

**CITY OF INDEPENDENCE  
URBAN RENEWAL AGENCY  
(A COMPONENT UNIT OF THE  
CITY OF INDEPENDENCE, OREGON)  
POLK COUNTY OREGON  
ANNUAL FINANCIAL REPORT**

**Year Ended June 30, 2011**

***CITY OF INDEPENDENCE URBAN RENEWAL AGENCY***  
***(A Component Unit of the City of Independence, Oregon)***  
***AGENCY OFFICIALS***  
***JUNE 30, 2011***

---

**MAYOR**

John McArdle  
675 Monmouth Street  
Independence, Oregon 97351

**CITY COUNCIL MEMBERS**

Forrest Peck  
727 Luscombe Street  
Independence, Oregon 97351

Diana Lindskog  
111 S. Gun Club Road  
Independence, Oregon 97351

Marilyn Morton  
1312 B Street  
Independence, Oregon 97351

Tom Takacs  
386 Monmouth Street  
Independence, Oregon 97351

Nancy Lodge  
1220 D Street  
Independence, Oregon 97351

Jerry Hoffman  
1302 B Street  
Independence, Oregon 97351

**CITY ADMINISTRATION**

David Clyne, City Manager

Vern Wells, Chief of Police

Karin Johnson, Administrative Services Director/  
City Recorder

Mike Danko, Community Development Director/  
Public Works Director

Robin Puccetti, Library Director

Ken Perkins, Public Works Supervisor

Peggy Schorsch, Heritage Museum Director

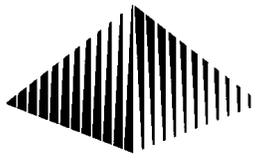
Rich Rodeman, City Attorney

555 South Main  
P.O. Box 7  
Independence, Oregon 97351  
503-838-1212

**CITY OF INDEPENDENCE URBAN RENEWAL AGENCY**  
**(A Component Unit of the City of Independence, Oregon)**  
**TABLE OF CONTENTS**  
**JUNE 30, 2011**

---

|  | <u>Page</u> |
|--|-------------|
| <b>INDEPENDENT AUDITOR'S REPORT</b>  | 1-2         |
| <b>BASIC FINANCIAL STATEMENTS</b>  |             |
| Government-wide Financial Statement  |             |
| Statement of Net Assets (Modified Cash Basis)  | 3           |
| Statement of Activities (Modified Cash Basis)  | 4           |
| Fund Financial Statements  |             |
| Balance Sheet (Modified Cash Basis)  | 5           |
| Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis)   | 6           |
| Notes to Basic Financial Statements  | 7-14        |
| <b>REQUIRED SUPPLEMENTARY INFORMATION</b>  |             |
| Schedules of Revenues, Expenditures and Changes in Fund Balance (Cash Basis) – Budget and Actual<br>Urban Renewal Projects Fund    | 15          |
| <b>OTHER SUPPLEMENTARY INFORMATION</b>   |             |
| Schedule of Revenues, Expenditures and Changes in Fund Balance (Cash Basis) – Budget and Actual<br>Urban Renewal Debt Service Fund | 16          |
| Schedule of Property Tax Transactions  | 17          |
| Schedule of Long-Term Debt Principal and Interest Transactions   | 18          |
| Schedule of Future Debt Requirements   | 19          |
| <b>COMPLIANCE SECTION</b>  |             |
| Audit Comments and Disclosures Required by State Regulations   | 20-21       |



## GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
475 Cottage Street NE, Suite 200 Salem, Oregon 97301  
(503) 581-7788

### ***INDEPENDENT AUDITOR'S REPORT***

Board of Directors  
City of Independence Urban Renewal Agency  
240 Monmouth Street  
Independence, Oregon 97351

We have audited the accompanying modified cash basis financial statements of the governmental activities, and each major fund of the Urban Renewal Agency of the City of Independence, Oregon (*a component unit of the City of Independence, Oregon*) as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as noted below, 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 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.

As described in the summary of significant accounting policies of the notes to the financial statements, the Agency prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Oregon, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, and each major fund of the Agency, as of June 30, 2011 and the respective changes in financial position - modified cash basis thereof for the year then ended, in accordance with the basis of accounting described in the summary of significant accounting policies to the notes of the basic financial statements.

As described in the notes to the financial statements, during the year ended June 30, 2011, the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the and budgetary comparison information on page 15 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. The budgetary comparison information on page 15 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and

reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Accounting standards generally accepted in the United States of America require that financial statements include Management's Discussion and Analysis as required supplemental information. Management has not presented the required Management's Discussion and Analysis.

*GROVE, MUELLER & SWANK, P.C.*  
*CERTIFIED PUBLIC ACCOUNTANTS*

By:   
\_\_\_\_\_  
Charles A. Swank, A Shareholder  
November 28, 2011

***BASIC FINANCIAL STATEMENTS***

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
*(A Component Unit of the City of Independence, Oregon)*  
**STATEMENT OF NET ASSETS (MODIFIED CASH BASIS)**  
**JUNE 30, 2011**

---

**ASSETS**

|                           |    |                   |
|---------------------------|----|-------------------|
| Cash and investments      | \$ | 205,413           |
| Property taxes receivable |    | 33,821            |
| Other receivable          |    | 210,000           |
| Depreciable assets        |    | <u>11,512,039</u> |
| <i>Total Assets</i>       |    | 11,961,273        |

**LIABILITIES**

|                                 |  |                  |
|---------------------------------|--|------------------|
| Due to the City of Independence |  | 1,879,477        |
| Deferred revenue                |  | 243,821          |
| Noncurrent liabilities          |  |                  |
| Due within one year             |  |                  |
| Bonds payable                   |  | 200,000          |
| Due in more than one year       |  |                  |
| Notes and bonds payable         |  | <u>2,510,000</u> |
| <i>Total Liabilities</i>        |  | <u>4,833,298</u> |

**NET ASSETS**

|   |    |                         |
|---|----|-------------------------|
| Invested in capital assets, net of debt |    | 8,802,039               |
| Unrestricted                            |    | <u>(1,674,064)</u>      |
| <b>TOTAL NET ASSETS</b>                 | \$ | <u><u>7,127,975</u></u> |

*The accompanying notes are an integral part of the financial statements.*

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
(A Component Unit of the City of Independence, Oregon)  
STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)  
YEAR ENDED JUNE 30, 2011

---

|                                       |                            |
|---------------------------------------|----------------------------|
| <b>Receipts</b>                       |                            |
| Taxes and assessments                 | \$ 339,611                 |
| Intergovernmental                     | 37,679                     |
| Miscellaneous                         | <u>1,622</u>               |
| <b>Total Receipts</b>                 | 378,912                    |
| <b>Disbursements</b>                  |                            |
| Community development                 | 7,219,319                  |
| Debt service interest                 | <u>63,863</u>              |
| <b>Total Disbursements</b>            | <u>7,283,182</u>           |
| <b>Receipts Over (Under)</b>          |                            |
| <b>Disbursements</b>                  | (6,904,270)                |
| <b>Other Financing Sources (Uses)</b> |                            |
| Transfers in/out                      | <u>(20,000)</u>            |
| <b>CHANGE IN FUND BALANCES</b>        | (6,924,270)                |
| <b>FUND BALANCES, July 1, 2010</b>    | <u>5,250,206</u>           |
| <b>FUND BALANCES, June 30, 2011</b>   | (1,674,064)                |
| <b>CAPITAL ASSETS</b>                 | 11,512,039                 |
| <b>LONG-TERM DEBT</b>                 | <u>(2,710,000)</u>         |
| <b>NET ASSETS</b>                     | <u><u>\$ 7,127,975</u></u> |

The accompanying notes are an integral part of the financial statements.

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
(A Component Unit of the City of Independence, Oregon)  
BALANCE SHEET (MODIFIED CASH BASIS)  
JUNE 30, 2011

|  | <u>Urban Renewal<br/>Projects</u> | <u>Urban Renewal<br/>Debt Service</u> | <u>Totals</u>     |
|--|-----------------------------------|---------------------------------------|-------------------|
| <b>ASSETS</b>                              |                                   |                                       |                   |
| Cash and investments                       | \$ -                              | \$ 205,413                            | \$ 205,413        |
| Property taxes receivable                  | -                                 | 33,821                                | 33,821            |
| Other receivable                           | 210,000                           | -                                     | 210,000           |
| <i>Total Assets</i>                        | <u>\$ 210,000</u>                 | <u>\$ 239,234</u>                     | <u>\$ 449,234</u> |
| <b>LIABILITIES AND FUND BALANCES</b>       |                                   |                                       |                   |
| <i>Liabilities</i>                         |                                   |                                       |                   |
| Due to City of Independence                | \$ 1,879,477                      | \$ -                                  | \$ 1,879,477      |
| Deferred revenue                           | 210,000                           | 33,821                                | 243,821           |
| <i>Total Liabilities</i>                   | 2,089,477                         | 33,821                                | 2,123,298         |
| <i>Fund Balances</i>                       |                                   |                                       |                   |
| Restricted for debt service                | -                                 | 205,413                               | 205,413           |
| Unassigned                                 | (1,879,477)                       | -                                     | (1,879,477)       |
| <i>Total Fund Balance</i>                  | (1,879,477)                       | 205,413                               | (1,674,064)       |
| <i>Total Liabilities and Fund Balances</i> | <u>\$ 210,000</u>                 | <u>\$ 239,234</u>                     | <u>\$ 449,234</u> |

**RECONCILIATION TO THE STATEMENT OF NET ASSETS**

*Fund Balances* \$ (1,674,064)

All liabilities are reported in the Statement of Net Assets. However, if they are not due and payable in the current period, they are not recorded in governmental funds.

|                         |             |
|-------------------------|-------------|
| Fixed Assets            | 11,512,039  |
| Notes and bonds payable | (2,710,000) |

*Net Assets of Governmental Activities* \$ 7,127,975

The accompanying notes are an integral part of the financial statements.

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
(A Component Unit of the City of Independence, Oregon)  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
(MODIFIED CASH BASIS)  
YEAR ENDED JUNE 30, 2011

|  | <u>Urban Renewal<br/>Projects</u> | <u>Urban Renewal<br/>Debt Service</u> | <u>Totals</u>         |
|--|-----------------------------------|---------------------------------------|-----------------------|
| <b>Receipts</b>                                |                                   |                                       |                       |
| Taxes and assessments                          | \$ 10,000                         | \$ 329,611                            | \$ 339,611            |
| Intergovernmental                              | 37,679                            | -                                     | 37,679                |
| Miscellaneous                                  | -                                 | 1,622                                 | 1,622                 |
| <b>Total Receipts</b>                          | <b>47,679</b>                     | <b>331,233</b>                        | <b>378,912</b>        |
| <b>Disbursements</b>                           |                                   |                                       |                       |
| Community development                          |                                   | 750                                   | 750                   |
| Capital outlay                                 | 7,028,569                         | -                                     | 7,028,569             |
| Debt service                                   |                                   |                                       |                       |
| Principal                                      | -                                 | 190,000                               | 190,000               |
| Interest                                       | -                                 | 63,863                                | 63,863                |
| <b>Total Disbursements</b>                     | <b>7,028,569</b>                  | <b>254,613</b>                        | <b>7,283,182</b>      |
| <b>Receipts Over (Under)<br/>Disbursements</b> | <b>(6,980,890)</b>                | <b>76,620</b>                         | <b>(6,904,270)</b>    |
| <b>Other Financing Sources (Uses)</b>          |                                   |                                       |                       |
| Transfers to City of Independence              | -                                 | (20,000)                              | (20,000)              |
| <b>Net Change in Fund Balance</b>              | <b>(6,980,890)</b>                | <b>56,620</b>                         | <b>(6,924,270)</b>    |
| <b>Fund Balance, Beginning of Period</b>       | <b>5,101,413</b>                  | <b>148,793</b>                        | <b>5,250,206</b>      |
| <b>Fund Balance (deficit), End of Period</b>   | <b>\$ (1,879,477)</b>             | <b>\$ 205,413</b>                     | <b>\$ (1,674,064)</b> |

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

|                                   |                     |
|-----------------------------------|---------------------|
| Change in fund balances           | \$ (6,924,270)      |
| Increase in capital assets        | 7,019,397           |
| Decrease in long-term liabilities | 190,000             |
| Change in net assets              | 285,127             |
| Net assets, beginning of year     | 6,842,848           |
| Net assets, end of year           | <b>\$ 7,127,975</b> |

The accompanying notes are an integral part of the financial statements.

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
**(A Component Unit of the City of Independence, Oregon)**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2011**

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Reporting Entity*

The City of Independence Urban Renewal Agency was created to provide for rehabilitation of blighted and deteriorated areas within the City's designated urban renewal areas. The Agency is governed by a seven-member board of directors that include the City's mayor and other council members and is included as a component unit in the City's financial statements.

*Measurement Focus and Basis of Accounting*

*Basic Financial Statements*

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support.

*Government-wide financial statements* display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the Agency as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets (Modified Cash Basis) and the Statement of Activities (Modified Cash Basis).

The Statement of Net Assets (Modified Cash Basis) presents all the assets and liabilities of the Agency, including capital assets and related debt. Net assets, representing assets less liabilities, is shown in two components. Restricted for special purposes represents amounts which must be spent in accordance with legal restrictions. Unrestricted represents the amount available for ongoing Agency activities. When disbursements are paid for purposes in which both restricted and unrestricted net assets are available, the Agency deems restricted assets to be spent first.

The Statement of Activities (Modified Cash Basis) demonstrates the degree to which the direct disbursements of a given function or segment are offset by program receipts. *Direct disbursements* are those that are clearly identifiable with a specific function or segment. *Program receipts* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general receipts*.

*Fund financial statements* display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the Agency has governmental (general and debt service). The reporting model sets forth minimum criteria (percentage of the assets liabilities, receipts or disbursements of either fund category or the government and enterprise combined) for the determination of major funds. Major individual governmental funds and capital projects are reported as separate columns in the fund financial statements.

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
**(A Component Unit of the City of Independence, Oregon)**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of Presentation*

The financial transactions of the Agency are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, receipts and disbursements. The various funds are reported by generic classification within the financial statements.

*Fund Balance*

In the year ended June 30, 2011, the Agency adopted GASB Statement #54 *Fund Balance Reporting and Governmental Fund Types Definitions*. In the fund financial statements, the fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Although not a major impact on the financial statements, Governmental Fund type fund balances are now reported in the following classifications. In governmental funds, the Agency's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Fund balance is reported as restricted when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Fund balance is reported as committed when the Board of Directors takes formal action that places specific constraints on how the resources may be used. The Board of Directors can modify or rescind the commitment at any time through taking a similar formal action.

Resources that are constrained by the Agency's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the Board of Directors approves which resources should be "reserved" during the adoption of the annual budget. The Agency's Finance Director uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the Agency's Annual Financial Report.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds.

*Definitions of Governmental Fund Types*

The General Fund is used to account for all financial resources not accounted for in another fund. In addition, certain Special Revenue Funds are reported as part of the General Fund because their source of funds is primarily transfers from the General Fund. The Agency does not report a General Fund. All transactions not reported in the Debt Service Fund are reported in the Projects Fund.

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
*(A Component Unit of the City of Independence, Oregon)*  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2011*

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Definitions of Governmental Fund Types (Continued)*

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term “proceeds of specific revenues sources” means that the revenue sources for the fund must be from restricted or committed sources, specifically that a substantial portion of the revenue must be from these sources and be expended in accordance with those requirements. The Agency has no special revenue funds.

Capital Projects Funds are utilized to account for financial resources to be used for the acquisition or construction of capital equipment and facilities. The Projects fund is a capital projects fund.

The Agency adopted the provisions of GASB Statement #54 *Fund Balance Reporting and Governmental Fund Types Definitions*. Among the changes required is that Special Revenue Funds whose primary source of funding is transfers from the General Fund be reported as part of the General Fund. This change did not affect the Agency.

*Measurement Focus and Basis of Accounting*

Accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standards Board, define principles that should be used to report financial transactions. The government-wide and proprietary fund financial statements are reported using the economic resources and accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred. The governmental fund financial statements are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when they become both measurable and available, while expenditures are recorded when the related liability is incurred.

The Agency’s policy is to prepare its financial statements on the basis of modified cash receipts and disbursements. Consequently, certain receipts and the related assets are recognized when received rather than when earned, and certain disbursements and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred. Also, assets that are measurable but not yet collected are recorded on the Agency’s statement of assets and liabilities as an asset and deferred revenue. Capital assets and the related debt obligations are not recorded. The Agency’s policy, although not in accordance with accounting principles generally accepted in the United States of America, is acceptable under Oregon Law (ORS 294.445), which leaves the selection of the method of accounting to the discretion of the municipal corporation.

The accounts of the Agency are organized and operated as two funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
*(A Component Unit of the City of Independence, Oregon)*  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2011*

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

*Measurement Focus and Basis of Accounting (Continued)*

The Agency reports the following major governmental funds:

*Urban Renewal Projects Fund*

This fund accounts for the acquisition and construction of facilities financed by the issuance of bonds.

*Urban Renewal Debt Service Fund*

This fund accounts for payment of principal and interest on the Agency's bonded debt.

*Cash and Investments*

The Agency maintains cash and investments in a common City pool that is available for use by all funds. Each fund type's portion of this pool is displayed as cash and investments.

Oregon Revised Statutes and the City of Independence investment policy authorize the City to invest in certificates of deposit, savings accounts, bank repurchase agreements, bankers' acceptances, general obligations of U.S. Government and its agencies, certain bonded obligations of Oregon Municipalities and the State Treasurer's Local Government Investment Pool, among others.

Investments are stated at cost, which approximates fair value.

*Receivables and Deferred Revenues*

Property taxes are levied by the County Assessor and collected by the County Tax Collector. The taxes are levied and become a lien as of July 1. They may be paid in three installments payable in equal payments due November 15, February 15, and May 15. Uncollected property taxes levied for the current and prior years are recorded as receivable at year-end. The Agency's property tax collection records show that most of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years.

Property tax receivables offset by deferred revenue have not been recorded as revenues.

*Capital Assets*

Capital assets (items costing more than \$5,000 and lasting more than one year) are valued at estimated historical cost or actual historical cost. Capital assets are recorded as disbursements in the funds and capitalized on the Statement of Net Assets (Modified Cash Basis). Maintenance and repairs of capital assets are charged to disbursements in the governmental fund types as incurred and are not capitalized. Upon disposal, the Statement of Net Assets (Modified Cash Basis) is relieved of the related cost. Depreciation is computed on capital assets and recorded on the Statements of Net Assets (Modified Cash Basis). Depreciation expense is not recorded on the Statement of Activities (Modified Cash Basis). Interest is not capitalized as a cost of construction of capital assets.

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
*(A Component Unit of the City of Independence, Oregon)*  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2011*

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

*Capital Assets (Continued)*

Purchases of public domain capital assets (streets, sidewalks, lighting systems, curbs and gutters and similar assets) that are immovable and of value only to the City as a governmental unit are reported as disbursements as incurred and are not capitalized. Capital assets are recorded as expenditures in the fund and are transferred to the City.

*Long-Term Debt*

All unmatured long-term debt is recorded on the Statement of Net Assets. Urban Renewal Agency bonded debt is paid from the Urban Renewal Agency Debt Service Fund.

*Budget and Budgetary Accounting*

The Agency adopts its budget by object. Therefore, expenditures of a specific object within a fund may not legally exceed that object's appropriations for expenditures. The Agency may amend the budget to expend unforeseen receipts by supplemental appropriations. All supplemental appropriations are included in the budget comparison statements. Appropriations lapse at the end of the year and may not be carried over. The Agency does not use encumbrance accounting.

*Use of Estimates*

The preparation of basic financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results may differ from those estimates.

**CASH AND INVESTMENTS**

The Agency's deposits with financial institutions and investments and are pooled with the City of Independence. Cash and investments for the City of Independence are disclosed in the City's audit report. Other disclosures about the City's cash and investment that are applicable to the Agency are as follows.

*Deposits*

Bank deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

*Custodial Credit Risk - Deposits*

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides unlimited insurance for the City's deposits with financial institutions for the aggregate of all non-interest bearing accounts and up to \$250,000 for the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage are with institutions

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
**(A Component Unit of the City of Independence, Oregon)**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

---

**CASH AND INVESTMENTS (Continued)**

*Custodial Credit Risk – Deposits (Continued)*

participating in the Oregon Public Funds Collateralization Program. The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2011, none of the City's bank balances were exposed to custodial credit risk as the balances are under FDIC insurance limits.

*Investments*

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2011, the fair value of the position in the Oregon State Treasurer's Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

*Interest Rate Risk*

In accordance with its investment policy, the City manages its exposure to declines in fair value of its investments by limiting the weighted average maturity of its investments through use of the Local Government Investment Pool.

*Custodial Risk - Investments*

For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The City's investment policy limits the types of investments that may be held and does not allow securities to be held by the counterparty.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
(A Component Unit of the City of Independence, Oregon)  
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2011

**CASH AND INVESTMENTS** (Continued)

*Custodial Risk – Investments (Continued)*

These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

**LONG-TERM DEBT**

Long-term debt transactions for the year were as follows:

|                             | <i>Outstanding<br/>July 1,<br/>2010</i> | <i>Issued</i> | <i>Matured/<br/>Redeemed<br/>During Year</i> | <i>Outstanding<br/>June 30,<br/>2011</i> | <i>Due Within<br/>One Year</i> |
|-----------------------------|---|---------------|--|--|--------------------------------|
| CIP Incentive Fund – Cinema | \$ 40,000                               | \$ -          | \$ -   | \$ 40,000                                | \$ 40,000                      |
| 2007 Urban Renewal Bonds    | 2,900,000                               | -             | 190,000                                      | 2,710,000                                | 200,000                        |
|                             | <u>\$ 2,940,000</u>                     | <u>\$ -</u>   | <u>\$ 190,000</u>                            | <u>\$ 2,750,000</u>                      | <u>\$ 240,000</u>              |

The 2007 bonds were issued in 2007 in the amount of \$3,200,000. The proceeds were used to pay off interim financing on the Highway 51 project and for continued construction. Interest is at 4.75%. The bond principal is payable annually and interest is payable semiannually. The final bonds mature in 2022.

On October 24, 2006 the Agency borrowed \$40,000 for a CIP Incentive loan for the Cinema property. The loan bears interest at 3% and is due in full in 5 years. Interest is payable annually.

Future debt service requirements are as follows:

| <i>Fiscal Year<br/>Ending<br/>June 30,</i> | <i>Principal</i>    | <i>Interest</i>   | <i>Total</i>        |
|--|---------------------|-------------------|---------------------|
| 2012                                       | \$ 240,000          | \$ 129,290        | \$ 369,290          |
| 2013                                       | 205,000             | 122,725           | 327,725             |
| 2014                                       | 215,000             | 114,875           | 329,875             |
| 2015                                       | 225,000             | 105,423           | 330,423             |
| 2016                                       | 235,000             | 96,759            | 331,759             |
| 2017-2021                                  | 1,330,000           | 334,496           | 1,664,496           |
| 2022                                       | 300,000             | 59,513            | 359,513             |
|  | <u>\$ 2,750,000</u> | <u>\$ 963,081</u> | <u>\$ 3,713,081</u> |

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
*(A Component Unit of the City of Independence, Oregon)*  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2011*

---

**OVEREXPENDITURE OF APPROPRIATIONS AND DEFICIT FUND BALANCES**

The Agency had the following over-expenditures during the current year.

|                        | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|------------------------|---------------|---------------|-----------------|
| Urban Debt             |               |               |                 |
| Materials and services | \$ -          | \$ 750        | \$ (750)        |

**CONTINGENCIES**

The Agency purchases commercial insurance to cover all commonly insurable risks, which includes property damage, liability and employee bonds. Most policies carry a small deductible amount. No insurance claims settled in each of the prior three years have exceeded policy coverage.

**SUBSEQUENT EVENTS**

The City follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855). ASC 855 established accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through November 28, 2011, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

***REQUIRED SUPPLEMENTARY INFORMATION***

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**

*(A Component Unit of the City of Independence, Oregon)*

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CASH BASIS) -  
BUDGET AND ACTUAL - URBAN RENEWAL PROJECTS FUND  
YEAR ENDED JUNE 30, 2011**

---

|  | <i>Budgeted Amounts</i> |              | <i>Actual</i>  | <i>Variance</i> |
|--|-------------------------|--------------|----------------|-----------------|
|  | <i>Original</i>         | <i>Final</i> |                |                 |
| <b>RECEIPTS</b>                                |                         |              |                |                 |
| Taxes and assessments                          | \$ -                    | \$ -         | \$ 10,000      | \$ 10,000       |
| Intergovernmental                              | -                       | -            | 37,679         | 37,679          |
| <i>Total Receipts</i>                          | -                       | -            | 47,679         | 47,679          |
| <b>DISBURSEMENTS</b>                           |                         |              |                |                 |
| Capital outlay                                 | 7,188,599               | 7,188,599    | 7,028,569      | 160,030         |
| <b>RECEIPTS OVER (UNDER)<br/>DISBURSEMENTS</b> | (7,188,599)             | (7,188,599)  | (6,980,890)    | 207,709         |
| <b>FUND BALANCE, beginning of year</b>         | 7,188,599               | 7,188,599    | 5,101,413      | (2,087,186)     |
| <b>FUND BALANCE (deficit), end of year</b>     | \$ -                    | \$ -         | \$ (1,879,477) | \$ (1,879,477)  |

***OTHER SUPPLEMENTARY INFORMATION***

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON***(A Component Unit of the City of Independence, Oregon)***SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CASH BASIS) -  
BUDGET AND ACTUAL - URBAN RENEWAL DEBT SERVICE FUND  
YEAR ENDED JUNE 30, 2011**

|  | <i>Budgeted Amounts</i> |              | <i>Actual</i> | <i>Variance</i> |
|--|-------------------------|--------------|---------------|-----------------|
|  | <i>Original</i>         | <i>Final</i> |               |                 |
| <b>RECEIPTS</b>                                |                         |              |               |                 |
| Taxes and assessments                          | \$ 389,070              | \$ 389,070   | \$ 329,611    | \$ (59,459)     |
| Miscellaneous                                  | 1,925                   | 1,925        | 1,622         | (303)           |
| <i>Total Receipts</i>                          | 390,995                 | 390,995      | 331,233       | (59,762)        |
| <b>DISBURSEMENTS</b>                           |                         |              |               |                 |
| Materials and services                         | -                       | -            | 750           | (750)           |
| Debt service                                   | 312,725                 | 312,725      | 253,863       | 58,862          |
| <i>Total Disbursements</i>                     | 312,725                 | 312,725      | 254,613       | 58,112          |
| <b>RECEIPTS OVER (UNDER)<br/>DISBURSEMENTS</b> |                         |              |               |                 |
|  | 78,270                  | 78,270       | 76,620        | (1,650)         |
| <b>OTHER FINANCING SOURCES (USES)</b>          |                         |              |               |                 |
| Transfers to City of Independence              | (20,000)                | (20,000)     | (20,000)      | -               |
| <b>NET CHANGE IN FUND BALANCE</b>              | 58,270                  | 58,270       | 56,620        | (1,650)         |
| <b>FUND BALANCE, Beginning of year</b>         | 1,523,678               | 1,523,678    | 148,793       | (1,374,885)     |
| <b>FUND BALANCE, End of year</b>               | \$ 1,581,948            | \$ 1,581,948 | \$ 205,413    | \$ (1,376,535)  |

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
**(A Component Unit of the City of Independence, Oregon)**  
**SCHEDULE OF PROPERTY TAX TRANSACTIONS**  
**YEAR ENDED JUNE 30, 2011**

| <u>Tax Year</u> | <u>2010-11<br/>Levy</u> | <u>Uncollected<br/>Balance<br/>July 1, 2010</u> | <u>Discounts &amp;<br/>Adjustments</u> | <u>Turnovers</u>    | <u>Uncollected<br/>Balance<br/>June 30, 2011</u> |
|-----------------|-------------------------|---|--|---------------------|--|
| 2010-2011       | \$ 354,332              | \$ -  | \$ (9,178)                             | \$ (328,996)        | \$ 16,158  |
| 2009-2010       | -                       | 16,839  | (89)                                   | (7,539)             | 9,211  |
| 2008-2009       | -                       | 11,072  | (68)                                   | (3,999)             | 7,005  |
| 2007-2008       | -                       | 3,045   | (49)                                   | (1,665)             | 1,331  |
| 2006-2007       | -                       | 464   | (24)                                   | (360)               | 80   |
| 2005-2006       | -                       | 63  | (8)                                    | (30)                | 25   |
| 2004-2003       | -                       | 16  | (2)                                    | (5)                 | 9  |
| Prior Years     | -                       | 2   | -                                      | -                   | 2  |
| <b>Total</b>    | <b>\$ 354,332</b>       | <b>\$ 31,501</b>                                | <b>\$ (9,418)</b>                      | <b>\$ (342,594)</b> | <b>\$ 33,821</b>                                 |

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE, OREGON**  
**(A Component Unit of the City of Independence, Oregon)**  
**SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST TRANSACTIONS**  
**YEAR ENDED JUNE 30, 2011**

|                               | <i>Interest</i> | <i>Date of</i> | <i>Fiscal Year</i> | <i>Outstanding</i>  |                   |                   | <i>Outstanding</i>  |
|-------------------------------|-----------------|----------------|--------------------|---------------------|-------------------|-------------------|---------------------|
|                               | <i>Rates</i>    | <i>Issue</i>   | <i>of Maturity</i> | <i>July 1,</i>      | <i>Issued</i>     | <i>Paid</i>       | <i>June 30,</i>     |
| <i>PRINCIPAL TRANSACTIONS</i> |                 |                |                    | <i>2010</i>         |                   |                   | <i>2011</i>         |
| Community Incentive Fund      | 3.00%           | 2007           | 2010-11            | \$ 40,000           | \$ -              | \$ -              | \$ 40,000           |
| 2007 Urban Renewal Bonds      | 4.75%           | 2007           | 2021-22            | 2,900,000           | -                 | 190,000           | 2,710,000           |
|                               |                 |                |                    | <u>\$ 2,940,000</u> | <u>\$ 930,960</u> | <u>\$ 190,000</u> | <u>\$ 2,750,000</u> |

|                              | <i>Interest</i> | <i>Date of</i> | <i>Unmatured</i>    |               | <i>Unmatured</i> |                     |
|------------------------------|-----------------|----------------|---------------------|---------------|------------------|---------------------|
|                              | <i>Rates</i>    | <i>Issue</i>   | <i>Interest</i>     | <i>New</i>    | <i>Interest</i>  | <i>Interest</i>     |
| <i>INTEREST TRANSACTIONS</i> |                 |                | <i>July 1, 2010</i> | <i>Issues</i> | <i>Paid</i>      | <i>June30, 2011</i> |
| Community Incentive Fund     | 3.00%           | 2007           | \$ 2,400            | \$ -          | \$ 1,200         | \$ 1,200            |
| 2007 Urban Renewal Bonds     | 4.75%           | 2007           | 830,191             | -             | 62,663           | 767,528             |
|                              |                 |                | <u>\$ 832,591</u>   | <u>\$ -</u>   | <u>\$ 63,863</u> | <u>\$ 768,728</u>   |

**URBAN RENEWAL AGENCY OF THE CITY OF INDEPENDENCE,**  
**(A Component Unit of the City of Independence, Oregon)**  
**SCHEDULE OF FUTURE DEBT REQUIREMENTS**  
**JUNE 30, 2011**

| Fiscal Year<br>Ending<br>June 30, | 2007 Urban Renewal Bonds |                   |                     | Cinema Sidewalk Loan |                 |                  | Totals              |                   |                     |
|-----------------------------------|--------------------------|-------------------|---------------------|----------------------|-----------------|------------------|---------------------|-------------------|---------------------|
|                                   | Principal                | Interest          | Total               | Principal            | Interest        | Total            | Principal           | Interest          | Total               |
| 2012                              | \$ 200,000               | \$ 113,675        | \$ 313,675          | \$ 40,000            | \$ 1,200        | \$ 41,200        | \$ 240,000          | \$ 114,875        | \$ 354,875          |
| 2013                              | 205,000                  | 105,423           | 310,423             | -                    | -               | -                | 205,000             | 105,423           | 310,423             |
| 2014                              | 215,000                  | 96,759            | 311,759             | -                    | -               | -                | 215,000             | 96,759            | 311,759             |
| 2015                              | 225,000                  | 87,573            | 312,573             | -                    | -               | -                | 225,000             | 87,573            | 312,573             |
| 2016                              | 235,000                  | 77,854            | 312,854             | -                    | -               | -                | 235,000             | 77,854            | 312,854             |
| 2017                              | 245,000                  | 67,593            | 312,593             | -                    | -               | -                | 245,000             | 67,593            | 312,593             |
| 2018                              | 255,000                  | 56,588            | 311,588             | -                    | -               | -                | 255,000             | 56,588            | 311,588             |
| 2019                              | 265,000                  | 44,888            | 309,888             | -                    | -               | -                | 265,000             | 44,888            | 309,888             |
| 2020                              | 275,000                  | 32,738            | 307,738             | -                    | -               | -                | 275,000             | 32,738            | 307,738             |
| 2021                              | 290,000                  | 20,025            | 310,025             | -                    | -               | -                | 290,000             | 20,025            | 310,025             |
| 2022                              | 300,000                  | 6,750             | 306,750             | -                    | -               | -                | 300,000             | 6,750             | 306,750             |
|                                   | <u>\$ 2,710,000</u>      | <u>\$ 709,866</u> | <u>\$ 3,419,866</u> | <u>\$ 40,000</u>     | <u>\$ 1,200</u> | <u>\$ 41,200</u> | <u>\$ 2,750,000</u> | <u>\$ 711,066</u> | <u>\$ 3,461,066</u> |

***COMPLIANCE SECTION***



## GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
475 Cottage Street NE, Suite 200, Salem, Oregon 97301  
(503) 581-7788

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

Board of Directors  
City of Independence Urban Renewal Agency  
240 Monmouth Street  
Independence, Oregon 97351

We have audited the basic financial statements of the Urban Renewal Agency of the City of Independence, Oregon as of and for the year ended June 30, 2011, and have issued our report thereon dated November 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

#### **Compliance**

As part of obtaining reasonable assurance about whether the Urban Renewal Agency of the City of Independence, Oregon'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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Highway revenues used for public highways, roads, and streets.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials - no money was collected or received by elected officials**

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, except as follows:

1. Overexpenditures as noted in the notes to the financial statements.
2. The Agency transferred funds from its debt service fund to the City of Independence.

**OAR 162-10-0230 Internal Control**

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting. Our Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards for the City of Independence is presented separately in the annual financial report of the City of Independence.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

This report is intended solely for the information and use of the governing body and management of the Urban Renewal Agency of the City of Independence, Oregon and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

*GROVE, MUELLER & SWANK, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS*

By:   
\_\_\_\_\_  
Charles A. Swank, A Shareholder  
November 28, 2011