



**CITY OF INDEPENDENCE,
OREGON
URBAN RENEWAL AGENCY**
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
TABLE OF CONTENTS
June 30, 2013**

	<i>Page</i>
<u>INTRODUCTORY SECTION</u>	
OFFICIALS OF THE AGENCY	i
<u>FINANCIAL SECTION</u>	
INDEPENDENT AUDITOR’S REPORT	A-C
BASIC FINANCIAL STATEMENTS	1
Government-wide Financial Statement	
Statement of Net Position (Modified Cash Basis)	2
Statement of Activities (Modified Cash Basis)	3
Fund Financial Statements	4
Balance Sheet (Modified Cash Basis)	5
Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis)	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	7
<u>Notes to Basic Financial Statements</u>	8-15
OTHER INFORMATION	16
Schedule of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis) – Budget and Actual Urban Renewal Projects Fund	17
Schedule of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis) – Budget and Actual Urban Renewal Debt Service Fund	18
Schedule of Property Tax Transactions	19
Independent Auditor’s Report Required by State Regulations	20-22

THIS PAGE INTENTIONALLY LEFT BLANK

INTRODUCTORY SECTION

**CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
AGENCY OFFICIALS
June 30, 2013**

MAYOR

John McArdle
675 Monmouth Street
Independence, Oregon 97351

BOARD 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

Gloria Butsch, Accounting Manager

Mike Danko, Community Development Director/
Public Works Director

Karin Johnson, City Recorder

Ken Perkins, Public Works Supervisor

Robin Puccetti, Library Director

Carolyn Connelly, City Attorney

Shawn Irvine, Community Services Director

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

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
City of Independence Urban Renewal Agency
Independence, Oregon

We have audited the accompanying financial statements of the governmental activities and each major fund of Urban Renewal Agency of the City of Independence, a component unit of the City of Independence, Oregon (the Agency), as of and for the year ended June 30, 2013, 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 the modified cash basis of accounting described in Note 1 B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Opinions

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, 2013, and the respective changes in financial position- modified cash basis, thereof for the year then ended in conformity with basis of accounting described in Note 1 B.

Basis of Accounting

We draw attention to Note 1 B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 9 to the financial statements, the Agency adopted the new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

The other information, as listed in the table of contents, is the responsibility of management and was derived from and relate 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 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Oregon Revised Statutes

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 6, 2013, on our consideration of the Agency's internal control over financial reporting and on tests of its compliance with the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-320. 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.

A handwritten signature in cursive script that reads "Merina & Company".

Merina & Company, LLP
West Linn, Oregon
December 6, 2013

BASIC FINANCIAL STATEMENTS

The basic financial statements include interrelated sets of financial statements as required by the GASB. The sets of statements include:

- Government-Wide Financial Statements

- Fund Financial Statements
 - Governmental Funds

In addition, the notes to the basic financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
STATEMENT OF NET POSITION (MODIFIED CASH BASIS)
June 30, 2013

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 21,852
Property taxes receivable	36,088
Other receivables	198,813
Depreciable capital assets, net	<u>10,599,539</u>
Total assets	<u><u>\$ 10,856,292</u></u>
LIABILITIES	
Current liabilities:	
Due to the City of Independence	\$ 767,389
Bonds payable	<u>215,000</u>
Total current liabilities	982,389
Noncurrent liabilities:	
Due in more than one year	
Bonds payable	<u>2,090,000</u>
Total noncurrent liabilities	<u>2,090,000</u>
Total liabilities	<u><u>3,072,389</u></u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue- property taxes	36,088
Unavailable revenue- other receivables	<u>198,813</u>
Total deferred inflow of resources	<u>234,901</u>
NET POSITION	
Net investment in capital assets	8,294,539
Restricted for:	
Debt Service	21,852
Unrestricted	<u>(767,389)</u>
Total net position	<u>7,549,002</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 10,856,292</u></u>

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

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)
For the Fiscal Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net Revenue (Expense) and Change in Net Position</u>
Governmental activities:		
General government	\$ 298,301	\$ (298,301)
Interest on long-term obligations	<u>727,823</u>	<u>(727,823)</u>
Total government	<u>\$ 1,026,124</u>	<u>\$ (1,026,124)</u>
General Revenues:		
Taxes:		
Property taxes		410,148
Interest and investment earnings		51
Other revenues		4,980
Transfers in from City of Independence		<u>622,400</u>
Total general revenues and transfers		<u>1,037,579</u>
Change in net position		<u>11,455</u>
Net position - beginning		<u>7,537,546</u>
Net position - ending		<u>\$ 7,549,002</u>

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

FUND FINANCIAL STATEMENTS
Major Governmental Funds

Urban Renewal Projects Fund

This fund accounts for the acquisition and construction of facilities 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.

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
BALANCE SHEET (MODIFIED CASH BASIS)
June 30, 2013

	Urban Renewal Projects Fund	Urban Renewal Debt Service Fund	Total Governmental
ASSETS			
Cash and cash equivalents	\$ -	\$ 21,852	\$ 21,852
Property taxes receivable	-	36,088	36,088
Other receivables	198,813	-	198,813
	<u>198,813</u>	<u>-</u>	<u>198,813</u>
Total assets	<u>\$ 198,813</u>	<u>\$ 57,940</u>	<u>\$ 256,753</u>
LIABILITIES			
Due to City of Independence	\$ 767,389	\$ -	\$ 767,389
	<u>767,389</u>	<u>-</u>	<u>767,389</u>
Total liabilities	<u>767,389</u>	<u>-</u>	<u>767,389</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue- property taxes	-	36,088	36,088
Unavailable revenue- other receivables	198,813	-	198,813
	<u>198,813</u>	<u>-</u>	<u>198,813</u>
Total deferred inflows of resources	<u>198,813</u>	<u>36,088</u>	<u>234,901</u>
FUND BALANCES			
Restricted for:			
Debt service	-	21,852	21,852
Unassigned	(767,389)	-	(767,389)
	<u>(767,389)</u>	<u>-</u>	<u>(767,389)</u>
Total fund balance	<u>(767,389)</u>	<u>21,852</u>	<u>(745,537)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 198,813</u>	<u>\$ 57,940</u>	

Amounts reported in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,599,539
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,305,000)</u>
Net position	<u>\$ 7,549,002</u>

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

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (MODIFIED CASH BASIS)
For the Fiscal Year Ended June 30, 2013

	Urban Renewal Projects Fund	Urban Renewal Debt Service Fund	Total Governmental
REVENUES			
Property taxes	\$ -	\$ 410,148	\$ 410,148
Interest on investments	-	51	51
Miscellaneous	4,980	-	4,980
Total revenues	4,980	410,199	415,179
EXPENDITURES			
Current:			
General government	-	250	250
Debt service:			
Principal	-	205,000	205,000
Interest	-	727,823	727,823
Total expenses	-	933,073	933,073
Revenues over (under) expenditures	4,980	(522,874)	(517,894)
OTHER FINANCING SOURCES (USES)			
Transfers in from the City of Independence	-	622,400	622,400
Transfers in	178,939	-	178,939
Transfers out	-	(178,939)	(178,939)
Total other financing sources (uses)	178,939	443,461	622,400
Net changes in fund balances	183,919	(79,413)	104,506
FUND BALANCES, BEGINNING	(951,308)	101,264	(850,044)
FUND BALANCES, ENDING	\$ (767,389)	\$ 21,851	\$ (745,538)

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

**CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013**

Amounts reported in the statement of activities are different because:

Net change in fund balances	\$ 104,506
-----------------------------	------------

The statement of revenues, expenditures, and changes in fund balances report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(298,051)
---	-----------

Repayment of principal long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term, obligations in the Statement of Net Position.	<u>205,000</u>
--	----------------

Change in net position of governmental activities	<u><u>\$ 11,455</u></u>
---	-------------------------

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

**CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. Basis of Accounting

These financial statements are reported on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB), but 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 modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets, and liabilities resulting from cash transactions, adjusted for modification that have substantial support in generally accepted accounting principles.

C. 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 governmental. 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 Position (Modified Cash Basis) and the Statement of Activities (Modified Cash Basis).

The Statement of Net Position (Modified Cash Basis) presents all the assets and liabilities of the Agency, including capital assets and related debt. Net position, representing assets and deferred outflows less liabilities and deferred inflows, is shown in three components. Net Investment in Capital Assets represents the amount invested in capital assets less the debt related to those assets. Restricted for special purposes represents amounts which must be spent in accordance with legal restrictions. Unrestricted net position represents the amount available for ongoing Agency activities. When expenditures 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 expenditures of a given function or segment are offset by program revenues. *Direct expenditures* are those that are clearly identifiable with a specific function or segment. *Program revenues* 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 revenues*.

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

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, revenues or expenditures 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.

D. 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, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues and expenditures. The various funds are reported by generic classification within the financial statements.

E. Fund Balance

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 classifications below. 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. Commitments of fund balance must be made prior to the end of the fiscal year.

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 used for those balances not assigned to another category.

F. Definitions of Governmental Fund Types

The General Fund is used to account for all financial resources not accounted for in another fund. All transactions not reported in the Debt Service Fund are reported in the Projects Fund, which functions as the General Fund of the Agency.

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.

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

Debt Service Funds are utilized to account for the accumulation of resources for, and payment of, long-term debt principal and interest.

G. Measurement Focus and Basis of Accounting

The agency-wide financial statements are reported using the *economic resources measurement focus*, within the limitations of the modified cash basis of accounting. Consequently, certain revenues and related assets are recognized when received rather than when earned, and certain expenditures 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 net position as an asset.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

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 is maintained consistent with legal and managerial requirements.

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.

H. Cash and Cash Equivalents

The Agency maintains cash and cash equivalents in a common City of Independence pool that is available for use by all funds. Each fund type's portion of this pool is displayed as cash and cash equivalents. The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits and savings accounts of three months or less.

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 in the Local Government Investment Pool are stated at cost, which approximates fair value.

I. Receivables and Deferred Inflows

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.

**CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013**

Property tax receivables offset by deferred inflows of resources and have not been recorded as revenues.

J. 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 expenditures in the funds and capitalized on the Statement of Net Position (Modified Cash Basis). Maintenance and repairs of capital assets are charged to expenditures in the governmental fund types as incurred and are not capitalized. Upon disposal, the Statement of Net Position (Modified Cash Basis) is relieved of the related cost. Depreciation is computed on capital assets and recorded on the Statement of Net Position (Modified Cash Basis). Interest is not capitalized as a cost of construction of capital assets.

General improvements and equipment are depreciated using the straight-line method over the following estimated useful lives:

General Improvements	40 years
Equipment	5 years

K. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has one item, unavailable revenue that qualifies for reporting in this category.

L. Long-Term Debt

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

M. Budget and Budgetary Accounting

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Expenditure categories of personal services, materials and services, capital outlay, debt service, transfers, and contingency are the legal level of control.

The Agency may amend the budget to expend unforeseen revenues 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.

N. 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 expenditures during the reporting period. Actual results may differ from those estimates.

2. CASH AND CASH EQUIVALENTS

The Agency's deposits with financial institutions and investments and are pooled with the City of Independence. Cash and cash equivalents 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.

**CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013**

A. 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.

B. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the Agency's deposits up to \$250,000 for the combined total of all deposit accounts at each financial institution. Deposits in excess of FDIC coverage with institutions participating in the Oregon Public Funds Collateralization Program are considered fully collateralized. As of June 30, 2013, none of the Agency's bank balances were exposed to custodial credit risk.

C. 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, 2013, 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.

D. Interest Rate Risk

In accordance with its investment policy, the Agency 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.

E. Custodial Risk - Investments

For an investment, this is the risk that, in the event of a failure of the counterparty, the Agency will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The Agency'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. 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.

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

3. CAPITAL ASSETS

The changes in the capital assets for governmental activities for the year ended June 30, 2013 are as follows:

	<u>Balances June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances June 30, 2013</u>
Capital assets, depreciable:				
General improvements	\$ 11,549,146	\$ -	\$ -	\$ 11,549,146
Equipment	<u>46,612</u>	<u>-</u>	<u>-</u>	<u>46,612</u>
Total assets	11,595,758	-	-	11,595,758
Less accum depreciation for:				
General improvements	(688,846)	(288,729)	-	(977,575)
Equipment	<u>(9,322)</u>	<u>(9,322)</u>	<u>-</u>	<u>(18,644)</u>
Total accumulated depreciation	<u>(698,168)</u>	<u>(298,051)</u>	<u>-</u>	<u>(996,219)</u>
Net capital assets	<u>\$ 10,199,422</u>	<u>\$ (596,102)</u>	<u>\$ -</u>	<u>\$ 10,599,539</u>

4. INTERFUND TRANSFERS

Interfund transfers are used to provide operational resources between the funds.

	<u>Transfers In</u>	<u>Transfer Out</u>
Urban Renewal Debt Service Fund	\$ -	\$ 178,939
Urban Renewal Projects Fund	178,939	-

During the year, the City of Independence made a transfer of \$622,400 to the Urban Renewal Debt Service Fund for debt service payments.

5. LONG-TERM DEBT

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

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>	<u>Due in One Year</u>
2007 Urban Renewal Bond	<u>\$ 2,510,000</u>	<u>\$ -</u>	<u>\$ 205,000</u>	<u>\$ 2,305,000</u>	<u>\$ 215,000</u>

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

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. The Agency expended a total of \$727,823 in interest payments for the year ended June 30, 2013. Of this, \$105,423 was related to the 2007 Urban Renewal Bonds and \$622,400 was money transferred into the Urban Renewal Debt Service Fund from the City in order to pay interest on the FF&C Civic Center Loan held by the City.

Future debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 215,000	\$ 121,525
2015	225,000	113,675
2016	235,000	105,423
2017	245,000	96,759
2018	255,000	87,573
2019-2023	<u>1,130,000</u>	<u>306,436</u>
	<u>\$ 2,305,000</u>	<u>\$ 831,391</u>

6. OVEREXPENDITURE OF APPROPRIATIONS AND DEFICIT FUND BALANCES

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

<u>Fund</u>	<u>Budget Category</u>	<u>Amount</u>
Urban Renewal Debt Service Fund	Materials & Services	\$250

7. DEFICIT FUND BALANCES

At June 30, 2013, the following fund had a deficit fund balance:

<u>Actual:</u>	
Urban Renewal Projects Fund	(\$767,389)
 <u>Budgeted:</u>	
Urban Renewal Projects Fund	(\$329,885)

8. 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.

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

9. NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported As Assets and Liabilities*. The Agency implemented GASB Statements No. 63 and 65 in the year ending June 30, 2013.

10. SUBSEQUENT EVENTS

On July 16, 2013 the City issued General Obligation Bonds, Series 2013 in the amount of \$5,225,000 in which the funds will be used to retire the 2007 Urban Renewal Bond. The interest rate on the bond is 3.95% and maturity date is 2033.

OTHER INFORMATION

Other information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements.

- Budgetary Comparison Schedules
 - Urban Renewal Projects Fund
 - Urban Renewal Debt Service Fund

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) BUDGET AND ACTUAL - URBAN RENEWAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2013

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	442,485	442,485	4,980	(437,505)
Total revenues	442,485	442,485	4,980	(437,505)
EXPENDITURES				
Total expenditures	-	-	-	-
Revenues over (under) expenditures	442,485	442,485	4,980	(437,505)
OTHER FINANCING SOURCES (USES)				
Transfers in	178,939	178,939	178,939	-
Total other financing sources (uses)	178,939	178,939	178,939	-
Net changes in fund balances	621,424	621,424	183,919	(437,505)
FUND BALANCES, BEGINNING	(951,309)	(951,309)	(951,308)	1
FUND BALANCES, ENDING	<u>\$ (329,885)</u>	<u>\$ (329,885)</u>	<u>\$ (767,389)</u>	<u>\$ (437,504)</u>

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) BUDGET AND ACTUAL - URBAN RENEWAL DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2013

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 393,851	\$ 393,851	\$ 410,148	\$ 16,297
Interest on investments	-	-	51	51
Total revenues	393,851	393,851	410,199	16,348
EXPENDITURES				
Materials and service	-	-	250	(250)
Debt service:				
Principal	205,000	205,000	205,000	-
Interest	727,823	727,823	727,823	-
Contingency	35,798	35,798	-	35,798
Total expenditures	968,621	968,621	933,073	35,548
Revenue over (under) expenditures	(574,770)	(574,770)	(522,874)	51,896
OTHER FINANCING SOURCES (USES)				
Transfers in from the City of Independence	622,400	622,400	622,400	-
Transfers out	(178,939)	(178,939)	(178,939)	-
Total other financing sources (uses)	443,461	443,461	443,461	-
Net changes in fund balances	(131,309)	(131,309)	(79,413)	51,896
FUND BALANCES, BEGINNING	131,309	131,309	101,264	(30,045)
FUND BALANCES, ENDING	\$ -	\$ -	\$ 21,851	\$ 21,851

CITY OF INDEPENDENCE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF INDEPENDENCE, OREGON)
SCHEDULE OF PROPERTY TAX TRANSACTIONS
For the Fiscal Year Ended June 30, 2013

<u>Tax Year</u>	<u>Uncollected Balance July 1, 2012</u>	<u>2012-2013 Levy</u>	<u>Discounts & Adjustments</u>	<u>Turnovers</u>	<u>Uncollected Balance June 30, 2013</u>
2012-2013		\$ 417,055	\$ (11,182)	\$ (388,187)	\$ 17,686
2011-2012	17,274		(5)	(7,864)	9,405
2010-2011	9,348		(2)	(3,946)	5,400
2009-2010	7,195		(1)	(4,411)	2,783
2008-2009	2,521		(1)	(1,943)	577
2007-2008	396		-	(177)	219
2006-2007	39		(1)	(25)	13
2005-2006	15		-	(10)	5
Total	\$ 36,788	\$ 417,055	\$ (11,192)	\$ (406,563)	\$ 36,088

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

We have audited the basic financial statements of the governmental activities and each major fund of the Urban Renewal Agency of the City of Independence, a component unit of the City of Independence, Oregon (the Agency), as of and for the year ended June 30, 2013 and have issued our report thereon dated December 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the 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:

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- 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. The Agency does not receive Highway funds.
- Authorized investment of surplus funds. (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).

- Accountability for collecting or receiving money by elected officials. The Agency does not have any elected officials collecting or receiving money.

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 the Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations* except as follows:

- Expenditures exceeded appropriations in the Urban Renewal Debt Service Fund

Materials and Services	\$250
------------------------	-------
- The Urban Renewal Projects Fund had a budgeted deficit fund balance of \$329,885 and an actual deficit fund balance of \$767,389.

OAR 162-10-0230 Internal Control

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. 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.

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 *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

This report is intended solely for the information and use of the Board of Directors, 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.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
December 6, 2013

THIS PAGE INTENTIONALLY LEFT BLANK