

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, 2008

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

June 30, 2008

BOARD OF DIRECTORS

Name and Position

Mr. Gregory Yechout, Chair
Mr. Skip Patterson, Vice Chair
Mr. Bill Dames, Secretary
Mr. Jason Anderson, Council Representative
Mr. Dick Entinger
Mr. Jim Kuntz, Council Representative
Ms. Claudette Moore
Ms. Joy Pelikan
Mr. Eric Stark

BUDGET COMMITTEE MEMBERS

<u>Name</u>	<u>Term Expires January 31,</u>
Mr. Joel Marks, Chair	2009
Mr. George Schroeder	2009
Ms. Cathy deWolfe	2010
Ms. Barbara Davidson	2010
Mr. Thomas Basgen	2011
Ms. Sally Densmore	2011
Mr. Scott Henselman	2011
Mr. James Kelly	2011
Ms. Phyllis Nelson	2011

MANAGEMENT

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

AGENCY ADDRESS

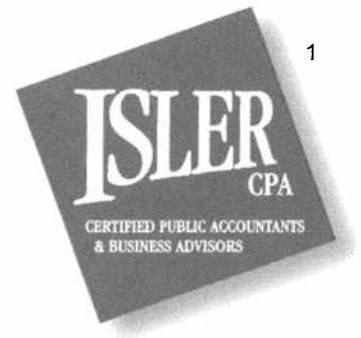
Medford Urban Renewal Agency
45 South Holly Street
Medford, OR 97501
(541) 774-2700

MEDFORD URBAN RENEWAL AGENCY

Fiscal Year Ended June 30, 2008

Table of Contents

	<u>Page</u>
Financial Section:	
Independent Auditors' Report	1
Management's Discussion and Analysis	2 - 6
Financial Statements:	
Governmental Funds Balance Sheet / Statement of Net Assets	7
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities	8
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	9
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Debt Service Fund	10
Notes to Financial Statements	11 - 17
Supplemental Information:	
Schedule of Property Tax Transactions	18
Comments and Disclosures of Independent Auditors' Required by State Statute	19 - 20



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, 2008, 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, 2008, 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 principles 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 18 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

A handwritten signature in cursive script that reads "Paul R. Nielson".

by Paul Nielson, a member of the firm
Eugene, Oregon
December 12, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
MEDFORD URBAN RENEWAL AGENCY
Fiscal Year Ended June 30, 2008

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, 2008. Information in the MD&A is based on currently known facts, decisions and conditions. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The Agency's assets totaled \$33 million at June 30, 2008, and consisted mainly of cash and cash equivalents of \$6.6 million and capital assets of \$25.5 million.
- The Agency's liabilities totaled \$18.9 million at June 30, 2008, and consisted mainly of long-term debt of \$18.1 million.
- Net assets (assets minus liabilities) were \$14.1 million at June 30, 2008. Net assets increased by \$2 million.
- As of the end of the current fiscal year, the Agency's two funds reported a combined fund balance of \$6 million, a decrease of \$842 thousand.
- The Agency's net capital assets increased by \$37 thousand.
- Revenues for the fiscal year ended June 30, 2008, totaled \$5.2 million and consisted mainly of property taxes of \$4.5 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 \$14.1 million at June 30, 2008. 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	2008	2007 as restated
Assets		
Cash and cash equivalents	\$ 6,648	\$ 6,922
Other current assets	319	258
Capital assets, net	25,487	25,450
Other assets	554	600
Total assets	<u>33,008</u>	<u>33,230</u>
Liabilities		
Bonds and note payable	18,114	20,883
Other liabilities	802	266
Total liabilities	<u>18,916</u>	<u>21,149</u>
Net assets		
Invested in capital assets, net of related debt	7,373	6,771
Unrestricted	6,719	5,310
Total net assets	<u>\$ 14,092</u>	<u>\$ 12,081</u>

At the end of the current fiscal year, the Agency reports a positive balance in unrestricted net assets and in net assets invested in capital assets, net of related debt. There was an increase in total net assets of \$2 million. Long-term debt decreased by \$2.8 million. This is due primarily to the Agency making the annually required debt payments. There was an increase in other liabilities of \$536 thousand. This is primarily due to the Agency being involved in capital improvement projects that were in the construction phase at the end of the 2007-2008 fiscal year. These projects included the RCC/SOU/Bartlett Street Streetscape project and the relocation and new construction of the Greyhound Bus Depot as required per the Commons Project DDA.

Statement of Activities

The Agency's Statement of Activities for fiscal year ended June 30, 2008, follows:

Amounts in thousands

	<u>2008</u>	<u>2007</u>
Revenues		
General Revenues:		
Property taxes	\$ 4,474	\$ 4,150
Investment earnings	372	356
Miscellaneous	386	266
	<u>5,232</u>	<u>4,772</u>
Expenses		
Urban renewal	<u>3,221</u>	<u>2,127</u>
Increase in net assets	2,011	2,645
Net assets, beginning of the year (as restated)	<u>12,081</u>	<u>9,436</u>
Net assets, end of the year	<u><u>\$ 14,092</u></u>	<u><u>\$ 12,081</u></u>

The cost of the Agency's activities totaled \$3.2 million for the year, an increase of \$1.1 million. This increase was due primarily to the ongoing capital projects that carried over from fiscal year 2007-2008 to 2008-2009. These projects included the Commons project (Greyhound Bus Depot relocation and construction) and the RCC/SOU/Bartlett Street Streetscape project. Both projects are capital improvements being constructed by the Agency; however, upon completion, ownership will be transferred from the Agency to the appropriate party involved. The Greyhound Bus Depot ownership will be transferred to the Rogue Valley Transit District and the Bartlett Street Streetscape project ownership will be transferred to the City of Medford.

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 \$6 million, a decrease of \$842 thousand.

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 \$3 million, a decrease of \$1.3 million during the current fiscal year.

At the end of the current fiscal year, the fund balance of the Debt Service Fund was \$3 million, an increase of \$452 thousand during the year.

CAPITAL ASSETS

As of June 30, 2008, the Agency had invested \$25.5 million in capital assets, net of depreciation as reflected in the following table, which represents a net increase (additions less deductions and depreciation) of \$37 thousand.

Amounts in thousands

	2008	2007
Land and improvements	\$ 4,279	\$ 3,080
Construction in progress	48	12,363
Buildings	290	290
Leashold improvements	91	91
Parking structure	6,704	6,704
Infrastructure	1,814	1,814
Equipment	9	9
Improvements	16,598	4,219
Less accumulated depreciation	(4,346)	(3,120)
	<u>\$ 25,487</u>	<u>\$ 25,450</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, 2008, the Agency had \$17.7 million in Urban Redevelopment Bonds outstanding. These bonds were issued 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 "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 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 \$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 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 2008-2009, the Agency projected the property tax levy to be \$4,691,000, which includes the Dividing the Taxes amount of \$2,588,600 and the Special Levy amount of \$2,106,800. The Special Levy is a projected tax rate of \$0.4088 per \$1,000 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 \$6,359,600 is proposed in the Fiscal year 2008-2009 budget to finance capital projects. Debt service expenditures are projected to total \$7,383,600 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 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, 2008

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Assets
ASSETS					
Cash and cash equivalents	\$ 3,708,099	\$ 2,940,187	\$ 6,648,286	\$ -	\$ 6,648,286
Insurance proceeds receivable	35,000	-	35,000	-	35,000
Due from City of Medford	2,463	-	2,463	-	2,463
Property taxes receivable	65,853	214,977	280,830	-	280,830
Loans receivable	482,136	-	482,136	-	482,136
Bond issuance cost, net	-	-	-	72,147	72,147
Land and improvements	-	-	-	4,278,556	4,278,556
Construction in progress	-	-	-	48,518	48,518
Other capital assets, net of accumulated depreciation	-	-	-	21,159,428	21,159,428
Total assets	\$ 4,293,551	\$ 3,155,164	\$ 7,448,715	\$ 25,558,649	\$ 33,007,364
LIABILITIES					
Accounts payable and other current liabilities	\$ 684,398	\$ -	\$ 684,398	\$ -	\$ 684,398
Due to City of Medford	42,641	-	42,641	-	42,641
Deferred income	533,848	158,412	692,260	(692,260)	-
Accrued interest payable	-	-	-	74,939	74,939
Long-term debt:					
Due within one year	-	-	-	2,981,102	2,981,102
Due in more than one year	-	-	-	15,132,587	15,132,587
Total liabilities	1,260,887	158,412	1,419,299	17,496,368	18,915,667
FUND BALANCES / NET ASSETS					
Fund balances:					
Unreserved fund balance	3,032,664	2,996,752	6,029,416	(6,029,416)	-
Total liabilities and fund balances	\$ 4,293,551	\$ 3,155,164	\$ 7,448,715		-
Net assets:					
Invested in capital assets, net of related debt				7,372,813	7,372,813
Unrestricted				6,718,884	6,718,884
Total net assets				14,091,697	14,091,697
Total liabilities and net assets				\$ 25,558,649	\$ 33,007,364

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, 2008

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
GENERAL REVENUES					
Property taxes	\$ 767,881	\$ 3,677,308	\$ 4,445,189	\$ 28,516	\$ 4,473,705
Investment earnings	359,881	4,034	363,915	7,901	371,816
Miscellaneous	73,207	-	73,207	-	73,207
Grants and contracts	174,000	-	174,000	-	174,000
Rental Income	80,733	-	80,733	-	80,733
Charges for services	57,700	-	57,700	-	57,700
Total general revenues	<u>1,513,402</u>	<u>3,681,342</u>	<u>5,194,744</u>	<u>36,417</u>	<u>5,231,161</u>
URBAN RENEWAL EXPENDITURES / EXPENSES					
Current:					
General government	561,972	-	561,972	593,777	1,155,749
Depreciation and amortization	-	-	-	1,244,809	1,244,809
Capital outlay	1,856,362	-	1,856,362	(1,856,362)	-
Debt service:					
Principal payments	58,516	2,711,000	2,769,516	(2,769,516)	-
Interest	4,833	843,580	848,413	(28,118)	820,295
Total expenditures / expense	<u>2,481,683</u>	<u>3,554,580</u>	<u>6,036,263</u>	<u>(2,815,410)</u>	<u>3,220,853</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(968,281)</u>	<u>126,762</u>	<u>(841,519)</u>	<u>841,519</u>	<u>-</u>
OTHER FINANCING SOURCES					
Transfers in (out)	<u>(325,000)</u>	<u>325,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(1,293,281)	451,762	(841,519)	841,519	-
Change in net assets				2,010,308	2,010,308
Fund balance / net assets:					
Beginning of year	<u>4,325,945</u>	<u>2,544,990</u>	<u>6,870,935</u>	<u>5,210,454</u>	<u>12,081,389</u>
End of year	<u>\$ 3,032,664</u>	<u>\$ 2,996,752</u>	<u>\$ 6,029,416</u>	<u>\$ 8,062,281</u>	<u>\$ 14,091,697</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, 2008

	Original & Final Budget	Actual	Variance with Budget
Revenues:			
Property taxes	\$ 788,530	\$ 767,881	\$ (20,649)
Charges for services	57,700	57,700	-
Investment earnings	281,900	359,881	77,981
Miscellaneous	18,800	73,207	54,407
Grants and contracts	469,000	174,000	(295,000)
Rental Income	70,400	80,733	10,333
Total revenues	<u>1,686,330</u>	<u>1,513,402</u>	<u>(172,928)</u>
Expenditures:			
Personnel services	339,800	299,092	40,708
Materials and services	467,700	262,880	204,820
Capital outlay	5,489,800	1,856,362	3,633,438
Debt service	63,500	63,349	151
Contingency	186,130	-	186,130
Total expenditures	<u>6,546,930</u>	<u>2,481,683</u>	<u>4,065,247</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,860,600)</u>	<u>(968,281)</u>	<u>3,892,319</u>
Other financing sources:			
Transfers out	(325,000)	(325,000)	-
Bond proceeds	3,250,000	-	(3,250,000)
Net change in fund balance	<u>(1,935,600)</u>	<u>(1,293,281)</u>	<u>642,319</u>
Fund Balance:			
Beginning of year	<u>1,935,600</u>	<u>4,325,945</u>	<u>2,390,345</u>
End of year	<u>\$ -</u>	<u>\$ 3,032,664</u>	<u>\$ 3,032,664</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, 2008

	Original & Final Budget	Actual	Variance with Budget
Revenues:			
Property taxes	\$ 3,884,070	\$ 3,677,308	\$ (206,762)
Investment earnings	-	4,034	4,034
Total revenues	<u>3,884,070</u>	<u>3,681,342</u>	<u>(202,728)</u>
Expenditures:			
Debt service	<u>3,884,070</u>	<u>3,554,580</u>	<u>329,490</u>
Excess revenues over (under) expenditures	<u>-</u>	<u>126,762</u>	<u>126,762</u>
Other financing sources (uses):			
Transfers in	<u>325,000</u>	<u>325,000</u>	<u>-</u>
Net change in fund balance	325,000	451,762	126,762
Fund Balance:			
Beginning of year	<u>3,255,800</u>	<u>2,544,990</u>	<u>(710,810)</u>
End of year	<u>\$ 3,580,800</u>	<u>\$ 2,996,752</u>	<u>\$ (584,048)</u>

See accompanying notes to financial statements.

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2008

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). 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, 2008, 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, 2008

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the statement of Net Assets and Statement of Activities to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. 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, and deposits in the State of Oregon's Treasurer's Local Government Investment Pool (LGIP). The fair value of the deposits 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.

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.

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2008

Note I - Summary of significant accounting policies (continued)**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.

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. 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). Detailed information concerning PERS can be found in the City of Medford's FY08 Comprehensive Annual Financial Report (Notes to Basic Financial Statements).

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, 2008

Note II - Detailed notes on all funds**A. - Cash and cash equivalents**

Cash and cash equivalents are comprised of the following at June 30, 2008:

Cash on hand (petty cash)	\$ 200
Cash in bank (deposits with financial institutions)	47,622
State of Oregon Treasurer's Local Government Investment Pool	<u>6,600,464</u>
Total cash and cash equivalents	<u>\$ 6,648,286</u>

Interest rate risk. While the Agency 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. Weighted average maturities of investments in the Oregon Short-Term Fund at June 30, 2008 were: 77% mature within 93 days, 3.5% mature from 94 days to one year, and 19.5% mature from one year to three years.

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

B - 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. The loans, which commenced on December 1, 2003, August 11, 2003, and May 1, 2005, are each receivable in monthly installments of \$759, \$506, and \$1,733. The loans are expected be paid off by December 2013, October 2013, and June 2023 respectively. The outstanding amount receivable by the Agency for each of the loans was \$120,490, \$80,478 and \$281,168 as of June 30, 2008. 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, 2008

Note II - Detailed notes on all funds (continued)

C. - Capital assets

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

	As Previously Reported Balance July 1, 2007	Prior Period Adjustment	Restated Balance July 1, 2007	Additions	Transfers and Retirements	2008
Capital assets, not being depreciated:						
Land and improvements	\$ 7,665,432	\$ (4,584,939)	\$ 3,080,493	\$ 1,198,063	\$ -	\$ 4,278,556
Construction in progress	14,732,889	(2,370,342)	12,362,547	48,518	(12,362,547)	48,518
Total capital assets, not being depreciated	22,398,321	(6,955,281)	15,443,040	1,246,581	(12,362,547)	4,327,074
Capital assets, being depreciated:						
Buildings	290,324	-	290,324	-	-	290,324
Leasehold improvements	90,441	-	90,441	-	-	90,441
Parking structure	6,327,309	377,026	6,704,335	-	-	6,704,335
Infrastructure	1,813,475	-	1,813,475	-	-	1,813,475
Equipment	8,793	-	8,793	-	-	8,793
Improvements	-	4,219,301	4,219,301	16,004	12,362,547	16,597,852
Total capital assets being depreciated	8,530,342	4,596,327	13,126,669	16,004	12,362,547	25,505,220
Less accumulated depreciation for:						
Buildings	(34,166)	(3,935)	(38,101)	(14,516)	-	(52,617)
Leasehold improvements	(11,305)	(6,782)	(18,087)	(6,029)	-	(24,116)
Parking structure	(1,069,209)	(1,345,332)	(2,414,541)	(335,216)	-	(2,749,757)
Infrastructure	(112,268)	(490,170)	(602,438)	(90,674)	-	(693,112)
Equipment	(3,518)	-	(3,518)	(1,759)	-	(5,277)
Improvements	-	(43,329)	(43,329)	(777,584)	-	(820,913)
Total accumulated depreciation	(1,230,466)	(1,889,548)	(3,120,014)	(1,225,778)	-	(4,345,792)
Total capital assets, being depreciated, net	7,299,876	2,706,779	10,006,655	(1,209,774)	12,362,547	21,159,428
Total capital assets, net	\$ 29,698,197	\$ (4,248,502)	\$ 25,449,695	\$ 36,807	\$ -	\$ 25,486,502

D. - Operating lease

The Agency leases building and office facilities and other equipment under noncancelable operating leases that expire in June 2014. Rent expense was approximately \$19,200 for the year ended June 30, 2008. The schedule of future minimum lease payments for these leases is as follows:

Year ending June 30,	
2009	\$ 19,200
2010	19,200
2011	19,200
2012	19,200
2013	19,200
2014	6,400
	<u>\$ 102,400</u>

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2008

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, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding June 30, 2008</u>	<u>Due Within One Year</u>
Urban Redevelopment Bonds						
1994A Series, interest 2.75% - 5.3%, maturing 9/1/2011	\$ 1,375,000	\$ 510,000	\$ -	\$ (90,000)	\$ 420,000	\$ 95,000
1994B Series, interest 2.75% - 5.3%, maturing 9/1/2011	2,575,000	960,000	-	(175,000)	785,000	180,000
1996A Series, interest 4.0% - 5.875%, maturing 9/1/2010	4,000,000	1,395,000	-	(320,000)	1,075,000	335,000
2002 Series, interest 3.0% - 4.5%, maturing 6/1/2013	9,050,000	5,450,000	-	(815,000)	4,635,000	850,000
2004 Series, interest 3.55%, maturing 6/15/2013	9,500,000	6,570,000	-	(1,000,000)	5,570,000	1,040,000
2005 Series A, interest 3.73% maturing on 6/15/2013	3,488,000	2,945,000	-	(276,000)	2,669,000	289,000
2007 Series A, interest 4.65% maturing on 6/15/2022	<u>2,570,000</u>	<u>2,570,000</u>	<u>-</u>	<u>(35,000)</u>	<u>2,535,000</u>	<u>133,000</u>
Urban Redevelopment Bonds subtotal	32,558,000	20,400,000	-	(2,711,000)	17,689,000	2,922,000
Loans Payable						
2004 Oregon Housing, interest 1.00%, maturing 8/1/2013	<u>600,000</u>	<u>483,205</u>	<u>-</u>	<u>(58,516)</u>	<u>424,689</u>	<u>59,102</u>
Total	<u>\$ 33,158,000</u>	<u>\$ 20,883,205</u>	<u>\$ -</u>	<u>\$ (2,769,516)</u>	<u>\$ 18,113,689</u>	<u>\$ 2,981,102</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 2,981,102	\$ 734,694
2010	3,105,693	609,768
2011	3,237,290	476,004
2012	3,365,893	348,055
2013	3,493,502	220,975
2014 - 2018	1,035,209	341,016
2019 - 2023	<u>895,000</u>	<u>106,393</u>
Total	<u>\$ 18,113,689</u>	<u>\$ 2,836,905</u>

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2008

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

Amounts totaling \$525,139 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 of Medford and later reimbursed by the Agency. The amount payable to the City at June 30, 2008 was \$42,641 and the amount receivable from the City at June 30, 2008 was \$2,463. The Agency receives income from the City for administration of parking services. The amount received in 2008 was \$57,700.

B. Commitments

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 Real Estate Inc. 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 acquisition of certain designated properties in the project area. The development is expected to take approximately 5 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.

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.

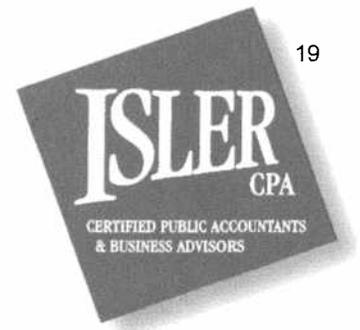
D. Prior period adjustment

The Agency's beginning net assets were adjusted to properly report capital assets and accumulated depreciation at June 30, 2007. The net effect decreased beginning net assets by \$4,248,502.

SUPPLEMENTAL INFORMATION

MEDFORD URBAN RENEWAL AGENCY
Schedule of Property Tax Transactions
Year Ended June 30, 2008

Tax Year	Uncollected July 1, 2008	Levy Extended by Assessor	Discounts Allowed	Interest	Adjustments	Collections	Uncollected June 30, 2008
2007 - 2008	\$ -	\$ 4,629,972	\$ (109,683)	\$ 2,267	\$ -	\$ (4,343,347)	\$ 176,942
2006 - 2007	149,510	-	-	5,666	1,583	(95,879)	55,214
2005 - 2006	48,303	-	-	3,204	(147)	(21,048)	27,108
2004 - 2005	22,707	-	-	3,487	(162)	(14,071)	8,474
2003 - 2004	10,155	-	-	1,744	(675)	(5,685)	3,795
2002 - 2003	4,254	-	-	378	(343)	(783)	3,128
2001 - 2002	2,938	-	-	335	(174)	(549)	2,215
Prior	5,357	-	-	210	(1,129)	(274)	3,954
Total	\$ 243,224	\$ 4,629,972	\$ (109,683)	\$ 17,291	\$ (1,047)	\$ (4,481,636)	\$ 280,830



COMMENTS AND DISCLOSURES OF INDEPENDENT AUDITORS'
REQUIRED BY STATE STATUTE

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

Oregon Administrative Rules 162-10-0000 through 162-10-0330 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, 2008, and have issued our report thereon dated December 12, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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 opinions 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control. We consider the deficiencies described in the management advisory letter dated December 12, 2008, to be significant deficiencies in internal control over financial reporting.

Our consideration of internal control would not necessarily identify all deficiencies in internal control that might be 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.

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 2008 and 2009.
- 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
December 12, 2008