

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011



12700 SW 72nd Ave.
Tigard, OR 97223

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

For the Year Ended June 30, 2011

COMPONENT UNIT

ANNUAL FINANCIAL REPORT

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TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

BOARD OF DIRECTORS

Don Hurd, Chair

Carolyn Decker, Vice Chair

Dave Schrom

Lynda Casey

Alene Allen

John Sandusky

Cheryl Davy

All Board members receive mail at the address below.

AGENCY ADMINISTRATION

Paul Wyntergreen, City Manager
Debbi Reeves, Administrative Assistant

210 Laurel Ave.
Tillamook, Oregon 97141

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TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

November 21, 2011

To the Board of Directors
Tillamook Urban Renewal Agency
Tillamook, Oregon

INDEPENDENT AUDITORS' REPORT

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

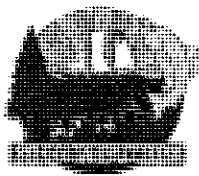
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Tillamook Urban Renewal Agency as of June 30, 2011, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary data of individual fund statements and other financial schedules, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis, as listed on the table of contents, is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Pauly, Rogers and Co., P.C.
PAULY, ROGERS AND CO., P.C.

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Management's Discussion and Analysis

The management of the Tillamook Urban Renewal Agency (TURA) offers readers of the Tillamook Urban Renewal Agency's financial statements this narrative overview and analysis of the financial activities of the Tillamook Urban Renewal Agency for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the financial statements that follow.

Financial Highlights

Net Assets - The assets of the Tillamook Urban Renewal Agency exceeded its liabilities at the close of the most recent fiscal year by \$17,552.

Change in Net Assets – The Agency's total net assets decreased by \$123,861 due to the agency purchasing property, granting funds and loaning funds for agency projects.

Governmental Funds - As of the close of the fiscal year, the Tillamook Urban Renewal Agency's governmental funds reported combined ending fund balances of \$186,795.

The Tillamook Urban Renewal Agency's total debt increased by \$99,246 during the fiscal year. The increase is attributable to \$505,660 debt issued periodically since inception (with reductions for debt service).

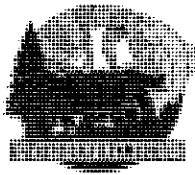
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Tillamook Urban Renewal Agency's basic financial statements. The statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Tillamook Urban Renewal Agency's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Tillamook Urban Renewal Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Tillamook Urban Renewal Agency is improving or deteriorating.

The statement of activities presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash



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flows in future fiscal periods (e.g. uncollected taxes). The governmental activities of the Tillamook Urban Renewal Agency include activities described in the following table:

Tillamook Urban Renewal Area	
Table XYZ- Allocation of 25 Year Revenue to Project Activities (Detailed)	
Project Activity	Cost Allocation
Public Parks and Open Spaces	
Hoquarten Trail project	\$125,000
A Public plaza or Town Square as part of a civic center in downtown Tillamook	\$625,000
Mini parks in the renewal area	\$200,000
Improvements to Marine Park	\$500,000
Help improve Carlisch House	\$200,000
Improvements to Goodspeed and Carnahan parks (need boundary change)	\$200,000
Street, Curb, and Sidewalk Improvements	
U.S.101 (Pacific Avenue and Main Avenue) and 2nd Street	\$250,000
On Main and Pacific Avenues, between 1st and 12th Street	\$250,000
From 1st Street to 5th Street - Reconstruct/repair existing sidewalks	\$250,000
Couplet feasibility along First Street and Netarts Highway (3rd Street) between Stillwell Avenue and US 101	\$200,000
Construct sidewalks on Highway 131 from Pacific, west to Trask River Bridge	\$375,000
Public Utilities	
Stormwater upgrades in renewal area	\$750,000
Wastewater improvements on 3rd st/ Wilson river loop road and Schild Road to Highway 6	\$500,000
Supplement city water CIP by contributing to upsizing water lines in core area.	\$800,000
Supplement city wastewater CIP by contributing to upsizing wastewater lines in core area.	\$800,000
Contribute to Wi-Fi program for City	\$250,000
Streetscape and Neighborhood Beautification Projects	
Streetscaping with priority on the Town Center District, Front to 5th, and Madrona to Grover.	\$375,000
Streetscaping Main and Pacific from 1st to 12th Street	\$250,000
Streetscaping 3rd from Pacific to Trask River bridge	\$250,000
Making Alley improvements between 1st and 3rd Streets	\$125,000
Building Gateways at key locations, including Hwy101 and 6th Street, Hwy 101 and 3rd Street and on W. 3rd Street	\$125,000
Pedestrian, Bicycle, and Transit and Parking Improvements	
Contribute to transit facility at City Hall	\$250,000
Implement parking recommendations from the Tillamook Refinement Plan, including:	
Provide convenient parking for recreational vehicles	\$125,000
Acquire property immediately east of Stillwell Avenue on Second Street to expand employee and visitor parking	\$250,000
Construction of one or more surface parking areas on parcels currently vacant, for use by visitors, employees	\$250,000
Add signage to guide visitors to parking areas off the state highway	\$125,000
Public Safety Improvements	
Contribute to traffic signal at 3rd & Stillwell	\$125,000
Public Buildings and Facilities	
City Hall	\$750,000
Tillamook Museum	\$750,000
Development and Redevelopment	
Below market interest rate loans.	\$200,000
Write down of land acquisition costs.	\$200,000
Provision of public parking to assist development.	\$200,000
Assistance in providing utilities and other infrastructure.	\$200,000
Technical assistance, including architectural assistance, and zoning change work.	\$200,000
Transfer of assembled sites at fair reuse value.	\$200,000
Plan Administration	\$1,250,000
Total	\$12,475,000

Fund Financial Statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Tillamook Urban Renewal Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Tillamook



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Urban Renewal Agency are categorized as governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Tillamook Urban Renewal Agency maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund and the Debt Service fund. The details of the funds are presented in the Required Supplementary Data section of these financial statements.

Notes to the Basic Financial Statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the information provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Tillamook Urban Renewal Agency, assets exceed liabilities by \$17,552 at the close of the most recent fiscal year.

The following summary is a comparison between the Agency's net assets at the end of this fiscal year as compared to the end of the last fiscal year.



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SUMMARY OF NET ASSETS

	Governmental Activities	
	2010	2011
Cash and investments	\$ 208,461	\$186,795
Other assets	360,391	342,851
Total Assets	568,852	529,646
Other liabilities	413,899	512,094
Total liabilities	413,899	512,094
Net assets:		
Invested in capital assets, net of related debt	288,131	288,131
Restricted:		
Debt service	39,460	0
Unrestricted	(172,638)	(270,579)
Total net assets	\$ 154,953	\$17,552

Governmental activities. There were several governmental activities that affected the Urban Renewal Agency's net assets this year. The agency funded several projects in Tillamook for approximately \$31,000. The Agency began construction on the 1st Street Parking Lot for approximately \$40,000 with completion in FY 2011-2012. The property had been purchased in 2009. The largest project for the Agency is the 3rd Street Engineering and Improvement Project. The Agency, City of Tillamook, and Tillamook County are working together to improve this arterial street in the City. The Agency spent approximately \$320,000 so far on this project with commitment of approximately \$1,000,000 for the upcoming fiscal year.



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Table 2
Governmental Activities

	2010	2011
REVENUES		
General Revenue		
Taxes	\$184,930	\$213,518
Interest and Investment Earnings	1,493	956
Total Revenues	186,423	214,474
EXPENSES		
Programs	265,749	338,335
Total Expenses	265,749	338,335
Change in Net Assets	(79,326)	(123,861)
Change in Account Principle	(13,540)	-
Beginning Net Assets	234,279	141,413
Ending Net Assets	\$ 141,413	\$17,552

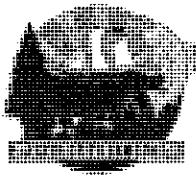
Financial Analysis of the Agency's funds

Governmental funds. The focus of the Tillamook Urban Renewal Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Tillamook Urban Renewal Agency's financing requirements. In particular, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the Tillamook Urban Renewal Agency's governmental funds reported combined ending fund balances of \$186,795. Approximately 73% percent of this total amount, \$137,850, constitutes the General Fund balance. The remainder of the fund balance constitutes the Debt Service Fund balance.

Budgetary Highlights

The Agency Board approved two (2) Supplemental Budgets for Fiscal Year 2010-2011. The first Supplemental Budget was done on December 8, 2010 to offset additional operational requirements. The General Fund Resource and Requirements were revised to \$524,650 and the Tax Increment Fund Resources and Requirements were revised to \$341,500 for unexpected special payments. On May 17, 2011 a second Supplemental Budget was done due to additional project requirements. The General Fund Resource and Requirements were revised to \$864,650



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for unexpected land development.

Capital Asset and Debt Administration

Capital assets. In FY 2009-2010 the Tillamook Urban Renewal Agency's purchased 2 parcels within the Urban Renewal District with the intentions of constructing a public parking lot. Construction on the parking lot began in 2011.

Short/Long-term debt. At the end of the fiscal year, the Tillamook Urban Renewal Agency had total short and long term debt outstanding of \$505,660.

Economic Factors and next year's Budgets and Rates: The following information is taken from the 2011-2012 TURA budget packet of April 26, 2011.

TURA BUDGET MESSAGE FY 2011-12

In accordance with the Budget parameters provided by the Lincoln City URA (attached), we have restructured the Tax Increment Fund to only pay for Debt Service on the loan proceeds that the TURA General Fund receives and then expends on the projects that it selects. There is no longer any transfer to the General Fund for operating purposes, but correspondingly all bank fees have been moved from General Fund into the Debt Service Fund. The balance is placed into line 15 as a reserve for Future Debt Service to be determined by the Board.

The General Fund is accordingly broken out by loans that you have already obligated and future loans that are yet to be determined. All revenues and expenditures related to future loans are highlighted with an asterisk to ensure that none of the proceeds can be expended until the Board adopts a 5-year projection with its future projects prioritized in such a way that their accompanying debt can be serviced with future unobligated revenues referenced above.

Therefore, on the expense page, please note that all potential future expenditures are tagged with an asterisk and will be frozen until the Board completes its prioritization process. This 5-year projection process is something that we should be able to commence this fiscal year.

The administrative services line has been calculated in accordance with the Urban Renewal Agency's 2009 IGA with the City based upon the loaded hourly rate of each administrative position assisting the Agency. I am recommending that the administrative assistant personal services contract (Debbi) be shifted entirely to a 30-hour per week part-time employee basis in order to bring the position into compliance with labor regulations. The resulting employee rates are converted into the loaded rates below and applied with affiliated average-use assumptions, which will need to be verified after a year's experience, in the following manner:



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Loaded Rate	Urb. Renewal
MANAGER (\$60.84)	3 hours/week \$9,491/year
FIN. OFFICER (\$37.74)	1 hour/week \$1,963/year
EXEC. ASST. (\$36.16)	15 hours/week \$28,204/year

This assumes that the Agency's books will be kept in-house by the Finance Officer (Jamy Wilson). We placed a comparison of external versus internal bookkeeping in the proposed Budget for your review. I recommend the in-house route as a more cost-effective approach.

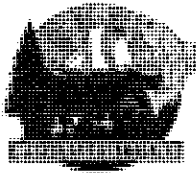
Regardless, we are recommending conversion of all accounting to Springbrook (UR currently uses Quickbooks) cash basis.

Finally, you will note that the reserves and ending fund balances now are categorized into one of five different groupings, a new rule which the Auditors have notified us of as required by GASB 54. By law, all of TURA's funds are restricted to the projects contained in its Plan and its boundaries; therefore, I have indicated that type in each fund. The Board will need to adopt a resolution to that effect prior to June 30.

As information, I am also recommending several initiatives to the Council which should dovetail with the Agency's work, such as the refocusing of the Public Works Technician in the Streets Division to dedicate 25% of his time the next fiscal year on pedestrian/bicycle maintenance. This is a one-year special emphasis coincides with the Agency's interest in sidewalk connectivity and condition.

Also, the Transient Room Tax fund is proposed with an additional emphasis on Beautification in order to give some special spruce-up attention downtown and hopefully complement some TURA's efforts.

The current draft of the Council's budget also includes a potential CBDG grant to fund a homeless shelter; if TURA has any projects that would complement a CBDG grant for Community Facilities or Infrastructure you should let the Council know.

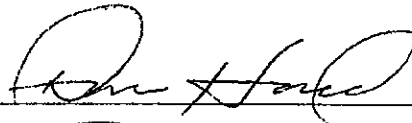


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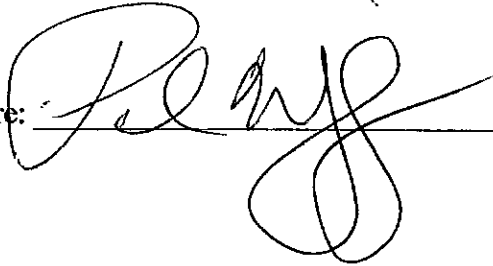
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Requests for information. This financial report is designed to provide a general overview of the Tillamook Urban Renewal Agency's financial condition. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Tillamook Urban Renewal Agency, attention Don Hurd, Chairman or Debbi Reeves, Executive Assistant or Paul Wyntergreen, City Manager at: 210 Laurel Avenue, Tillamook, Oregon 97141.

Signature: 

Title: Chairman

Signature: 

Title: City Manager

**TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON**

BASIC FINANCIAL STATEMENTS

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TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

STATEMENT OF NET ASSETS (Modified Cash Basis)
June 30, 2011

ASSETS	
Cash and cash equivalents	\$ 186,795
Notes receivable	54,720
Capital Assets, net of accumulated depreciation	<u>288,131</u>
 Total Assets	 <u>\$ 529,646</u>
 LIABILITIES:	
Accrued Interest	\$ 6,434
Noncurrent Liabilities	
Due within one year	303,701
Due in more than one year	<u>201,959</u>
 Total Liabilities	 <u>512,094</u>
 NET ASSETS:	
Invested in capital assets, net of related debt	288,131
Unrestricted	<u>(270,579)</u>
 Total Net Assets	 <u><u>17,552</u></u>

See accompanying notes to basic financial statements

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

STATEMENT OF ACTIVITIES (Modified Cash Basis)
For the Year Ended June 30, 2011

FUNCTIONS	DISBURSEMENTS	FUNCTION RECEIPTS		NET (DISBURSEMENT) RECEIPT AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Governmental activities				
Support Services	\$ 338,335	\$ -	\$ -	\$ (338,335)
Total Governmental Activities	\$ 338,335	\$ -	\$ -	(338,335)
General Receipts				
Property Taxes				213,518
Investment earnings				956
Total General Receipts				214,474
Changes in Net Assets				(123,861)
Net Assets - Beginning				141,413
Net Assets - Ending				\$ 17,552

See accompanying notes to basic financial statements

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

BALANCE SHEET - GOVERNMENTAL FUNDS (Modified Cash Basis)
 June 30, 2011

	GENERAL FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL
ASSETS:			
Cash & cash equivalents	\$ 137,850	\$ 48,945	\$ 186,795
Total Assets	\$ 137,850	\$ 48,945	\$ 186,795
LIABILITIES AND FUND BALANCES:			
Fund Balances:			
Assigned	-	48,945	48,945
Unassigned	137,850	-	137,850
Total Fund Balances	137,850	48,945	186,795
Total Liabilities and Fund Balances	\$ 137,850	\$ 48,945	\$ 186,795

See accompanying notes to basic financial statements

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balances - Governmental Funds		\$	186,795
Note Receivable used in governmental activities are not financial resources and, therefore, are not reported in the funds			
Note receivable			54,720
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			
Land			288,131
Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.			
Loans Payable	(505,660)		
Accrued interest	(6,434)		
			<u>(512,094)</u>
Total Net Assets		\$	<u>17,552</u>

See accompanying notes to basic financial statements

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS (Modified Cash Basis)
 For the Year Ended June 30, 2011

	GENERAL FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL
RECEIPTS:			
Taxes	\$ -	\$ 213,518	\$ 213,518
Loan Repayments	4,000	-	4,000
Interest on Investments	956	-	956
Total Receipts	4,956	213,518	218,474
DISBURSEMENTS:			
Materials and Services	43,109	-	43,109
Capital Outlay	275,272	-	275,272
Total Disbursements	318,381	-	318,381
Excess of Receipts, Over (Under) Disbursements	(313,425)	213,518	(99,907)
Other Financing Sources, (Uses)			
Transfers In	201,350	-	201,350
Transfers Out	-	(201,350)	(201,350)
Special Payments	(164,311)	-	(164,311)
Loan Proceeds	242,552	-	242,552
Total Other Financing Sources (Uses)	279,591	(201,350)	78,241
Net Change in Fund Balance	(33,834)	12,168	(21,666)
Beginning Fund Balance	171,684	36,777	208,461
Ending Fund Balance	<u>\$ 137,850</u>	<u>\$ 48,945</u>	<u>\$ 186,795</u>

See accompanying notes to basic financial statements

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

RECONCILIATION OF STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
 FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
 For the year ended June 30, 2011

Total Net Changes in Fund Balances - Governmental Funds	\$	(21,666)
<p>Note Receivable used in governmental activities are not financial resources and, therefore, are not reported in the funds</p>		
Note		(4,000)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while repayment of long-term debt principal consumes current financial resources of governmental funds. However, neither transaction has any effect on net assets. This amount is the net effect of these differences.</p>		
Long-term debt principal repaid	143,306	
Loan Proceeds	<u>(242,552)</u>	(99,246)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This adjustment combines the net changes in deferred taxes between years.</p>		
Property Taxes		
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
		<u>1,051</u>
Change in Net Assets	\$	<u><u>(123,861)</u></u>

See accompanying notes to basic financial statements

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared using the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Agency considers the use of this basis to be an appropriate reflection of the Agency's financial status and results of operations. The more significant accounting policies are described below.

A. DESCRIPTION OF THE REPORTING ENTITY

The Tillamook Urban Renewal Agency (Agency) was formed July 2006, under the provisions of the Oregon Revised Statutes (ORS 457). The Board consists of seven members appointed by the City Council.

Financial accountability is determined primarily on the basis of authority to appoint voting majority of an organization's governing board, ability to impose its will on that organization, the potential for that organization to provide specific benefits or impose specific financial burdens and that organization's fiscal dependency. Component units, as established by the Governmental Accounting Standards Board (GASB) Statement No. 39, are separate organizations that are included in the Agency's reporting entity because of the significance of their operational or financial relationships with the Agency. All significant activities and organizations with which the Agency exercises oversight responsibility have been considered for inclusion in the basic financial statements. There are no component units. The Agency is a component unit of the City of Tillamook and, as such, is included in the financial statements of the City of Tillamook for the year ended June 30, 2011.

B. BASIS OF PRESENTATION

The cash basis of accounting is followed with certain modifications. Under the cash basis receipts are recorded when received and disbursements are recorded as paid. The following are the modifications to the cash basis of accounting: notes receivable are included in the fund statements as receipts when received and in the government-wide statements as a reduction to notes receivable and an increase in cash when received, capital assets are expensed when acquired in the fund statements, but accounted for as an asset in the government-wide statements, debt proceeds are included in the fund statements as receipts and payments are recorded as disbursements, but are accounted for as increases and decreases to debt in the government-wide statements, and interest is accrued in the government-wide statements.

This basis of accounting is not equivalent to accounting principles generally accepted in the United States of America (GAAP) under which revenues are recorded when they become susceptible to accrual (i.e. when they become measurable and available) and expenses are recorded as goods and services when received. For the government-wide statements GAAP requires that the accrual basis of accounting be applied. Under the accrual basis of accounting the cost of capital assets are capitalized and depreciated over their estimated useful lives, debt is recorded as incurred, revenues are recorded when incurred. Management believes the modified cash basis of accounting is preferable due to its size and the necessity of assessing available cash resources. The modified cash basis of accounting is allowed under Oregon Local Budget Law.

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS)

The government-wide statements report information irrespective of fund activity, and the fund financial statements report information using all funds. There are two funds which are considered "major funds" in accordance with GASB 34. Accordingly, there are reconciling statements between the government-wide and governmental statements.

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General receipts are from property and related taxes, and interest. All disbursements are categorized as program disbursements and interest on long-term debt.

FUND ACCOUNTING

Governmental funds are used to account for the general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified cash basis of accounting. Under the modified cash basis, receipts are recorded when received and disbursements are recorded as paid.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as receipts of the current period. All other receipt items are considered to be measurable and available only when cash is received.

There are the following major governmental funds:

General Fund

This fund accounts for all financial receipts and disbursements, except those required to be accounted for in another fund. The principal receipt sources are property taxes and interest revenue.

Debt Service Fund

This fund accounts for the payments on the debt obligations arising from the projects.

C. BUDGETS

A budget is prepared for the governmental funds in accordance with the legal requirements set forth in the Oregon Local Budget Law. The budget process begins early in each fiscal year with the establishment of the budget committee. Recommendations are developed through late winter with the budget committee approving the budget in early spring. Public notices of the budget hearing are generally published in early spring with a public hearing being held approximately three weeks later. The budget may be amended prior to adoption. However, budgeted disbursements for each fund may not be increased by more than ten percent. The budget is then adopted, appropriations are made and the tax levy declared no later than June 30. The budgetary statements are presented on the cash basis of accounting.

The expenditure budgets are appropriated at the following levels:

LEVEL OF CONTROL

Materials and Services
Capital Outlay
Debt Service

Operating Contingency
Transfers Out

Disbursements cannot legally exceed the above appropriation levels except in the case of grants which could not be estimated at the time of budget adoption. Appropriations lapse at the fiscal year end. Management may amend line items in the budget without Board approval as long as appropriation levels (the legal level of control) are not changed. Supplemental appropriations may occur if the Board approves them due to a need which exists which was not determined at the time the budget was adopted.

Budget amounts shown in the basic financial statements and required supplementary data, reflect the final budget amounts. Disbursements in all funds were within authorized appropriations.

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. PROPERTY TAXES

Under state law, county governments are responsible for extending authorized property tax levies, computing tax rates, billing and collecting all property taxes, and making periodic distributions of collections to entities levying taxes. Property taxes become a lien against the property when levied on July 1 of each year and are payable in three installments due on November 15, February 15 and May 15. Property tax collections are distributed monthly except for November, when such distributions are made weekly.

E. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

F. RECEIVABLES AND PAYABLES

Activities between funds that are representative of lending and borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to \ from other funds".

G. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net assets are classified in the following three categories:

Invested in capital assets, net of related debt – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of external constraints placed on asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – consists of all other assets that are not included in the other categories previously mentioned.

H. FUND EQUITY

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

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents inventories and prepaid items.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body. The authority to classify portions of ending fund balance as Assigned is granted to the City Manager and the manager's assistant.
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

At June 30, 2011, there were no nonspendable, restricted or committed fund balances.

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

2. CASH AND INVESTMENTS

State statutes govern the cash management policies. Statutes authorize investment in bankers acceptances, time certificates of deposit, repurchase agreements, obligations of the United States and its agencies and instrumentalities, and the Oregon State Treasurer's Local Government Investment Pool.

A cash pool is maintained that is available for use by all funds. Each fund type's portion of this pool is reported on the combined balance sheet as Cash and Investments.

Cash and Investments (recorded at cost) consisted of:

Deposits With Financial Institutions:	
Demand Deposits	\$ 11,226
Investments	175,569
	<u>\$ 186,795</u>

DEPOSITS

Deposits with financial institutions are comprised of bank demand deposits. The total bank balance per the bank statements was \$11,619, all of which was covered by federal depository insurance and the National Credit Union Administration (NCUA). Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury.

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS

The State Treasurer’s Local Government Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State’s investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements.

Amounts in the State Treasurer’s Local Government Investment Pool are not required to be collateralized. The fair value of the investment Pool at June 30, 2011 was approximate to the value of the shares in the pools reported value. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

Investments on June 30, 2011 consist of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in months)</u>		
		<u>Less than 3</u>	<u>3-17</u>	<u>18-59</u>
State Treasurer’s Investment Pool	\$ 175,569	\$ 175,569	\$ -	\$ -
Total	<u>\$ 175,569</u>	<u>\$ 175,569</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. There are no investments that have a maturity date beyond three months.

Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned. There is no deposit policy for custodial credit risk. As of June 30, 2011, none of the bank balance of \$11,619 was exposed to custodial credit risk because it was fully insured.

Credit Risk – Investments

Oregon Revised Statutes does not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

Concentration of Credit Risk

At June 30, 2011, 100% of total investments were in the State Treasurer’s Investment Pool. State statutes do not limit the percentage of investments in State Treasurer’s Investment Pool.

3. RISK MANAGEMENT

There is exposure to various risks of loss related to torts; errors and omissions; and natural disasters. The Agency is covered by The City of Tillamook’s commercial insurance to minimize its exposure to these risks. Settled claims have not exceeded this commercial coverage for and of the past three fiscal years.

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

4. PROPERTY TAX LIMITATIONS

The State of Oregon imposes a constitutional limit on property taxes for schools and nonschool government operations. School operations include community colleges, local school districts, and education service districts. The limitation provides that property taxes for nonschool operations are limited to \$10.00 for each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt.

The State further reduced property taxes by replacing the previous constitutional limits on tax bases with a rate and value limit in 1997. This reduction is accomplished by rolling property values back to their 1995-96 values less 10% and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The State Constitution sets restrictive voter approval requirements for most tax and many fee increases and new bond issues, and requires the State to minimize the impact to school districts from the impact of the tax cuts.

5. LONG-TERM DEBT

In 2010, a combination of five line of credit loans totaling \$406,414, with stated interest rates between 3.5-5.5%, were received from TLC Federal Credit Union for the purpose of financing costs of urban renewal projects within the area. In 2011, three of the loans were refinanced into a single loan and two new loans were received, with stated interest rates of 4.5% and 4.8%.

	Rates	07/1/10	Additions	Reductions	06/30/11	One Year
TLC TURA Loan #144	5.5%	67,000	-	67,000	-	-
TLC TURA Loan #145	5.5%	144,000	-	33,209	110,791	34,992
TLC TURA Loan #148	4.8%	-	197,467	-	197,467	197,467
TLC TURA Loan #149	4.5%	195,414	12,215	43,097	164,532	38,372
TLC TURA Loan #151	4.5%	-	32,870	-	32,870	32,870
Total Short-term Liabilities		<u>\$ 406,414</u>	<u>\$ 242,552</u>	<u>\$ 143,306</u>	<u>\$ 505,660</u>	<u>\$ 303,701</u>

Annual debt service requirements to maturity for long-term debt are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2012	303,701	24,356
2013	77,015	9,846
2014	80,786	6,075
2015	43,789	1,987
2016	369	17
Total	<u>\$ 505,660</u>	<u>\$ 42,281</u>

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

NOTES TO COMPONENT UNIT BASIC FINANCIAL STATEMENTS

6. NOTES RECEIVABLE

The note receivable is due from the owner of Superior Standard Construction, Inc. for the revitalization of a building located on the corner of 2nd and Main in Tillamook. The original amount of this loan was \$58,720. The full amount of this note is deemed collectible by management, thus no allowance for uncollectible accounts has been established. The loan has an interest rate of 5.50% and payments of principal and interest are due every month. As of June 30, 2011 the total amount the of note receivable was \$54,720. The following is a schedule of the note receivable:

Loan Receivable #147	\$ 54,720
	<u>\$ 54,720</u>

7. CAPITAL ASSETS

The changes in capital assets for the fiscal year ended June 30, 2011 are as follows:

	Governmental Capital Assets 7/1/2010	Additions	Deletions	Governmental Capital Assets 6/30/2011
Capital assets not being depreciated:				
Land	\$ 288,131	\$ -	\$ -	\$ 288,131
Total capital assets not being depreciated	<u>288,131</u>	<u>-</u>	<u>-</u>	<u>288,131</u>
Less: Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets being depreciated, net	<u>-</u>			<u>-</u>
Total capital assets, net	<u>\$ 288,131</u>			<u>\$ 288,131</u>

8. CHANGE IN ACCOUNTING PRINCIPLE

The Tillamook Urban Renewal Agency changed the basis of accounting from modified accrual to modified cash. As a result of this change the beginning fund balance were adjusted for both the Debt Service Fund and the government wide statements to account for the removal of property taxes receivable and deferred revenue. The net change to the beginning fund balance of the Debt Service Fund was a decrease of \$2,683. The net change to the beginning fund balance on the government wide statements was a decrease of \$13,540.

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**TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON**

SUPPLEMENTARY DATA

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TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2011

	<u>GENERAL FUND</u>			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
RECEIPTS:				
Interest on investments	\$ 500	\$ 500	\$ 956	\$ 456
Loan Repayment	7,800	7,800	4,000	(3,800)
Grants and Donations	5,000	5,000	-	(5,000)
	<u>13,300</u>	<u>13,300</u>	<u>4,956</u>	<u>(8,344)</u>
DISBURSEMENTS:				
Materials & services	52,660	52,660 (1)	43,109	9,551
Capital Outlay	150,000	540,000 (1)	275,272	264,728
Contingencies	12,140	12,140 (1)	-	12,140
	<u>214,800</u>	<u>604,800</u>	<u>318,381</u>	<u>286,419</u>
Excess of Receipts, Over (Under) Disbursements	(201,500)	(591,500)	(313,425)	278,075
Other Financing Sources, (Uses)				
Transfers in	201,350	201,350	201,350	-
Transfers out	(166,350)	(166,350) (1)	-	166,350
Special Payments	(200,000)	(210,000) (1)	(164,311)	45,689
Loan Proceeds	-	480,000	242,552	(237,448)
	<u>(366,500)</u>	<u>(286,500)</u>	<u>(33,834)</u>	<u>252,666</u>
Net Change in Fund Balance	(366,500)	(286,500)	(33,834)	252,666
Beginning Fund Balance	<u>170,000</u>	<u>170,000</u>	<u>171,684</u>	<u>1,684</u>
Ending Fund Balance	<u>\$ (196,500)</u>	<u>\$ (116,500)</u>	<u>\$ 137,850</u>	<u>\$ 254,350</u>

(1) Appropriation Level

(2) See page 18 regarding OMS Budget finding.

TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
 ACTUAL AND BUDGET
 For the Year Ended June 30, 2011

	<u>DEBT SERVICE FUND</u>			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
RECEIPTS:				
Property Taxes	\$ 215,500	\$ 215,500	\$ 213,518	\$ (1,982)
Interest Earned	1,000	1,000	-	(1,000)
Total Receipts	<u>216,500</u>	<u>216,500</u>	<u>213,518</u>	<u>(2,982)</u>
DISBURSEMENTS:				
Debt Service	140,000	140,000 (1)	-	140,000
Total Disbursements	<u>140,000</u>	<u>140,000</u>	<u>-</u>	<u>140,000</u>
Excess of Receipts, Over (Under) Disbursements	76,500	76,500	213,518	137,018
Other Financing Sources, (Uses)				
Transfers out	-	(201,350) (1)	(201,350)	-
Net Change in Fund Balance	76,500	(124,850)	12,168	137,018
Beginning Fund Balance	<u>125,000</u>	<u>125,000</u>	<u>36,777 (2)</u>	<u>(88,223)</u>
Ending Fund Balance	<u>\$ 201,500</u>	<u>\$ 150</u>	<u>\$ 48,945</u>	<u>\$ 48,795</u>

(1) Appropriation Level

(2) Decrease in Beginning Fund Balance is due to change in accounting principal. See footnote on page 14.

TILLAMOOK URBAN RENEWAL AGENCY

TILLAMOOK COUNTY, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED

For the Year Ended June 30, 2011

<u>TAX YEAR</u>	<u>ORIGINAL LEVY OR BALANCE UNCOLLECTED 7/1/10</u>	<u>DEDUCT DISCOUNTS</u>	<u>ADJUSTMENTS TO ROLLS</u>	<u>INTEREST</u>	<u>CASH COLLECTIONS BY COUNTY TREASURER</u>	<u>BALANCE UNCOLLECTED OR UNSEGREGATED AT 6/30/11</u>
Current:						
2010-2011	\$ 222,190	\$ 5,251	\$ (194)	\$ 213	\$ 206,622	\$ 10,336
Prior Years:						
2009-2010	8,999	-	(44)	322	4,493	4,784
2008-2009	3,491	-	(29)	259	1,538	2,183
2007-2008	1,049	-	(1)	212	865	395
Total Prior	13,539	-	(74)	793	6,896	6,569
Total	<u>\$ 235,729</u>	<u>\$ 5,251</u>	<u>\$ (268)</u>	<u>\$ 1,006</u>	<u>\$ 213,518</u>	<u>\$ 17,698</u>

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TILLAMOOK URBAN RENEWAL AGENCY
TILLAMOOK COUNTY, OREGON

INDEPENDENT AUDITORS' REPORT REQUIRED BY
OREGON STATE REGULATIONS

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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November 21, 2011

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the Tillamook Urban Renewal Agency as of and for the year ended June 30, 2011, and have issued our report thereon dated November 21, 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 Tillamook Urban Renewal Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial 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.**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Authorized investment of surplus funds (ORS Chapter 294).**

In connection with our testing nothing came to our attention that caused us to believe the Tillamook Urban Renewal 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. The 2010-11 budget and supplemental budgets were incorrectly calculated and this resulted in a budgeted negative fund balance.
2. A supplemental budget was adopted for which the resolution appropriating funds did not agree with the supplemental budget document.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the internal controls over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal controls over financial reporting.

This report is intended solely for the information and use of the Board and management and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

Pauly, Rogers and Co. P.C.
PAULY, ROGERS AND CO., P.C.