(A Component Unit of the City of Lincoln City, Oregon)

Annual Financial Report

Year Ended June 30, 2011

(A Component Unit of the City of Lincoln City, Oregon)

AGENCY OFFICIALS

JUNE 30, 2011

	Term Expires
Henry Quandt (Chair) 2717 NW Jetty Ave Lincoln City, Oregon 97367	December 31, 2014
Gordon Eggleton 1225 NW 16 th St. Lincoln City, Oregon 97367	December 31, 2014
Roger Sprague PO Box 286 Lincoln City, Oregon 97367	December 31, 2012
Dick Anderson 960 SW Hwy. 101, #347 Lincoln City, Oregon 97367	December 31, 2014
Gary Ellingson 3417 SW Anchor Ave. Lincoln City, Oregon 97367	December 31, 2014
Chester Noreikis 1421 NW 19 th Lincoln City, Oregon 97367	December 31, 2012
Alex Ward 1287 NW 14 th St. Lincoln City, OR 97367	December 31, 2012

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

December 23, 2011

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

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, 2011, 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, 2011, 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)

Lincoln City Urban Renewal Agency (A component unit of City of Lincoln City) December 23, 2011 Page 2

The budgetary comparison information for the General Fund and Property Rehabilitation Fund, as listed in the Table of Contents as Required Supplementary Information, 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. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Other Supplementary Information, 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. 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.

TALBOT, KORVOLA & WARWICK, LLP

Certified Public Accountants

Robert G. Moody, Jr., Partner



MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

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, 2011. 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, 2011 were \$19,517,707, an increase of \$1,375,121 in comparison with the prior year. Short-term liabilities increased by \$202,007 in comparison with the prior year (primarily due to an outstanding accounts payable invoice for construction work), and long-term liabilities decreased by \$2,323,639. Governmental activities revenue increased \$53,059, due to increases in property tax revenue, and governmental expenses increased \$8,605.

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 presents revenue and expense information showing how the Agency's net assets changed during the most recent fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2011

REPORT LAYOUT (Continued)

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 the Balance Sheet, Statement 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 *Government Auditing 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 fund 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 Oregon Revised Statutes (ORS) 457.460

Reports by independent certified public accountants

Supplemental communication on Agency compliance and internal controls as required by Oregon Revised Statutes and *Government Auditing Standards*.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2011

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 \$19,517,707 at the close of the fiscal year ended June 30, 2011. This is an increase of \$1,375,121 (or 7.6%), due primarily to a reduction of long-term debt.

STATEMENT OF NET ASSETS

	Year Ended June 30,				
		2011		2010	
Assets:					
Cash and investments	\$	4,000,465	\$	4,566,095	
Receivables		842,770		896,909	
Capital assets		19,847,922	_	19,974,664	
Total assets		24,691,157	25,437,668		
Liabilities:					
Other liabilities		224,548		22,541	
Long-term debt outstanding		4,948,902	_	7,272,541	
Total Liabilities		5,173,450	_	7,295,082	
Net assets:					
Invested in capital assets, net of related debt		16,592,397		12,702,122	
Restricted for debt serve		1,656,060		2,562,022	
Unrestricted		1,269,250	_	2,878,442	
Total net assets	\$	19,517,707	\$_	18,142,586	

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2011

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

Statement of Activities

Total revenues increased by \$53,059 (or 1.8%), largely due to an increase in property tax revenues. Total expenditures decreased by \$8,605. Taxable assessed value increased 4.2%.

STATEMENT OF ACTIVITIES

	Year Ended June 30,				
	2011			2010	
Revenues:		_		_	
General revenues:					
Property taxes levied for debt service	\$	2,932,290	\$	2,849,547	
Interest		20,223		31,653	
Other		14,670	_	32,924	
Total revenues		2,967,183	_	2,914,124	
Expenses:					
General government		1,343,954		1,270,085	
Interest on long-term obligations		248,108	_	313,372	
Total expenses		1,592,062		1,583,457	
Change in net assets		1,375,121		1,330,667	
Net assets - beginning of year		18,142,586	_	16,811,919	
Net assets - end of year	\$	19,517,707	\$ _	18,142,586	

BUDGET HIGHLIGHTS

There was one change made to the General Fund Budget during the year, which increased the appropriation for payments on contracts payable by \$371,990. This was used to make an early pay-off of the outstanding balance of the 2005 long term obligation debt to the Lincoln County School District. The increase in appropriation was funded by a decrease in the Capital Reserve. The budgets for the years ended June 30, 2010 and 2011 were prepared and adopted in compliance with legal requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2011, the Agency had invested \$19,847,922 in a broad range of capital assets, including land, buildings and infrastructure improvements. This amount represents a net decrease (including additions and deductions) of \$126,741 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

	Year Ended June 30,				
	2011			2010	
Beginning balance	\$	25,955,934	\$	25,276,583	
Less: accumulated depreciation		(5,981,270)		(5,129,443)	
Net capital assets - beginning		19,974,664		20,147,140	
Additions (net)		767,855		680,645	
Depreciation - current year		(894,597)		(853,121)	
Net capital assets - ending	\$	19,847,922	\$	19,974,664	

For the fiscal year ending June 30, 2012, the City's Urban Renewal Agency has budgeted \$350,000 for property acquisition and \$1,334,511 for capital projects, related primarily to:

OceanLake Streetscape
Sidewalk construction
South Bay Park / Bay area sidewalk
66th Street bay access (Cutler City)
Property rehabilitation and economic development programs

LONG-TERM DEBT

The Agency issued \$2,000,000 in short-term bonds during the fiscal year ending June 30, 2011, for funding various capital projects of the Agency. 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 \$4,323,639 in principal during the year. The Agency's outstanding debt decreased from \$7,272,541 to \$4,948,902. Additional information on long-term obligations may be found in Note 6 to the financial statements.

The Agency has not budgeted to issue any bonds during the fiscal year ending June 30, 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED 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, 2011, there is \$9,975,000 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.



(A Component Unit of the City of Lincoln City, Oregon)

STATEMENT OF NET ASSETS

JUNE 30, 2011

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 3,974,078
Cash with County Treasurer	26,387
Receivables	345,554
TOTAL CURRENT ASSETS	4,346,019
NON-CURRENT ASSET:	
Note receivable, long term	497,216
CAPITAL ASSETS:	
Land, improvements and construction in progress	6,527,841
Other capital assets, net	13,320,081
TOTAL CAPITAL ASSETS	19,847,922
TOTAL ASSETS	24,691,157
LIABILITIES	
Accounts payable Long-term obligations:	224,548
Due within one year	1,640,186
Due in more than one year	3,308,716
TOTAL LIABILITIES	5,173,450
NET ASSETS	
Invested in capital assets	16,592,397
Restricted for debt service	1,656,060
Unrestricted	1,269,250
TOTAL NET ASSETS	\$ 19,517,707

(A Component Unit of the City of Lincoln City, Oregon)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

	Governmental Activities
PROGRAM EXPENSES: General government Interest on long-term obligations	\$ 1,343,954 248,108
TOTAL PROGRAM EXPENSES	1,592,062
GENERAL REVENUES: Property taxes levied for debt service Unrestricted investment earnings Miscellaneous	2,932,290 20,223 14,670
TOTAL GENERAL REVENUES	2,967,183
CHANGES IN NET ASSETS	1,375,121
NET ASSETS, beginning of year	18,142,586
NET ASSETS, end of year	\$ 19,517,707

(A Component Unit of the City of Lincoln City, Oregon)

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2011

ASSETS:		General	R	Property ehabilitation Program	 Tax Increment	 Totals
Cash and investments Cash with County Treasurer Receivables	\$	1,693,377	\$	651,028 - 552,462	\$ 1,629,673 26,387 290,308	\$ 3,974,078 26,387 842,770
TOTAL ASSETS	\$	1,693,377	\$	1,203,490	\$ 1,946,368	\$ 4,843,235
LIABILITIES: Accounts payable Deferred revenue	\$	224,548	\$	-	\$ 290,308	\$ 224,548 290,308
TOTAL LIABLILITES		224,548		_	 290,308	 514,856
FUND BALANCE: Nonspendable in form Restricted for: Capital projects Debt service		1,468,829 		497,216 706,274	- - 1,656,060	497,216 2,175,103 1,656,060
TOTAL FUND BALANCE		1,468,829		1,203,490	 1,656,060	 4,328,379
TOTAL LIABILITIES AND FUND BALANCE		1,693,377	\$	1,203,490	\$ 1,946,368	
RECONCILIATION OF FUND BALANCE TO NET ASSETS Capital assets used in governmental activities are not fina		resources and	d the	erefore		
are not reported in the funds net of accumulated deprecial Other long-term assets are not available for current-period are deferred in the funds	ation	of \$6,875,866				19,847,922 290,308
Long-term obligations are not due and payable in the curre are not reported in the funds.	ent p	eriod and there	efore	Э		 (4,948,902)
TOTAL NET ASSETS						\$ 19,517,707

(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, 2011

	General	Property Rehabilitation Program	Tax Increment	Totals
REVENUES:				
Property taxes	\$	- \$ -	\$ 2,905,702	\$ 2,905,702
Rents	14,670	-	-	14,670
Interest on investments	7,180	2,967	10,076	20,223
TOTAL REVENUES	21,850	2,967	2,915,778	2,940,595
EXPENDITURES:				
Personal services	214,486	-	-	214,486
Materials and services	214,293	-	-	214,293
Debt service	768,806	-	3,821,740	4,590,546
Capital outlay	768,855	5 779		769,634
TOTAL EXPENDITURES	1,966,440	779	3,821,740	5,788,959
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,944,590	2,188	(905,962)	(2,848,364)
OTHER FINANCING SOURCE: Proceeds from short-term debt	2,000,000	<u> </u>		2,000,000
TOTAL OTHER FINANCING SOURCE	2,000,000	<u> </u>		2,000,000
NET CHANGE IN FUND BALANCE	55,410	2,188	(905,962)	(848,364)
FUND BALANCE, beginning of year, as reported	1,413,419	597,508	2,562,022	4,572,949
Restatement - Note 8		603,794		603,794
FUND BALANCE, beginning of year, as restated	1,413,419	1,201,302	2,562,022	5,176,743
FUND BALANCE, end of year	\$ 1,468,829	\$ 1,203,490	\$ 1,656,060	\$ 4,328,379

(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, 2011

CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (848,364)
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	767,855
Less current year depreciation	(894,597)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds as follows: Taxes	26,588
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Bond proceeds	(2,000,000)
Principal payments	4,323,639
· ····································	 1,020,000
TOTAL CHANGE IN NET ASSETS	\$ 1,375,121



(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

1. 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 projects.
- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 tax increment revenues (property taxes) and proceeds from borrowings.

(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

2. 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.

(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

2. 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.

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, 2011, for compliance with Oregon Revised Statutes relating to the collateralization of deposits and categorization of investments.

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.

Contracts/Loans Receivable

The Agency makes loans to third parties for rehabilitation of properties consistent with the Agency's mission. Loans receivable are recorded when the borrower has signed a promissory note and disbursements are made in accordance with the loan agreement. As the City obtains liens against the properties, no allowance for uncollectible accounts is deemed necessary.

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.

(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

2. <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</u>

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

Asset	Years
Buildings	25-40
Urban renewal projects	25-40
System improvements	25-40
Vehicles	5-10
Equipment and furniture	5-10

Fund Equity

In March 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund-type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this Standard, the prior fund balance classifications of reserved, designated and unreserved/undesignated were replaced with five new classifications – nonspendable, restricted, committed, assigned, and unassigned.

- <u>Nonspendable fund balance</u> represents amounts that are not in a spendable form. The nonspendable fund balance represents the long-term portion of receivables.
- <u>Restricted fund balance</u> represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- <u>Committed fund balance</u> represents funds formally set aside by the Agency's Board for a particular purpose. The Board may commit fund balance by resolution. The Board may also modify or rescind commitments by resolution.
- <u>Assigned fund balance</u> represents amounts that are constrained by the expressed intent
 to use resources for specific purposes that do not meet the criteria to be classified as
 restricted or committed. Intent can be stipulated by the Board or by an official to whom
 that authority has been given by the governing body. Both the City Manager and the
 Finance Director have been given this authority by the Board.
- <u>Unassigned fund balance</u> is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity (Continued)

The Board of Directors has approved the following order of spending regarding fund balance categories: Restricted resources are spent first when both restricted and unrestricted (committed, assigned or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed (if applicable), assigned (if applicable) and lastly, unassigned fund balance.

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.

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.

(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

3. RECEIVABLES

The Agency's receivables at June 30, 2011 are shown below:

	Re	Property Rehabilitation Tax Program Increment			 Totals
Rehabilitation loans Property taxes	\$	552,462	\$	- 290,308	\$ 552,462 290,308
Totals	\$	552,462	\$	290,308	\$ 842,770

Rehabilitation loans receivable are comprised of loans to qualified borrowers for the rehabilitation and restoration of single family and multi-family residences, collateralized by real property, and commercial loans to small business to promote economic development, which are collateralized by personal property. Net loans receivable are as follows:

	Maximum	Interest	Loans
Fund and Program	Term	Rate	Receivable
Major funds:			
Property Rehabilitation Fund:			
Urban development:			
Rehabiliation loans	10 years	0%	\$ 552,462

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	 Balance July 1, 2010	Increases		Decreases		J۱	Balance une 30, 2011
Capital assets not being depreciated:							
Land	\$ 5,996,892	\$	-	\$	_	\$	5,996,892
Construction in progress	 63,179		490,954		(23,184)		530,949
Total capital assets not being depreciated	\$ 6,060,071	\$	490,954	\$	(23,184)	\$	6,527,841
Capital assets being depreciated:							
Buildings	\$ 1,757,559	\$	-	\$	-	\$	1,757,559
Urban renewal projects	1,457,538		-		-		1,457,538
System improvements	16,603,826		300,085		-		16,903,911
Vehicles	19,581		-		-		19,581
Equipment and furniture	27,108		-		-		27,108
Books and art	 30,250		-		-		30,250
Total capital assets being depreciated	19,895,862		300,085		-		20,195,947
Less accumulated depreciation	 (5,981,269)		(894,597)		-		(6,875,866)
Total capital assets being depreciated, net	\$ 13,914,593	\$	(594,512)	\$	_	\$	13,320,081

(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

5 DEFERRED REVENUE

Resources owned by the Agency, which are measurable but not available, and are therefore deferred in the funds, consist of property taxes in the Tax Increment Fund of \$290,308.

6. LONG-TERM OBLIGATIONS

	Balance June 30, 2010	Additions	Reductions	Balances June 30, 2011	Due within one year
Tax Increment Bonds Urban Renewal Bonds, Series 2002 Original issue amount \$5 million, final maturity June 2014, interest at 4.0 percent Principal	\$ 1,184,642	\$ -	\$ 322,209	\$ 862,433	\$ 334,960
Urban Renewal Bonds, Series 2003 Original issue amount \$3 million, final maturity December 2013, interest at 3.9 percent Principal	2,241,222	-	527,308	1,713,914	548,718
Urban Renewal Bonds, Series 2007 Original issue amount \$5 million, final maturity June 2014, interest at 4.40 percent Principal	3,096,672	<u>-</u>	724,117	2,372,555	756,508
Urban Renewal Bonds, Series 2010 Short-Term Subordinate Bond Original issue amount \$2 million, final maturity December 2010, interest at 3.25 percent Principal		2,000,000	2,000,000	-	-
2005 Contract payable - Lincoln County School Original contract amount \$1.6 million, paid off during fiscal year 2011 District interest from 3.0 to 5.0 perce Principal	ent 750,005		750,005		
<u>-</u>	\$ 7,272,541	\$ 2,000,000	\$ 4,323,639	\$ 4,948,902	\$ 1,640,186

The future maturities of all obligations outstanding as of June 30, 2011 are as follows:

						Urban Ken	ewa	Bonds							
Fiscal		Serie	s 200	2		Series	es 2003 Series 2007				Totals				
Year	Ī	Principal		Interest		Principal		Interest Principal Interest			Principal		Interest		
2012	\$	334,960	\$	28,775	\$	548,718	\$	60,393	\$	756,508	\$ 92,024	\$	1,640,186	\$	181,192
2013		348,215		15,519		570,999		38,113		790,347	58,184		1,709,561		111,816
2014		179,258		2,626		594,197		14,928		825,700	 22,831		1,599,155		40,385
	\$	862,433	\$	46,920	\$	1,713,914	\$	113,434	\$	2,372,555	\$ 173,039	\$	4,948,902	\$	333,393

(A Component Unit of the City of Lincoln City, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

7. 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, 2011 were \$107,032.

8. RESTATEMENT - GOVERNMENTAL FUNDS

In the prior year, the Agency reported deferred revenue as an offset to rehabilitation loans receivable. In a change of policy the Agency has restated beginning fund balance to remove the effects of reporting the deferred revenue. The impact of the restatement is to increase beginning fund balance by \$603,794.

9. RECLASSIFICATION OF BEGINNING FUND BALANCE

As a result of the implementation of GASB Statement No. 54, the Agency has reclassified its July 1, 2010 fund balances to reflect the retrospective classification of fund balance to the categories introduced by the Statement. The following discloses the reclassification of fund balances as of the beginning of the fiscal year:

	General Fund	Property Rehabilitation Fund	Tax Increment Fund	Total
Fund balances at July 1, 2010 as previously reported: Unreserved	\$ 1,413,419	\$ 597,508	\$ 2,562,022	\$ 4,572,949
Restatement - Note 8		603,794		603,794
Unreserved, as restated	\$ 1,413,419	\$ 1,201,302	\$ 2,562,022	\$ 5,176,743
Fund balances at July 1, 2010 as reclassified: Nonspendable in form Restricted for capital projects Restricted for debt service	\$ - 1,413,419 -	\$ 543,415 657,887	\$ - - 2,562,022	\$ 543,415 2,071,306 2,562,022
	\$ 1,413,419	\$ 1,201,302	\$ 2,562,022	\$ 5,176,743



(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, 2011

								riance with nal Budget	
		Bud	lget					Positive	
	Original			Final		Actual	(Negative)		
REVENUES:									
Rents	\$	33,600	\$	33,600	\$	14,670	\$	(18,930)	
Interest on investments		16,000		16,000		7,180		(8,820)	
TOTAL REVENUES		49,600		49,600		21,850		(27,750)	
EXPENDITURES:									
Personal services		236,462		236,462		214,486		21,976	
Materials and services		279,503		279,503		214,293		65,210	
Capital outlay		2,488,516		2,116,526		768,855		1,347,671	
Debt service		410,000		781,990		768,806		13,184	
TOTAL EXPENDITURES		3,414,481		3,414,481		1,966,440		1,448,041	
EXCESS OF EXPENDITURES OVER REVENUES		(3,364,881)		(3,364,881)		(1,944,590)		1,420,291	
OTHER FINANCING SOURCE:									
Proceeds from short-term debt		2,000,000		2,000,000		2,000,000		-	
NET CHANGE IN FUND BALANCE		(1,364,881)		(1,364,881)		55,410		1,420,291	
FUND BALANCE, beginning of year		1,364,881		1,364,881		1,413,419		48,538	
FUND BALANCE, end of year	\$	<u>-</u>	\$		_\$_	1,468,829	\$_	1,468,829	

(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, 2011

	Budget Original and Final			Actual	Fin	iance with al Budget Positive legative)
REVENUES:						
Loan repayments	\$	120,000	\$	151,332	\$	31,332
Interest on investments		4,500		2,967		(1,533)
TOTAL REVENUES		124,500		154,299		29,799
EXPENDITURES:						
Capital outlay		727,416		100,779		626,637
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND CHANGE IN FUND BALANCE		(602,916)		53,520		656,436
FUND BALANCE, beginning of year		602,916		597,508		(5,408)
FUND BALANCE, end of year	\$	-	\$	651,028	\$	651,028
Fund balance - budgetary basis			\$	651,028		
Balance of loans outstanding				552,462		
Fund balance - GAAP			\$	1,203,490		

(A Component Unit of the City of Lincoln City, Oregon)

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

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. One appropriation transfer was made during the year. All annual appropriations lapse at fiscal year end.



(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, 2011

			Va	riance with	
	Budget		Fi	nal Budget	
	Original			Positive	
	 and Final	 Actual	(Negative)		
REVENUES:					
Property taxes	\$ 2,868,405	\$ 2,905,702	\$	37,297	
Interest on investments	 15,600	 10,076		(5,524)	
TOTAL REVENUES	2,884,005	 2,915,778		31,773	
EXPENDITURES:		0.001.710			
Debt service	 4,170,234	 3,821,740		348,494	
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(1,286,229)	(905,962)		380,267	
OTHER FINANCING USE:					
Bond reserves	 1,300,000	 -		1,300,000	
NET CHANGE IN FUND BALANCE	(2,586,229)	(905,962)		1,680,267	
FUND BALANCE, beginning of year	 2,586,229	 2,562,022		(24,207)	
FUND BALANCE, end of year	\$ _	\$ 1,656,060	\$	1,656,060	

(A Component Unit of the City of Lincoln City, Oregon)

PROPERTY TAX TRANSACTIONS

YEAR ENDED JUNE 30, 2011

					et Interest Discount)		
		Balance ly 1, 2010	Levy	`	and justments	 Collections	Balance e 30, 2011
Current	2010-11	\$ -	\$ 3,004,125	\$	(77,644)	\$ 2,768,245	\$ 158,236
Prior	2009-12	150,682	-		2,418	79,210	73,890
	2008-09	67,441	-		135	31,538	36,038
	2007-08	30,060	-		27	23,099	6,988
	Prior	 15,185	 -		3,232	 3,261	 15,156
Totals		\$ 263,368	\$ 3,004,125	\$	(71,832)	\$ 2,905,353	\$ 290,308



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 2011-12

	GENERAL <u>FUND</u>	11	TAX NCREMENT FUND		PROPERTY REHABILITATION <u>FUND</u>
REVENUE					
Estimated Beginning					
Balance	\$ 1,460,748	\$	1,635,176	\$	641,828
Interest	5,000		15,500		2,700
Loan Repayments					130,000
Transfers In					
Tax Increment Proceeds			2,982,168		
Other Income	3,600				
Bond Sales	 			-	44
Total Revenue	\$ 1,469,348	\$	4,632,844	\$	774,528
EXPENDITURES					
Personal Services	\$ 244,599				
Materials & Services	314,766				
Capital Outlay	909,983				350,000
Reserve For Future Years			1,300,000		
Property Rehabilitation					424,528
Debt Service	 		3,332,844		
Total Expenditures	\$ 1,469,348	\$	4,632,844	\$	774,528

LINCOLN CITY URBAN RENEWAL AGENCY REVENUE AND EXPENDITURES FISCAL YEAR 2010-11

REVENUE	 GENERAL FUND	1	TAX NCREMENT <u>FUND</u>	PROPERTY HABILITATION FUND
Beginning Balance Interest Loan Repayments Transfers In	\$ 1,413,422 7,180	\$	2,562,021 10,076	\$ 597,507 2,967 151,332
Tax Increment Proceeds			2,905,701	
Grants/Other Revenue	14,670			
Bond Sales	 2,000,000			
Total Revenue EXPENDITURES	\$ 3,435,272	\$	5,477,798	\$ 751,806
Personal Services	\$ 214,245			
Materials & Services	214,242			
Capital Outlay	768,855			
Transfers				
Property Rehabilitation				100,779
Debt Service	 768,806		3,821,739	
Total Expenditures	\$ 1,966,148	\$	3,821,739	\$ 100,779
ENDING FUND BALANCE	\$ 1,469,124	\$	1,656,059	\$ 651,027

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, 2011 amounted to \$4,948,872.

IN CARRYING OUT THE URBAN RENEWAL PLAN, PROPERTY TAX COLLECTIONS OF THE OTHER TAXING DISTRICTS FOR 2010-11 ARE AFFECTED AS FOLLOWS:

	 TAXES IMPOSED WITH URBAN	 TAXES IMPOSED WITHOUT URBAN		URBAN RENEWAL
TAXING DISTRICT	RENEWAL	RENEWAL	TA	XES IMPOSED
Lincoln County School District	\$ 5,640,695	\$ 6,775,579	\$	1,134,884
Linn-Benton-Lincoln ESD	303,898	365,041		61,143
Oregon Coast Community College	175,122	210,356		35,234
City of Lincoln City	4,386,034	5,268,485		882,451
North Lincoln Fire/Rescue	831,358	998,624		167,266
Lincoln County General	2,810,929	3,376,476		565,547
Lincoln County Extension	44,952	53,996		9,044
North Lincoln Hospital	516,696	620,653		103,957
Lincoln County Transportation	97,080	116,612		19,532
Devils Lake Water - Inside	66,577	67,083		506
Devils Lake Water - Outside	93,199	118,608		25,409
TOTALS	\$ 14,966,540	\$ 17,971,513	\$	3,004,973

⁽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

December 23, 2011

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

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, 2011, and have issued our report thereon dated December 23, 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 (ORS) 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 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

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

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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 opinion 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