

JACKSONVILLE URBAN RENEWAL AGENCY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, OREGON)
FINANCIAL STATEMENTS
JUNE 30, 2012



Certified Public Accountants

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June 30, 2012**

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INTRODUCTORY SECTION

**Jacksonville Urban Renewal Agency
Elected and Appointed Officials
For the Year Ended June 30, 2012**

Mayor

Paul Becker
1055 N. 5th St. No 117
Jacksonville, Oregon
(Elected 11/10)

Council Members

Christina Duane
240 Coachman Dr.
Jacksonville, Oregon
(Elected 11/10)

David Jesser
884 Hill St.
Jacksonville, Oregon
(Appointed 11/10)

Donna Schatz
405 Mary Ann Dr
Jacksonville, Oregon
(Elected 11/96 and re-elected 11/00, 11/04 and 11/08)

City Administrator

Jeff Alvis
P.O. Box 1913
Jacksonville, Oregon

City Attorney

Kurt Knudsen
1875 Hwy 99 N., Suite 4
Ashland, Oregon

Treasurer

Stacey McNichols
1848 Northwood Dr.
Central Point, Oregon

Paul Hayes
105 Jackson Creek Dr
Jacksonville, Oregon
(Elected 11/10)

Dan Winterburn
245 Laurel Wood
Jacksonville, Oregon
(Elected 11/08)

Jim Lewis
622 Grove St.
Jacksonville, Oregon
(Elected 11/10)

City Recorder

Jan Garcia
3053 Adams Circle
Medford, Oregon

Municipal Court Judge

Mark Burkhalter
Two North Oakdale Ave.
Medford, Oregon

FINANCIAL SECTION



824 Pine Street
Klamath Falls, OR 97601
(541) 884-4164
Fax: (541) 883-1232

A0610-47301-5

Certified Public Accountants

Independent Auditors' Report

Board of Directors
Jacksonville Urban Renewal Agency
Jacksonville, Oregon

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of Jacksonville Urban Renewal Agency, a component unit of the City of Jacksonville, Oregon, as of and for the year ended June 30, 2012, which collectively comprise Jacksonville Urban Renewal Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Jacksonville Urban Renewal Agency's management. Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, Jacksonville Urban Renewal Agency, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and each major fund of Jacksonville Urban Renewal Agency, a component unit of the City of Jacksonville, Oregon, as of June 30, 2012, and the respective changes in financial position for the year then ended on the basis of accounting described in Note 1.

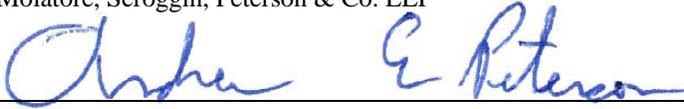
In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, on our consideration of Jacksonville Urban Renewal Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are 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 inquires of management regarding the methods of measurement and presentation of management's discussion and analysis. However, we did not audit the information and express no opinion on it. The budgetary comparison 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 on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jacksonville Urban Renewal Agency's basic financial statements. The other supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary schedules have been

subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

Molatore, Scroggin, Peterson & Co. LLP



Andrew E. Peterson, Partner

Klamath Falls, Oregon
November 19, 2012

**Jacksonville Urban Renewal Agency
Management's Discussion and Analysis
June 30, 2012**

As management of the Jacksonville Urban Renewal Agency, we offer readers of the Jacksonville Urban Renewal Agency's financial statements this narrative overview and analysis of the financial activities of the Jacksonville Urban Renewal Agency for the fiscal year ended June 30, 2012.

Financial Highlights

- As Urban Renewal districts are intended to function, the liabilities of the Jacksonville Urban Renewal Agency exceeded its assets at the close of the most recent fiscal year by \$709,194 (*net assets*). Of this amount, \$63,837 (*total assets*) maybe used to meet the government's ongoing obligations to citizens and creditors.
- The Urban Renewal's total net assets increased by \$219,263. This increase is attributable to the pay down of debt.
- As of the close of the current fiscal year, the Jacksonville Urban Renewal Agency's governmental funds reported an ending fund balance of \$(255,670), an increase of \$ 45,881 in comparison with the prior year.
- The Jacksonville Urban Renewal Agency's total debt did not increase during the current fiscal year.

Overview of the Financial Statements

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

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Jacksonville 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 Jacksonville 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 Jacksonville Urban Renewal Agency is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported when they result from a cash transaction.

The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund financial statements

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

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 financing 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Jacksonville Urban Renewal Agency maintains one individual governmental fund.

**Jacksonville Urban Renewal Agency
Management's Discussion and Analysis
June 30, 2012**

The Jacksonville Urban Renewal Agency adopts an annual appropriated budget for its one fund. A budgetary comparison statement has been provided for the Urban Renewal fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on page 17 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 through 16 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Jacksonville Urban Renewal Agency's budget to actual statement. Required supplementary information can be found on page 17 of this report.

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 Jacksonville Urban Renewal Agency, liabilities exceeded assets by \$928,458 at the close of the most recent fiscal year. The largest portion of the Jacksonville Urban Renewal Agency's net assets (90 percent) reflects its long term liabilities and loan payables.

Jacksonville Urban Renewal Agency's Net Assets

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 63,837	\$ 51,411
Total Assets	<u>63,837</u>	<u>51,411</u>
Long Term Liabilities	666,231	862,765
Other liabilities	<u>106,800</u>	<u>116,658</u>
Total Liabilities	773,031	979,423
Invested in capital assets, net of related debt	(453,524)	(626,907)
Unrestricted	<u>(255,670)</u>	<u>(301,551)</u>
Total Net Assets	<u>\$ (709,194)</u>	<u>\$ (928,458)</u>

The Agency's net assets increased by \$219,263 during the current fiscal year. This increase represents the careful department management, which ensures that ongoing revenues are matched by controlled expenditures.

**Jacksonville Urban Renewal Agency
Management's Discussion and Analysis
June 30, 2012**

Governmental activities

Governmental activities increased Jacksonville Urban Renewal Agency's net assets by \$219,263. Key elements of this increase are as follows:

Jacksonville Urban Renewal Agency's Changes in Net Assets

	Governmental activities	
	2012	2011
Revenues:		
General revenues:		
Property taxes	\$ 216,238	\$ 196,748
Other	1,600	701
Gain on cancellation of debt	59,014	-
Total revenues	<u>276,852</u>	<u>197,449</u>
Expenses:		
Materials & Service	30,790	4,840
Interest on long-term debt	26,799	27,722
Total expenses	<u>57,589</u>	<u>32,562</u>
Change in net assets	219,263	164,887
Net assets – Beginning	(928,457)	(1,093,344)
Net assets - Ending	<u>\$ (709,194)</u>	<u>\$ (928,457)</u>

Property taxes increased by \$19,490 (9.9 percent) during the year.

Financial Analysis of the Government's Funds

As noted earlier, the Jacksonville Urban Renewal Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the Jacksonville 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 Jacksonville Urban Renewal Agency's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Jacksonville Urban Renewal Agency's governmental funds reported an ending fund balance of \$(255,670), an increase of \$45,881 in comparison with the prior year. The Urban Renewal fund is primarily reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was the result of paying down debt.

General Fund Budgetary Highlights

During the year there were no significant changes in appropriations between the original and final amended budget.

Debt Administration

Long-term Debt

At the end of the current fiscal year, the City of Jacksonville had total long term debt outstanding of \$453,524.

Jacksonville Urban Renewal Agency's Outstanding Debt

	Governmental Activities	
	2012	2011
Loan payable -OTIB	\$453,524	\$626,462
Total	<u>\$453,524</u>	<u>\$626,462</u>

The Jacksonville Urban Renewal Agency's debt decreased by \$173,383 due to the principal payments of debt.

**Jacksonville Urban Renewal Agency
Management's Discussion and Analysis
June 30, 2012**

Additional information on the Jacksonville Urban Renewal Agency's long-term debt can be found in note 6 on page 16 of this report.

Requests for Information

This financial report is designed to provide a general overview of the Jacksonville Urban Renewal Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, P.O. Box 7, City of Jacksonville, OR, 97530.

BASIC FINANCIAL STATEMENTS

Jacksonville Urban Renewal Agency
Statement of Net Assets – Modified Cash Basis
June 30, 2012

Assets	Governmental Activities
Current Assets:	
Investments	\$ 63,837
Total Current Assets	<u>63,837</u>
Total Assets	<u>63,837</u>
Liabilities	
Current Liabilities:	
Loans payable	<u>106,800</u>
Total Current Liabilities	<u>106,800</u>
Noncurrent Liabilities:	
Due to City of Jacksonville, Oregon	319,507
Loans payable	<u>346,724</u>
Total Noncurrent Liabilities	<u>666,231</u>
Total Liabilities	<u>773,031</u>
Net Assets	
Invested in capital assets, net of related debt	(453,524)
Unrestricted	<u>(255,670)</u>
Total Net Assets	<u><u>\$ (709,194)</u></u>

The notes to the financial statements are an integral part of this statement.

Jacksonville Urban Renewal Agency
Statement of Activities – Modified Cash Basis
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			(Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Total Governmenta l Activities
Governmental Activities:					
General	\$ 30,790	\$ -	\$ -	\$ -	\$ (30,790)
Interest Expense	26,799	-	-	-	(26,799)
Total Government Activities	<u>57,589</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,589)</u>
Total	<u>\$ 57,589</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(57,589)</u>
General Revenues:					
Property taxes					216,238
Unrestricted investment earnings					1,600
Gain on cancellation of debt					<u>59,014</u>
Total General Revenues and Transfers					<u>276,852</u>
Change in Net Assets					219,263
Net Assets - Beginning					<u>(928,457)</u>
Net Assets - Ending					<u>\$ (709,194)</u>

The notes to the financial statements are an integral part of this statement.

**Jacksonville Urban Renewal Agency
Balance Sheet – Modified Cash Basis
Government Funds
June 30, 2012**

	Urban Renewal Fund	Total Governmental Funds
Assets		
Cash & Investments	\$ 63,837	63,837
Total Assets	\$ 63,837	\$ 63,837
Liabilities and Fund Balances		
Liabilities:		
Due to City of Jacksonville	\$ 319,507	\$ 319,507
Total Liabilities	319,507	319,507
Fund balances:		
Unreserved, reported in:		
General fund	(255,670)	(255,670)
Total Fund Balances	(255,670)	(255,670)
Total Liabilities and Fund Balances	\$ 63,837	
Amounts reported for governmental activities in the statement of net assets are different because:		
Long-term liabilities are not due and payable in the current period and therefore not reported in the funds.		(453,524)
Net assets of governmental activities		\$ (709,194)

The notes to the financial statements are an integral part of this statement.

Jacksonville Urban Renewal Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances
Modified Cash Basis – Governmental Funds
June 30, 2012

	Urban Renewal Fund	Total Governmental Funds
Revenues		
Taxes	\$ 216,238	\$ 216,238
Investment income	1,600	1,600
Total Revenues	<u>217,838</u>	<u>217,838</u>
Expenditures		
Materials and services	30,789	30,789
Debt service	141,168	141,168
Total Expenditures	<u>171,957</u>	<u>171,957</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	45,881	45,881
Other Financing Sources (Uses)		
Debt proceeds	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>
Net Change in Fund Balances	45,881	45,881
Fund Balances - Beginning	<u>(301,551)</u>	<u>(301,551)</u>
Fund Balances - Ending	<u>\$ (255,670)</u>	<u>\$ (255,670)</u>

The notes to the financial statements are an integral part of this statement.

Jacksonville Urban Renewal Agency
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance
Modified Accrual Basis of Governmental Funds to the Statement of Activities – Modified Cash Basis
For the Year Ended June 30, 2012

Amounts reported for governmental activities in the statement of activities (page 8) are different because:

Net change in fund balances - total governmental funds (page 10) \$ 45,881

Gain on cancelation on debt 59,014

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

114,369

Change in net assets of governmental activities (page 8) \$ 219,264

Jacksonville Urban Renewal Agency
Notes to the Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies

Organization

The Jacksonville Urban Renewal Agency (Agency), was organized in 2002 under the provisions of ORS Chapter 457 as the urban renewal agency in the City of Jacksonville, Oregon (City), responsible for implementing various public improvement projects as identified in the revitalization plan of the City.

The “tax increment financing” method is being used to provide funds for the Agency. Under this method, a base year value within the urban renewal area is established for the duration of the urban renewal program. Any increase in the assessed value over the base year cannot be used by the assessor to compute tax rates for the local taxing bodies. The assessor computes the tax rate on the base year value of the area and then applies that rate to the increase in assessed value. The tax on the increased value can be used by the Agency only to pay indebtedness incurred to finance the urban renewal projects.

The following is a summary of significant accounting policies utilized by the Agency in the preparation of the accompanying financial statements.

Reporting entity

The Agency’s governing body is identical to that of the City, and because the services of the Agency are for the benefit of the City, the Agency has been determined under accounting standards generally accepted in the United States of America to be a blended component unit of the City. As a result, the Agency’s financial statements are blended with those of the City by including them in the appropriate statements and schedules of the City’s Annual Financial Report. Copies of which may be obtained from the City Treasurer, P.O. Box 7, Jacksonville, OR 97530.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component unit. *Governmental activities*, which normally are 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* 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*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

In the government wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net-assets/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than generally accepted accounting principles. (OCBOA)

If the Agency utilized generally accepted accounting principles, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government wide financial statements would be presented on the accrual basis of accounting.

Under the modified accrual basis revenues are recognized when measureable and available. Measureable means being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Under the accrual basis revenues are recognized when earned. Expenses (including depreciation and amortization) are recorded when the liability is incurred or the economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Jacksonville Urban Renewal Agency
Notes to the Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies *(continued)*

The Agency reports the following major governmental funds:

The *urban renewal fund* accounts for receipts from property tax increment for its specified area. The funds are restricted for maintenance and capital improvements.

Amounts reported as *program revenues* include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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.

Deposits and investments

The Agency participates in the City's cash and investment pool.

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, Local Government Investment Pool deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Agency are reported at fair value. The Agency participates in the Oregon State Treasurer's Local Government Investment Pool (LGIP), an open ended, no-load diversified portfolio created under ORS 294.805 to 294.895. The LGIP is administered by the State Treasurer and the Oregon Investment Council with the advice of the Oregon Short-Term Bond Fund Board. The Oregon State Treasurer's Office has calculated the fair value of the underlying investments of the LGIP and the Agency's share of fair value is the same as the reported value. The Agency's investment portfolio as of June 30, 2012, is representative of the types of investments made throughout the year.

Receivables and payables

Property taxes become a lien against the property, as of July 1, in the year in which due and are assessed in October through billing by the county to the property owner. Payments are due in three equal installments on November 15, February 15 and May 15 with a 3% discount available for payment in full on November 15. Taxes unpaid and outstanding on May 16 are considered delinquent and are subject to lien, and penalties and interest are assessed.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities columns in the government-wide financial statements. The Agency defines capital assets as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. All vehicles (rolling stock) are capitalized regardless of cost. The Agency reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

As the Agency constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the Agency values these assets at the estimated fair value of the item at the date of its donation.

Fixed assets purchased by the Agency are transferred to the City for ownership and maintenance once constructed.

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Jacksonville Urban Renewal Agency
Notes to the Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies *(continued)*

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Stewardship, Compliance, and Accountability

Budgetary information

The Agency budgets all funds. A City Council order authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Either expenditures by department within funds or total personal services, materials and services, capital outlay, debt service and other expenditures by fund are the levels of control established by the City Council order. The detail budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories. All annual appropriations lapse at fiscal year end.

Unexpected additional resources or appropriations may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and approval by the City Council. Original and supplemental budgets may be modified during the fiscal year by the use of appropriations transfers between the levels of control. Such transfers require approval by passing a Council resolution authorizing the transfer. All budget amendments are subject to the limitations set forth in Oregon Revised Statutes 294.305 through 294.565 (Oregon Budget Law). Supplemental appropriations, permitted by Oregon Budget Law, were authorized by the City Council during the year. The Agency does not use encumbrances.

Annual budgets are adopted on a basis consistent with the modified cash basis of accounting for all funds with the following exception: loans with the City of Jacksonville, Oregon are budgeted similar to other debt transactions. The nature and amount of all significant adjustments necessary to convert data prepared on a basis consistent with the modified cash basis of accounting to a budgetary basis are noted on the budget to actual statements included in the financial statements.

Deficit fund equity

The Urban Renewal Fund had a deficit fund balance of \$(255,670) as of June 30, 2012.

Note 3 – Investments

Investments are comprised of the following as of June 30, 2012:

Deposits with Local Government Investment Pool \$357,761

Interest rate risk - Investments

The Agency does not have a policy regarding interest rate risk. The Agency's investment portfolio consisted of investments in the LGIP.

Credit risk – Investments

Oregon Revised Statutes, Chapter 294, authorize the Agency to invest in obligations of the U.S. Treasury, U.S. Government Agencies, banker's acceptances guaranteed by an Oregon financial institution, repurchase agreements, State of Oregon Local Government Investment Pool, certain high grade commercial paper, and various interest bearing bonds of Oregon municipalities, among others. The Agency has not adopted a policy for credit risk beyond those required by ORS Chapter 294

Jacksonville Urban Renewal Agency
Notes to the Financial Statements
June 30, 2012

Note 3 – Investments *(continued)*

Concentration of credit risk – Investments

The Agency does not have a policy regarding concentration of credit risk.

Custodial credit risk – Investments

For an investment, this is the risk that, in the event of the failure of the counter party, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The LGIP’s collateral requirements are mandated under ORS Chapter 295 and are considered to have little or no custodial credit risk exposure. The Agency has not adopted a policy for custodial credit risk.

Note 4 – Note Payable – City of Jacksonville

At the end of the current fiscal year, the Agency had an outstanding payable totaling \$319,507 to the City. All of which is due to the General Fund. The amount will be repaid as revenues are available.

Note 5 – Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	-	-	-	-
Governmental activities capital assets, net	\$ -	\$ -	\$ -	\$ -

Jacksonville Urban Renewal Agency
Notes to the Financial Statements
June 30, 2012

Note 6 – Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012 Included in this activity is the results of the State of Oregon reducing the balance by \$58,569:

Long-term liability activity for the year ended June 30, 2010:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amounts Due</u> <u>Within One Year</u>
Governmental Activities					
Notes					
Loan Payable - Oregon Transportation Infrastructure Bank Loan (OTIB): Issued October 3, 2003, face amount \$1,140,779 street improvement loan. Annual payments of interest only for first 2 years, then annual payments of principal and interest (4.000%) are	626,907	-	172,938	453,969	106,800
Total notes	626,907	-	172,938	453,969	106,800
Governmental activities long-term liabilities	<u>\$ 626,907</u>	<u>\$ -</u>	<u>\$ 172,938</u>	<u>\$ 453,969</u>	<u>\$ 106,800</u>

The Agency has entered into long-term agreements as noted below. Annual debt service requirements to maturity for long-term liabilities are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Loan Payable - OTIB					
Principal	106,800	111,072	115,515	120,136	453,523
Interest	18,141	13,869	9,426	4,805	46,241
Total Long-Term Liabilities	<u>\$ 124,941</u>	<u>\$ 124,941</u>	<u>\$ 124,941</u>	<u>\$ 124,941</u>	<u>\$ 499,764</u>

Note 7 – Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Agency carries commercial insurance. The Agency has not elected to self-insure for any of these risks, except for the deductible portions of the commercial insurance. Insurance coverage is provided through the City.

During the current year, there were no significant reductions in insurance coverage from the prior year in any major category of coverage. In addition, insurance settlements have not exceeded insurance coverage during any of the past three years.

Jacksonville Urban Renewal Agency
Notes to the Financial Statements
June 30, 2012

Note 8 – New Pronouncements

The Governmental Accounting Standards Board issued statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this Statement will be implemented by the government in the fiscal year ending June 30, 2013.

The Governmental Accounting Standards Board issued statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, which should improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement will be implemented by the government in the fiscal year ending June 30, 2013.

REQUIRED SUPPLEMENTAL INFORMATION

Jacksonville Urban Renewal Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Urban Renewal Fund – Budgetary Basis
June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 225,240	\$ 225,240	\$ 216,238	\$ (9,002)
Investment income	1,000	1,000	1,600	600
Total Revenues	<u>226,240</u>	<u>226,240</u>	<u>217,838</u>	<u>(8,402)</u>
Expenditures				
Personal services	-	-	-	-
Materials and services	24,294	44,294	49,244	(4,950)
Debt service	166,168	166,168	156,168	10,000
Capital outlay	-	-	-	-
Total Expenditures	<u>190,462</u>	<u>210,462</u>	<u>205,412</u>	<u>5,050</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	35,778	15,778	12,426	(3,352)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	35,778	15,778	12,426	(3,352)
Fund Balance - Beginning of Year	<u>45,067</u>	<u>45,067</u>	<u>(301,551)</u>	<u>(346,618)</u>
Fund Balance - End of Year	<u>\$ 80,845</u>	<u>\$ 60,845</u>	(289,125)	<u>\$ (349,970)</u>
Reconciliation				
Repayment to City of Jacksonville, Oregon			<u>33,455</u>	
Fund Balance - End of Year (OCBOA)			<u>\$ (255,670)</u>	

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTARY SCHEDULES

**Jacksonville Urban Renewal Agency
Schedule of Property Tax Transactions
For the Year Ended June 30, 2012**

Schedule A-1

	Assessor's Current Levy and Balances June 30, 2011	Discounts/ Adjustments	Taxes Collected	Balance Uncollected June 30, 2012	Interest Collected (Memo Only)
Fiscal Year					
2011-2012	\$ 204,764	\$ 5,500	\$ 190,920	\$ 8,344	\$ 129
Prior years					
2010-11	7,612	225	3,818	3,569	292
2009-10	3,252	58	1,287	1,907	250
2008-09	845	22	454	369	143
2007-08	151	8	77	66	30
2006-07 and prior	384	5	19	360	26
Total - Prior Years	12,245	318	5,655	6,272	741
Total	\$ 217,008	\$ 5,818	\$ 196,575	\$ 14,615	\$ 870

**GOVERNMENT AUDITING STANDARDS
AND AUDIT COMMENTS SECTIONS**

GOVERNMENT AUDITING STANDARDS



824 Pine Street
Klamath Falls, OR 97601
(541) 884-4164
Fax: (541) 883-1232

Certified Public Accountants

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Board of Directors
Jacksonville Urban Renewal Agency
Jacksonville, Oregon

We have audited the basic financial statements of Jacksonville Urban Renewal Agency, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jacksonville Urban Renewal Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Jacksonville Urban Renewal Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Jacksonville Urban Renewal 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 probability 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 the internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we considered to be material weaknesses or significant deficiencies, as defined above.

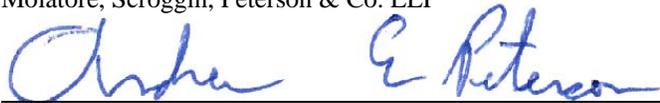
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jacksonville 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 grant agreements, 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Jacksonville Urban Renewal Agency, in a separate letter dated November 19, 2012.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Molatore, Scroggin, Peterson & Co. LLP

A handwritten signature in blue ink, appearing to read "Andrew E. Peterson", is written over a horizontal line.

Andrew E. Peterson, Partner

Klamath Falls, Oregon
November 19, 2012

**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATION**



824 Pine Street
Klamath Falls, OR 97601
(541) 884-4164
Fax: (541) 883-1232

Certified Public Accountants

**Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Oregon Minimum Standards***

Board of Directors
Jacksonville Urban Renewal Agency
Jacksonville, Oregon

We have audited the basic financial statements of Jacksonville Urban Renewal Agency as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

Compliance

As part of obtaining reasonable assurance about whether the Jacksonville Urban Renewal Agency's basic financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

- The accounting records and related internal control structure.
- The use of various depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption, and execution of the annual budgets for fiscal years 2011 and 2012.
- The requirements relating to insurance and fidelity bond coverage.
- The requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

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. The results of our tests disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State, except those described below.

The Agency expended material and services by \$4,950 due to the payment of amounts in 2011-12 that were intended for the 2010-11 year. This doubling up of expenses should not occur again.

Internal Control Over Financial Reporting

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2011, on our consideration of Jacksonville Urban Renewal Agency's internal control over financial reporting. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of management, Board of Directors, and the Secretary of State, Audits Division and is not intended to be and should not be used by anyone other than those specified parties.

Molatore, Scroggin, Peterson & Co. LLP



Andrew E. Peterson, Partner

Klamath Falls, Oregon
November 19, 2012