

CITY OF KEIZER
URBAN RENEWAL AGENCY
(A component unit of the
City of Keizer, Oregon)
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2007

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
AGENCY OFFICIALS
JUNE 30, 2007

MAYOR

Lore Christopher
6598 Stone Mason Lane NE
Keizer, Oregon 97303

Term Expires

January 2009

CITY COUNCIL

Jacque Moir
6745 McLeod Lane NE
Keizer, Oregon 97303

January 2009

Richard Walsh
5945 Shoreview Lane N.
Keizer, Oregon 97303

January 2011

James Taylor
1986 Meadowlark Drive NE
Keizer, Oregon 97303

January 2011

David McKane
674 Fall Creek Drive N
Keizer, Oregon 97303

January 2009

Troy Nichols
1085 Fir Cone Lane NE
Keizer, Oregon 97303

January 2009

Cathy Clark
715 Ventura Street N.
Keizer, Oregon 97303

January 2011

930 Chemawa Road NE
Keizer, Oregon 97303

CITY ATTORNEY

E. Shannon Johnson
Lien & Johnson

STAFF

CITY MANAGER
Chris Eppley

FINANCE DIRECTOR
Susan Gahlsdorf

CHIEF OF POLICE
Marc Adams

HUMAN RESOURCES DIRECTOR
Dianne Hunt

CITY RECORDER
Tracy Davis

COMMUNITY DEVELOPMENT DIRECTOR
Nathan Brown

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
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GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Keizer Urban Renewal Agency
Keizer, Oregon 97307

We have audited the accompanying financial statements of the governmental activities and each major fund of the Urban Renewal Agency of the City of Keizer, Oregon (a Component Unit of the City of Keizer, Oregon) as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Urban Renewal Agency of the City of Keizer, Oregon as of June 30, 2007, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Urban Renewal Agency of the City of Keizer, Oregon. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

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

By:  _____
Charles A. Swank, A Shareholder
December 7, 2007

Keizer Urban Renewal Agency, Marion County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2007

As management of the City of Keizer Urban Renewal Agency, we offer readers this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2007.

Financial Highlights

Urban renewal districts in the state of Oregon are required to establish a maximum indebtedness which is the total cost to complete all of the projects in the Urban Renewal Plan. Once it reaches its maximum indebtedness the district has theoretically completed its purpose and stops collecting tax increment revenue for new projects. After the outstanding debt has been paid off, the district dissolves. The District reached its maximum indebtedness of \$22,390,384 in fiscal year 2004-05. In fiscal year 2005-06 the District collected a sufficient amount of tax increment revenue to pay off its existing debt, and preceded to defease the full general obligation debt of \$3,445,000 outstanding at June 30, 2005.

In November 2005, the City Council passed the sixth amendment to the Keizer Urban Renewal District which increased the maximum indebtedness an additional \$23,500,000 extending the life of the District through fiscal year 2011-12 (estimated). The sixth amendment also removed approximately one-third of the property values from the District boundaries, reducing the tax increment revenue an estimated \$1.6 million.

Projects during fiscal year 2007 included:

- Acquired property for Rickman Road, coinciding with the improvements for the Rickman Road improvement project.
- Continued development of the River Road Renaissance plan.
- Began engineering and design of the new civic center.

Property tax increment revenue for fiscal year 2007 was over \$2.9 million.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements and required supplementary information. The Agency's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes 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 Agency's finances, in a manner similar to a private-sector business. These statements include all assets of the Agency (including infrastructure such as streets, traffic signals, street lights, buildings, bridges, etc) as well as all liabilities (including general obligation long-term debt).

The Statement of Net Assets presents information on all of the 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 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 result in cash inflows or outflows in a future fiscal period.

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 Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for activities where the emphasis is placed on available financial resources, rather than upon net income determination. Therefore, unlike the government-wide financial statements, governmental fund financial statements focus on the acquisition and use of current 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 the Agency's near-term 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 financial decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the basic financial statements - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. They are an integral part of the basic financial statements and should be read in conjunction with them.

Government-Wide Financial Analysis

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Change</u>
Cash and investments	\$ 3,776,925	\$ 1,825,397	\$ 1,951,528
Other assets	186,879	222,485	(35,606)
Capital assets	18,671,056	18,810,195	(139,139)
<i>Total Assets</i>	<u>22,634,860</u>	<u>20,858,077</u>	<u>1,776,783</u>
Other liabilities	136,831	20,630	(116,201)
<i>Total Liabilities</i>	<u>136,831</u>	<u>20,630</u>	<u>(116,201)</u>
Net assets			
Investment in capital assets, net of debt	18,671,056	18,810,195	(139,139)
Unrestricted	3,826,973	2,027,252	1,799,721
<i>Total Net Assets</i>	<u>\$ 22,498,029</u>	<u>\$ 20,837,447</u>	<u>\$ 1,660,582</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by \$22,498,029 at the close of fiscal year 2007.

A portion of the Agency's net assets reflects its investment of \$18,671,056 or 83 percent, in capital assets (e.g., land, buildings, improvements, equipment, and infrastructure, net of accumulated depreciation), less any related outstanding debt used to acquire those assets, if any. These capital assets primarily represent infrastructure improvements. Consequently, these assets are not available for future spending.

The remaining balance is unrestricted net assets totaling \$3,826,973 or approximately 17 percent.

	<i>Fiscal Year Ended</i> <u>June 30, 2007</u>	<i>Fiscal Year Ended</i> <u>June 30, 2006</u>	<u>Change</u>
<i>Revenues</i>			
Taxes and assessments	\$ 2,900,340	\$ 3,963,693	\$ (1,063,353)
Miscellaneous	257,401	118,072	139,329
<i>Total Revenues</i>	<u>3,157,741</u>	<u>4,081,765</u>	<u>(924,024)</u>
<i>Expenses</i>			
Programs	651,789	564,147	87,642
Depreciation	761,157	758,290	2,867
Loss on disposition of assets	84,213	157,196	(72,983)
<i>Total Expenses</i>	<u>1,497,159</u>	<u>1,479,633</u>	<u>17,526</u>
<i>Change in Net Assets</i>	1,660,582	2,602,132	(941,550)
<i>Beginning Net Assets</i>	<u>20,837,447</u>	<u>18,235,315</u>	<u>2,602,132</u>
<i>Ending Net Assets</i>	<u>\$ 22,498,029</u>	<u>\$ 20,837,447</u>	<u>\$ 1,660,582</u>

The Agency's overall net assets increased by \$1,660,582 during fiscal year 2007. The increase was related to the net increase of tax increment revenue over program expenses.

Capital Assets

At June 30, 2007, the Agency had approximately \$18.7 million invested in capital assets, primarily related to building and infrastructure improvements.

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Change</u>
Capital Assets (net of depreciation)			
Land	\$ 5,943,998	\$ 5,683,329	4.59 %
Building and improvements	8,169,858	7,816,667	4.52
Infrastructure	10,714,482	10,739,355	(0.23)
Accumulated depreciation	<u>(6,157,282)</u>	<u>(5,429,156)</u>	13.41
<i>Net Capital Assets</i>	<u>\$ 18,671,056</u>	<u>\$ 18,810,195</u>	

The following table is a summarized reconciliation of the change in capital assets.

**Changes in Capital Assets
For the Year Ended June 30, 2007**

Beginning balance	\$ 18,810,195
Additions	706,231
Retirements	(117,244)
Depreciation	(728,126)
	<hr/>
Ending balance	<u>\$ 18,671,056</u>

Debt Outstanding

As of June 30, 2007 the Agency had no debt outstanding.

Current Year Budgetary Highlights

There were no material changes from the original budget to the final budget in fiscal year 2007.

Economic Factors and Next Year's Budgets and Rates

The Agency's adopted budget for fiscal year 2008 reflects total estimated resources of \$13,967,600 which exceeds total estimated expenditures by \$494,000.

Projects planned for fiscal year 2008 include:

- \$350 thousand for property acquisition for the new civic center.
- \$5.2 million for engineering, design and partial construction of a new civic center. Construction costs will continue into fiscal year 2009.
- \$775 thousand for River Road Renaissance projects.

Requests for Information

This financial report is designed to provide a general overview of the Agency's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report should be addressed to the Finance Director at 930 Chemawa Road, Keizer, Oregon 97303.

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS

Cash and investments	\$ 3,776,925
Property taxes receivable	186,879
Capital assets, net of depreciation	18,671,056
	<hr/>
<i>Total Assets</i>	22,634,860

LIABILITIES

Accounts payable	136,431
Deposits	400
	<hr/>
<i>Total Liabilities</i>	136,831

NET ASSETS

Investment in capital assets (net of related debt)	18,671,056
Unrestricted	3,826,973
	<hr/>
<i>Total Net Assets</i>	<u>\$ 22,498,029</u>

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

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

REVENUES

Property taxes	\$ 2,900,340
Miscellaneous	154,009

<i>Total Revenues</i>	3,054,349
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EXPENSES

Personal services	255,630
Materials and services	393,353
Depreciation	761,157
Loss on disposal of assets	84,213

<i>Total Expenses</i>	1,494,353
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REVENUES IN EXCESS OF EXPENSES BEFORE TRANSFERS	1,559,996
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TRANSFERS

Transfers in	103,392
Transfers out	(2,806)

<i>Total Other Financing Sources (Uses)</i>	100,586
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CHANGE IN NET ASSETS	1,660,582
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NET ASSETS, July 1, 2006	20,837,447
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NET ASSETS, June 30, 2007	\$ 22,498,029
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The accompanying notes are an integral party of the financial statements.

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>Urban Renewal Project</u>	<u>Urban Renewal Tax Increment</u>	<u>Totals</u>
ASSETS			
Cash and investments	\$ 401,874	\$ 3,375,051	\$ 3,776,925
Property taxes receivable	-	186,879	186,879
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	<u>\$ 401,874</u>	<u>\$ 3,561,930</u>	<u>\$ 3,963,804</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 136,431	\$ -	\$ 136,431
Deposits	400	-	400
Deferred revenue	-	136,813	136,813
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	136,831	136,813	273,644
Fund Balances			
Unreserved	265,043	3,425,117	3,690,160
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 401,874</u>	<u>\$ 3,561,930</u>	<u>\$ 3,963,804</u>

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

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2007

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS

Fund Balances \$ 3,690,160

Amounts reported in the Statement of Net Assets are different because:

The Statement of Net Assets reports receivables at their net realizable value. However, receivables not available to pay for current period expenditures are deferred in governmental funds. 136,813

Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Assets at their net depreciable value. 18,671,056

Net Assets \$ 22,498,029

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

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	<u>Urban Renewal Project</u>	<u>Urban Renewal Tax Increment</u>	<u>Totals</u>
REVENUES			
Property taxes	\$ -	\$ 2,938,425	\$ 2,938,425
Miscellaneous	46,222	107,787	154,009
<i>Total Revenues</i>	46,222	3,046,212	3,092,434
EXPENDITURES			
Current operating:			
Personal services	255,630	-	255,630
Materials and services	545,352	-	545,352
Capital outlay	554,232	-	554,232
<i>Total Expenditures</i>	1,355,214	-	1,355,214
REVENUES OVER (UNDER) EXPENDITURES	(1,308,992)	3,046,212	1,737,220
OTHER FINANCING SOURCES (USES)			
Transfers in	103,392	-	103,392
Transfers out	(2,806)	-	(2,806)
<i>Total Other Financing Sources (Uses)</i>	100,586	-	100,586
NET CHANGE IN FUND BALANCES	(1,208,406)	3,046,212	1,837,806
FUND BALANCES, Beginning of year	1,473,449	378,905	1,852,354
FUND BALANCES, End of year	\$ 265,043	\$ 3,425,117	\$ 3,690,160

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

CITY OF KEIZER URBAN RENEWAL AGENCY

(A Component Unit of the City of Keizer, Oregon)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

Net Change in Fund Balances \$ 1,837,806

Amounts reported in the statement of activities are different because:

Governmental funds defer revenues that do not provide current financial resources.
However, the Statement of Activities recognizes such revenues at their net realizable value
when earned, regardless of when received. (38,085)

The Statement of Activities reports gains and losses arising from the disposal of existing
capital assets, while governmental funds do not report any gains and losses on the
disposal of existing capital assets. (84,213)

Capital outlays are reported as expenditures in governmental funds. However, the
Statement of Activities allocates the cost of capital outlay over their estimated useful
lives as depreciation expense. (54,926)

Change in Net Assets \$ 1,660,582

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

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Urban Renewal Agency (Agency) of the City of Keizer, Oregon (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. The more significant of the Agency's accounting policies are described below.

Reporting Entity

The City of Keizer Urban Renewal Agency was created on September 10, 1990 to promote the economic welfare and prosperity of the City's inhabitants. The Agency is governed by a seven-member board of directors that include the City's mayor and council members and is included as a blended component unit in the City's financial statements as a special revenue fund and a capital projects fund.

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level.

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

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*.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary. Currently, the Agency has two governmental (special revenue and capital projects) funds.

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

Governmental accounting standards set forth minimum criteria (percentage of the assets, liabilities, revenues or expenses of either fund category or the government and enterprise combined) for the determination of major funds. Major individual funds are reported as separate columns in the fund financial statements.

The Agency reports the following major governmental funds:

Urban Renewal Project
Urban Renewal Tax Increment

CITY OF KEIZER URBAN RENEWAL AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Agency considers property taxes as available if they are collected within 30 days after year end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

Fund Accounting

The accounts of the Agency are organized and operated as two funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. A minimum number of funds are maintained consistent with legal and managerial requirements. The Agency has a special revenue fund and a capital projects fund. The Urban Renewal Project Fund is used to account for all financial resources, except those required to be accounted for in another fund. The primary source of revenue is from investment earnings. The Urban Renewal Tax Increment Fund is used to account for the accumulation of tax resources for payment of principal and interest.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Receivables and Deferred Revenues

Receivables for state, county and local shared revenues, included in accounts receivable, are recorded as revenue in the governmental funds as earned.

Property taxes receivable for the governmental fund types, which have been collected within sixty days subsequent to year end, are considered measurable and available and are recognized as revenues. All other property taxes are offset by deferred property tax revenues and, accordingly, have not been recorded as revenue. Real and personal property taxes are levied upon all taxable property within the Agency and become liens against the property as of July 1 of each year and are payable in three installments which are due on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent. Property taxes receivable by the Agency represent the Agency's allocated share of delinquent property taxes and other amounts to be collected from property owners.

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are stated at cost or estimated historical cost. Donated assets are recorded at fair market value at date of donation. Estimated fair market value of donated assets is determined based on engineering estimates of current cost or price indexed cost.

Normal maintenance and repairs are charged to operations as incurred. Major additions, improvements and replacements are capitalized. Gains or losses from sales or retirements of capital assets are included in operations.

Capital assets include land, right-of-way (included with land), buildings, improvements, equipment, infrastructure, and other tangible and intangible assets costing over \$5,000 used in operations that have initial useful lives extending beyond five years. Infrastructure are those capital assets that are stationary in nature and can be preserved for a significantly greater number of years than most other capital assets. Infrastructure consists of roads, bridges, sidewalks, traffic and lighting systems, water, stormwater and wastewater collection systems.

Capital assets are depreciated unless they are inexhaustible in nature (e.g., land and right-of-ways). Depreciation is an accounting process to allocate the cost of capital assets to expense in a systematic and rational manner to those periods expected to benefit from the use of capital assets. Depreciation is not intended to represent an estimate in the decline of fair market value, nor are capital assets, net of accumulated depreciation, intended to represent an estimate of the current condition of the assets, or the maintenance requirements needed to maintain the assets at their current level of condition.

Depreciation is computed over the estimated useful lives of the capital assets. All estimates of useful lives are based on actual experience by City departments with identical or similar capital assets. Depreciation is calculated on the straight-line basis, except for infrastructure and improvements other than buildings reported in the governmental activities column of the government-wide financial statements, which are calculated using a composite depreciation method. The estimated useful lives of the various categories of assets are as follows:

Buildings	30-50 years
Improvements other than buildings	20 years
Infrastructure	20-40 years
Equipment	3-15 years

Upon disposal of capital assets, cost and accumulated depreciation are removed from the accounts and, if appropriate, a gain or loss on the disposal is recognized. In accordance with the composite depreciation method, no gain or loss is recorded upon disposal, but rather, cost is removed from the capital asset account and charged to the accumulated depreciation account.

Long-Term Obligations

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

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations (continued)

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs at the time of issuance. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Cash and Investments

The Agency maintains its cash balance with the City. State statutes authorize the Agency to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial paper and the state treasurer's investment pool, among others.

Budgetary Information

The Agency budgets in accordance with the requirements of State law. Annual appropriated budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

The Agency begins its budgeting process by appointing budget committee members. The budget officer prepares a budget, which is reviewed by the Budget committee. The budget is then published in proposed form and is presented for public hearings to obtain taxpayer comments and approval from the Budget Committee. The budget is legally adopted by the Agency's Board by resolution prior to the beginning of the Agency's fiscal year. The Board resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Appropriations are made at the function level. Appropriations lapse at year-end.

Appropriation authority may be transferred from one level of control to another by Board resolution. 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.

The Agency does not use encumbrances.

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

PROPERTY TAXES RECEIVABLE

Property tax transactions for the year were as follows:

	<i>Balance</i> <i>July 1, 2006</i>	<i>2006-07</i> <i>Levy</i>	<i>Added</i> <i>to Rolls</i>	<i>Discounts and</i> <i>Adjustments</i>	<i>Turnovers</i>	<i>Balance</i> <i>June 30, 2007</i>
2006-2007	\$ -	\$ 2,970,341	\$ 2,406	\$ (81,025)	\$ (2,799,426)	\$ 92,296
2005-2006	128,601	-	2	(2,815)	(79,392)	46,396
2004-2005	49,609	-	-	(1,010)	(21,911)	26,688
2003-2004	25,202	-	-	(424)	(12,279)	12,499
2002-2003	11,820	-	-	(223)	(8,376)	3,221
2001-2002	2,701	-	-	(104)	(650)	1,947
2000-2001	2,056	-	-	(38)	(592)	1,426
Prior	3,144	-	-	(23)	(715)	2,406
	<u>\$ 223,133</u>	<u>\$ 2,970,341</u>	<u>\$ 2,408</u>	<u>\$ (85,662)</u>	<u>\$ (2,923,341)</u>	<u>\$ 186,879</u>

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

CAPITAL ASSETS

The changes in the capital assets for the year ended June 30, 2007 are as follows:

	<i>Balances</i> <i>July 1,</i> <i>2006</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balances</i> <i>June 30,</i> <i>2007</i>
NON-DEPRECIABLE				
Land	\$ 5,683,329	\$ 262,531	\$ (1,862)	\$ 5,943,998
DEPRECIABLE				
Buildings and improvements	7,816,667	443,700	(90,509)	8,169,858
Infrastructure	10,739,355	-	(24,873)	10,714,482
<i>Total Depreciable</i>	18,556,022	443,700	(115,382)	18,884,340
<i>Total Cost of Capital Assets</i>	24,239,351	706,231	(117,244)	24,828,338
ACCUMULATED DEPRECIATION				
Buildings and improvements	(2,696,378)	(399,816)	25,556	(3,070,638)
Infrastructure	(2,732,778)	(361,341)	7,475	(3,086,644)
<i>Total Accumulated Depreciation</i>	(5,429,156)	(761,157)	33,031	(6,157,282)
<i>Capital Assets, Net</i>	\$ 18,810,195	\$ (54,926)	\$ (84,213)	\$ 18,671,056

Capital assets at July 1, 2006 have been reclassified to conform to current reporting classifications.

EXPENDITURES IN EXCESS OF APPROPRIATIONS

Oregon law prohibits expenditures of a fund in excess of Council approved appropriations. The City Council approves appropriations by department for the General Fund and by major object class (personnel services, materials and services, capital outlay and debt service) for all other funds.

Expenditures in excess of appropriations for the year ended June 30, 2007 occurred as follows:

	<i>Budget</i>	<i>Actual</i>	<i>Variance</i>
Urban Renewal Agency			
Personal services	\$ 254,700	\$ 255,630	\$ (930)

CITY OF KEIZER URBAN RENEWAL AGENCY
(A Component Unit of the City of Keizer, Oregon)
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2007

CONTINGENCIES

The City purchases commercial insurance to cover all commonly insurable risks, including property, liability, vehicles, fidelity bond, worker's compensation and unemployment. All policies carry a small deductible amount. No insurance claims settled in each of the prior three years have exceeded policy coverage.

The City is a defendant in various litigation proceedings. Management believes any losses arising from these actions will not materially affect the City's financial position.

CITY OF KEIZER URBAN RENEWAL AGENCY

(A Component Unit of the City of Keizer, Oregon)

**COMBINED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - URBAN RENEWAL PROJECT FUND
YEAR ENDED JUNE 30, 2007**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 68,200	\$ 68,200	\$ 46,222	\$ (21,978)
EXPENDITURES				
Personal services	254,700	254,700	255,630	(930)
Materials and services	63,600	108,600	545,352	(436,752)
Capital outlay	2,787,800	2,787,800	554,232	2,233,568
Contingency	31,800	31,800	-	31,800
<i>Total Expenditures</i>	<u>3,137,900</u>	<u>3,182,900</u>	<u>1,355,214</u>	<u>1,827,686</u>
REVENUES OVER (UNDER) EXPENDITURES	(3,069,700)	(3,114,700)	(1,308,992)	1,805,708
OTHER FINANCING SOURCES (USES)				
Issuance of debt	2,976,300	2,976,300	-	(2,976,300)
Transfers in	-	-	103,392	103,392
Transfers out	(9,100)	(9,100)	(2,806)	6,294
<i>Total Other Financing Sources (Uses)</i>	<u>2,967,200</u>	<u>2,967,200</u>	<u>100,586</u>	<u>(2,866,614)</u>
NET CHANGE IN FUND BALANCE	(102,500)	(147,500)	(1,208,406)	(1,060,906)
FUND BALANCE, Beginning of year	<u>455,300</u>	<u>455,300</u>	<u>1,473,449</u>	<u>1,018,149</u>
FUND BALANCE, End of year	<u>\$ 352,800</u>	<u>\$ 307,800</u>	<u>\$ 265,043</u>	<u>\$ (42,757)</u>

CITY OF KEIZER URBAN RENEWAL AGENCY

(A Component Unit of the City of Keizer, Oregon)

COMBINED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - URBAN RENEWAL TAX INCREMENT FUND

YEAR ENDED JUNE 30, 2007

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 2,824,300	\$ 2,824,300	\$ 2,938,425	\$ 114,125
Miscellaneous	41,400	41,400	107,787	66,387
<i>Total Revenues</i>	2,865,700	2,865,700	3,046,212	180,512
EXPENDITURES				
Debt service	2,976,300	2,976,300	-	2,976,300
REVENUES OVER (UNDER) EXPENDITURES	(110,600)	(110,600)	3,046,212	3,156,812
FUND BALANCE, Beginning of year	110,600	110,600	378,905	268,305
FUND BALANCE, End of year	\$ -	\$ -	\$ 3,425,117	\$ 3,425,117

CITY OF KEIZER URBAN RENEWAL AGENCY

**COMMENTS OF THE INDEPENDENT AUDITOR REQUIRED BY STATE OF OREGON MINIMUM
STANDARDS FOR AUDITS OF OREGON MUNICIPAL CORPORATIONS
YEAR ENDED JUNE 30, 2007**

State of Oregon Compliance Section

Oregon Administrative Rules 162-10-000 through 162-16-000 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in annual financial reports. Required comments and disclosures related to our audit of such financial statements and schedules are set forth on the following pages.

Significant Accounting Policies

The significant accounting policies followed in preparing the Agency's financial statements are summarized in the notes to the financial statements.

Organization and Fund Structure

The organization and fund structure of the Agency is documented on the title page and in the notes to the financial statements.

Internal Accounting Control and Accounting Records

We have audited the fund financial statements of the City of Keizer Urban Renewal Agency as of and for the year ended June 30, 2007, and have issued our report thereon dated December 7, 2007. As part of our audit, we made a study and evaluation of accounting systems and controls as required by auditing standards generally accepted in the United States of America. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Agency's fund financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control of the Agency taken as a whole. However, our study and evaluation disclosed no condition that we believe to be significant deficiencies or a material weakness.

Adequacy of Collateral Securing Depository Balances

Oregon Revised Statutes Chapter 295 requires that each depository throughout the period of its possession of public fund deposits shall maintain on deposit with its custodians, at its own expense, securities having a value not less than 25% of the certificates of participation issued by the pool manager for funds in excess of those insured by the Federal Deposit Insurance Corporation. Our review of the adequacy of collateral securing depository balances indicated the collateral was sufficient for the year ended June 30, 2007.

Investments

Our review of deposit and investment balances indicated that, during the year ended June 30, 2007, the Agency was in compliance with ORS 295, as it pertains to investment of public funds.

Budget Compliance

The Agency appears to have complied with Local Budget Law (ORS 294.305 to 294.520) in the preparation and adoption of its budget and tax levy for the years ending June 30, 2007 and 2008, except as noted in the notes to the financial statements. A description of the budgeting process is in the notes to the financial statements.

CITY OF KEIZER URBAN RENEWAL AGENCY

**COMMENTS OF THE INDEPENDENT AUDITOR REQUIRED BY STATE OF OREGON MINIMUM
STANDARDS FOR AUDITS OF OREGON MUNICIPAL CORPORATIONS (Continued)
YEAR ENDED JUNE 30, 2007**

Insurance Policies and Fidelity Bonds

We have reviewed the Agency's insurance and fidelity bond coverage at June 30, 2007. We ascertained that such policies appeared to be in force and comply with legal requirements relating to insurance and fidelity bond coverage. We are not competent by training to comment on the adequacy of the insurance policies.

Public Contracts

The Agency's procedures for awarding public contracts were reviewed and found to be in accordance with ORS Chapter 279.

Programs Funded From Outside Sources

We have reviewed the Agency's compliance with appropriate laws, rules and regulations pertaining to programs funded wholly or partially by the other governmental agencies. The Agency is in compliance with the guidelines in all material respects.

Financial Reporting Requirements

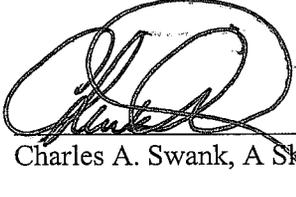
We have reviewed financial reports and other data relating to programs funded wholly or partially by other governmental agencies. This data, filed with other governmental agencies, is in agreement with and supported by the accounting records.

Schedule of Accountability of Independently Elected Officials

There are no elected Agency officials who collect or receive funds on behalf of the Agency.

This report is intended for the Board of Directors of the City of Keizer Urban Renewal Agency, the City Council and management of the City of Keizer. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

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

By: 
Charles A. Swank, A Shareholder

December 7, 2007