

**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, 2006

**MEDFORD URBAN RENEWAL AGENCY**  
(A Component Unit of the City of Medford, Oregon)

June 30, 2006

**BOARD OF DIRECTORS**

Name and Position

Mr. Eric Stark, Chair  
Mr. Bill Dames, Vice Chair  
Mr. Peter Naumes, Secretary  
Mr. Jason Anderson, Council Representative  
Mr. Skip Knight, Council Representative  
Ms. Joy Pelikan  
Mr. Gregory A. Yechout  
Mr. James "Skip" Patterson  
Mr. Dick Entinger

**BUDGET COMMITTEE MEMBERS**

<u>Name</u>	<u>Term Expires January 31,</u>
Ms. Barbara Davidson, Chair	2007
Ms. Cathy deWolfe	2007
Mr. Eric Dames	2007
Mr. David Douglass	2009
Mr. Joel Marks	2009
Mr. George Schroeder	2009
Mr. Mike E. Miles	2008
Mr. Eric Maxwell	2008
Mr. Chris Dufour	2008

**MANAGEMENT**

<u>Name</u>	<u>Position</u>
Ms. Jackie Rodgers	Acting Executive Director

**AGENCY ADDRESS**

Medford Urban Renewal Agency  
45 South Holly Street  
Medford, OR 97501  
(541) 774-2700

# MEDFORD URBAN RENEWAL AGENCY

Fiscal Year Ended June 30, 2006

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Independent Auditors' Report



Board of Directors  
Medford Urban Renewal Agency  
Medford, Oregon

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, 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2006, 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.

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isler CPA

*Paul R. Nielson*

by Paul Nielson, a member of the firm  
Eugene, Oregon  
October 5, 2006

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**MEDFORD URBAN RENEWAL AGENCY**  
**Fiscal Year Ended June 30, 2006**

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, 2006. 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 \$35.3 million at June 30, 2006 and consisted mainly of cash and cash equivalents of \$5.0 million and capital assets of \$29.4 million.
- The Agency's liabilities totaled \$21.6 million at June 30, 2006 and consisted mainly of long-term debt of \$20.9 million.
- Net assets (assets minus liabilities) were \$13.7 million at June 30, 2006. Net assets increased by \$2.5 million.
- As of the end of the current fiscal year, the Agency's two funds reported a combined fund balance of \$4.5 million, a decrease of \$.8 million.
- The Agency's net capital assets increased by \$2.7 million. The key factor in this increase was the increase in construction in progress.
- Revenues for the fiscal year ended June 30, 2006 totaled \$4.8 million and consisted mainly of property taxes of \$4.3 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 Schedule of Property Tax Transactions and reports 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 Assets 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 Assets includes all assets of the Agency (including infrastructure) as well as all liabilities (including long-term debt). Net assets are 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 assets 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 assets changed during the most recent fiscal year. All changes in net assets 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**

#### Statement of Net Assets

The Agency's assets exceeded liabilities by \$13.7 million at June 30, 2006. The largest portion of its net assets was cash and cash equivalents and capital assets net of related debt. A condensed version of the Statement of Net Assets follows:

Amounts in thousands	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 5,008	\$ 6,427
Other current assets	231	426
Capital assets, net	29,402	25,105
Other assets	642	559
Total assets	<u>35,283</u>	<u>32,517</u>
Bonds payable	20,938	20,020
Other liabilities	660	1,264
Total liabilities	<u>21,598</u>	<u>21,284</u>
Net assets		
Invested in capital assets, net of related debt	8,464	5,085
Unrestricted	5,221	6,148
	<u>\$ 13,685</u>	<u>\$ 11,233</u>

At the end of the current fiscal year, the Agency reports a positive balance in the unrestricted net assets and in invested in capital assets. There was an increase in total net assets of \$2.5 million. Long-term debt increased by \$9 million. This is due primarily to the Agency issuing new bonds in the amount of \$3.5 million during the year and making annually required principal payments, on all bonding, in the amount of \$2.6 million.

### Statement of Activities

The Agency's Statement of Activities for fiscal year ended June 30, 2006 follows:

Amounts in thousands

	<u>2006</u>	<u>2005</u>
<b>Revenues</b>		
General Revenues:		
Property taxes	\$ 4,292	\$ 4,457
Investment earnings	283	262
Miscellaneous	177	188
	<u>4,752</u>	<u>4,907</u>
<b>Expenses</b>		
Urban renewal	<u>2,300</u>	<u>1,659</u>
Increase in net assets	2,452	3,248
Net assets, beginning of the year	<u>11,233</u>	<u>7,985</u>
Net assets, end of the year	<u>\$ 13,685</u>	<u>\$ 11,233</u>

Earnings on investments was up due to the increase in interest rates. The cost of the Agency's activities totaled \$2.3 million for the 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 spendable 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 \$4.5 million, a decrease of \$.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 \$1.6 million, a decrease of \$.6 million during the current fiscal year.

At the end of the current fiscal year, the fund balance of the Debt Service Fund, fund balance was \$2.9 million, a decrease of \$.2 million during the year.

## CAPITAL ASSETS

As of June 30, 2006 the Agency had invested \$29.4 million in capital assets, net of depreciation as reflected in the following table, which represents a net increase (additions less deductions and depreciation) of \$4.3 million.

Amounts in thousands	2006	2005
Land and improvements	\$ 7,300	\$ 7,300
Construction in progress	14,587	11,034
Buildings	290	290
Leashold improvements	91	91
Parking structure	6,327	6,327
Infrastructure	1,814	864
Equipment	9	-
Less accumulated depreciation	(1,016)	(801)
	<u>29,402</u>	<u>25,105</u>

For more detailed information on the Agency's capital asset activity, refer to Note II. C on page 15 of the financial statements.

## DEBT ADMINISTRATION

At June 30, 2006, the Agency had \$20.4 million in Urban Redevelopment Bonds outstanding. These bonds were issued in 1991, 2002, 2004, and 2005 to finance improvements in the downtown Urban Renewal District. Bonds were issued in 1994 (bond 1994A) to refinance existing debt issued in 1991; and in 2002 to refinance existing debt issued in 1997 and 2000. In accordance with the City Center Revitalization Plan adopted by the Agency, the maximum amount of indebtedness that the Agency may issue or incur is \$67,307,013 (measured in estimated 2013 dollars). This amount was based upon good faith estimates of the scope and costs of projects in the City Center Revitalization Plan.

For more detailed information, refer to Note II E on page 16 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 20. 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 Agency has a tax increment financing district, which levies a property tax on the new growth (or incremental assessed value) within the district. Under Oregon Statutes, urban renewal taxes can be collected using one of three options. The Agency chose the "divide the tax" option, which provides that it will receive an amount of funds (from dividing the ad valorem tax) equal to an amount specified in the ordinance stating the choice of collection option. The difference between the maximum amount of funds to be raised annually by the

Agency from dividing the taxes is the amount requested by the Agency collected by means of a special tax levy each year.

In December 2001, the Oregon Supreme Court issued its *Shilo vs 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 \$1000 of taxable assessed value. To date there is no material loss from compression to the Agency's tax increment financing revenues.

The base value of the Area 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 2006-07, the Agency projected the property tax levy to be \$4,854,030, which includes the Dividing the Taxes amount of \$2,782,680 and the Special Levy amount of \$2,071,350. The Special Levy is a projected tax rate of \$0.4785 per \$1000 of taxable assessed value. The actual amount derived from the Special Levy is expected to be balanced by past years' delinquent taxes collected and an estimated current collection rate of 98%.

Tax increment debt in the amount of \$3,789,460 is proposed in the Fiscal year 2006-2007 budget to finance capital projects. Debt service expenditures are projected to total \$6,394,670 for the new and existing debt.

### **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 Jackie Rodgers, Medford Urban Renewal Agency Acting Executive Director, at 45 South Holly Street, Medford, Oregon 97501. The Agency's telephone number is (541) 774-2700.

**MEDFORD URBAN RENEWAL AGENCY**

Governmental Funds Balance Sheet / Statement of Net Assets

June 30, 2006

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,102,466	\$ 2,905,544	\$ 5,008,010	\$ -	\$ 5,008,010
Insurance proceeds receivable	12,250	-	12,250	-	12,250
Property taxes receivable	71,073	146,964	218,037	-	218,037
Loans receivable	534,117	-	534,117	-	534,117
Bond issuance cost, net	-	-	-	108,324	108,324
Land and improvements	-	-	-	7,300,432	7,300,432
Construction in progress	-	-	-	14,587,084	14,587,084
Other capital assets, net of accumulated depreciation	-	-	-	7,514,674	7,514,674
<b>Total assets</b>	<b><u>\$ 2,719,906</u></b>	<b><u>\$ 3,052,508</u></b>	<b><u>\$ 5,772,414</u></b>	<b><u>\$ 29,510,514</u></b>	<b><u>\$ 35,282,928</u></b>
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	\$ 452,490	\$ -	\$ 452,490	\$ -	\$ 452,490
Due to City of Medford	94,514	-	94,514	-	94,514
Deferred income	574,634	111,687	686,321	(686,321)	-
Accrued interest payable	-	-	-	112,903	112,903
Long-term debt:					
Due within one year	-	-	-	2,625,925	2,625,925
Due in more than one year	-	-	-	18,312,108	18,312,108
<b>Total liabilities</b>	<b>1,121,638</b>	<b>111,687</b>	<b>1,233,325</b>	<b>20,364,615</b>	<b>21,597,940</b>
<b>FUND BALANCES / NET ASSETS</b>					
Fund balances:					
Unreserved fund balance	<u>1,598,268</u>	<u>2,940,821</u>	<u>4,539,089</u>	<u>(4,539,089)</u>	-
Total liabilities and fund balances	<b><u>\$ 2,719,906</u></b>	<b><u>\$ 3,052,508</u></b>	<b><u>\$ 5,772,414</u></b>		-
Net assets:					
Invested in capital assets, net of related debt				8,464,157	8,464,157
Unrestricted				<u>5,220,833</u>	<u>5,220,833</u>
<b>Total net assets</b>				<b><u>13,684,990</u></b>	<b><u>13,684,990</u></b>
<b>Total liabilities and net assets</b>				<b><u>\$ 29,510,516</u></b>	<b><u>\$ 35,282,930</u></b>

See accompanying notes to financial statements.

**MEDFORD URBAN RENEWAL AGENCY**

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

Year Ended June 30, 2006

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>GENERAL REVENUES</b>					
Property taxes	\$ 1,180,231	\$ 3,151,952	\$ 4,332,183	\$ (40,516)	\$ 4,291,667
Investment earnings	293,907	-	293,907	(10,911)	282,996
Miscellaneous	201,774	-	201,774	(42,773)	159,001
State grants	18,500	-	18,500	-	18,500
Total general revenues	<u>1,694,412</u>	<u>3,151,952</u>	<u>4,846,364</u>	<u>(94,200)</u>	<u>4,752,164</u>
<b>EXPENDITURES / EXPENSES</b>					
Current:					
Personnel services	360,078	-	360,078	-	360,078
Materials and services	359,855	-	359,855	465,975	825,830
Depreciation and amortization	-	-	-	230,581	230,581
Capital outlay	4,979,083	-	4,979,083	(4,979,083)	-
Debt service:					
Principal payments	59,967	2,510,000	2,569,967	(2,569,967)	-
Interest	3,383	880,047	883,430	-	883,430
Total expenditures / expense	<u>5,762,366</u>	<u>3,390,047</u>	<u>9,152,413</u>	<u>(6,852,494)</u>	<u>2,299,919</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,067,954)</u>	<u>(238,095)</u>	<u>(4,306,049)</u>	<u>4,306,049</u>	<u>-</u>
<b>OTHER FINANCING SOURCES</b>					
Bond proceeds	3,488,000	-	3,488,000	(3,488,000)	-
Capital lease	8,793	-	8,793	(8,793)	-
Total other financing sources	<u>3,496,793</u>	<u>-</u>	<u>3,496,793</u>	<u>(3,496,793)</u>	<u>-</u>
Net change in fund balance	(571,161)	(238,095)	(809,256)	809,256	-
Change in net assets				2,452,245	2,452,245
Fund balance / net assets:					
Beginning of year	<u>2,169,429</u>	<u>3,178,916</u>	<u>5,348,345</u>	<u>5,884,400</u>	<u>11,232,745</u>
End of year	<u>\$ 1,598,268</u>	<u>\$ 2,940,821</u>	<u>\$ 4,539,089</u>	<u>\$ 9,145,901</u>	<u>\$ 13,684,990</u>

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, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,215,990	\$ 1,215,990	\$ 1,180,231	\$ (35,759)
Investment earnings	112,600	112,600	293,907	181,307
Miscellaneous	159,600	159,600	201,774	42,174
Grants and contracts	-	-	18,500	18,500
Total revenues	<u>1,488,190</u>	<u>1,488,190</u>	<u>1,694,412</u>	<u>206,222</u>
Expenditures:				
Personnel services	509,700	509,700	360,078	149,622
Materials and services	387,700	387,700	359,855	27,845
Capital outlay	5,948,000	5,948,000	4,979,083	968,917
Debt service	86,000	86,000	63,350	22,650
Contingency	224,870	224,870	-	224,870
Total expenditures	<u>7,156,270</u>	<u>7,156,270</u>	<u>5,762,366</u>	<u>1,393,904</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,668,080)</u>	<u>(5,668,080)</u>	<u>(4,067,954)</u>	<u>1,600,126</u>
Other financing sources:				
Bond proceeds	2,990,000	2,990,000	3,488,000	498,000
Capital lease	-	-	8,793	8,793
Total other financing sources	<u>2,990,000</u>	<u>2,990,000</u>	<u>3,496,793</u>	<u>506,793</u>
Net change in fund balances	<u>(2,678,080)</u>	<u>(2,678,080)</u>	<u>(571,161)</u>	<u>2,106,919</u>
Fund Balance:				
Beginning of year	<u>2,678,080</u>	<u>2,678,080</u>	<u>2,169,429</u>	<u>(508,651)</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,598,268</u>	<u>\$ 1,598,268</u>

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, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 3,788,040	\$ 3,788,040	\$ 3,151,952	\$ (636,088)
Expenditures:				
Debt service	3,488,040	3,488,040	3,390,047	97,993
Net change in fund balances	300,000	300,000	(238,095)	(538,095)
Fund Balance:				
Beginning of year	2,650,000	2,650,000	3,178,916	528,916
End of year	<u>\$ 2,950,000</u>	<u>\$ 2,950,000</u>	<u>\$ 2,940,821</u>	<u>\$ (9,179)</u>

See accompanying notes to financial statements.

**MEDFORD URBAN RENEWAL AGENCY**

## Notes to Financial Statements

June 30, 2006

**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, responsible for implementing various public improvement programs as identified in the revitalization plan of the City. The Agency is governed by a Board of Directors appointed by the 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) for the duration of the urban renewal program. 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 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 of Medford, Oregon, for the year ended June 30, 2006, 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 Assets 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 and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

## MEDFORD URBAN RENEWAL AGENCY

### Notes to Financial Statements

June 30, 2006

#### Note I - Summary of significant accounting policies (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.

For purposes of the basic financial statements, the Agency follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those pronouncements conflict with or contradict the guidance of the Governmental Accounting Standards Board pronouncements. The Agency has elected not to apply FASB guidance issued subsequent to November 30, 1989.

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, and net assets

##### 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.

Investments consist of investments in the State of Oregon's Treasurer's Local Government Investment Pool (LGIP). The fair value of the investments in the LGIP is the same as the value of the pool shares.

The LGIP is administered by the Oregon State Treasurer. It is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the State who by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

State statutes authorize the district to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, time certificates of deposit, and commercial paper, among others.

## MEDFORD URBAN RENEWAL AGENCY

### Notes to Financial Statements

June 30, 2006

#### Note I - Summary of significant accounting policies (continued)

##### 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 40 years.

##### 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 uses while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Bond premiums and discounts, as well as bond issuance costs, 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, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

#### E. Pension Plan

The Agency's employees are employees of the City. Employees of the City participate in the Oregon Public Employees Retirement Fund (OPERF) administered by the Oregon Public Employees Retirement System (PERS).

#### F. 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.

**MEDFORD URBAN RENEWAL AGENCY**

Notes to Financial Statements

June 30, 2006

**Note II - Detailed notes on all funds**

**A. - Cash and cash equivalents**

Cash and cash equivalents are comprised of the following at June 30, 2006:

Cash on hand (petty cash)	\$	200
Cash in bank (deposits with financial institutions)		26,113
State of Oregon Treasurer's Local Government Investment Pool		<u>4,981,697</u>
Total cash and cash equivalents	\$	<u>5,008,010</u>

*Interest rate risk.* While MURA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, it has historically invested only in the LGIP. As of June 30, 2006, the weighted average maturities for the LGIP were 183 days.

*Credit risk.* MURA has no investment policy, but, in practice, limits investments to the LGIP, which is not rated.

**B - Receivables**

MURA 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. The loans, which commenced on December 1, 2003, May 1, 2005, and August 11, 2003 are each receivable in monthly installments of \$759, \$506, and \$1,733. The loans are expected be paid off by December 2013, October 2023, and June 2013 respectively. The amount receivable by MURA for each of the loans was \$133,622, \$89,217 and \$311,278 as of June 30, 2006. No allowance has been established by the Agency because all notes receivable are considered entirely collectible.

**MEDFORD URBAN RENEWAL AGENCY**

Notes to Financial Statements

June 30, 2006

**Note II - Detailed notes on all funds (continued)**

**C. - Capital assets**

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

	<u>2005</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>2006</u>
Capital assets, not being depreciated:				
Land and improvements	\$ 7,300,432	\$ -	\$ -	\$ 7,300,432
Construction in progress	<u>11,034,032</u>	<u>4,632,587</u>	<u>(1,079,535)</u>	<u>14,587,084</u>
Total capital assets, not being depreciated	<u>18,334,464</u>	<u>4,632,587</u>	<u>(1,079,535)</u>	<u>21,887,516</u>
Capital assets, being depreciated:				
Buildings	290,324	-	-	290,324
Leasehold improvements	90,441	-	-	90,441
Parking structure	6,327,309	-	-	6,327,309
Infrastructure	863,747	949,728	-	1,813,475
Equipment	<u>-</u>	<u>8,793</u>	<u>-</u>	<u>8,793</u>
Total capital assets being depreciated	<u>7,571,821</u>	<u>958,521</u>	<u>-</u>	<u>8,530,342</u>
Less accumulated depreciation for:				
Buildings	(19,650)	(7,258)	-	(26,908)
Leasehold improvements	(6,783)	(2,261)	-	(9,044)
Parking structure	(752,843)	(158,183)	-	(911,026)
Infrastructure	(21,594)	(45,337)	-	(66,931)
Equipment	<u>-</u>	<u>(1,759)</u>	<u>-</u>	<u>(1,759)</u>
Total accumulated depreciation	<u>(800,870)</u>	<u>(214,798)</u>	<u>-</u>	<u>(1,015,668)</u>
Total capital assets, being depreciated, net	<u>6,770,951</u>	<u>743,723</u>	<u>-</u>	<u>7,514,674</u>
Total capital assets, net	<u>\$ 25,105,415</u>	<u>\$ 5,376,310</u>	<u>\$ (1,079,535)</u>	<u>\$ 29,402,190</u>

**D. - Operating lease**

The Agency leases office space under a noncancelable operating lease that expires in June 2013. Rent expense was approximately \$19,200 for the year ended June 30, 2006. The schedule of future minimum lease payments for these leases is as follows:

Year ending	
<u>June 30,</u>	
2007	\$ 19,200
2008	19,200
2009	19,200
2010	19,200
2011	19,200
Thereafter	<u>38,400</u>
	<u>\$ 134,400</u>

**MEDFORD URBAN RENEWAL AGENCY**

Notes to Financial Statements

June 30, 2006

**Note II - Detailed notes on all funds (continued)**

**E. - Long-term debt**

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

	<u>Original Amount</u>	<u>Outstanding July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding June 30, 2006</u>	<u>Due Within One Year</u>
Urban Redevelopment Bonds						
1994A Series, interest 2.75% - 5.3%, maturing 9/1/2011	\$ 1,375,000	\$ 685,000	\$ -	\$ (85,000)	\$ 600,000	\$ 90,000
1994B Series, interest 2.75% - 5.3%, maturing 9/1/2011	2,575,000	1,280,000	-	(155,000)	1,125,000	165,000
1996A Series, interest 4.0% - 5.875%, maturing 9/1/2010	4,000,000	1,980,000	-	(285,000)	1,695,000	300,000
2002 Series, interest 3.0% - 4.5%, maturing 6/1/2013	9,050,000	7,000,000	-	(760,000)	6,240,000	790,000
2004 Series, interest 3.55%, maturing 6/15/2013	9,500,000	8,475,000	-	(935,000)	7,540,000	970,000
2005 Series A, interest 3.73% maturing on 6/15/2013	3,488,000	-	3,488,000	(290,000)	3,198,000	253,000
Loans Payable						
2004 Oregon Housing, interest 1.00%, maturing 8/1/2013	600,000	600,000	-	(59,967)	540,033	57,925
Total	<u>\$ 30,588,000</u>	<u>\$ 20,020,000</u>	<u>\$ 3,488,000</u>	<u>\$ (2,569,967)</u>	<u>\$ 20,938,033</u>	<u>\$ 2,625,925</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,625,925	\$ 833,026
2008	2,734,507	728,919
2009	2,848,095	616,825
2010	2,966,688	498,081
2011	3,092,288	370,779
2012 - 2014	<u>6,670,530</u>	<u>380,352</u>
Total	<u>\$ 20,938,033</u>	<u>\$ 3,427,982</u>

**MEDFORD URBAN RENEWAL AGENCY**

Notes to Financial Statements

June 30, 2006

**F. - Capital Lease**

The Agency leases a copier which qualifies as a capital lease. The asset is capitalized using interest rates appropriate at the inception of the lease. The capital lease obligation is as follows:

	<u>2006</u>
Cost	\$ 8,793
Less accumulated amortization	<u>(1,758)</u>
Net book value of copier under capital lease	<u>\$ 7,035</u>

Future minimum lease payments and the net present value at year-end are as follows:

	<u>2006</u>
Total future minimum lease payments	\$ 9,979
Amount representing interest	<u>(1,355)</u>
Present value of future minimum lease payments	8,624
Current portion	<u>(1,554)</u>
Total long-term capitalized lease obligation	<u>\$ 7,070</u>

Capital lease obligation for the years ended June 30 is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,554	\$ 475
2008	1,650	379
2009	1,752	277
2010	1,860	169
2011	<u>1,808</u>	<u>55</u>
Total	<u>\$ 8,624</u>	<u>\$ 1,355</u>

**MEDFORD URBAN RENEWAL AGENCY**

## Notes to Financial Statements

June 30, 2006

**Note III - Other information****A. Related party transactions**

Amounts totaling \$688,096 for labor and fringe benefit costs, administrative expenditures for accounting, administration and other professional services, and certain amounts included in capital outlay were paid by the City and later reimbursed by the Agency. The amount payable to the City at June 30, 2006 was \$94,514. MURA receives income from the City of Medford for administration of parking services. The amount received in 2006 was \$50,720.

**B. Commitments**

The Agency is involved in a number of current urban renewal projects involving commitments to complete the projects in the future. At June 30, 2006, total current projects commitments were \$270,280.

**C. 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, for which the Agency carries commercial insurance. The Agency does not engage in risk financing activities where the risk is retained (self-insurance). There have been no significant reductions in insurance coverage from the prior year for any category of risk and settled claims have not reached the level of commercial coverage in any of the past three fiscal years.

**D. Subsequent Event**

On September 6, 2006 the Agency approved a resolution to form a public/private partnership in the development of the downtown urban renewal area. The development will include a partnership with Lithia Motors and the City of Medford, and will include the development of additional parking spaces in downtown, renovation of current downtown city streets being affected, the creation of a public park, and the acquisition of numerous other properties currently owned by Lithia. The development is expected to take approximately 4 years with a total cost of 14.1 million dollars to the agency. The financing for the project is expected to come from tax increment financing.

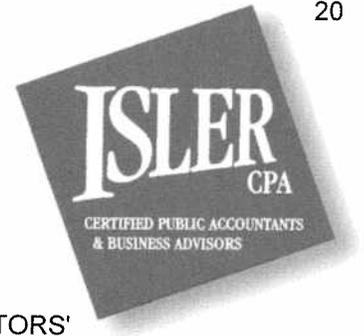
SUPPLEMENTAL INFORMATION

**MEDFORD URBAN RENEWAL AGENCY**

Schedule of Property Tax Transactions

Year Ended June 30, 2006

Tax Year	Uncollected July 1, 2005	Lewy Extended by Assessor	Discounts Allowed	Interest	Adjustments	Collections	Uncollected June 30, 2006
2005 - 2006	\$ -	\$ 4,486,889	\$ (108,197)	\$ 2,680	\$ -	\$ (4,261,060)	\$ 117,632
2004 - 2005	166,105	-	-	7,962	-	(119,077)	47,028
2003 - 2004	66,807	-	-	6,391	(4,199)	(35,940)	26,668
2002 - 2003	39,791	-	-	6,484	(3,441)	(22,561)	13,789
2001 - 2002	15,571	-	-	3,619	(183)	(10,742)	4,646
2000 - 2001	8,333	-	-	490	-	(893)	7,440
1999 - 2000	204	-	-	151	-	(150)	54
Prior	1,030	-	-	312	-	(250)	780
<b>Total</b>	<b>\$ 297,841</b>	<b>\$ 4,486,889</b>	<b>\$ (108,197)</b>	<b>\$ 28,089</b>	<b>\$ (7,823)</b>	<b>\$ (4,450,673)</b>	<b>\$ 218,037</b>



**COMMENTS AND DISCLOSURES OF INDEPENDENT AUDITORS'  
REQUIRED BY STATE STATUTE**

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

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

**Report on Internal Control**

We have audited the basic financial statements of Medford Urban Renewal Agency (the Agency), as of and for the year ended June 30, 2006, and have issued our report thereon dated October 5, 2006.

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.

In planning and performing our audit of the basic financial statements of the Agency, for the year ended June 30, 2006, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the basic financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

## Compliance

As part of obtaining reasonable assurance about whether the Agency's basic financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including provisions of the Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-230 to 162-10-320, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

- The accounting records and related internal controls.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to preparation, adoption and execution of the annual budgets for the fiscal years ended 2006 and 2007.
- The requirements relating to insurance and fidelity bond coverage.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

The results of our tests disclosed no instances of noncompliance.

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.

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



Paul Nielson, a member of the firm  
for Isler CPA.  
October 5, 2006