

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A component unit of the City of Oregon City, Oregon)
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2015

AGENCY OFFICIALS

Name	Term Expires
Rocky Smith, Jr., Chair	December 31,2016
Derrick Beneville, Vice Chair	December 31,2017
Dan Holladay	December 31, 2018
Renate Mengelberg	December 31, 2016
Carol Pauli	December 31, 2016
Brian Shaw	December 31, 2018

Agency members may be contacted at:
625 Center Street
Oregon City, Oregon 97045

Tony Konkol, Interim City Manager
City Hall
625 Center Street
Oregon City, Oregon 97045

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Agency Members
City of Oregon City Urban Renewal Agency
Oregon City, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the City of Oregon City Urban Renewal Agency (Agency), a component unit of the City of Oregon City, Oregon, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Agency, as of June 30, 2015, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

The budgetary comparison schedule, as listed in the table of contents under required supplementary information, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

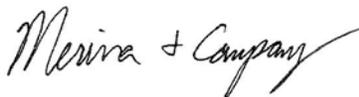
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 29, 2015, on our consideration of the Agency's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Merina & Company, LLP
West Linn, Oregon
December 29, 2015

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

As management of the Oregon City Urban Renewal Agency (the Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial position and activities of the Agency for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the notes to the basic financial statements.

Overview of the Financial Statements

The Agency provides for rehabilitation of blighted and deteriorated areas within the City of Oregon City's designated urban renewal boundary. The Agency is a component unit of the City of Oregon City, Oregon. The governing body of the Agency is the Mayor and City Commission, plus two additional appointed members. The Agency's financial statements consist of agency-wide statements, fund financial statements, notes to the statements, and supplementary information. The agency-wide statements include the Statement of Net Position and the Statement of Activities.

Statement of Net Position - The Statement of Net Position presents all of the Area's assets and liabilities with the difference reported as net position. Unrestricted net position represents the Area's resources that are generally available to finance operations.

Statement of Activities - The Statement of Activities focuses on program costs and matching resources. Property taxes are the primary resource for funding urban renewal programs. This Statement provides information on the changes to net position.

Fund Statements - Following the agency-wide statements is a section containing fund financial statements for its sole fund. The section includes a Budgetary Comparison Schedule as well.

Notes to the Statements - The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

Financial Highlights

	2015	2014	Change
Net position	\$ 21,999,789	\$ 21,855,480	\$ 144,309
Change in net position	\$ 144,309	\$ 347,263	\$ (202,954)

- The Agency's assets exceeded its liabilities by \$22.00 million (reported as net position). Within the net position, \$18.50 is invested in capital assets, net of related debt. The remaining balance, \$3.50 million, is unrestricted net position and may be used to meet the Agency's obligations to citizens and creditors.
- Total assets decreased by \$1,042,415 while liabilities decreased by \$1,186,724; this represents a net increase in position of \$144,309.

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

Financial Summary

The following table shows a summary of the statement of net position at fiscal year end and for the previous year end.

Statements of Net Position at June 30

	<u>2015</u>	<u>2014</u>
Assets:		
Current and other assets	\$ 3,568,328	\$ 4,086,131
Capital assets, net of depreciation	30,287,463	30,812,075
Total Assets	<u>33,855,791</u>	<u>34,898,206</u>
Liabilities:		
Current liabilities	71,025	121,145
Long-term debt	11,784,977	12,921,581
Total Liabilities	<u>11,856,002</u>	<u>13,042,726</u>
Net Position:		
Net investment in capital assets	18,502,486	17,890,494
Unrestricted	3,497,303	3,964,986
Total Net Position	<u>\$ 21,999,789</u>	<u>\$ 21,855,480</u>

- Capital additions totaled \$324,078 for fiscal year 2015. Net capital assets decreased by \$524,612 after recording depreciation expense of \$848,690. The following table presents a summary of revenues, expenses and changes in net position for the Agency during the current year and prior year.
- The Agency made bond payments of \$749,640 and a loan payment of \$386,964 during the year.

Statements of Activities
For the Years Ended June 30

	<u>2015</u>	<u>2014</u>
Revenues:		
Property taxes	\$ 2,199,699	\$ 2,101,694
Interest income	21,349	21,963
Miscellaneous	58,277	58,077
Total Revenues	<u>2,279,325</u>	<u>2,181,734</u>
Expenses:		
Programs	2,135,016	1,834,471
Change in Net Position	144,309	347,263
Beginning Net Position	21,855,480	21,508,217
Ending Net Position	<u>\$ 21,999,789</u>	<u>\$ 21,855,480</u>

- The Agency generated approximately \$2.20 million in tax increment property taxes. This was an increase over the prior year of approximately \$98,000, or 4.66%. The increased property taxes are due to an increase in the valuation for 2015 of \$5.56 million, or 4.53%, to \$128.14 million. Expenses increased by approximately \$300,545, or 16.38%, due to an increase in grant program activities. Storefront grants awarded in the current year were fully paid out as of June 30, 2015, while adaptive reuse grants will continued to be funded into the next biennium.

Budget Variances

The budget for the Agency was adopted on a biennial basis for the period commencing July 1, 2013 and ending June 30, 2015. There were no budget amendments during the year. There are no significant budget variances.

Capital Assets

At June 30, 2015, the Agency had \$30.29 million invested in capital assets including land, land improvements and street projects. Significant capital spending during the year included approximately \$251,000 for continuing work on the McLoughlin Boulevard Enhancement Project. See notes to the financial statements for additional information on capital assets.

Debt Administration

The Downtown/North End Urban Renewal Plan includes an established debt limit of \$130.1 million as a maximum for urban renewal investment ("maximum indebtedness"). The Agency has \$11.78 million in urban renewal bonds and loans payable from ad-valorem property taxes. See notes to the financial statements for additional information on long-term debt.

Economic Factors and Next Year's Budget and Rates

The Agency continues to fund its strategy toward Oregon City's designation as a "Regional Center" and has made positive impacts through infrastructure improvements and private improvement matching grants. The assessed value of the area grew 4.53% in FY 2014-15, and is projected to grow by 4.0% in FY 2015-16. The area continues to thrive with surface enhancements and community programs like farmers markets, special events, and holiday celebrations.

The area is limited in its capacity to complete capital projects to the extent that property tax increment revenue will be used to pay debt incurred to build existing improvements. The next biennial budget includes capacity to continue McLoughlin Boulevard enhancements, storefront improvement matching grants and staff support for potential development projects. The Clackamette Cove project had some progression in this biennium and continues to remain a priority in the next biennium. Should significant new development occur, particularly in promising areas such as the Clackamette Cove, or the Rossman Landfill, revenue will be generated for additional improvements.

Requests for Information

This financial report is designed to provide a general overview of the Oregon City Urban Renewal Agency's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Finance Director, P.O. Box 3040, Oregon City, Oregon 97045-0304 (625 Center Street).

The Board has one outstanding debt at June 30, 2015, a loan from the City of Oregon City. See the Notes to the Financial Statements for additional information on long-term debt.

BASIC FINANCIAL STATEMENTS

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS

Cash and investments	\$ 3,424,235
Accounts receivable	7,500
Property taxes receivable	136,593
Nondepreciable capital assets	5,598,487
Depreciable capital assets, net	24,688,976
	<hr/>
<i>Total Assets</i>	33,855,791

LIABILITIES

Accounts payable	\$ 9,712
Due to Oregon City	61,313
Noncurrent liabilities:	
Due within one year:	
Bonds payable	769,640
Note payable to Oregon City	386,964
Due in more than one year:	
Bonds payable	9,467,480
Note payable to Oregon City	1,160,893
	<hr/>
<i>Total Liabilities</i>	11,856,002

NET POSITION

Net investment in capital assets	18,502,486
Unrestricted	3,497,303
	<hr/>
<i>Total Net Position</i>	<u><u>\$ 21,999,789</u></u>

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
STATEMENT OF ACTIVITIES
JUNE 30, 2015

<i>REVENUES</i>	
Property taxes	\$ 2,199,699
Interest income	21,349
Miscellaneous	58,277
	<hr/>
<i>Total Revenues</i>	2,279,325
<i>EXPENSES</i>	
Public works	742,575
Depreciation	848,690
Interest on long-term debt	543,751
	<hr/>
<i>Total Expenses</i>	2,135,016
	<hr/>
<i>CHANGE IN NET POSITION</i>	144,309
<i>NET POSITION, Beginning of year</i>	21,855,480
	<hr/>
<i>NET POSITION, End of year</i>	\$ 21,999,789
	<hr/> <hr/>

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
BALANCE SHEET – DOWNTOWN URBAN RENEWAL AGENCY
JUNE 30, 2015

ASSETS

Cash and investments	\$ 3,424,235
Accounts receivable	7,500
Property taxes receivable	136,593
	<hr/>
<i>Total Assets</i>	<i>\$ 3,568,328</i>
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LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES

Liabilities

Accounts payable	\$ 9,712
Due to Oregon City	61,313
	<hr/>
<i>Total Liabilities</i>	71,025

Deferred Inflows of Resources:

Unavailable revenue	119,232
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Fund Balance

Unassigned	3,378,071
	<hr/>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</i>	<i>\$ 3,568,328</i>
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CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

FUND BALANCE \$ 3,378,071

The Statement of Net Position reports receivables at their net realizable value. However, receivables not available to pay for current period expenditures are deferred in governmental funds. 119,232

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

Cost	39,546,091
Accumulated depreciation	(9,258,628)

All liabilities are reported in the Statement of Net Position. However, if they are not due and payable in the current period, they are not recorded in governmental funds. (11,784,977)

NET POSITION \$ 21,999,789

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
DOWNTOWN URBAN RENEWAL AGENCY
YEAR ENDED JUNE 30, 2015

REVENUES

Property Taxes	\$ 2,195,520
Interest income	21,349
Miscellaneous	58,277
	<hr/>
<i>Total Revenues</i>	2,275,146

EXPENDITURES

Current operating:	
Materials and services	742,575
Debt service	
Principal	1,136,604
Interest	543,751
Capital outlay	324,078
	<hr/>
<i>Total Expenditures</i>	2,747,008

NET CHANGE IN

FUND BALANCE	(471,862)
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<i>FUND BALANCE, Beginning of year, as restated</i>	<hr/> 3,849,933
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<i>FUND BALANCE, End of year</i>	<hr/> <hr/> \$ 3,378,071
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CITY OF OREGON CITY URBAN RENEWAL AGENCY

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

NET CHANGE IN FUND BALANCE **\$ (471,862)**

Amounts reported in the Statement of Activities are different because:

Governmental funds consider revenues that do not provide current financial resources to be unearned revenue. However, the Statement of Activities recognizes such revenues at their net realizable value when earned, regardless of when received. 4,179

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

Capital outlay 324,078
Depreciation (848,690)

Repayments of long-term debt use current financial resources and are reported as expenditures in governmental funds. However, the payment of debt principal does not affect the Statement of Activities. It is reported as a decrease in noncurrent liabilities in the Statement of Net Position.

Debt principal paid 1,136,604

CHANGE IN NET POSITION **\$ 144,309**

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The Agency, a component unit of the City of Oregon City, was created on October 5, 1983 to provide for rehabilitation of blighted and deteriorated areas within the City's designated urban renewal areas. The Agency is governed by a seven-member board of directors that include the City's mayor and other commission members.

The Agency is a legally separate entity governed by the Agency's Board. The City Commission has the ability to impose its will over the Agency as determined on the basis of budget adoption, taxing authority and funding for the Agency. Therefore, under the criteria of the Governmental Accounting Standards Board, the Agency is considered a component unit of the City and the Agency's financial activities are included as a blended component unit (a special revenue fund) in the basic financial statements of the City.

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial levels. All of the Agency's activities are categorized as governmental activities.

Government-wide financial statements display information about the reporting government as a whole. These statements focus on the sustainability of the Agency as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary. Currently, the Agency has one governmental fund.

Basis of Presentation

The financial transactions of the Agency are recorded in a single individual fund accounted for by providing a self-balancing set of accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenses.

GAAP set forth minimum criteria (percentage of the assets, liabilities, revenues or expenses of either fund category or the government and enterprise combined) for the determination of major funds. The Agency's sole fund is considered a major fund. The Downtown Urban Renewal Agency Fund accounts for property taxes collected to improve the Downtown District.

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Measurement Focus and Basis of Accounting

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Agency receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Agency considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from long-term debt are reported as other financing sources.

The accounts of the Agency are organized and operated as a single fund. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. The primary source of revenue is from property taxes.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the agency-wide statements, reconciliations are provided to explain the differences between the fund financial statements and the agency-wide statements.

Assets, Liabilities, deferred inflows of resources, and net position/fund balance

Cash and Investments

The Agency maintains cash and investments in a common pool, maintained by the City.

Oregon Revised Statutes authorize the Agency to invest in certificates of deposit, savings accounts, bank repurchase agreements, bankers' acceptances, general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon Municipalities and the State Treasurer's Local Government Investment Pool, among others. Investments are stated at fair value.

Receivables and Deferred Inflows/Outflows of Resources

Property taxes are levied by the County Assessor and collected by the County Tax Collector. The taxes are levied and become a lien as of July 1. They may be paid in three installments payable in equal payments due November 15, February 15, and May 15. Uncollected property taxes levied for the current and prior years are recorded as a receivable at year-end. The Agency's property tax collection records show that most of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years.

In the fund financial statements, property taxes receivable that have been collected within 60 days of fiscal year-end are considered measurable and available and are recognized as revenue. The remaining balance is recorded as a deferred inflow of resources as it is deemed unavailable to finance operations of the current period. In the government-wide financial statements, property taxes receivable are recognized as revenue when earned.

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Capital Assets

Capital assets (items costing more than \$5,000 and lasting more than one year) are valued at estimated historical cost or actual historical cost. Capital assets are recorded as expenditures in the fund financial statements and capitalized on the Statement of Net Position. Maintenance and repairs of fixed assets are charged to expenditures in the fund as incurred and are not capitalized. Upon disposal, the capital asset records are relieved of the related cost. Depreciation is computed on capital assets on the straight-line basis of their estimated useful lives estimated up to 40 years. Interest is not capitalized as a cost of construction of capital assets.

Fund Balance

In the fund financial statements, the fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Governmental Fund type fund balances are required to be reported in the following classifications, when applicable.

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Fund balance is reported as restricted when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Fund balance is reported as committed when the Agency takes formal action that places specific constraints on how the resources may be used. The Agency can modify or rescind the commitment at any time through taking a similar formal action.

Resources that are constrained by the Agency's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the Agency approves which resources should be "reserved" during the adoption of the annual budget. The Agency's Finance Director uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the Agency's Annual Financial Report.

Unassigned fund balance is the residual classification for the fund. This classification represents fund balance that has not been restricted, committed, or assigned within the fund.

Budget and Budgetary Accounting

A biennial budget is prepared for the Agency's fund in accordance with the modified accrual basis of accounting. Appropriations are made at the object level (Materials and Services, Capital Outlay, Debt Service and Contingency). Expenditures may not legally exceed appropriations. Appropriations lapse at the end of each biennium. Budget amounts include original approved amounts and all subsequent appropriation transfers approved by the Agency. After budget approval, the Agency may approve supplemental appropriations through the use of appropriation resolutions and require supplemental budget procedures in some cases if an occurrence, condition, or need exists which had not been ascertained at the time the budget was adopted. Management may not amend the total adopted budget. A supplemental budget requires hearings before the public, publications in newspapers and approval by the Agency Board.

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

Use of Estimates

The preparation of basic financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results may differ from those estimates.

CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2015:

Deposits with financial institutions	\$ 101,567
Local Government Investment Pool	3,322,668
	<hr/>
Total cash and investments	<u>\$ 3,424,235</u>

Deposits

The book balance of the City's bank deposits (checking accounts) was \$101,567 and the bank balance was \$101,567 at year end. Bank deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under collateral program administered by the Oregon State Treasurer.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the Agency's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the Agency's deposits with financial institutions for up to \$250,000 each for the aggregate of all demand deposits and the aggregate of all time deposit and savings accounts at each financial institution. Deposits in excess of FDIC coverage with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2015, all of the Agency's bank balances were secured by Federal insurance.

Investments

The State Treasurer of the State of Oregon maintains the Oregon Short-term Fund, of which the Local Government Investment Pool (LGIP) is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2015, the fair value

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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

of the position in the Oregon State Treasurer’s Short-term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-term Fund is not subject to risk evaluation. Separate financial statements for the Oregon Short-term Fund are available from the Oregon State Treasurer.

Interest Rate Risk

In accordance with its investment policy, the Agency manages its exposure to declines in fair value of its investments by limiting the weighted average maturity of its investments, specifically by maintaining funds in the Local Government Investment Pool.

Custodial Risk - Investments

For an investment, this is the risk that, in the event of a failure of the counterparty, the Agency will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. Currently the Agency’s investments are limited to the Local Government Investment Pool.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Agency. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that 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, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

CAPITAL ASSETS

The changes in the capital assets for governmental activities for the year ended June 30, 2015 are as follows:

	Balance			Balance
	June 30, 2014	Additions	Retirements	June 30, 2015
Land	\$ 5,084,459	\$ -	\$ -	\$ 5,084,459
Capital in progress	189,950	324,078	-	514,028
General improvements	33,947,604	-	-	33,947,604
	<u>39,222,013</u>	<u>324,078</u>	<u>-</u>	<u>39,546,091</u>
Less accumulated depreciation	(8,409,938)	(848,690)	-	(9,258,628)
Total capital assets	<u>\$ 30,812,075</u>	<u>\$ (524,612)</u>	<u>\$ -</u>	<u>\$ 30,287,463</u>

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

LONG-TERM DEBT

Long-term debt transactions for the year were as follows:

	Outstanding June 30, 2014	Issued	Matured / Redeemed	Outstanding June 30, 2015	Due Within One Year
Urban Renewal Commission Revenue Bonds, Series 2008A, issued July 18, 2008, interest rate at 4.95%	\$ 7,885,000	\$ -	\$ (405,000)	\$ 7,480,000	\$ 425,000
Urban Renewal Commission Revenue Bonds, Series 2013, issued January 31, 2013, Tax Exempt, interest at 3.05%	1,108,774	-	(123,197)	985,577	123,197
Urban Renewal Commission Revenue Bonds, Series 2013, issued January 31, 2013, Taxable, interest at 4.55%	1,992,986	-	(221,443)	1,771,543	221,443
City of Oregon City Loan, \$2,500,000, issued August 11, 2009	1,934,821	-	(386,964)	1,547,857	386,964
Total long-term debt	<u>\$ 12,921,581</u>	<u>\$ -</u>	<u>\$ (1,136,604)</u>	<u>\$ 11,784,977</u>	<u>\$ 1,156,604</u>

Urban Renewal Commission Revenue Bonds, Series 2008: On July 1, 2000, the Oregon City Urban Renewal Agency issued \$10,000,000 of Urban Renewal Tax Increment Revenue Bonds to provide financing for projects within the Oregon City Downtown Urban Renewal area. The bonds bear interest at 4.95%. Semi annual payments of interest are due on December 1 and June 1 of each year, and annual payments of principal are due on June 1 of each year. The twenty year bond is secured by and payable from the Tax Increment Revenue of the Urban Renewal Agency. In addition, a covenant to maintain a Debt Service Reserve Account in an amount not less than the lesser of the following:

- a. Maximum annual debt service due on the Credit Facility; or
- b. 125% of the average amount of principal, interest and premium due on the Credit Facility, or
- c. 10% of the proceeds of the Credit Facility.

The Urban Renewal Agency was in compliance with all covenants at June 30, 2015.

Urban Renewal Commission Revenue Bonds, Series 2013: On January 31, 2013, the URC issued \$3,446,400 of Urban Renewal Tax Increment Revenue Bonds to refinance the URC's Line of Credit. Part of the bonds issued are tax exempt while part are taxable. Interest rate on the tax exempt bonds is 3.05% while the taxable bonds is 4.55%. The bonds mature on February 21, 2023.

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

City of Oregon City Loan: The Urban Renewal Agency, through an intergovernmental agreement, borrowed up to \$2,500,000 from the City to cover the cost of remodeling the McLean Clinic building. The loan has been extended for five years and matures in 2019. Repayment is interest only for the term of the loan at the rate equivalent to the rate of return of the LGIP, minimum 1.5%. The agreement allows for principal repayment at any time without penalty.

Future debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,156,604	\$ 504,143	\$ 1,660,747
2017	1,176,604	463,469	1,640,073
2018	1,196,604	421,803	1,618,407
2019	1,221,605	379,148	1,600,753
2020	859,640	335,256	1,194,896
2021-2023	6,173,920	764,861	6,938,781
	<u>11,784,977</u>	<u>2,868,680</u>	<u>14,653,657</u>

NEW ACCOUNTING PRONOUNCEMENTS

The Agency will implement new GASB pronouncements no later than the required fiscal year. There are no new pronouncements which apply to the Agency for the current year. Management has not determined the effect on the financial statements from implementing any of the pronouncements.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 29, 2015, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OREGON CITY URBAN RENEWAL AGENCY

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

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - DOWNTOWN URBAN RENEWAL AGENCY

YEAR ENDED JUNE 30, 2015

	<i>Budget Amounts</i>		<i>Actual</i>			<i>Variance</i>
	<i>Original</i>	<i>Final</i>	<i>FY 2014</i>	<i>FY 2015</i>	<i>Biennial</i>	
REVENUES						
Property Taxes	\$ 4,338,285	\$ 4,338,285	\$ 2,107,364	\$ 2,195,520	\$ 4,302,884	\$ (35,401)
Interest income	36,000	36,000	21,963	21,349	43,312	7,312
Miscellaneous income	351,000	351,000	58,077	58,277	116,354	(234,646)
<i>Total Revenues</i>	<u>4,725,285</u>	<u>4,725,285</u>	<u>2,187,404</u>	<u>2,275,146</u>	<u>4,462,550</u>	<u>(262,735)</u>
EXPENDITURES						
Current						
Materials and services	1,850,948	1,850,948	409,262	742,575	1,151,837	699,111
Debt Service						
Principal	1,866,244	1,866,244	729,640	1,136,604	1,866,244	-
Interest	1,236,636	1,236,636	576,519	543,751	1,120,270	116,366
Capital outlay	1,704,800	1,704,800	127,904	324,078	451,982	1,252,818
Contingency	1,527,903	1,527,903	-	-	-	1,527,903
<i>Total Expenditures</i>	<u>8,186,531</u>	<u>8,186,531</u>	<u>1,843,325</u>	<u>2,747,008</u>	<u>4,590,333</u>	<u>3,596,198</u>
REVENUES OVER (UNDER)						
EXPENDITURES	(3,461,246)	(3,461,246)	344,079	(471,862)	(127,783)	3,333,463
FUND BALANCE, beginning of year	<u>3,461,246</u>	<u>3,461,246</u>	<u>3,505,854</u>	<u>3,849,933</u>	<u>3,505,854</u>	<u>44,608</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,849,933</u>	<u>\$ 3,378,071</u>	<u>\$ 3,378,071</u>	<u>\$ 3,378,071</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2015

<u>Tax Year</u>	<u>Uncollected Balances July 1, 2014</u>	<u>2014-2015 Levy</u>	<u>Interest, Discounts & Adjustments</u>	<u>Turnovers</u>	<u>Uncollected Balances June 30, 2015</u>
2014-15	\$ -	\$ 2,254,016	\$ (60,341)	\$ (2,131,906)	\$ 61,769
2013-14	66,101	-	582	(39,454)	27,229
2012-13	29,967	-	1,386	(12,119)	19,234
2011-12	19,294	-	1,652	(9,584)	11,362
2010-11	11,514	-	811	(4,441)	7,884
2009-10 and Prior Years	11,375	-	85	(2,345)	9,115
Total	\$ 138,251	\$ 2,254,016	\$ (55,825)	\$ (2,199,849)	\$ 136,593

CITY OF OREGON CITY URBAN RENEWAL AGENCY
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SCHEDULE OF DEBT TRANSACTIONS
YEAR ENDED JUNE 30, 2015

	Interest Rate	Year of Issue	Maturity	Outstanding June 30, 2014	Debt Issued	Principal Paid	Outstanding June 30, 2015
<i>PRINCIPAL TRANSACTIONS</i>							
2008 Urban Renewal Revenue Bonds	4.95%	2008	2023	\$ 7,885,000	\$ -	\$ (405,000)	\$ 7,480,000
2010 Loan from City of Oregon City	Variable	2010	2019	1,934,821	-	(386,964)	1,547,857
2013 Urban Renewal Revenue Bonds - Exempt	3.05%	2013	2023	1,108,774	-	(123,197)	985,577
2013 Urban Renewal Revenue Bonds - Taxable	4.55%	2013	2023	1,992,986	-	(221,443)	1,771,543
				<u>\$ 12,921,581</u>	<u>\$ -</u>	<u>\$ (1,136,604)</u>	<u>\$ 11,784,977</u>

	Interest Rate	Year of Issue	Maturity	Unmatured Interest June 30, 2014	New Issues	Interest Paid	Unmatured Interest June 30, 2015
<i>INTEREST TRANSACTIONS</i>							
2008 Urban Renewal Revenue Bonds	4.95%	2008	2023	\$ 2,702,949	\$ -	\$ (390,307)	\$ 2,312,642
2010 Loan from City of Oregon City	Variable	2010	2019	87,067	-	(29,022)	58,045
2013 Urban Renewal Revenue Bonds - Exempt	3.05%	2013	2023	169,087	-	(33,819)	135,268
2013 Urban Renewal Revenue Bonds - Taxable	4.55%	2013	2023	453,405	-	(90,680)	362,725
				<u>\$ 3,412,508</u>	<u>\$ -</u>	<u>\$ (543,828)</u>	<u>\$ 2,868,680</u>

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
SCHEDULE OF FUTURE DEBT REQUIREMENTS BY ISSUE
JUNE 30, 2015

Fiscal Year Ending June 30,	2008 Revenue Bonds			Oregon City Loan		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 425,000	\$ 370,260	\$ 795,260	\$ 386,964	\$ 23,218	\$ 410,182
2017	445,000	349,222	794,222	386,964	17,414	404,378
2018	465,000	327,195	792,195	386,964	11,609	398,573
2019	490,000	304,178	794,178	386,965	5,804	392,769
2020	515,000	279,923	794,923	-	-	-
2021	540,000	254,430	794,430	-	-	-
2022	565,000	227,700	792,700	-	-	-
2023	4,035,000	199,733	4,234,733	-	-	-
	<u>\$ 7,480,000</u>	<u>\$ 2,312,641</u>	<u>\$ 9,792,641</u>	<u>\$ 1,547,857</u>	<u>\$ 58,045</u>	<u>\$ 1,605,902</u>

2013 Tax Exempt Revenue Bonds			2013 Taxable Revenue Bonds			Totals		
Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
\$ 123,197	\$ 30,060	\$ 153,257	\$ 221,443	\$ 80,605	\$ 302,048	\$ 1,156,604	\$ 504,143	\$ 1,660,747
123,197	26,303	149,500	221,443	70,530	291,973	1,176,604	463,469	1,640,073
123,197	22,545	145,742	221,443	60,454	281,897	1,196,604	421,803	1,618,407
123,197	18,788	141,985	221,443	50,378	271,821	1,221,605	379,148	1,600,753
123,197	15,030	138,227	221,443	40,303	261,746	859,640	335,256	1,194,896
123,197	11,272	134,469	221,443	30,227	251,670	884,640	295,929	1,180,569
123,197	7,515	130,712	221,443	20,151	241,594	909,640	255,366	1,165,006
123,198	3,757	126,955	221,442	10,076	231,518	4,379,640	213,566	4,593,206
<u>\$ 985,577</u>	<u>\$ 135,270</u>	<u>\$ 1,120,847</u>	<u>\$ 1,771,543</u>	<u>\$ 362,724</u>	<u>\$ 2,134,267</u>	<u>\$11,784,977</u>	<u>\$ 2,868,680</u>	<u>\$14,653,657</u>

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATION**

We have audited the basic financial statements of the City of Oregon City Urban Renewal Agency (Agency), a component unit of the City of Oregon City, Oregon, as of and for the year ended June 30, 2015 and have issued our report thereon dated December 29, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets. The Agency does not receive highway revenue.
- Authorized investment of surplus funds. (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).
- Accountability for collecting or receiving money by elected officials. The Agency does not have any elected officials collecting or receiving money.

In connection with our testing, nothing came to our attention that caused us to believe the Agency was not in substantial compliance with certain provisions of laws, regulations, contracts,

and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the Agency’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report is intended solely for the information and use of the Honorable Mayor and Agency Members, Oregon Secretary of State Audits Division, and management, and is not intended to be and should not be used by anyone other than these specified parties.



Merina & Company, LLP
West Linn, Oregon
December 29, 2015