

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

Annual Financial Report

Year Ended June 30, 2012

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

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

AGENCY OFFICIALS

JUNE 30, 2012

	<u>Term Expires</u>
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

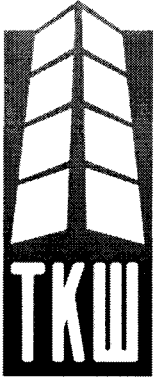
David Hawker

Finance Director

Debbie Mammone

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INDEPENDENT AUDITOR'S REPORT



Talbot, Korvola
& Warwick, LLP

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& Consultants

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INDEPENDENT AUDITOR'S REPORT

December 6, 2012

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, 2012, 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally

INDEPENDENT AUDITOR'S REPORT (Continued)


Lincoln City Urban Renewal Agency
(A component unit of City of Lincoln City)
December 6, 2012

accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 budgetary comparison information for the General Fund and Property Rehabilitation Fund, listed in the Table of Contents as Required Supplementary Information, is not a required part of the basic financial statements and is presented for purposes of additional analysis as required by the Governmental Accounting Standards Board, who considers it to be an essential part of basic financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing procedures generally accepted in the United States of America. In our opinion, the information 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Other Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing procedures generally accepted in the United States of America. In our opinion, the Other Supplementary Information 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

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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, 2012. 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, 2012 were \$21,105,296, an increase of \$1,587,589 in comparison with the prior year. Short-term liabilities decreased by \$219,989 in comparison with the prior year. (The prior year was unusually high due to an outstanding accounts payable invoice for construction work). Long-term liabilities decreased by \$2,167,658. Governmental activities revenue increased \$69,604, due to increases in property tax revenue, and governmental expenses decreased \$142,864, primarily due to decreases in interest expense and materials and services.

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 \$21,105,296 at the close of the fiscal year ended June 30, 2012. This is an increase of \$1,587,589 (or 8.1%), due primarily to a reduction of long-term debt.

STATEMENT OF NET ASSETS

	<u>Years Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Assets:		
Cash and investments	\$ 3,878,432	\$ 4,000,465
Receivables	775,911	842,770
Capital Assets	<u>19,236,756</u>	<u>19,847,922</u>
Total Assets	<u>23,891,099</u>	<u>24,691,157</u>
Liabilities:		
Other liabilities	4,559	224,548
Long-term debt outstanding	<u>2,781,244</u>	<u>4,948,902</u>
Total Liabilities	<u>2,785,803</u>	<u>5,173,450</u>
Net Assets:		
Invested in capital assets, net of related debt	16,455,512	16,592,397
Restricted for capital project	1,553,025	0
Restricted for debt service	2,320,849	1,656,060
Unrestricted	<u>775,910</u>	<u>1,269,250</u>
Total Net Assets	<u>\$ 21,105,296</u>	<u>\$ 19,517,707</u>

Statement of Activities

Total revenues increased by \$69,604 (or 2.3%), largely due to an increase in property tax revenues. Total expenditures decreased by \$8,605. Taxable assessed value increased 2.5%.

STATEMENT OF ACTIVITIES

	<u>Years Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
General revenues:		
Property taxes levied for debt service	\$ 3,012,431	\$ 2,932,290
Interest	18,455	20,223
Other	<u>5,901</u>	<u>14,670</u>
Total Revenues	<u>3,036,787</u>	<u>2,967,183</u>
Expenses:		
General government	1,280,767	1,343,954
Interest on long-term obligations	<u>168,431</u>	<u>248,108</u>
Total expenses	<u>1,449,198</u>	<u>1,592,062</u>
Change in Net Assets	1,587,589	1,375,121
Net Assets - beginning	<u>19,517,707</u>	<u>18,142,586</u>
Net Assets - ending	<u>\$ 21,105,296</u>	<u>\$ 19,517,707</u>

BUDGET HIGHLIGHTS

There were no changes made to the General Fund Budget during the year. The budgets for the years ended June 30, 2011 and 2012, were prepared and adopted in compliance with legal requirements.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year ending June 30, 2012, the Agency had invested \$19,236,756 in a broad range of capital assets, including land, buildings and infrastructure improvements. This amount represents a net decrease (including additions and deductions) of \$611,166 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

	<u>Years Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 26,723,788	\$ 25,955,933
Less: accumulated depreciation	<u>(6,875,866)</u>	<u>(5,981,270)</u>
Net capital assets - beginning	19,847,922	19,974,664
Additions (net)	272,935	767,855
Depreciation - current year	<u>(884,101)</u>	<u>(894,597)</u>
Net capital assets - ending	<u>\$ 19,236,756</u>	<u>\$ 19,847,922</u>

For the fiscal year ending June 30, 2013, the City's Urban Renewal Agency had budgeted \$500,000 for property acquisition and \$2,904,331 for capital projects, related primarily to:

- Nelscott Renovation Project (Marview)
- D-River Lake Access
- Cutler City Planning
- Sidewalk Construction
- Property Rehab and Economic Development Programs

LONG-TERM DEBT

The Lincoln City Urban Renewal Agency did not issue any long-term debt during the fiscal year. 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 Bank of America. The Agency repaid \$2,167,658 in principal during the year. The Agency’s outstanding debt decreased from \$4,948,902 to \$2,781,244. Additional information on long-term obligations may be found in Note 6 to the financial statements.

The Agency has budgeted to issue \$2,500,000 in bonds during the fiscal year ending June 30, 2013.

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, 2012, 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 available at the Driftwood Library and are also available on the City's website at www.lincolncity.org.

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BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS

JUNE 30, 2012

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 3,845,958
Cash with County Treasurer	32,475
Receivables	<u>312,684</u>

TOTAL CURRENT ASSETS

4,191,117

NON-CURRENT ASSET:

Note receivable, long term	<u>463,226</u>
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CAPITAL ASSETS:

Land, improvements and construction in progress	6,029,764
Other capital assets, net	<u>13,206,992</u>

TOTAL CAPITAL ASSETS

19,236,756

TOTAL ASSETS

23,891,099

LIABILITIES

Accounts payable	4,559
Long-term obligations:	
Due within one year	1,361,347
Due in more than one year	<u>1,419,897</u>

TOTAL LIABILITIES

2,785,803

NET ASSETS

Invested in capital assets, net of related debt	16,455,512
Restricted for capital projects	1,553,025
Restricted for debt service	2,320,849
Unrestricted	<u>775,910</u>

TOTAL NET ASSETS

\$ 21,105,296

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, 2012

	<u>Governmental Activities</u>
PROGRAM EXPENSES:	
General government	\$ 1,280,767
Interest on long-term obligations	<u>168,431</u>
TOTAL PROGRAM EXPENSES	<u>1,449,198</u>
GENERAL REVENUES:	
Property taxes levied for debt service	3,012,431
Unrestricted investment earnings	18,455
Miscellaneous	<u>5,901</u>
TOTAL GENERAL REVENUES	<u>3,036,787</u>
CHANGES IN NET ASSETS	1,587,589
NET ASSETS, beginning of year	<u>19,517,707</u>
NET ASSETS, end of year	<u>\$ 21,105,296</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, 2012

	General	Property Rehabilitation Program	Tax Increment	Totals
ASSETS:				
Cash and investments	\$ 814,744	\$ 742,840	\$ 2,288,374	\$ 3,845,958
Cash with County Treasurer	-	-	32,475	32,475
Receivables	-	463,226	312,684	775,910
TOTAL ASSETS	\$ 814,744	\$ 1,206,066	\$ 2,633,533	4,654,343
LIABILITIES:				
Accounts payable	\$ 4,559	\$ -	\$ -	4,559
Deferred revenue	-	-	312,684	312,684
TOTAL LIABILITIES	4,559	-	312,684	317,243
FUND BALANCE:				
Nonspendable in form	-	463,226	-	463,226
Restricted for:				
Capital projects	810,185	742,840	-	1,553,025
Debt service	-	-	2,320,849	2,320,849
TOTAL FUND BALANCE	810,185	1,206,066	2,320,849	4,337,100
TOTAL LIABILITIES AND FUND BALANCE	\$ 814,744	\$ 1,206,066	\$ 2,633,533	
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 \$6,875,866.				19,236,756
Other long-term assets are not available for current-period expenditures and therefore are deferred in the funds.				312,684
Long-term obligations are not due and payable in the current period and therefore are not reported in the funds.				(2,781,244)
TOTAL NET ASSETS				\$ 21,105,296

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, 2012

	General	Property Rehabilitation Program	Tax Increment	Totals
REVENUES:				
Property taxes	\$ -	\$ -	\$ 2,990,055	\$ 2,990,055
Rents	5,901	-	-	5,901
Interest on investments	5,055	2,576	10,824	18,455
TOTAL REVENUES	10,956	2,576	3,000,879	3,014,411
EXPENDITURES:				
Personal services	218,816	-	-	218,816
Materials and services	177,849	-	-	177,849
Debt service	-	-	2,336,090	2,336,090
Capital outlay	272,935	-	-	272,935
TOTAL EXPENDITURES	669,600	-	2,336,090	3,005,690
NET CHANGE IN FUND BALANCE	(658,644)	2,576	664,789	8,721
FUND BALANCE, beginning of year	1,468,829	1,203,490	1,656,060	4,328,379
FUND BALANCE, end of year	\$ 810,185	\$ 1,206,066	\$ 2,320,849	\$ 4,337,100

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, 2012

CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 8,721

*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	272,935
Less current year depreciation	(884,101)

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

Taxes	22,376
-------	--------

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

<u>2,167,658</u>

TOTAL CHANGE IN NET ASSETS \$ 1,587,589

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, 2012

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.

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, 2012

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.

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, 2012

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, unrestricted resources are used only after the restricted 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, 2012, 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.

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, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

<u>Asset</u>	<u>Years</u>
Buildings	25-40
System improvements	25-40
Vehicles	5-10
Equipment and furniture	5-10

Fund Equity

Fund balance is reported within classifications that comprise a hierarchy based primarily on the extent to which the Agency is bound to observe constraints imposed on the use of the resources reported in governmental funds. Those classifications are as follows:

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents the long-term portion of receivables.
- Restricted fund balance 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).
- Committed fund balance 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.
- Assigned fund balance 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.
- Unassigned fund balance 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 residual fund deficit as unassigned.

The Agency Officials have 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.

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, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2012

3. RECEIVABLES

The Agency's receivables at June 30, 2012 are shown below:

	Property Rehabilitation Program	Tax Increment	Totals
Rehabilitation loans	\$ 463,226	\$ -	\$ 463,226
Property taxes	-	312,684	312,684
Totals	\$ 463,226	\$ 312,684	\$ 775,910

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:

<u>Fund and Program</u>	<u>Maximum Term</u>	<u>Interest Rate</u>	<u>Loans Receivable</u>
Major funds:			
Property Rehabilitation Fund:			
Urban development:			
Rehabilitation loans	10 years	0%	\$ 463,226

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 5,996,892	\$ -	\$ -	\$ 5,996,892
Construction in progress	530,949	241,835	(739,912)	32,872
Total capital assets not being depreciated	<u>\$ 6,527,841</u>	<u>\$ 241,835</u>	<u>\$ (739,912)</u>	<u>\$ 6,029,764</u>
Capital assets being depreciated:				
Buildings	\$ 1,757,559	\$ -	\$ -	\$ 1,757,559
System improvements	18,361,449	771,012	-	19,132,461
Vehicles	19,581	-	-	19,581
Equipment and furniture	27,108	-	(7,258)	19,850
Books and art	30,250	-	-	30,250
Total capital assets being depreciated	20,195,947	771,012	(7,258)	20,959,701
Less accumulated depreciation	(6,875,866)	(884,101)	7,258	(7,752,709)
Total capital assets being depreciated, net	<u>\$ 13,320,081</u>	<u>\$ (113,089)</u>	<u>\$ -</u>	<u>\$ 13,206,992</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, 2012

5 DEFERRED REVENUE

Resources of the Agency, which are measurable but not available, and are therefore deferred in the funds, relate to property taxes receivable in the Tax Increment Fund of \$312,684.

6. LONG-TERM OBLIGATIONS

	Balance June 30, 2011	Additions	Reductions	Balances June 30, 2012	Due within one year
<u>Tax Increment Bonds</u>					
Urban Renewal Bonds, Series 2003 Original issue amount \$3 million, paid off during 2012, interest at 3.9 percent Principal	\$ 862,433	\$ -	\$ 862,433	\$ -	\$ -
Urban Renewal Bonds, Series 2004 Original issue amount \$5 million, final maturity June 2014, interest at 4.0 percent Principal	1,713,914	-	548,718	1,165,196	570,999
Urban Renewal Bonds, Series 2007 Original issue amount \$5 million, final maturity June 2014, interest at 4.40 percent Principal	2,372,555	-	756,507	1,616,048	790,348
	<u>\$ 4,948,902</u>	<u>\$ -</u>	<u>\$ 2,167,658</u>	<u>\$ 2,781,244</u>	<u>\$ 1,361,347</u>

The future maturities of all obligations outstanding as of June 30, 2012 are as follows:

Fiscal Year	Urban Renewal Bonds					
	Series 2004		Series 2007		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 570,999	\$ 38,113	\$ 790,348	\$ 58,184	\$ 1,361,347	\$ 96,297
2014	594,197	14,928	825,700	22,831	1,419,897	37,759
	<u>\$ 1,165,196</u>	<u>\$ 53,041</u>	<u>\$ 1,616,048</u>	<u>\$ 81,015</u>	<u>\$ 2,781,244</u>	<u>\$ 134,056</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, 2012

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, 2012 were \$105,148.

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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, 2012

	<u>Budget</u> Original and Final	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES:			
Rents	\$ 3,600	\$ 5,901	\$ 2,301
Interest on investments	5,000	5,055	55
TOTAL REVENUES	<u>8,600</u>	<u>10,956</u>	<u>2,356</u>
EXPENDITURES:			
Personal services	244,599	218,816	25,783
Materials and services	314,766	177,849	136,917
Capital outlay	909,983	272,935	637,048
TOTAL EXPENDITURES	<u>1,469,348</u>	<u>669,600</u>	<u>799,748</u>
NET CHANGE IN FUND BALANCE	<u>(1,460,748)</u>	<u>(658,644)</u>	<u>802,104</u>
FUND BALANCE, beginning of year	<u>1,460,748</u>	<u>1,468,829</u>	<u>8,081</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ 810,185</u>	<u>\$ 810,185</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, 2012

	Budget Original and Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Loan repayments	\$ 130,000	\$ 119,736	\$ (10,264)
Interest on investments	2,700	2,576	(124)
TOTAL REVENUES	132,700	122,312	(10,388)
EXPENDITURES:			
Capital outlay	774,528	30,500	744,028
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND CHANGE IN FUND BALANCE	(641,828)	91,812	733,640
FUND BALANCE, beginning of year	641,828	651,028	9,200
FUND BALANCE, end of year	\$ -	\$ 742,840	\$ 742,840
Fund balance - budgetary basis		\$ 742,840	
Balance of loans outstanding		463,226	
Fund balance - GAAP		\$ 1,206,066	

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

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012

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. 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.

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, 2012

	Budget Original and Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Property taxes	\$ 2,982,168	\$ 2,990,055	\$ 7,887
Interest on investments	15,500	10,824	(4,676)
	TOTAL REVENUES	3,000,879	3,211
EXPENDITURES:			
Debt service	3,332,844	2,336,090	996,754
	EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	664,789	999,965
NET CHANGE IN FUND BALANCE	(335,176)	664,789	999,965
FUND BALANCE, beginning of year	1,635,176	1,656,060	20,884
FUND BALANCE, end of year	\$ 1,300,000	\$ 2,320,849	\$ 1,020,849

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

PROPERTY TAX TRANSACTIONS

YEAR ENDED JUNE 30, 2012

		Balance July 1, 2011	Levy	Net Interest (Discount) and Adjustments	Collections	Balance June 30, 2012
Current	2011-12	\$ -	\$ 3,076,710	\$ (76,968)	\$ 2,841,824	\$ 157,918
Prior	2010-11	159,855	-	3,272	78,940	84,187
	2009-10	72,655	-	3,993	29,029	47,619
	2008-09	39,673	-	4,900	28,143	16,430
	Prior	18,125	-	712	12,306	6,531
Totals		\$ 290,308	\$ 3,076,710	\$ (64,091)	\$ 2,990,242	\$ 312,685

**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 2012-13**

	<u>GENERAL FUND</u>	<u>TAX INCREMENT FUND</u>	<u>PROPERTY REHABILITATION FUND</u>
REVENUE			
Estimated Beginning Balance	\$ 770,927	\$ 2,298,969	\$ 743,127
Interest	7,000	5,500	2,500
Loan Repayments			120,000
Transfers In			
Tax Increment Proceeds		2,912,755	
Other Income	6,000		
Bond Sales	2,500,000		
Total Revenue	\$ 3,283,927	\$ 5,217,224	\$ 865,627
EXPENDITURES			
Personal Services	\$ 183,494		
Materials & Services	561,729		
Capital Outlay	2,538,704		400,000
Reserve For Future Years		1,000,000	
Property Rehabilitation			465,627
Debt Service		4,217,224	
Total Expenditures	\$ 3,283,927	\$ 5,217,224	\$ 865,627

LINCOLN CITY URBAN RENEWAL AGENCY
REVENUE AND EXPENDITURES
FISCAL YEAR 2011-12

	GENERAL FUND	TAX INCREMENT FUND	PROPERTY REHABILITATION FUND
REVENUE			
Beginning Balance	\$ 1,468,829	\$ 1,656,059	\$ 651,028
Interest	5,055	10,824	2,576
Loan Repayments			119,736
Transfers In			
Tax Increment Proceeds		2,990,055	
Grants/Other Revenue	5,901		
Bond Sales			
Total Revenue	\$ 1,479,785	\$ 4,656,938	\$ 773,340
EXPENDITURES			
Personal Services	\$ 218,816		
Materials & Services	177,849		
Capital Outlay	272,935		
Transfers			
Property Rehabilitation			30,500
Debt Service		2,336,090	
Total Expenditures	\$ 669,600	\$ 2,336,090	\$ 30,500
ENDING FUND BALANCE	\$ 810,185	\$ 2,320,848	\$ 742,840

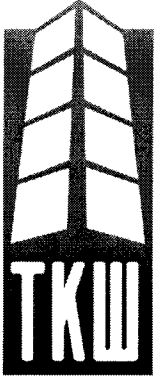
The Tax Increment Proceeds (revenue) received by the Agency are used to pay for indebtedness incurred in carrying out the Urban Renewal Plan. The outstanding obligations of the Lincoln City Urban Renewal Agency as of June 30, 2012 amounted to \$ 2,915,286.

**IN CARRYING OUT THE URBAN RENEWAL PLAN,
PROPERTY TAX COLLECTIONS
OF THE OTHER TAXING DISTRICTS FOR 2011-12
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	\$ 5,769,239	\$ 6,932,345	\$ 1,163,106
Linn-Benton-Lincoln ESD	310,971	373,665	62,694
Oregon Coast Community College	179,199	215,326	36,127
City of Lincoln City	4,481,191	5,384,621	903,430
North Lincoln Fire/Rescue	842,958	1,012,902	169,944
Lincoln County General	2,876,358	3,456,246	579,888
Lincoln County Extension	45,998	55,271	9,273
North Lincoln Hospital	528,723	635,316	106,593
Lincoln County Transportation	99,340	119,367	20,027
Devils Lake Water - Inside	68,148	68,672	524
Devils Lake Water - Outside	95,357	121,408	26,051
TOTALS	\$ 15,297,482	\$ 18,375,139	\$ 3,077,657

(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**



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INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

December 6, 2012

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, 2012, and have issued our report thereon dated December 6, 2012. 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)**

COMPLIANCE (Continued)

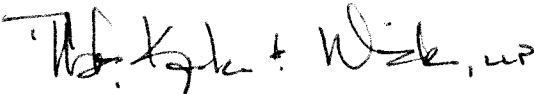
Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

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

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