Financial Statements and Supplemental Information

Medford Urban Renewal Agency

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

For the Fiscal Year Ended June 30, 2013

MEDFORD URBAN RENEWAL AGENCY

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

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
with Independent Auditors' Report

Year Ended June 30, 2013

MEDFORD URBAN RENEWAL AGENCY

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

June 30, 2013

BOARD OF DIRECTORS

	Term Expires December 31,
Dick Gordon, Chair	2016
Gary Wheeler	2016
Al Densmore	2014
Eli Mathews	2016
Chris Corcoran	2016
Daniel Bunn	2016
Bob Strosser	2014
Karen Blair	2014
John Michaels	2014

MANAGEMENT

P. Eric Swanson Executive Director
John Huttl, 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, 2013

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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, 2013, 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, 2013, 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.

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Isler CPA

Paul R Nielson

by Paul Nielson, CPA, a member of the firm
Eugene, Oregon
December 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS
MEDFORD URBAN RENEWAL AGENCY

Fiscal Year Ended June 30, 2013

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, 2013. 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 $46.6 million at June 30, 2013, and consisted mainly of cash and cash equivalents of $14.0 million and capital assets of $31.8 million.
- The Agency's liabilities totaled $25.2 million at June 30, 2013, and consisted mainly of long-term debt of $4.8 million and an advance from the City of Medford of $19.7 million.
- Net position (assets minus liabilities) were $21.3 million at June 30, 2013. Net position increased by $2.1 million.
- As of the end of the current fiscal year, the Agency's two funds reported a combined fund balance of $13.4 million, a decrease of $5.8 million.
- The Agency's net capital assets increased by $6.4 million.
- Revenues for the fiscal year ended June 30, 2013, totaled $4.9 million and consisted mainly of property taxes of $4.7 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 Schedule of Property Tax Transactions and 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 government'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 Funds' statements emphasize available financial resources rather than net income. 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 $21.3 million at June 30, 2013. 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	2013	2012
Assets		
Cash and cash equivalents	$ 13,990	$ 20,665
Other current assets	380	383
Capital assets, net	31,849	25,496
Other assets	344	380
Total assets	46,563	46,924
Liabilities		
Bonds and notes payable	4,807	5,151
Advance from the City of Medford	19,700	20,950
Other liabilities	714	1,601
Total liabilities	25,221	27,702
Net Position		
Net investment in capital assets	18,259	17,064
Restricted for debt service	3,150	3,067
Restricted for capital projects	10,917	17,668
Unrestricted	(10,984)	(18,577)
Total net position	$ 21,342	$ 19,222

At the end of the current fiscal year, the Agency reports a negative balance in unrestricted net position and positive balance in net position invested in capital assets, net of related debt. There was an increase in total net position of $2.1 million. Long-term debt decreased by $19.7 million, as a result of making scheduled debt payments.

Statements of Activities

The Agency's Statements of Activities for fiscal year ended June 30, 2013 and June 30, 2012, follows:

Amounts in thousands	2013	2012
Revenues		
General Revenues:		
Property taxes	$ 4,723	$ 4,688
Investment earnings	106	85
Miscellaneous	28	23
	4,857	4,796
Expenses		
Community development	2,737	2,901
Increase in net position before transfers	2,120	1,895
Transfers		798
Net position, beginning of the year	19,222	16,529
Net position, end of the year	$ 21,342	$ 19,222

The cost of the Agency's community development activities totaled $2.7 million for the year, a decrease of $0.2 million.

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, 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 Agency's governmental funds reported combined ending fund balances of $13.4 million, a decrease of $5.8 million.

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 $10.2 million, a decrease of $5.9 million during the current fiscal year.

At the end of the current fiscal year, the reserved fund balance of the Debt Service Fund was $3.1 million, a increase of $0.1 million during the year.

CAPITAL ASSETS

As of June 30, 2013, the Agency had invested $31.8 million in capital assets, net of depreciation as reflected in the following table, which represents a net increase (additions less deductions and depreciation) of $6.4 million.

Amounts in thousands	2013	2012
Land and improvements	$ 4,794	$ 4,794
Construction in progress	10,241	4,873
Buildings	290	290
Parking structure	8,692	6,351
Infrastructure	1,813	1,813
Improvements	16,598	16,598
Less accumulated depreciation	(10,579)	(9,223)
	$ 31,849	$ 25,496

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, 2013, the Agency had $4.8 million in Urban Redevelopment Bonds outstanding and a $19.7 million advance from the City of Medford. These Bonds and the advance were 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 and has incurred 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
Urban redevelopment bonds	$ 4,966	$ -	$ (159)	$ 4,807	$ 344
Loans payable	185	-	(185)	-	-
Advance from City of Medford	20,950	-	(1,250)	19,700	1,345
Total debt	$ 26,101	$ -	$ (1,594)	$ 24,507	$ 1,689

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

NEXT YEAR'S BUDGET

For Fiscal Year 2013-2014, the Agency projected the property taxes to be received at $4.4 million. The Agency projected capital outlay expenditures to be $12.5 million and debt service expenditures of $4.7 million.

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, 2013

	General Fund	Debt Service Fund	Total	Adjustments (Note II A)	Statement of Net Position
ASSETS					
Cash and cash equivalents	$ 10,917,424	$ 3,072,615	$ 13,990,039	$ -	$ 13,990,039
Property taxes receivable	-	380,267	380,267	-	380,267
Loans receivable	344,443	-	344,443	-	344,443
Land and improvements	-	-	-	4,793,519	4,793,519
Construction in progress	-	-	-	10,240,597	10,240,597
Other capital assets, net of accumulated depreciation	-	-	-	16,814,572	16,814,572
Total assets	$ 11,261,867	$ 3,452,882	$ 14,714,749	$ 31,848,688	$ 46,563,437
LIABILITIES					
Accounts payable	$ 704,397	$ -	$ 704,397	$ -	$ 704,397
Accrued interest payable	-	-	-	9,439	9,439
Payroll and related accruals	298	-	298	-	298
Long-term debt:					
Advance from the City of Medford					
Due within one year	-	-	-	1,345,000	1,345,000
Due in more than one year	-	-	-	18,355,000	18,355,000
Bonds payable	-	-	-		
Due within one year	-	-	-	344,000	344,000
Due in more than one year	-	-	-	4,463,000	4,463,000
Total liabilities	704,695	-	704,695	24,516,439	25,221,134
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues - property taxes	-	302,910	302,910	(302,910)	-
Unavailable revenues - notes receivable	344,443	-	344,443	(344,443)	-
Total deferred inflows of resources	344,443	302,910	647,353	(647,353)	-
FUND BALANCES / NET POSITION					
Fund balances:					
Restricted for debt service	-	3,149,972	3,149,972	(3,149,972)	-
Unassigned	10,212,729	-	10,212,729	(10,212,729)	-
Total fund balances	10,212,729	3,149,972	13,362,701	(13,362,701)	-
Total liabilities, deferred inflows of resources, and fund balances	$ 11,261,867	$ 3,452,882	$ 14,714,749		-
Net position:					
Net investment in capital assets				18,259,112	18,259,112
Restricted for debt service				3,149,972	3,149,972
Restricted for capital projects				10,917,424	10,917,424
Unrestricted				(10,984,205)	(10,984,205)
Total net position				21,342,303	21,342,303
Total liabilities and net position				$ 31,848,688	$ 46,563,437

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, 2013

	General Fund	Debt Service Fund	Total	Adjustments (Note II B)	Statement of Activities
GENERAL REVENUES					
Property taxes	$ -	$ 4,730,955	$ 4,730,955	$ (7,924)	$ 4,723,031
Investment earnings	89,807	16,015	105,822	-	105,822
Other revenue	45,419	-	45,419	(35,082)	10,337
Rental income	11,206	-	11,206	-	11,206
Total general revenues	146,432	4,746,970	4,893,402	(43,006)	4,850,396
URBAN RENEWAL EXPENDITURES/ EXPENSES					
Current:					
Community development	136,252	-	136,252	169,263	305,515
Depreciation	-	-	-	1,356,464	1,356,464
Capital outlay	7,878,463	-	7,878,463	(7,878,463)	-
Debt service:					
Principal	-	1,593,801	1,593,801	(1,593,801)	-
Interest	-	1,070,232	1,070,232	(2,156)	1,068,076
Total expenditures / expenses	8,014,715	2,664,033	10,678,748	(7,948,693)	2,730,055
Excess (deficiency) of revenues over (under) expenditures / expenses	(7,868,283)	2,082,937	(5,785,346)	7,905,687	2,120,341
OTHER FINANCING SOURCES/(USES)					
Transfers in and out	2,000,000	(2,000,000)	-	-	-
Total other financing sources	2,000,000	(2,000,000)	-	-	-
Change in fund balance/net position	(5,868,283)	82,937	(5,785,346)	7,905,687	2,120,341
Fund balance / net position:					
Beginning of year	16,081,012	3,067,035	19,148,046	73,916	19,221,962
End of year	$ 10,212,729	$ 3,149,972	$ 13,362,701	$ 7,979,603	$ 21,342,303

See accompanying notes to financial statements.

MEDFORD URBAN RENEWAL AGENCY

GENERAL FUND

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual

For the Year Ended June 30, 2013

	Budget			
	Original	Final	Actual	Variance with Budget
Revenues:				
Investment earnings	$ 47,000	$ 47,000	$ 89,807	$ 42,807
Other revenue	29,000	29,000	45,419	16,419
Rental income	20,000	20,000	11,206	(8,794)
Total revenues	96,000	96,000	146,432	50,432
Expenditures:				
Personal services	10,000	10,000	47,619	(37,619)
Materials and services	150,000	150,000	88,633	61,367
Capital outlay	12,481,800	15,956,700	7,878,463	8,078,237
Contingency	40,000	40,000	-	40,000
Total expenditures	12,681,800	16,156,700	8,014,715	8,141,985
Excess (deficiency) of revenues over (under) expenditures	(12,585,800)	(16,060,700)	(7,868,283)	8,192,417
Other financing sources:				
Transfers in	2,000,000	2,000,000	2,000,000	-
Net change in fund balance	(10,585,800)	(14,060,700)	(5,868,283)	8,192,417
Fund balance:				
Beginning of year	12,413,000	15,887,900	16,081,012	193,112
End of year	$ 1,827,200	$ 1,827,200	$ 10,212,729	$ 8,385,529

See accompanying notes to financial statements.

MEDFORD URBAN RENEWAL AGENCY

DEBT SERVICE FUND

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual

For the Year Ended June 30, 2013

	Original	Final	Actual	Variance with Budget
Revenues:				
Property taxes	$ 4,508,000	$ 4,508,000	$ 4,730,955	$ 222,955
Investment earnings	10,000	10,000	16,015	6,015
Total revenues	4,518,000	4,518,000	4,746,970	228,970
Expenditures:				
Debt service	2,680,000	2,680,000	2,664,033	15,967
Excess of (deficiency) of revenues over (under) expenditures	1,838,000	1,838,000	2,082,937	244,937
Other financing sources (uses):				
Transfers out	(2,000,000)	(2,000,000)	(2,000,000)	-
Total other financing sources (uses)	(2,000,000)	(2,000,000)	(2,000,000)	-
Net change in fund balance	(162,000)	(162,000)	82,937	244,937
Fund Balance:				
Beginning of year	2,908,000	2,908,000	3,067,035	159,035
End of year	$ 2,746,000	$ 2,746,000	$ 3,149,972	$ 403,972

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, 2013, 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 unavailable revenue 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.

Notes receivable are offset by deferred revenues and, accordingly, have not been recorded as revenue and are considered measurable and available only when cash is received by the Agency.

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 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.

Expenditures exceed budgeted amounts in the General Fund Personal services category.

Note I - Summary of significant accounting policies (continued)

F. Implementation of New Accounting Guidance

Management implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Implementation of GASB 63 had no effect on reported amounts in the current or prior periods.

Management implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, Elements of Financial Statements..

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		$ 13,362,701
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	42,427,958	
less accumulated depreciation	(10,579,270)	31,848,688
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		647,353
Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2013 were:		
Bonds and notes payable		(4,807,000)
Accrued interest payable		(9,439)
Advance from the City of Medford		(19,700,000)
Net position of governmental activities		$ 21,342,303

Note II - Reconciliation of Government-wide and Fund Financial Statements (continued)

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		$ (5,785,346)
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:		
Capital outlay	7,709,200	
less current year depreciation	(1,356,464)	6,352,736
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		(43,006)
Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2013 were:		
Principal payments	1,593,801	
Change in accrued interest	2,156	1,595,957
Change in net position of governmental activities		$ 2,120,341

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, 2013, 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, 2013 Financial Statements and Supplemental Information (Notes to the financial statements).

B. Loan receivables

The Agency entered into loan agreements whereby the Agency provided local businesses in downtown Medford monies for rehabilitation construction costs. Each loan bears an interest rate of 2% and is collateralized by a deed of trust.

Issue Date	Monthly Payment	Balance 6/30/13	Final Payment Date
December 1, 2003	$ 759	$ 85,375	December 1, 2013
August 11, 2003	506	57,040	December 1, 2013
March 15, 2004	1,733	202,028	December 15, 2013
		$ 344,443	

No allowance has been established by the Agency because all loans receivable are considered entirely collectible.

Note III - Detailed notes on all funds (continued)

C. Capital assets

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

	2012	Additions	Transfers and Retirements	2013
Capital assets, not being depreciated:				
Land and improvements	$ 4,793,519	$ -	$ -	$ 4,793,519
Construction in progress	4,873,000	5,403,143	(35,546)	10,240,597
Total capital assets, not being depreciated	9,666,519	5,403,143	(35,546)	15,034,116
Capital assets, being depreciated:				
Buildings	290,324	-	-	290,324
Parking structure	6,350,588	2,306,057	35,546	8,692,191
Infrastructure	1,813,475	-	-	1,813,475
Improvements	16,597,852	-	-	16,597,852
Total capital assets being depreciated	25,052,240	2,306,057	35,546	27,393,842
Less accumulated depreciation for:				
Buildings	(110,681)	(14,516)	-	(125,197)
Parking structure	(3,915,835)	(434,610)	-	(4,350,445)
Infrastructure	(1,055,807)	(77,445)	-	(1,133,252)
Improvements	(4,140,483)	(829,893)	-	(4,970,376)
Total accumulated depreciation	(9,222,806)	(1,356,464)	-	(10,579,270)
Total capital assets, being depreciated, net	15,829,434	949,593	35,546	16,814,572
Total capital assets, net	$ 25,495,953	$ 6,352,736	$ -	$ 31,848,688

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 payment 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, 2013 was as follows:

	Beginning of year	Additions	Payments	End of year	Current portion
Long-term loan from City of Medford	$ 20,950,000	$ -	$ (1,250,000)	$ 19,700,000	$ 1,345,000

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

Fiscal Year	Principal	Interest
2014	$ 1,345,000	$ 707,775
2015	1,370,000	640,525
2016	1,410,000	572,025
2017	1,455,000	501,525
2018	1,510,000	428,775
2019 - 2023	8,570,000	1,425,675
2024 - 2028	4,040,000	193,650
Total	$ 19,700,000	$ 4,469,950

E. Long-term debt

Bonds and loan payable transactions for the year are as follows:

	Original Amount	Outstanding July 1, 2012	Additions	Reductions	Outstanding June 30, 2013	Due Within One Year
Urban Redevelopment Bonds						
2007 Series A, interest 4.65% maturing on 6/15/2022	$ 2,570,000	$ 1,966,000	$ -	$ (159,000)	$ 1,807,000	$ 166,000
2009 Series A, interest 4.75% maturing on 6/15/2024	3,000,000	3,000,000	-	-	3,000,000	178,000
Urban Redevelopment Bonds subtotal	5,570,000	4,966,000	-	(159,000)	4,807,000	344,000
Loans Payable						
2004 Oregon Housing, interest 1.00%, maturing 8/1/2013	600,000	184,801	-	(184,801)	-	-
Total bonds and loans payable	$ 6,170,000	$ 5,150,801	$ -	$ (343,801)	$ 4,807,000	$ 344,000

Note III - Detailed notes on all funds (continued)

E. Long-term debt (continued)

The general fund and debt service fund have been used to liquidate long-term liabilities in prior years.

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

Fiscal Year	Principal	Interest
2014	$ 344,000	$ 226,526
2015	360,000	210,352
2016	377,000	193,425
2017	394,000	175,700
2018	413,000	157,176
2019 - 2023	2,375,000	475,752
2024 - 2028	544,000	25,840
Total	$ 4,807,000	$ 1,464,771

Note IV - Other information

A. Commitments

The Commons Project

On September 6, 2006 the Agency approved a resolution to form a public/private partnership in the development of the downtown urban renewal area. This was formalized in the Agreement for Disposition and Development of Property (DDA) dated as of September 19, 2006. On February 26, 2011 the Commons Project Amended and Restated Agreement for Disposition and Development of Property was signed. The development includes a partnership with Lithia Real Estate Inc. and the City of Medford, and includes the development of additional parking spaces in downtown, renovation of current downtown city streets being affected and acquisition of certain designated properties in the project area. Under the original DDA, the Agency agreed to contribute $14.1 million. As of June 30, 2013 a total of $11.8 million has been expended leaving a remaining commitment of $2.3 million.

The Evergreen Project

The City of Medford, Medford Urban Renewal Agency (Agency), Roxy Ann Peak, LLC, BGE Properties, LLC and Blum Commercial Properties, LLC entered into an Agreement for the Disposition and Development of Property (DDA) on October 25, 2012. This agreement formed a public/private partnership for development of properties adjacent to the Agency owned downtown garage located on Evergreen Way. The agreement provided for development of a commercial project including three floors of office space and one floor of retail space within the air rights owned by the Agency of up to 132,000 total square feet. Under the DDA the Agency agreed to contribute $2 million to the project. The private entity investment is anticipated to be $18-$20 million. As of June 30, 2013, the Agency had not contributed to the project.

Note IV - Other information (continued)

B. 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, 2013 Financial Statements and Supplemental Information (Notes to the financial statements).

SUPPLEMENTAL INFORMATION

MEDFORD URBAN RENEWAL AGENCY

Schedule of Property Tax Transactions

For the Year Ended June 30, 2013

Tax Year	Uncollected July 1, 2012	Levy Extended by Assessor	Discounts Allowed	Adjustments	Collections	Uncollected June 30, 2013
2012 - 2013	$ -	$ 4,832,495	$ (117,372)	$ 1,638	$ (4,533,287)	$ 183,474
2011 - 2012	186,605	-	84	(7,295)	(83,532)	95,862
2010 - 2011	92,041	-	35	(3,587)	(37,731)	50,758
2009 - 2010	54,539	-	4	(959)	(31,178)	22,406
2008 - 2009	22,815	-	3	(1,163)	(12,828)	8,827
2007 - 2008	8,071	-	2	(886)	(1,230)	5,957
2006 - 2007	3,908	-	1	(561)	(361)	2,987
Prior	13,078	-	-	(2,356)	(726)	9,996
Total	$ 381,057	$ 4,832,495	$ (117,243)	$ (15,169)	$ (4,700,873)	$ 380,267

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, 2013, and have issued our report thereon dated December 30, 2013 We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance
Compliance with laws, regulations, contracts and grants applicable to the Agency is the responsibility of the Agency's management. As part of obtaining reasonable assurance about whether the 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**
- **Programs funded from outside sources**
- **Highway revenues used for public highways, roads, and streets**
- **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, except as flows:

Expenditures exceed budgeted amounts as described in Note I.E. to the financial statements.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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.

Paul R Nielson

By, Paul Nielson member of the firm
Eugene, Oregon
December 30, 2013