligations of the Lincoln City Urban Renewal Agency as of June 30, 2010 amounted to \$ 6,522,506.

LINCOLN CITY URBAN RENEWAL AGENCY

In carrying out the Urban Renewal plan, property tax collections of the other taxing Districts for 2009-10 are affected as follows:

<u>TAXING DISTRICT</u>	<u>TAXES IMPOSED WITH URBAN RENEWAL</u>	<u>TAXES IMPOSED WITHOUT URBAN RENEWAL</u>	<u>URBAN RENEWAL TAXES IMPOSED</u>
Lincoln County School District	\$ 5,468,682	\$ 6,565,235	\$ 1,096,553
Linn-Benton-Lincoln ESD	292,598	351,269	58,671
Oregon Coast Community College	168,611	202,420	33,809
City of Lincoln City	4,234,184	5,083,201	849,017
North Lincoln Fire/Rescue	806,013	967,631	161,618
Lincoln County General	2,742,594	3,292,525	549,931
Lincoln County Extension	43,280	51,959	8,679
North Lincoln Hospital	497,484	597,238	99,754
Lincoln County Transportation	93,470	112,212	18,742
Devils Lake Water - Inside	64,253	64,739	486
Devils Lake Water - Outside	89,654	114,036	24,382
TOTALS	<u>\$ 14,500,832</u>	<u>\$ 17,402,465</u>	<u>\$ 2,901,642</u>

(1) Note: Property Taxes for education are determined by a State Formula. The State reimburses education for the difference between the Formula and what is collected locally.

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS**

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS**



February 9, 2011

Agency Officials
Lincoln City Urban Renewal Agency
(A component unit of the City of Lincoln City, Oregon)
Lincoln City, Oregon

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We have audited the financial statements of the governmental activities, and each major fund of the Lincoln City Urban Renewal Agency (the Agency), a component unit of the City of Lincoln City, Oregon, as of and for the year ended June 30, 2010, and have issued our report thereon dated February 9, 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 Agency's 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 statement 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 the 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.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapter 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

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS (Continued)**

Page 2

COMPLIANCE (Continued)

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 162-10-230 INTERNAL CONTROL

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

* * * * *

This report is intended solely for the information and use of the Agency officials, management, and the Oregon Secretary of State, Audits Division and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants