MEDFORD URBAN RENEWAL AGENCY

A COMPONENT UNIT OF THE CITY OF MEDFORD, OREGON

Financial Statements and Supplemental Information

For the Fiscal Year Ended June 30, 2017

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MEDFORD URBAN RENEWAL AGENCY

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

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
with Independent Auditor's Report

Year Ended June 30, 2017

MEDFORD URBAN RENEWAL AGENCY

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

June 30, 2017

BOARD OF DIRECTORS

	Term Expires December 31,
Dick Gordon	2020
Gary Wheeler, Mayor	2020
Tim Jackle	2018
Kay Brooks	2020
Tim D'Alessandro	2020
Kim Wallan	2020
Kevin Stine	2018
Michael Zarosinski	2018
Clay Bearnson	2018

MANAGEMENT

Brian Sjothun, Executive Director Pro Tem
Lori Cooper, City Attorney
Alison Chan, Finance Director

AGENCY ADDRESS

Medford Urban Renewal Agency
411 West 8th Street
Medford, OR 97501

MEDFORD URBAN RENEWAL AGENCY

Fiscal Year Ended June 30, 2017

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ISLER CPA
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Independent Auditors' Report

Board of Directors
Medford Urban Renewal Agency
Medford, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Medford Urban Renewal Agency (the Agency), a component unit of the City of Medford, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Medford Urban Renewal Agency as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Debt Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards of Audits of Oregon Municipal Corporations, we have issued our report dated January 29, 2018 on our consideration of the Agency's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statues as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Isler CPA

Paul R Nielson

by Paul R Nielson, CPA, a member of the firm
Eugene, Oregon
January 29, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
MEDFORD URBAN RENEWAL AGENCY

Fiscal Year Ended June 30, 2017

This Management Discussion and Analysis (MD&A) is presented to facilitate financial analysis and provide an overview of the financial activities of the Medford Urban Renewal Agency (the Agency) for the fiscal year ended June 30, 2017. Information in the MD&A is based on currently known facts, decisions and conditions. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The Agency's assets totaled $33.3 million at June 30, 2017, and consisted mainly of cash and cash equivalents of $3.2 million and capital assets of $29.6 million.
- The Agency's liabilities totaled $4.4 million at June 30, 2017, which consisted of an advance from the City of Medford.
- Net position (assets minus liabilities) was $28.9 million at June 30, 2017. Net position increased by $4.1 million.
- As of the end of the current fiscal year, the Agency's two funds reported a combined fund balance deficit of $1.1 million.
- Governmental fund revenues exceeded expenditures by $6.0 million.
- The Agency's net capital assets decreased by $1.8 million.
- Revenues for the fiscal year ended June 30, 2017, totaled $6.4 million and consisted mainly of property taxes of $6.3 million.

FINANCIAL STATEMENTS

The Agency's basic financial statements are presented using the integrated approach as prescribed by GASB Statement No. 34. The basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

The Agency has combined the government-wide and fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column.

The basic financial statements present financial information about the Agency as a whole and about its activities. Following the basic financial statements is the report by the independent certified public accountants, as required by statute.

Government-wide Financial Statements
The government-wide financial statements are comprised of the Statement of Net Position and the Statement of Activities and are designed to present the financial picture of the Agency in a manner similar to a private-sector business (i.e. from the economic resources measurement focus using the accrual basis of accounting).

The Statement of Net Position includes all assets of the Agency (including infrastructure) as well as all liabilities (including long-term debt). Net position is the difference between assets and liabilities, which is one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net position may be an indicator of whether its financial health is improving or deteriorating.

The Statement of Activities presents information showing how the Agency's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to change occurs, regardless of the timing of related cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

Fund Financial Statements
Funds are used to segregate resources for specific activities or objectives. The Agency has two governmental funds: the Urban Renewal Capital Fund (reported as the General Fund) and the Urban Renewal Debt Service Fund.

The Governmental Fund statements emphasize available current financial resources rather than change in net position. They are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Notes to the Basic Financial Statements

The notes provide information that is essential for a full understanding of the data presented in the government-wide and fund financial statements (the basic financial statements). Information such as significant accounting policies and detail of certain assets and liabilities are included in the notes that should be read in conjunction with the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statements of Net Position

The Agency's assets exceeded liabilities by $28.9 million at June 30, 2017. The largest portions of its net position were capital assets net of related debt and cash and cash equivalents. A condensed version of the Statement of Net Position follows:

Amounts in thousands	2017	2016
Assets		
Cash and cash equivalents	$ 3,234	$ 8,416
Other current assets	400	382
Capital assets, net	29,620	31,426
Other assets		155
Total assets	33,254	40,379
Liabilities		
Advance from the City of Medford	4,400	15,575
Net Position		
Net investment in capital assets	29,620	31,426
Restricted for capital projects	291	63
Unrestricted	(1,057)	(6,685)
Total net position	$ 28,854	$ 24,804

At the end of the current fiscal year, the Agency reports a positive balance in all categories of net position except for unrestricted net position. There was an increase in total net position of $4.1 million. The advance from the City of Medford decreased by $11,175million, as a result of making scheduled and adidtional debt payments.

Statements of Activities

The Agency's Statements of Activities for fiscal year ended June 30, 2017 and June 30, 2016, follows:

Amounts in thousands	2017	2016
Revenues		
General Revenues:		
Property taxes	$ 6,282	$ 6,081
Investment earnings	75	60
Miscellaneous	-	
	6,357	6,141
Expenses		
Urban Renewal	2,307	2,770
Increase (decrease) in net position	4,050	3,371
Net position, beginning of the year	24,804	21,433
Net position, end of the year	$ 28,854	$ 24,804

The cost of the Agency's community development activities totaled $2.3 milion for the year, a decrease of $0.5 million from the prior year.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows and balances of expendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unassigned 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 Agency's governmental funds reported combined ending fund balance deficit of $1.1 million, a decrease in the deficit of $6.0 million from the prior year.

The General Fund is the chief operating fund of the Agency. At the end of the current fiscal year, the fund balance of the General Fund was $290.8 thousand, an increase of $227.9 thousand during the current fiscal year.

At the end of the current fiscal year, the Debt Service Fund deficit decreased by $5.8 million to $1.4 million.

CAPITAL ASSETS

As of June 30, 2017, the Agency had invested $29.6 million in capital assets, net of depreciation as reflected in the following table, which represents a net decrease (additions less deductions and depreciation) of $1.8 million.

Amounts in thousands	2017	2016
Land and improvements	$ 10,198	$ 10,198
Buildings	290	290
Infrastructure	36,371	36,371
Less accumulated depreciation	(17,239)	(15,433)
	$ 29,620	$ 31,426

For more detailed information on the Agency's capital asset activity, refer to Note III. C. of the financial statements.

DEBT ADMINISTRATION

At June 30, 2017, the Agency had a $4.4 million advance from the City of Medford. The advance was issued to finance improvements in the downtown Urban Renewal District. In accordance with the City Center Revitalization Plan adopted by the Agency, the maximum amount of indebtedness that the Agency can issue or incur is $67,307,013. This amount was based upon good faith estimates of the scope and costs of projects in the City Center Revitalization Plan.

Amounts in thousands	Beginning of year	Additions	Payments	End of year	Current portion
Advance from City of Medford	$ 15,575	$ -	$ (11,175)	$ 4,400	$ 1,510

For more detailed information on the Agency's long-term debt, refer to Note III. D. of the financial statements.

ECONOMIC FACTORS

The mission of the Urban Renewal Agency's Board is to eliminate blight and depreciating property values in areas within the Agency's jurisdiction, and in the process, attract aesthetically pleasing, job producing private investments that will improve and stabilize property values and protect the area's historic places and values. The City Center Revitalization Plan (CCRP) was adopted in 1988. The Plan identified a blighted area of 576.51 acres within Medford's downtown core area and set forth a revitalization strategy involving nineteen public projects to be completed over a twenty-five year period. In May of 2006, a substantial amendment was made to the CCRP extending the life of the Agency and increasing the number of projects to twenty. Future growth is projected to result almost exclusively from appreciation in property values, improvement of existing buildings and redevelopment of selected sites.

The current City Center Vision Plan was completed in 1995. The Vision Plan defined an image of the community's future for the downtown and developed a pragmatic approach to attaining that future.

Agency expenditures are based on both the City Center Revitalization Plan, which defines the Agency's mission, and the City Center Vision Plan, which provides the basic framework for the revitalization of the City Center.

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 (1988, in this case). Any increase in the assessed value over that base year cannot be used by the assessor to compute tax rates for local taxing bodies. The assessor computes the tax rate on the base year value of the area, 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.

In December 2001, the Oregon Supreme Court issued its Shilo v. Multnomah County et al. decision. The effect of this decision was that all revenues received by tax increment financing programs are considered "Other Government" revenues regardless of the levy origin and are subject to compression testing under Measure 5 at $10 per $1,000 of taxable assessed value. To date there is no material loss from compression to the Agency's tax increment financing revenues.

The base value was established in 1988 but adjusted in 1997 as a result of Senate Bill 1215. Future revenues are derived from assessed value growth in the district. To maintain its relative share of assessed valuation growth, the district must encourage for-profit development at urban densities.

REQUEST FOR INFORMATION

The Agency's financial statements are designed to present users with a general overview of the Agency's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Agency's Executive Director, at 411 West 8th Street, Medford, Oregon 97501.

MEDFORD URBAN RENEWAL AGENCY

Governmental Funds Balance Sheet / Statement of Net Position

June 30, 2017

	General Fund	Debt Service Fund	Total	Adjustments (Note II A)	Statement of Net Position
ASSETS					
Cash and cash equivalents	$ 290,764	$ 2,943,354	$ 3,234,118	$ -	$ 3,234,118
Property taxes receivable	-	400,056	400,056	-	400,056
Land and improvements	-	-	-	10,198,190	10,198,190
Other capital assets, net of accumulated depreciation	-	-	-	19,421,898	19,421,898
Total assets	$ 290,764	$ 3,343,410	$ 3,634,174	$ 29,620,088	$ 33,254,262
LIABILITIES					
Advance from the City of Medford					
Due within one year	$ -	$ 1,510,000	$ 1,510,000	$ -	$ 1,510,000
Due in more than one year	-	2,890,000	2,890,000	-	2,890,000
Total liabilities	-	4,400,000	4,400,000	-	4,400,000
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues - property taxes	-	342,575	342,575	(342,575)	-
FUND BALANCES / NET POSITION					
Fund balances:					
Unassigned	290,764	(1,399,165)	(1,108,401)	1,108,401	-
Total fund balances	290,764	(1,399,165)	(1,108,401)	1,108,401	-
Total liabilities, deferred inflows of resources, and fund balances	$ 290,764	$ 3,343,410	$ 3,634,174		-
Net position:					
Net investment in capital assets				29,620,088	29,620,088
Restricted for capital projects				290,764	290,764
Unrestricted				(1,056,590)	(1,056,590)
Total net position				28,854,262	28,854,262
Total liabilities and net position				$ 29,620,088	$ 33,254,262

See accompanying notes to financial statements.

MEDFORD URBAN RENEWAL AGENCY

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities

For the Year Ended June 30, 2017

	General Fund	Debt Service Fund	Total	Adjustments (Note II B)	Statement of Activities
GENERAL REVENUES					
Property taxes	$ -	$ 6,260,212	$ 6,260,212	$ 22,232	$ 6,282,444
Investment earnings	73,049	2,051	75,100	-	75,100
Other revenue	25	-	25	-	25
Loan repayment / interest income	154,849	-	154,849	(154,799)	50
Total general revenues	227,923	6,262,263	6,490,186	(132,567)	6,357,619
URBAN RENEWAL EXPENDITURES/ EXPENSES					
Current:					
Depreciation	-	-	-	1,805,686	1,805,686
Debt service:					
Interest	-	501,525	501,525	-	501,525
Total expenditures / expenses	-	501,525	501,525	1,805,686	2,307,211
Change in fund balance/net position	227,923	5,760,738	5,988,661	(1,938,253)	4,050,408
Fund balance / net position:					
Beginning of year	62,841	(7,159,903)	(7,097,062)	31,900,916	24,803,854
End of year	$ 290,764	$ (1,399,165)	$ (1,108,401)	$ 29,962,663	$ 28,854,262

See accompanying notes to financial statements.

MEDFORD URBAN RENEWAL AGENCY

GENERAL FUND

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget Basis

Budget and Actual

For the Year Ended June 30, 2017

	Biennium Budget					
	Original	Final	First Year Actual	Second Year Actual	Total Actual for Budget Period	Variance with Budget
Revenues:						
Investment earnings	$ 60,000	$ 60,000	$ 57,522	$ 73,049	$ 130,571	$ 70,571
Loan repayments	34,000	34,000	15,284	154,849	170,133	136,133
Other revenue	-	-	-	25	25	25
Total revenues	94,000	94,000	72,806	227,923	300,729	206,729
Expenditures:						
Materials and services	380,000	410,000	395,243	-	395,243	14,757
Excess (deficiency) of revenues over (under) expenditures	(286,000)	(316,000)	(322,437)	227,923	(94,514)	221,486
Net change in fund balance	(286,000)	(316,000)	(322,437)	227,923	(94,514)	221,486
Fund balance:						
Beginning of year	286,000	316,000	385,278	62,841	385,278	69,278
End of year	$ -	$ -	$ 62,841	$ 290,764	$ 290,764	$ 290,764

See accompanying notes to financial statements.

MEDFORD URBAN RENEWAL AGENCY

DEBT SERVICE FUND

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget Basis

Budget and Actual

For the Year Ended June 30, 2017

	Biennium Budget					
	Original	Final	First Year Actual	Second Year Actual	Total Actual for Budget Period	Variance with Budget
Revenues:						
Property taxes	$ 11,730,000	$ 11,730,000	$ 6,101,325	$ 6,260,212	$ 12,361,537	$ 631,537
Investment earnings	-	-	2,658	2,051	4,709	4,709
Total revenues	11,730,000	11,730,000	6,103,983	6,262,263	12,366,246	636,246
Expenditures:						
Debt service	13,682,100	13,682,100	1,982,025	11,676,525	13,658,550	23,550
Excess of (deficiency) of revenues over (under) expenditures	(1,952,100)	(1,952,100)	4,121,958	(5,414,262)	(1,292,304)	659,796
Net change in fund balance	(1,952,100)	(1,952,100)	4,121,958	(5,414,262)	(1,292,304)	659,796
Fund Balance:						
Beginning of year	1,982,100	1,982,100	4,293,139	8,415,097	4,293,139	2,311,039
End of year	$ 30,000	$ 30,000	$ 8,415,097	$ 3,000,835	$ 3,000,835	$ 2,970,835

Reconciliation to modified accrual basis:

Payments on the interfund advance from the City's General Fund are included in debt service on the budget basis. For GAAP, the principal repayment is reported as a reduction of the interfund payable.

	Debt Service Expenditure	Fund Balance
Amount reported on budgetary basis	$ 11,676,525	$ 3,000,835
Adjustment for interfund advance	(11,175,000)	(4,400,000)
Modified accrual basis balance	$ 501,525	$(1,399,165)

See accompanying notes to financial statements.

Note I - Summary of significant accounting policies

A. Organization

Medford Urban Renewal Agency (the Agency) was organized in 1987 under the provisions of ORS Chapter 457 as the urban renewal agency in the City of Medford, Oregon ("City"), responsible for implementing various public improvement programs as identified in the City Center Revitalization Plan. The Agency's Board of Directors consists of the City of Medford City Council.

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 (1988, in this case). Any increase in the assessed value over that base year cannot be used by the assessor to compute tax rates for local taxing bodies. The assessor computes the tax rate on the base year value of the area, 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 City Center Revitalization Plan will remain in force until October 2025, or until the maximum amount of indebtedness permitted under the Plan ($67,307,013) has been reached and all related debt service retired, whichever comes first. The maximum of amount indebtedness has been reached.

The Agency's financial statements include all activities and organizations with which the Agency exercises authoritative appointment of governing authority or where financial dependency on the Agency exists. The Agency has no potential component units but, as determined under generally accepted accounting principles, is considered to be a component unit of the City of Medford, Oregon, and, as such, is included in the basic financial statements of the City for the year ended June 30, 2017, copies of which can be obtained from the Finance Department of the City of Medford Oregon, which is located at 411 W 8th Street, Medford, Oregon 97501.

B. Measurement focus, basis of accounting, and financial presentation

The Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances display information about the Agency, including all of its financial activities. The Agency's activities are financed primarily through property taxes.

The basic financial statements listed in the table of contents provide information about the Agency's funds. These funds account for the general administration of the Agency's urban renewal areas and for the acquisition and rehabilitation of property within the designated urban renewal areas. The financial statements are initially (left-most columns) reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes receivable which have been collected and received within 60 days subsequent to year end are considered measurable and available, and are recognized as revenues in the governmental fund financial statements. All other property taxes receivable are offset by deferred inflow of resources because they are not deemed available to finance operations of the current period. Property tax receivables are deemed to be substantially collectable or recoverable through foreclosure. Accordingly, no allowance for doubtful tax accounts is deemed necessary.

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

Note I - Summary of significant accounting policies (continued)

B. Measurement focus, basis of accounting, and financial presentation (continued)

The government reports the following major governmental funds:

- The *Capital Projects Fund* (acts as the *general fund*) is the Agency's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in the debt service fund.
- The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

On the same basic financial statements as listed in the table of contents, the balances are reported (right-most columns) using the *economic resources measurement focus* and the *accrual basis of accounting* using an "adjustments" column. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Agency receives value without giving equal value in exchange, include property taxes. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year in which the taxes are levied.

As a general rule, the effect of interfund activity has been eliminated from the basic financial statements.

C. 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 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 revenues and expenses/expenditures during the reporting period. Actual results may differ from those estimates.

D. Assets, liabilities, deferred inflows of resources, and net position/fund balance

1. Cash and cash equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, and deposits in the State of Oregon's Treasurer's Local Government Investment Pool (LGIP).

2. Property taxes receivable

Real and personal property taxes are assessed and become a lien against the property as of July 1 each year, and are payable in three installments on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding are considered delinquent on May 16. Management has determined that an allowance for uncollectible accounts is not required for property taxes.

3. Capital assets

Purchased or constructed capital assets are reported at cost. The Agency defines capital assets as assets with an initial cost of more than $5,000, and an estimated life in excess of one year. Donated capital assets are recorded at their fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or extend assets' lives are not capitalized. Depreciation is computed using the straight-line method over 5 to 20 years.

Note I - Summary of significant accounting policies (continued)

D. Assets, liabilities, deferred inflows of resources, and net position/fund balance (continued)

4. Long-term liabilities

In the basic financial statements, under the current financial resources measurement focus and the modified accrual basis of accounting, 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. Bond premiums and discounts are recognized during the current period.

In the basic financial statements under the economic resources measurement focus and accrual basis of accounting, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

5. Fund balance

In the fund financial statements, the fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The fund balance classifications are:

Nonspendable - resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for sale.

Restricted - constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grants, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - the City Council passes an ordinance that places specific constraints on how the resources may be used. The City Council can modify or rescind the ordinance at any time through passage of an additional ordinance.

Assigned - resources that are constrained by the City's intent to use them for a specific purpose, but are neither restricted nor committed. Intent is expressed when the City Council approves which resources should be "reserved" during the adoption of the annual budget.

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

E. Budget

A biennial budget is prepared and legally adopted for all funds on the modified accrual basis of accounting. The budget is adopted by the Board, appropriations made, and the tax levy is declared no later than June 30. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Appropriations at the principal object levels - personnel, materials and services (including contractual payments), capital outlay, debt service, and operating contingency - are the levels of control established by the resolution. The detailed budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories. Management may make transfers of appropriations within object levels. However, transfers of appropriations between object levels require the approval of the Board. Unexpected additional resources may be added to the budget through the use of a supplemental budget. The Board, at a regular Board meeting, may adopt supplemental budgets of less than 10% of the fund's original budget. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publication in newspapers, and approval by the Board.

Note II - Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of differences between the Government-wide Statement of Net Position and the Governmental Fund Balance Sheet.

Reconciliation of total fund balances of the Agency's governmental funds to total net position.

Fund balances - governmental funds		$ (1,108,401)
When capital assets that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the Agency as a whole.		
Governmental capital assets, cost	46,859,173	
less accumulated depreciation	(17,239,085)	29,620,088
Because the focus of governmental funds is on short-term financing, some assets, such as receivables, will not be available to pay for current-period expenditures. Receivables are offset by unavailable revenue in the governmental funds, and thus are not included in the fund balance.		
Adjustment of unavailable revenue		342,575
Net position of governmental activities		$ 28,854,262

B. Explanation of differences between the Government-wide Statement of Activities and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance.

Reconciliation of total fund balances of the Agency's governmental funds to total net position.

Net change in fund balance - governmental funds	$ 5,988,661
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which depreciation exceeds capital outlay in the current period is:	
Current year depreciation	(1,805,686)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.	
Change in unavailable revenue	(132,567)
Change in net position of governmental activities	$ 4,050,408

Note III - Detailed notes on all funds

A. Cash and cash equivalents

The Agency participates in the City of Medford's cash and investment pool. At June 30, 2017, the City's cash and investments were maintained in deposits at a local financial institution and the State of Oregon's Local Government Investment Pool ("LGIP"). The Agency's portion of this pool is displayed in the Statement of Net Position and the Balance Sheet as "Equity in pooled cash and cash equivalents." Detail information for the Agency's pooled cash and investments can be found in the City of Medford's June 30, 2017 Financial Statements and notes to the financial statements.

B. Loan receivables

The Agency enters into loan agreements whereby the Agency provides local businesses in downtown Medford monies for rehabilitation construction costs. On December 16, 2013, Agency renegotiated a 10 year loan with Mountain Development Company, LLC to be paid off in three years. The loan bears an interest rate of 4% through the first year; 6% through the second year; and 8% through the third year and is collateralized by a deed of trust. The loan was paid in full $154,799, during the June 30, 2017 fiscal year, in accordance with the terms of the agreement.

C. Capital assets

Components of capital assets consist of the following at June 30:

	2016	Additions	Transfers and Retirements	2017
Capital assets, not being depreciated:				
Land and improvements	$ 10,198,190	$ -	$ -	$ 10,198,190
Total capital assets, not being depreciated	10,198,190	-	-	10,198,190
Capital assets, being depreciated:				
Buildings	290,324	-	-	290,324
Infrastructure	36,370,659	-	-	36,370,659
Total capital assets being depreciated	36,660,983	-	-	36,660,983
Less accumulated depreciation for:				
Buildings	(168,745)	(14,516)	-	(183,261)
Infrastructure	(15,264,654)	(1,791,170)	-	(17,055,824)
Total accumulated depreciation	(15,433,399)	(1,805,686)	-	(17,239,085)
Total capital assets, being depreciated, net	21,227,584	(1,805,686)	-	19,421,898
Total capital assets, net	$ 31,425,774	$ (1,805,686)	$ -	$ 29,620,088

Note III - Detailed notes on all funds (continued)

D. Advance from the City of Medford

On December 15, 2011, the City of Medford issued a $20,950,000 loan payable. The proceeds of this note were loaned to the Agency. The payable to the City is due in annual installments. Interest payments are due semi-annually. The interest rates are 5% in 2013-2017, 3% in 2018-2024 and 3.25% in 2025. Loan activity and balances for the year ended June 30, 2017 was as follows:

	Beginning of year	Additions	Payments	End of year	Current portion
Long-term loan from City of Medford	$ 15,575,000	$ -	$ (11,175,000)	$ 4,400,000	$ 1,510,000

Annual debt service requirements to maturity at year end are as follows:

Fiscal Year	Principal	Interest
2018	$ 1,510,000	$ 132,000
2019	1,575,000	86,700
2020	1,315,000	39,450
Total	$ 4,400,000	$ 258,150

Note IV - Other information

A. Risk management

The Agency is exposed to various risks of loss related to errors and omissions; automobile; damage to and destruction of assets; and bodily injury.

Effective July 1, 2010, the City and the Agency became self-insured. Premiums are paid into the Risk Management internal service fund by City departments based on each department's operating budget, claim activity, and vehicle usage. The City carries a supplemental liability policy with a $10 million limit per occurrence or wrongful act, and a $500,000 deductible. The annual aggregate limit of the policy is $10 million. The policy renews July 1 of each year.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

In addition, Workers Compensation Insurance is purchased under a retrospective rate plan with the final cost depending on claims.

Detail information for the City of Medford's risk management can be found in the City of Medford's June 30, 2017 Financial Statements and notes to the financial statements.

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INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

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

We have audited the basic financial statements of Medford Urban Renewal Agency (the Agency), as of and for the year ended June 30, 2017, and have issued our report thereon dated January 29, 2018 We conducted our audit in accordance with auditing standards generally accepted in the United States of America .and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance
As part of obtaining reasonable assurance about whether the the Agency's basic financial statements are free of material misstatement, we performed tests of the Agency's 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**
- **Authorized investment of surplus funds (ORS Chapter 294)**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C)**

In connection with our testing nothing came to our attention that caused us to believe the Agency was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

OAR 162-10-0230 Internal Control
In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Directors and the Secretary of State, Audits Division, of the State of Oregon. However, this report is a matter of public record and its distribution is not limited.

By Paul R Nielson CPA, member of the firm
Eugene, Oregon
January 29, 2018