

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A component unit of the City of Oregon City, Oregon)
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2016

AGENCY OFFICIALS

Name	Term Expires
Dan Holladay	December 31, 2018
Renate Mengelberg	December 31, 2018
Mike Mitchell	December 31, 2017
Carol Pauli	December 31, 2016
Brian Shaw	December 31, 2018
Rocky Smith, Jr.	December 31, 2016
Stephen VanHaverbeke	December 31, 2019

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

Tony Konkol, 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 (the Agency), a component unit of the City of Oregon City, Oregon, as of and for the year ended June 30, 2016, 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, 2016, 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.

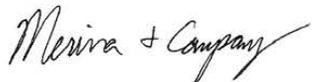
Other Information

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 6, 2016, 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 6, 2016

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

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, 2016. 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. It provides information on the changes to net position. Property taxes are the primary resource for funding urban renewal programs.

Fund Statements - Following the agency-wide statements is a section containing fund financial statements for the Agency's 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

	2016	2015 as restated	Change
Net position	\$ 22,218,814	\$ 22,105,459	\$ 113,355
Change in net position	\$ 113,355	\$ 144,309	\$ (30,954)

- The Agency's assets exceeded its liabilities by \$22.22 million (reported as net position). Within the net position, \$19.03 million is invested in capital assets, net of related debt, while \$1.23 million is restricted for debt service. The remaining balance, \$1.96 million, is unrestricted net position and may be used to meet the Agency's obligations to citizens and creditors.
- Total assets decreased by \$978,399 while liabilities decreased by \$1,091,754; this represents a net increase in position of \$113,355.

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

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>2016</u>	<u>2015 as restated</u>
Assets:		
Current and other assets	\$ 3,328,205	\$ 3,568,328
Capital assets, net of depreciation	29,654,857	30,393,133
Total Assets	<u>32,983,062</u>	<u>33,961,461</u>
Liabilities:		
Current liabilities	135,875	71,025
Long-term debt	10,628,373	11,784,977
Total Liabilities	<u>10,764,248</u>	<u>11,856,002</u>
Net Position:		
Net investment in capital assets	19,026,484	18,608,156
Restricted for debt service	1,235,695	1,250,565
Unrestricted	1,956,635	2,246,738
Total Net Position	<u>\$ 22,218,814</u>	<u>\$ 22,105,459</u>

- Capital additions totaled \$129,098 for 2016. Net capital assets decreased by \$738,276 after recording depreciation expense of \$867,374. 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 \$769,640 and a loan payment of \$386,964 during the year.

Statements of Activities
For the Years Ended June 30

	<u>2016</u>	<u>2015 as restated</u>
Revenues:		
Property taxes	\$ 2,202,748	\$ 2,199,699
Interest income	26,144	21,349
Miscellaneous	65,589	58,277
Total Revenues	<u>2,294,481</u>	<u>2,279,325</u>
Expenses:		
Programs	2,181,126	2,029,346
Change in Net Position	113,355	249,979
Beginning Net Position	<u>22,105,459</u>	<u>21,855,480</u>
Ending Net Position	<u>\$ 22,218,814</u>	<u>\$ 22,105,459</u>

- The Agency generated approximately \$2.20 million in tax increment property taxes. This was a minimal increase over the prior year of approximately \$3,000. Expenses increased by approximately \$151,800, or 7.48%, mainly due to an increase in grant program activities, particularly the adaptive reuse/rehabilitation program grants, and accrual of interest payable.

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Budget Variances

The budget for the Agency was adopted on a biennial basis for the period beginning July 1, 2015 and ending June 30, 2017. There were no budget amendments during the year. There are no significant budget variances.

Capital Assets

At June 30, 2016, the Agency had \$29.65 million invested in capital assets including land, land improvements and street projects. Significant capital spending during the year included approximately \$111,000 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 \$10.63 million in outstanding 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 Urban Renewal Agency's goals include the elimination of blight within the Area and implementation of the objectives of Oregon City's Comprehensive Plan, including designation of the City as a "Regional Center" within the State's largest metropolitan area. The Area continues to thrive with infrastructure and surface enhancements and community programs like farmers markets, special events, and holiday celebrations. The assessed value of the area is projected to grow by 4.0% in fiscal year 2016-17.

The area has been limited in its capacity to complete capital projects to the extent that property tax increment revenue has used to pay debt incurred to build existing improvements. The Clackamette Cove Project began construction this summer and is expected to generate a significant increase in tax increment revenue to support enhanced activities within the Urban Renewal Area. Phase I includes the construction of 244 units of garden-style apartments, approximately 8,000 square feet of office space and a 3,000 square foot recreational building. Phase I also entails all related infrastructure improvements, including Main Street improvements, with a pedestrian crossing, and utility lines.

On November 8, 2016, voters approved Measure 3-514 to amend the Oregon City Charter by prohibiting the use of existing tax increment revenues for any purpose other than retiring existing Urban Renewal Agency debt. Existing investments in Urban Renewal Agency debt are secured for repayment under the new charter language.

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).

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, 2016

ASSETS

Cash and investments	\$ 3,181,117
Accounts receivable	7,500
Property taxes receivable	139,588
Nondepreciable capital assets	5,088,618
Depreciable capital assets, net	24,566,239

TOTAL ASSETS	32,983,062
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LIABILITIES

Accounts payable	\$ 193
Deposits	1,500
Due to Oregon City	64,733
Accrued interest payable	69,449
Noncurrent liabilities:	
Due within one year:	
Bonds payable	789,640
Note payable to Oregon City	386,964
Due in more than one year:	
Bonds payable	8,677,840
Note payable to Oregon City	773,929

TOTAL LIABILITIES	10,764,248
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NET POSITION

Net investment in capital assets	19,026,484
Restricted for debt service	1,235,695
Unrestricted	1,956,635

TOTAL NET POSITION	\$ 22,218,814
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The notes to the financial statements are an integral part of this statement

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

REVENUES	
Property taxes	\$ 2,202,748
Interest income	26,144
Miscellaneous	65,589
	<hr/>
TOTAL REVENUES	2,294,481
EXPENSES	
Public works	740,160
Depreciation	867,374
Interest on long-term debt	573,592
	<hr/>
TOTAL EXPENSES	2,181,126
	<hr/>
CHANGE IN NET POSITION	113,355
BEGINNING NET POSITION, AS ORIGINALLY REPORTED	21,999,789
	<hr/>
Prior period adjustment	105,670
BEGINNING NET POSITION, AS RESTATED	22,105,459
	<hr/>
NET POSITION, END OF YEAR	<u>\$ 22,218,814</u>

The notes to the financial statements are an integral part of this statement

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
BALANCE SHEET – URBAN RENEWAL AGENCY
JUNE 30, 2016

ASSETS

Cash and investments	\$ 3,181,117
Accounts receivable	7,500
Property taxes receivable	139,588
	<hr/>
TOTAL ASSETS	\$ 3,328,205
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**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND
FUND BALANCES**

LIABILITIES

Accounts payable	\$ 193
Deposits	1,500
Due to Oregon City	64,733
	<hr/>
TOTAL LIABILITIES	66,426

DEFERRED INFLOWS OF RESOURCES:

Unavailable revenue	126,584
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FUND BALANCE

Restricted for debt service	1,235,695
Committed for urban renewal capital projects	1,899,500
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TOTAL FUND BALANCE	3,135,195
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TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 3,328,205
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The notes to the financial statements are an integral part of this statement

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, 2016

FUND BALANCE	\$ 3,135,195
<p>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.</p>	
	126,584
<p>Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Position at their net depreciable value.</p>	
Cost	39,783,569
Accumulated depreciation	(10,128,712)
<p>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.</p>	
Bonds and notes payable	(10,628,373)
Accrued interest payable	(69,449)
	<hr/>
NET POSITION	\$ 22,218,814 <hr/> <hr/>

The notes to the financial statements are an integral part of this statement

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 –
URBAN RENEWAL AGENCY
YEAR ENDED JUNE 30, 2016

REVENUES

Property Taxes	\$ 2,195,396
Interest income	26,144
Miscellaneous	65,589

TOTAL REVENUES	<u>2,287,129</u>
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EXPENSES

Current operating:	
Materials and services	719,643
Debt service	
Principal	1,156,604
Interest	504,143
Capital outlay	149,615

TOTAL EXPENDITURES	<u>2,530,005</u>
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NET CHANGE IN FUND BALANCE	(242,876)
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FUND BALANCE, BEGINNING OF YEAR	<u>3,378,071</u>
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FUND BALANCE, END OF YEAR	<u><u>\$ 3,135,195</u></u>
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The notes to the financial statements are an integral part of this statement

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, 2016**

NET CHANGE IN FUND BALANCE \$ (242,876)

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. 7,352

Governmental funds do not report expenditures for unpaid interest expense since they do not require the use of current financial resources. However the Statement of Activities reports such expenses when incurred, regardless of when settlement ultimately occurs. (69,449)

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	129,098
Depreciation	(867,374)

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	1,156,604
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CHANGE IN NET POSITION \$ 113,355

The notes to the financial statements are an integral part of this statement

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, 2016

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 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, 2016

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.

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/Outflows 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 other options. 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 of 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, 2016

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 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 organizational unit and object levels (Oregon City Urban Renewal Agency, 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. 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, 2016

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, 2016:

Deposits with financial institutions	\$ 111,223
Local Government Investment Pool	<u>3,069,894</u>
Total cash and investments	<u><u>\$ 3,181,117</u></u>

Deposits

The book balance of the City's bank deposits (checking accounts) was \$111,223 and the bank balance was \$120,078 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 the 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 are held 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, 2016, 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, 2016, the fair value

CITY OF OREGON CITY URBAN RENEWAL AGENCY
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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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, 2016 are as follows:

	Balance June 30, 2015 as restated	Additions	Retirements	Reclasses	Balance June 30, 2016
Land	\$ 5,084,459	\$ -	\$ -	\$ -	\$ 5,084,459
Capital in progress	514,028	4,029	(13,702)	(500,196)	4,159
General improvements	34,055,984	138,771	-	500,196	34,694,951
	39,654,471	142,800	(13,702)	-	39,783,569
Less accumulated depreciation	(9,261,338)	(867,374)	-	-	(10,128,712)
Total capital assets	<u>\$ 30,393,133</u>	<u>\$ (724,574)</u>	<u>\$ (13,702)</u>	<u>\$ -</u>	<u>\$ 29,654,857</u>

CITY OF OREGON CITY URBAN RENEWAL AGENCY
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YEAR ENDED JUNE 30, 2016

LONG-TERM DEBT

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

	Outstanding June 30, 2015	Issued	Matured / Redeemed	Outstanding June 30, 2016	Due Within One Year
Urban Renewal Commission Revenue Bonds, Series 2008A, issued July 18, 2008, interest rate at 4.95%	\$ 7,480,000	\$ -	\$ (425,000)	\$ 7,055,000	\$ 445,000
Urban Renewal Commission Revenue Bonds, Series 2013, issued January 31, 2013, Tax Exempt, interest at 3.05%	985,577	-	(123,197)	862,380	123,197
Urban Renewal Commission Revenue Bonds, Series 2013, issued January 31, 2013, Taxable, interest at 4.55%	1,771,543	-	(221,443)	1,550,100	221,443
City of Oregon City Loan, \$2,500,000, issued August 11, 2009	1,547,857	-	(386,964)	1,160,893	386,964
Total long-term debt	<u>\$ 11,784,977</u>	<u>\$ -</u>	<u>\$ (1,156,604)</u>	<u>\$ 10,628,373</u>	<u>\$ 1,176,604</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%. Semiannual 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, 2016.

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, 2016

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
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	884,640	295,929	1,180,569
2022-2023	5,289,280	468,932	5,758,212
	<u>\$ 10,628,373</u>	<u>\$ 2,364,537</u>	<u>\$ 12,992,910</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.

PRIOR PERIOD ADJUSTMENT

Beginning net position of the Urban Renewal Agency was restated for a prior period adjustment of \$105,670 resulting from improvements that were erroneously recorded as expenses instead of as capital assets of the Urban Renewal Agency in the prior year.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 15, 2016, the date on which the financial statements were available to be issued. On November 8, 2016, voters approved Measure 3-514, Amendment to Charter to Limit Urban Renewal Activity. The measure amends Section 59 of the Oregon City Charter by prohibiting the City or the Urban Renewal Commission from using any existing tax increment revenues for any purpose other than retiring existing Urban Renewal Agency debt.

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 - URBAN RENEWAL AGENCY
YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual			Variance
	Original	Final	FY 2016	FY 2017	Biennial	
REVENUES						
Property Taxes	\$ 4,516,520	\$ 4,516,520	\$ 2,195,396	\$ -	\$ 2,195,396	\$ (2,321,124)
Interest income	34,000	34,000	26,144	-	26,144	(7,856)
Miscellaneous income	120,000	120,000	65,589	-	65,589	(54,411)
Total Revenues	4,670,520	4,670,520	2,287,129	-	2,287,129	(2,383,391)
EXPENSES						
Current						
Oregon City Urban Renewal Agency	2,902,004	2,902,004	869,258	-	869,258	2,032,746
Debt Service						
Principal	2,333,208	2,333,208	1,156,604	-	1,156,604	1,176,604
Interest	985,025	985,025	504,143	-	504,143	480,882
Contingency	1,488,673	1,488,673	-	-	-	1,488,673
Total Expenditures	7,708,910	7,708,910	2,530,005	-	2,530,005	5,178,905
NET CHANGE IN FUND BALANCE	(3,038,390)	(3,038,390)	(242,876)	-	(242,876)	2,795,514
FUND BALANCE, BEGINNING OF YEAR	3,038,390	3,038,390	3,378,071	-	3,378,071	339,681
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ 3,135,195	\$ -	\$ 3,135,195	\$ 3,135,195

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, 2016

<u>Tax Year</u>	<u>Uncollected Balances July 1, 2015</u>	<u>2015-2016 Levy</u>	<u>Interest, Discounts & Adjustments</u>	<u>Turnovers</u>	<u>Uncollected Balances June 30, 2016</u>
2015-16	\$ -	\$ 2,257,702	\$ (60,517)	\$ (2,140,233)	\$ 56,952
2014-15	61,769	-	481	(34,315)	27,935
2013-14	27,231	-	1,061	(9,651)	18,641
2012-13	19,233	-	1,539	(8,813)	11,959
2011-12	11,363	-	827	(3,933)	8,257
2010-11 and Prior Years	16,998	-	301	(1,455)	15,844
Total	\$ 136,594	\$ 2,257,702	\$ (56,308)	\$ (2,198,400)	\$ 139,588

CITY OF OREGON CITY URBAN RENEWAL AGENCY
(A Component Unit of the City of Oregon City, Oregon)
SCHEDULE OF DEBT TRANSACTIONS
YEAR ENDED JUNE 30, 2016

	Interest Rate	Year of Issue	Maturity	Outstanding June 30, 2015	Debt Issued	Principal Paid	Outstanding June 30, 2016
<i>PRINCIPAL TRANSACTIONS</i>							
2008 Urban Renewal Revenue Bonds	4.95%	2008	2023	\$ 7,480,000	\$ -	\$ (425,000)	\$ 7,055,000
2010 Loan from City of Oregon City	Variable	2010	2019	1,547,857	-	(386,964)	1,160,893
2013 Urban Renewal Revenue Bonds - Exempt	3.05%	2013	2023	985,577	-	(123,197)	862,380
2013 Urban Renewal Revenue Bonds - Taxable	4.55%	2013	2023	1,771,543	-	(221,443)	1,550,100
				<u>\$ 11,784,977</u>	<u>\$ -</u>	<u>\$ (1,156,604)</u>	<u>\$ 10,628,373</u>

	Interest Rate	Year of Issue	Maturity	Unmatured Interest June 30, 2015	New Issues	Interest Paid	Unmatured Interest June 30, 2016
<i>INTEREST TRANSACTIONS</i>							
2008 Urban Renewal Revenue Bonds	4.95%	2008	2023	\$ 2,312,641	\$ -	\$ (370,260)	\$ 1,942,381
2010 Loan from City of Oregon City	Variable	2010	2019	58,045	-	(23,218)	34,827
2013 Urban Renewal Revenue Bonds - Exempt	3.05%	2013	2023	135,270	-	(30,060)	105,210
2013 Urban Renewal Revenue Bonds - Taxable	4.55%	2013	2023	362,724	-	(80,605)	282,119
				<u>\$ 2,868,680</u>	<u>\$ -</u>	<u>\$ (504,143)</u>	<u>\$ 2,364,537</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, 2016

Fiscal Year Ending June 30,	2008 Revenue Bonds			Oregon City Loan		
	Principal	Interest	Total	Principal	Interest	Total
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	-	-	-
	\$ 7,055,000	\$ 1,942,381	\$ 8,997,381	\$ 1,160,893	\$ 34,827	\$ 1,195,720

2013 Tax Exempt Revenue Bonds			2013 Taxable Revenue Bonds			Totals		
Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
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>\$ 862,380</u>	<u>\$ 105,210</u>	<u>\$ 967,590</u>	<u>\$ 1,550,100</u>	<u>\$ 282,119</u>	<u>\$ 1,832,219</u>	<u>\$ 10,628,373</u>	<u>\$ 2,364,537</u>	<u>\$ 12,992,910</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 (the Agency), a component unit of the City of Oregon City, Oregon, as of and for the year ended June 30, 2016 and have issued our report thereon dated December 6, 2016. 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 162-10-330 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 funds.
- 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 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

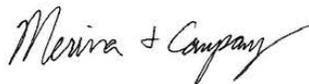
OAR 162-10-0230 Internal Control

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 6, 2016