

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

Annual Financial Report

Year Ended June 30, 2015

**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, 2015**

	<u>Term Expires</u>
Roger Sprague (Chair) PO Box 286 Lincoln City, Oregon 97367	December 31, 2016
Susan Wahlke PO Box 1018 Lincoln City, Oregon 97367	December 31, 2018
Don Williams 2625 SE Dune Ave Lincoln City, Oregon 97367	December 31, 2018
James Davis 1292 NE Pepperwood. Lincoln City, Oregon 97367	December 31, 2018
Kip Ward PO Box 552 Lincoln City, Oregon 97367	December 31, 2018
Chester Noreikis 1421 NW 19 <sup>th</sup> Lincoln City, Oregon 97367	December 31, 2016
Wes Ryan 2820 NE 45 <sup>th</sup> St Lincoln City, Oregon 97367	December 31, 2016

**City Manager**

Ronald Chandler

**Finance Director**

Debbie Mammone

**INDEPENDENT AUDITOR'S REPORT**



Talbot, Korvola  
& Warwick, LLP

Certified Public Accountants  
& Consultants

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## INDEPENDENT AUDITOR'S REPORT

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

### REPORT ON THE FINANCIAL STATEMENTS

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, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **INDEPENDENT AUDITOR'S REPORT (Continued)**

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

### **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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **OTHER MATTERS**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that 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 Management's Discussion and Analysis in accordance with auditing standards generally 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 budgetary comparison information for the General Fund and the Property Rehabilitation Program Fund, listed in the Table of Contents as Required Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison 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. Such 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 standards generally accepted in the United States of America. In our opinion, the Required Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### ***Other Supplementary Information***

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. The Other Supplementary Information is

**INDEPENDENT AUDITOR'S REPORT (Continued)**

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

**OTHER MATTERS (Continued)**

***Other Supplementary Information (Continued)***

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. Such 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 standards 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 as a whole.

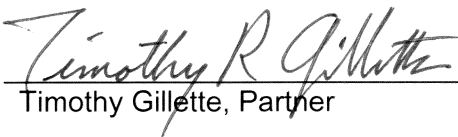
***Other Schedules***

The Other Schedules as listed in the Table of Contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**OTHER REPORTING REQUIRED BY OREGON MINIMUM STANDARDS**

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 31, 2015 on our consideration of the Agency's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

**TALBOT, KORVOLA & WARWICK, LLP**

By   
Timothy Gillette, Partner

Lake Oswego, Oregon  
December 31, 2015

**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, 2015. 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 position of the Agency (total assets less total liabilities) at June 30, 2015 was \$23,278,925, a decrease of \$681,328 in comparison with the prior year. Short-term liabilities decreased by \$88,899 in comparison with the prior year. Long-term liabilities decreased by \$975,575. Governmental expenses decreased by \$250,389 primarily due to the loss on disposal of capital assets in the prior fiscal year.

### 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 Position presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net position.
- The Statement of Activities present revenue and expense information showing how the Agency's net position 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, and a schedule of property tax transactions.

*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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

*Statement of Net Position*

Net position may serve as a useful indicator of a government's financial position. The Lincoln City Urban Renewal Agency's assets exceed liabilities by \$23,278,925 at the close of the fiscal year ended June 30, 2015. This is a decrease of \$681,328 (or -2.8%) from the prior fiscal year.

**STATEMENT OF NET POSITION**

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
<b>Assets:</b>		
Cash and investments	\$ 6,793,840	\$ 9,611,621
Receivables	531,054	537,565
Capital assets	<u>18,993,816</u>	<u>17,930,454</u>
 Total Assets	 <u>26,318,710</u>	 <u>28,079,640</u>
<b>Liabilities:</b>		
Other liabilities	15,360	119,387
Long-term debt outstanding	<u>3,024,425</u>	<u>4,000,000</u>
 Total Liabilities	 <u>3,039,785</u>	 <u>4,119,387</u>
<b>Net Position:</b>		
Invested in capital assets	18,271,166	17,930,454
Restricted for capital project	3,997,310	7,230,707
Restricted for urban renewal	842,961	-
Restricted for debt service	1,938,209	2,261,527
Unrestricted	<u>(1,770,721)</u>	<u>(3,462,435)</u>
 Total Net Position	 <u>\$ 23,278,925</u>	 <u>\$ 23,960,253</u>

*Statement of Activities*

In FY2013-14, the Lincoln City Urban Renewal Agency authorized a ten-year extension of the Urban Renewal District and levied 20 percent of the amount of its authority under option one of ORS 457.435(s)(a) for the retirement of long-term obligations, principal and interest, without making a special levy in 2014-15. Property taxes received in FY2014-15 of \$596,407 is a decrease from the prior fiscal year of \$2,282,630 (or -79.3%).

Total expenses decreased by \$250,389 (or -15.8%), primarily due to the loss on disposal of capital assets in the prior fiscal year. Taxable assessed value increased 3.3%.

**STATEMENT OF ACTIVITIES**

	<u>Years Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
<b>Revenues:</b>		
General revenues:		
Property taxes levied for debt service	\$ 596,407	\$ 2,879,037
Interest	37,983	24,541
Other	<u>17,791</u>	<u>10</u>
Total Revenues	<u>652,181</u>	<u>2,903,588</u>
 <b>Expenses:</b>		
General government	1,270,824	1,555,267
Interest on long-term obligations	<u>62,685</u>	<u>28,631</u>
Total expenses	<u>1,333,509</u>	<u>1,583,898</u>
Change in Net Position	(681,328)	1,319,690
Net Position - beginning	<u>23,960,253</u>	<u>22,640,563</u>
Net Position - ending	<u><u>\$ 23,278,925</u></u>	<u><u>\$ 23,960,253</u></u>

**BUDGET HIGHLIGHTS**

There were no changes made to the General Fund Budget during the year. The budgets for the years ended June 30, 2014 and 2015 were prepared and adopted in compliance with legal requirements.

## CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2015, the Agency had invested \$18,993,816 in a broad range of capital assets, including land, buildings and infrastructure improvements. This amount represents a net increase (including additions and deductions) of \$1,063,362 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. For further information, please refer to footnote 4 on page 20 in the Notes to the Basic Financial Statements.

### CHANGE IN CAPITAL ASSETS

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 27,421,779	\$ 27,111,974
Less: accumulated depreciation	<u>(9,491,325)</u>	<u>(8,673,454)</u>
Net capital assets - beginning	17,930,454	18,438,520
Additions (net)	1,950,156	375,858
Depreciation - current year	<u>(886,795)</u>	<u>(883,924)</u>
Net capital assets - ending	<u>\$ 18,993,816</u>	<u>\$ 17,930,454</u>

For the fiscal year ending June 30, 2016, the City's Urban Renewal Agency has budgeted \$2,214,650 for capital reserves, and \$1,413,435 for capital projects, related primarily to:

- S Bay Park/Bay Area Sidewalk
- West Devils Lake Road pump station and force main
- Purchase of Land
- Parking Lot Construction
- Jetty Realign Design
- Property Rehab and Economic Development Programs

### LONG-TERM DEBT

In 2014, the Agency entered into an intergovernmental agreement with Lincoln City (the City) to fund various URA projects. The City issued \$4,000,000 in full faith and credit notes, and the Agency has agreed to make the annual debt service payments under the same terms of the City's obligations. The Agency has recorded a note payable to the City for the \$4,000,000.

The Agency repaid \$975,575 in principal during the year. The Agency's outstanding obligations decreased from \$4,000,000 to \$3,024,425. 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, 2016.

## 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, 2015 there is \$2,975,000 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](http://www.lincolncity.org).

**BASIC FINANCIAL STATEMENTS**

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

**STATEMENT OF NET POSITION**

**JUNE 30, 2015**

**ASSETS**

Cash and investments	\$ 6,773,174
Cash with County Treasurer	20,666
Receivables	171,172
Notes receivable, long term	359,882
Land, improvements and construction in progress	6,219,895
Other capital assets, net	<u>12,773,921</u>
<b>TOTAL ASSETS</b>	<b><u>26,318,710</u></b>

**LIABILITIES**

Accounts payable	15,360
Notes Payable:	
Due within one year	990,703
Due in more than one year	<u>2,033,722</u>
<b>TOTAL LIABILITIES</b>	<b><u>3,039,785</u></b>

**NET POSITION**

Net investment in capital assets	18,271,166
Restricted for capital projects	3,997,310
Restricted for urban renewal	842,961
Restricted for debt service	1,938,209
Unrestricted	<u>(1,770,721)</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 23,278,925</u></b>

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, 2015**

	<u>Governmental Activities</u>
<b>PROGRAM EXPENSES:</b>	
General government	\$ 1,270,824
Interest on long-term obligations	<u>62,685</u>
<b>TOTAL PROGRAM EXPENSES</b>	<u>1,333,509</u>
<b>GENERAL REVENUES:</b>	
Property taxes levied for debt service	596,407
Unrestricted investment earnings	37,983
Miscellaneous	<u>17,791</u>
<b>TOTAL GENERAL REVENUES</b>	<u>652,181</u>
<b>CHANGE IN NET POSITION</b>	(681,328)
<b>NET POSITION, beginning of year</b>	<u>23,960,253</u>
<b>NET POSITION, end of year</b>	<u>\$ 23,278,925</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, 2015**

	General	Property Rehabilitation Program	Tax Increment	Totals
<b>ASSETS:</b>				
Cash and investments	\$ 4,012,670	\$ 842,961	\$ 1,917,543	\$ 6,773,174
Cash with County Treasurer	-	-	20,666	20,666
Receivables	-	359,882	171,172	531,054
	<b>\$ 4,012,670</b>	<b>\$ 1,202,843</b>	<b>\$ 2,109,381</b>	<b>\$ 7,324,894</b>
<b>LIABILITIES:</b>				
Accounts payable	\$ 15,360	\$ -	\$ -	\$ 15,360
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unavailable revenue - property taxes	-	-	171,172	171,172
<b>FUND BALANCE:</b>				
Nonspendable in form	-	359,882	-	359,882
Restricted for:				
Capital projects	3,997,310	-	-	3,997,310
Urban renewal	-	842,961	-	842,961
Debt service	-	-	1,938,209	1,938,209
	<b>3,997,310</b>	<b>1,202,843</b>	<b>1,938,209</b>	<b>7,138,362</b>
<b>TOTAL FUND BALANCE</b>	<b>3,997,310</b>	<b>1,202,843</b>	<b>1,938,209</b>	<b>7,138,362</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 4,012,670</b>	<b>\$ 1,202,843</b>	<b>\$ 2,109,381</b>	<b>\$ 7,324,894</b>
<b>RECONCILIATION OF FUND BALANCE TO NET POSITION:</b>				
Total fund balance				\$ 7,138,362
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds net of accumulated depreciation of \$10,378,120.				18,993,816
Property taxes are not available for current-period expenditures and therefore are in the funds as unavailable revenues.				171,172
Long-term obligations are not due and payable in the current period and therefore are not reported in the funds.				(3,024,425)
<b>TOTAL NET POSITION</b>				<b>\$ 23,278,925</b>

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, 2015**

	General	Property Rehabilitation Program	Tax Increment	Totals
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ 703,036	\$ 703,036
Interest on investments	22,388	3,689	11,906	37,983
Miscellaneous	17,791	-	-	17,791
	<b>TOTAL REVENUES</b>	3,689	714,942	758,810
<b>EXPENDITURES:</b>				
Personal services	154,738	-	-	154,738
Materials and services	242,922	11,934	-	254,856
Debt service	-	-	1,038,260	1,038,260
Capital outlay	1,924,592	-	-	1,924,592
	<b>TOTAL EXPENDITURES</b>	11,934	1,038,260	3,372,446
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND CHANGE IN FUND BALANCE</b>	<b>(2,282,073)</b>	<b>(8,245)</b>	<b>(323,318)</b>	<b>(2,613,636)</b>
<b>FUND BALANCE, beginning of year</b>	<b>6,279,383</b>	<b>1,211,088</b>	<b>2,261,527</b>	<b>9,751,998</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 3,997,310</b>	<b>\$ 1,202,843</b>	<b>\$ 1,938,209</b>	<b>\$ 7,138,362</b>

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, 2014**

<b>CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	\$ (2,613,636)
<i>Amounts reported for governmental activities in the Statement of Activities are different due to the following:</i>	
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	1,924,592
Less current year depreciation	(886,794)
The net effect of transactions involving capital assets, i.e, gain/loss on sales, donations. These transactions are not reported in the governmental funds.	25,564
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds as follows:	
Property Taxes	(106,629)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position	<u>975,575</u>
<b>TOTAL CHANGE IN NET POSITION</b>	<b><u>\$ (681,328)</u></b>

See notes to basic financial statements.

**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, 2015**

**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 Position 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, 2015**

**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 any 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 any 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, 2015**

**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 resources are available, unrestricted resources are used only after the restricted resources are depleted.

**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.

**Cash 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. All cash 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, 2015, for compliance with Oregon Revised Statutes relating to the collateralization of deposits.

**Receivables**

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.

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 Agency obtains liens against the properties, no allowance for uncollectible accounts is deemed necessary.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Capital Assets

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

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

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

### Deferred Inflows of Resources

The Agency reports a deferred inflow of resources in the fund statements related to unavailable revenues for property taxes that will be collected in future years.

### Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities. Bond premiums and discounts 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.

### 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).

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Fund Equity (Continued)**

- 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.

### **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.

### **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.

**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, 2015**

**3. RECEIVABLES**

The Agency's receivables at June 30, 2015, are shown below:

	Property Rehabilitation Program	Tax Increment	Totals
Rehabilitation loans	\$ 359,882	\$ -	\$ 359,882
Property taxes	-	171,172	171,172
<b>Totals</b>	<b>\$ 359,882</b>	<b>\$ 171,172</b>	<b>\$ 531,054</b>

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. Loans receivable are as follows:

<u>Fund and Program</u>	<u>Term</u>	<u>Rate</u>	<u>Receivable</u>
<b>Major funds:</b>			
Property Rehabilitation Fund:			
Urban development:			
Rehabilitation loans	10 years	0%	\$ 359,882

**4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$ 5,996,892	\$ -	\$ -	\$ 5,996,892
Construction in progress	327,587	1,643,946	(1,748,530)	223,003
Total capital assets not being depreciated	<u>\$ 6,324,479</u>	<u>\$ 1,643,946</u>	<u>\$ (1,748,530)</u>	<u>\$ 6,219,895</u>
Capital assets being depreciated:				
Buildings	\$ 1,480,448	\$ 20,672	\$ -	\$ 1,501,120
System improvements	19,547,171	2,034,069	-	21,581,240
Vehicles	19,581	-	-	19,581
Equipment and furniture	19,850	-	-	19,850
Books and art	30,250	-	-	30,250
Total capital assets being depreciated	21,097,300	2,054,741	-	23,152,041
Less accumulated depreciation	(9,491,325)	(886,795)	-	(10,378,120)
Total capital assets being depreciated, net	<u>\$ 11,605,975</u>	<u>\$ 1,167,946</u>	<u>\$ -</u>	<u>\$ 12,773,921</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, 2015**

**5. UNAVAILABLE REVENUE**

Resources of the Agency, which are measurable but not available, and are therefore reported as deferred inflow of resources in the funds, relate to property taxes receivable in the Tax Increment Fund of \$171,172.

**6. LONG-TERM OBLIGATIONS**

	Balance <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	Balances <u>June 30, 2015</u>	Due within <u>one year</u>
<u>Notes payable</u>					
Payable to Lincoln City, 2014					
Original issue amount \$4 million, final maturity					
June 2018, interest at 1.64 percent	\$ 4,000,000	\$ -	\$ 975,575	\$ 3,024,425	\$ 990,703

The future maturities of all obligations outstanding as of June 30, 2015, are as follows:

Fiscal Year	Note Payable	
	Principal	Interest
2016	\$ 990,703	\$ 49,601
2017	1,008,041	33,353
2018	1,025,681	16,821
	<u>\$ 3,024,425</u>	<u>\$ 99,775</u>

In 2014, the Agency entered into an intergovernmental agreement with Lincoln City (the City) to fund various URA projects. The City issued \$4,000,000 in full faith and credit notes and the Agency has agreed to make the annual debt service payments under the same terms of the City's obligations. The Agency has recorded a note payable to the City for the \$3,024,425.

**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, 2015, were \$114,898.

**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, 2015**

	Budget Original/Final	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>			
Interest on investments	\$ 10,000	\$ 22,388	\$ 12,388
Miscellaneous	-	17,791	17,791
<b>TOTAL REVENUES</b>	<b>10,000</b>	<b>40,179</b>	<b>30,179</b>
<b>EXPENDITURES:</b>			
Personal services	161,220	154,738	6,482
Materials and services	292,450	242,922	49,528
Capital outlay	5,079,979	1,924,592	3,155,387
<b>TOTAL EXPENDITURES</b>	<b>5,533,649</b>	<b>2,322,252</b>	<b>3,211,397</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND CHANGE IN FUND BALANCE</b>	<b>(5,523,649)</b>	<b>(2,282,073)</b>	<b>3,241,576</b>
<b>FUND BALANCE, beginning of year</b>	<b>5,523,649</b>	<b>6,279,383</b>	<b>755,734</b>
<b>FUND BALANCE, end of year</b>	<b>\$ -</b>	<b>\$ 3,997,310</b>	<b>\$ 3,997,310</b>

**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, 2015**

	Budget Original/Final	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>			
Loan repayments	\$ 50,000	\$ 74,882	\$ 24,882
Interest on investments	3,300	3,689	389
<b>TOTAL REVENUES</b>	<u>53,300</u>	<u>78,571</u>	<u>25,271</u>
<b>EXPENDITURES:</b>			
Materials and services	10,000	11,934	(1,934)
Other expenditures - loans	992,187	175,000	817,187
<b>TOTAL EXPENDITURES</b>	<u>1,002,187</u>	<u>186,934</u>	<u>815,253</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND CHANGE IN FUND BALANCE</b>	(948,887)	(108,363)	840,524
<b>FUND BALANCE, beginning of year</b>	<u>948,887</u>	<u>951,324</u>	<u>2,437</u>
<b>FUND BALANCE, end of year</b>	<u>\$ -</u>	<u>\$ 842,961</u>	<u>\$ 842,961</u>
Fund balance - budgetary basis		\$ 842,961	
Balance of loans receivable		<u>359,882</u>	
Fund balance - GAAP		<u>\$ 1,202,843</u>	
Change in fund balance - budgetary basis		\$ (108,363)	
Other expenditures reported as increases in receivable		175,000	
Loan repayments reported as reduction in receivable		<u>(74,882)</u>	
Changes in fund balance - GAAP basis		<u>\$ (8,245)</u>	

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

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2015**

**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. 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, 2015**

	Budget Original/Final	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>			
Property taxes	\$ 700,032	\$ 703,036	\$ 3,004
Interest on investments	15,100	11,906	(3,194)
<b>TOTAL REVENUES</b>	<u>715,132</u>	<u>714,942</u>	<u>(190)</u>
<b>EXPENDITURES:</b>			
Debt service	<u>2,956,767</u>	<u>1,038,260</u>	<u>1,918,507</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND CHANGE IN FUND BALANCE</b>	(2,241,635)	(323,318)	1,918,317
<b>FUND BALANCE, beginning of year</b>	<u>2,241,635</u>	<u>2,261,527</u>	<u>19,892</u>
<b>FUND BALANCE, end of year</b>	<u>\$ -</u>	<u>\$ 1,938,209</u>	<u>\$ 1,938,209</u>

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

**PROPERTY TAX TRANSACTIONS**

**YEAR ENDED JUNE 30, 2015**

		Balance June 30, 2014	Levy	Net Interest (Discount) and Adjustments	Collections	Balance June 30, 2015
Current	2014-15	\$ -	\$ 597,685	\$ (15,330)	\$ 560,580	\$ 21,775
Prior	2013-14	123,830	-	2,480	62,334	63,976
	2012-13	72,238	-	2,649	28,078	46,808
	2011-12	49,555	-	6,732	36,265	20,022
	2010-11	20,117	-	2,506	12,471	10,152
	Prior	12,061	-	(314)	3,308	8,439
<b>Totals</b>		<b>\$ 277,801</b>	<b>\$ 597,685</b>	<b>\$ (1,277)</b>	<b>\$ 703,036</b>	<b>\$ 171,172</b>

**OTHER SCHEDULES**

# LINCOLN CITY URBAN RENEWAL AGENCY

## NOTICE OF PREPARATION AND FILING OF

### FINANCIAL STATEMENT

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

## LINCOLN CITY URBAN RENEWAL AGENCY BUDGET

### FISCAL YEAR 2015-16

	GENERAL FUND	TAX INCREMENT FUND	PROPERTY REHABILITATION FUND
<b>REVENUE</b>			
Estimated Beginning			
Balance	\$ 3,836,400	\$ 1,931,113	\$ 793,223
Interest	13,000	11,000	3,200
Loan Repayments	-	-	50,000
Tax Increment Proceeds	-	685,931	-
<b>Total Revenue</b>	<b>\$ 3,849,400</b>	<b>\$ 2,628,044</b>	<b>\$ 846,423</b>
<b>EXPENDITURES</b>			
Personal Services	\$ 161,172	\$ -	\$ -
Materials & Services	217,578	-	15,000
Capital Outlay	3,470,650	-	-
Economic Development	-	-	449,000
Property Rehabilitation	-	-	382,423
Debt Service	-	2,628,044	-
<b>Total Expenditures</b>	<b>\$ 3,849,400</b>	<b>\$ 2,628,044</b>	<b>\$ 846,423</b>

# LINCOLN CITY URBAN RENEWAL AGENCY

## REVENUE AND EXPENDITURES

### FISCAL YEAR 2014-15

	GENERAL <u>FUND</u>	TAX INCREMENT <u>FUND</u>	PROPERTY REHABILITATION <u>FUND</u>
<b>REVENUE</b>			
Beginning Balance	\$ 6,279,383	\$ 2,261,527	\$ 951,324
Interest	22,388	11,906	3,689
Loan Repayments	-	-	74,882
Tax Increment Proceeds	-	703,036	-
Grants/Other Revenue	17,791	-	-
<b>Total Revenue</b>	<b>6,319,562</b>	<b>2,976,469</b>	<b>1,029,895</b>
<b>EXPENDITURES</b>			
Personal Services	154,738	-	-
Materials & Services	242,922	-	-
Capital Outlay	1,924,592	-	-
Economic Development	-	-	80,734
Property Rehabilitation	-	-	106,200
Debt Service	-	1,038,260	-
<b>Total Expenditures</b>	<b>2,322,252</b>	<b>1,038,260</b>	<b>186,934</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 3,997,310</b>	<b>\$ 1,938,209</b>	<b>\$ 842,961</b>

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, 2015 amounted to \$3,024,425.

**THE LINCOLN CITY URBAN RENEWAL PLAN'S  
PROPERTY TAX COLLECTION AFFECTS ON  
THE OTHER TAXING DISTRICTS FOR 2014-15  
ARE AS FOLLOWS:**

<u>TAXING DISTRICT</u>	<u>TAXES COLLECTED WITH URBAN RENEWAL</u>	<u>TAXES COLLECTED WITHOUT URBAN RENEWAL</u>	<u>URBAN RENEWAL TAXES COLLECTED</u>
Lincoln County School District	\$ 7,425,780	\$ 7,635,424	\$ 209,644
Linn-Benton-Lincoln ESD	461,199	474,220	13,021
Oregon Coast Community College	265,768	273,271	7,503
City of Lincoln City	6,049,840	6,224,911	175,071
North Lincoln Fire/Rescue	1,222,050	1,256,551	34,501
Lincoln County General	4,265,906	4,386,340	120,434
Lincoln County Animal Shelter	166,389	171,086	4,697
Lincoln County Extension	68,219	70,145	1,926
North Lincoln Health District	784,145	806,283	22,138
Lincoln County Transportation	147,330	151,489	4,159
Devils Lake Water - Inside	73,657	73,765	108
Devils Lake Water - Outside	124,514	129,925	5,411
<b>TOTALS</b>	<b><u>\$ 21,054,797</u></b>	<b><u>\$ 21,653,410</u></b>	<b><u>\$ 598,613</u></b>

(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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& Warwick, LLP

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, 2015, and have issued our report thereon dated December 31, 2015.

### **COMPLIANCE**

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

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

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

Page 2

**OAR 162-10-0230 INTERNAL CONTROL**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control. Deficiencies in internal control were communicated separately.

**RESTRICTIONS ON USE**

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

*Talbot, Kowola & Warwick LLP*

Lake Oswego, Oregon  
December 31, 2015