

**McMinnville Urban Renewal Agency, Oregon**  
**Annual Financial Report**

**For the fiscal year ended June 30, 2016**

prepared by

**Finance Department**  
**City of McMinnville, Oregon**

available online at  
<http://ci.mcminnville.or.us>

**McMinnville Urban Renewal Agency, Oregon**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**

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# MCMINNVILLE URBAN RENEWAL AGENCY

## ELECTED OFFICIALS AND PRINCIPAL APPOINTED OFFICERS OF THE AGENCY

JUNE 30, 2016

### URBAN RENEWAL AGENCY BOARD

### TERM EXPIRES

**Rick Olson**

1324 SW Louise Drive  
McMinnville Oregon 97128

December 31, 2016

**Scott Hill**

1525 Gilson Court  
McMinnville Oregon 97128

December 31, 2016

**Kevin Jeffries**

2355 SW Peggy Street  
McMinnville Oregon 97128

December 31, 2018

**Kellie Menke**

678 NW Wintergreen  
McMinnville Oregon 97128

December 31, 2016

**Alan Ruden**

1688 NW Emerson Drive  
McMinnville Oregon 97128

December 31, 2018

**Larry Yoder**

565 Haven Lane  
McMinnville Oregon 97128

December 31, 2016

**Remy Drabkin**

1400 NE 17<sup>th</sup> Street  
McMinnville Oregon 97128

December 31, 2018

### URBAN RENEWAL AGENCY ADMINISTRATION

**Martha A. Meeker**

**City of McMinnville City Manager**

**David R. Koch**

**City of McMinnville City Attorney**

**Marcia T. Baragary, CPA**

**City of McMinnville Finance Director**

**INDEPENDENT AUDITOR'S REPORT**

Agency Officials  
McMinnville Urban Renewal Agency  
McMinnville, Oregon

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the McMinnville Urban Renewal Agency (the Agency), a component unit of the City of McMinnville, 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 each 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 schedule of revenues, expenditures and changes in fund balance - urban renewal fund, 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*

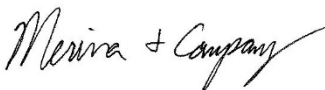
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The elected officials, other supplementary information, and other financial schedule sections, as listed in the table of contents are presented for purposes of additional analysis and are 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.

The elected officials and other financial schedule sections, as listed in the table of content, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**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 January 30, 2017, 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  
January 30, 2017

# McMinnville Urban Renewal Agency Management's Discussion and Analysis

This discussion and analysis presents the highlights of financial activities and financial position for the McMinnville Urban Renewal Agency (the Agency), a component unit of the City of McMinnville, Oregon. The analysis focuses on significant financial issues, major activities and resulting changes in financial position, variances from the budget, and specific issues relating to funds and the economic factors affecting the Agency.

Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes. Please read it in conjunction with the City of McMinnville's financial statements and the Agency's financial statements, which immediately follow this analysis.

## Financial Highlights

The Agency was established in March 2013. The year ended June 30, 2016 was the second year that the Agency incurred financial transactions.

- Assets exceeded liabilities by approximately \$148,904 at June, 30, 2016, meaning that the Agency has a positive net position.
- The Agency received property taxes of approximately \$121,000 in this fiscal year.
- During the current fiscal year, the Agency began design of a street improvement in the Alpine Avenue area which is within the urban renewal district. It is estimated that the Alpine Avenue project will be completed in the summer of 2017.

## Overview of the Financial Statements

Following this MD&A, the report is organized in three sections: basic financial statements including notes to the basic financial statements; required and other supplementary information; and reports by the independent auditor as required by the State of Oregon. The agency-wide statements include the statement of net position and the statement of activities.

The *Statement of Net Position* provides a focus on the net position of the Agency's governmental activities. As Agency activities increase, the Statement will also reflect the Agency's capital assets and long term liabilities.

The *Statement of Activities* provides a focus on program costs and their matching resources. To the extent that program costs are not covered by grants and direct charges, they are paid from general taxes and other sources. This statement demonstrates the extent to which programs are self-supporting or subsidized by general revenues.

The *fund financial statements* for the individual funds follow the agency-wide statements. The Agency presents the Urban Renewal Fund, which serves as the Agency's general operating fund, and the Urban Renewal Debt Service Fund as major funds.

## Agency-wide Statements

The agency-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the Agency's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

# McMinnville Urban Renewal Agency Management's Discussion and Analysis

The two agency-wide statements report the Agency's *net position* and how it has changed. Net position—the difference between assets and liabilities—is one way to measure the Agency's *financial health or position*.

## Statement of Net Position as of June 30, 2016

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by \$ at the close of the most recent fiscal year.

A condensed version of the statement of net position follows:

### Statement of Net Position June 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Current and other assets	\$ 397,097	\$ 110,491
<b>Total assets</b>	397,097	110,491
Long-term obligations outstanding	248,193	30,000
<b>Total liabilities</b>	248,193	30,000
Net position		
Invested in capital assets	181,878	
Restricted for:		
Debt service	-	50,491
Unrestricted	(32,974)	30,000
<b>Total net position</b>	\$ 148,904	\$ 80,491

The Agency's net position increased by \$98,413 during the current fiscal year. This increase represents the degree to which revenues exceeded expense.



# McMinnville Urban Renewal Agency Management's Discussion and Analysis

## Statement of Activities

As with the statement of net position, the Agency reports governmental activities on a consolidated basis. A summary version of the statement of activities is illustrated in the following table.

### Changes in Net Position For years ended June 30, 2015 and 2016 Governmental Activities

	2016	2015
<b>Revenues</b>		
General revenues		
Tax increment revenues	\$ 121,064	\$ 85,308
Investment income	603	183
<b>Total revenues</b>	<b>\$ 121,667</b>	<b>\$ 85,491</b>
<b>Expenses</b>		
Governmental activities		
General government	\$ 23,254	\$ 5,000
<b>Total expenses</b>	<b>23,254</b>	<b>5,000</b>
<b>Increase in net position</b>	<b>\$ 98,413</b>	<b>\$ 80,491</b>

Governmental activities increased the Agency's net position by approximately \$98,413 and accounts for the entire growth in the net position of the Agency. The Agency's tax collection, \$121,000, are the majority of total revenues of the Agency. The fiscal year ended 2016 was the second year the Agency collected taxes.

All of the tax collections are restricted to repayment of urban renewal debt which will finance various projects within the urban renewal district.

## Fund Financial Analysis

Fund accounting segregates revenues according to their intended purpose and is used to aid management in demonstrating legal and contractual compliance with revenue source spending requirements. The Agency's fund balance classifications are defined as required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The entire amount of the Debt Service Fund's ending fund balance consists of tax increment revenue and is restricted for debt service. Ending balances for fiscal years 2016 and 2015 were \$174,835 and \$77,213 respectively, for an increase of \$97,622. The increase is due to higher tax increment revenues received in 2016, the second year of the Agency's existence.

# **McMinnville Urban Renewal Agency Management's Discussion and Analysis**

The Urban Renewal Fund did not carry an ending fund balance in 2016 or 2015. The purpose of the fund is to account for urban renewal project costs. The loan proceeds from the City of McMinnville are equal to and do not exceed the monthly costs in the Urban Renewal fund.

## **Urban Renewal Fund Budgetary Highlights**

During the fiscal year, one supplemental budget was adopted by the McMinnville Urban Renewal Agency Board. The Alpine Avenue street improvement was unanticipated when the budget was adopted and it was necessary for the City to loan \$163,000 to the Agency to pay for design costs for the project. Revenues and appropriations were both increased in the Urban Renewal Fund.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At fiscal year end June 30, 2015, the Agency had not invested in capital assets. At fiscal year end June 30, 2016, the Agency's capital assets consisted of \$181,878 in construction in progress. The construction is related to a street improvement project in the Alpine Avenue area of the urban renewal district.

### **Obligations Outstanding**

The Agency and the City of McMinnville entered into an intergovernmental agreement that requires the Agency to repay contract expenses for the creation of the Agency. At fiscal year end June 30, 2016, the remaining balance on the debt was \$25,000. The balance owed to the City will be repaid by fiscal year 2019. In addition, the Agency and City entered into an intergovernmental agreement in the current fiscal year for the City to loan the Agency funds for the design of the Alpine Avenue street project. At fiscal year end, the remaining balance on the debt was \$163,000. The balance owed to the City will be repaid by fiscal year 2019. The Agency's outstanding debt is described in more detail in the notes to the financial statements, Note III.D.

### **Economic Factors**

The McMinnville Urban Renewal Agency's purpose is to partner with private development to support growth in downtown and the northeast gateway area. Increasing property values within the urban renewal boundaries translates into increasing tax increment revenue. This tax increment is then used to pay debt incurred to fund projects and improvements.

In 2013 when the Agency was created, the frozen assessed value of the district was \$86.3 million. For the fiscal year ended 2016, the assessed value of the district was \$100.7 million, an increase of 17 percent compared to the frozen base. Taxes assessed on the increment between the current and frozen assessed values flow to the Agency, while taxes on the frozen base flow to the respective taxing jurisdictions.

### **Requests for Information**

This Agency's financial statements are designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability of the resources it receives and expends. For additional information, contact the Finance Department, City of McMinnville, 230 NE Second Street, McMinnville, Oregon 97128.

## **BASIC FINANCIAL STATEMENTS**

- Statement of Net Position
- Statement of Activities
- Fund Financial Statements
- Notes to Basic Financial Statements

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**  
**Statement of Net Position**  
**June 30, 2016**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current assets:	
Cash and investments	\$ -
Receivables	7,519
Restricted cash and investments	207,700
Noncurrent assets:	
Capital assets:	
Non-depreciable capital assets	181,878
Total assets	397,097
 <b>Liabilities</b>	
Current liabilities:	
Accounts payable	34,409
Short-term note	25,784
Notes payable, due within one year	59,333
Notes payable, due after one year	128,667
Total liabilities	248,193
 <b>Net Position</b>	
Invested in capital assets	181,878
Restricted for:	
Debt Service	-
Unrestricted	(32,974)
Total net position	\$ 148,904

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

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**  
**Statement of Activities**  
**For the Year Ended June 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net Expense and Change in Net Position Governmental Activities</u>
Governmental activities:		
General government	\$ 23,254	\$ (23,254)
General revenues:		
Tax increment revenues		121,064
Investment income		603
Total general revenues		121,667
Change in net position		98,413
Net position- beginning,		
As originally stated		80,491
Restatement (see note IV.C.)		(30,000)
As restated		50,491
Net position - ending		\$ 148,904

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

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
(a component unit of the City)  
**Balance Sheet - Governmental Funds**  
**For the Year Ended June 30, 2016**

	<b>Urban Renewal Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Tax increment receivable	\$ -	\$ 7,519	\$ 7,519
Restricted cash and investments	34,409	173,291	207,700
Total assets	\$ 34,409	\$ 180,810	\$ 215,219
<b>Liabilities</b>			
Accounts payable	\$ 34,409	\$ -	\$ 34,409
Inter-agency loans payable	-	-	-
<b>Deferred inflows of resources</b>			
Unavailable revenue-property taxes	-	5,975	5,975
<b>Fund balances</b>			
Restricted for:			
Debt service	-	174,835	174,835
Total fund balances	-	174,835	174,835
Total liabilities, deferred inflow of resources, and fund balances	\$ -	\$ 180,810	\$ 180,810
Fund balance - modified accrual basis			\$ 174,835
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds,			181,878
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:			
Tax increment revenues - earned but unavailable			5,975
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds			(213,784)
Net position of governmental activities			\$ 148,904

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

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2016**

	<b>Urban Renewal Fund</b>	<b>Urban Renewal Debt Service Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
Tax increment revenues	\$ -	\$ 118,366	\$ 118,366
Miscellaneous	1	603	604
Total revenues	<u>1</u>	<u>118,969</u>	<u>118,970</u>
<b>Expenditures:</b>			
Current:			
General government	205,132	-	205,132
Debt service:			
Principal	-	21,347	21,347
Interest	-	-	-
Total expenditures	<u>205,132</u>	<u>21,347</u>	<u>226,479</u>
Excess (deficiency) of revenues over (under) expenditures	(205,131)	97,622	(107,509)
<b>Other financing sources (uses):</b>			
Proceeds from borrowing	<u>205,131</u>	<u>-</u>	<u>205,131</u>
Net change in fund balances	-	97,622	97,622
Fund balances - beginning	<u>-</u>	<u>77,213</u>	<u>77,213</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 174,835</u>	<u>\$ 174,835</u>

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

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2016**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances--total governmental funds	\$ 97,622
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation:	181,878
Revenues in the statement of activities that provide current financial resources are not reported as revenues in the funds.	
Tax increment revenue	2,697
Change in long-term obligations reported in the fund statements are not reported in the Statement of Activities	
Proceeds of intergovernmental borrowing	(205,131)
Principal paid on long-term obligations	21,347
Change in net position--governmental activities	\$ 98,413

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



**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**

**Notes to the Basic Financial Statements**  
**June 30, 2016**

**I. The reporting entity and summary of significant accounting policies**

The financial statements of the McMinnville Urban Renewal Agency (the Agency) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and applies the provisions of all applicable Governmental Accounting Standards Board (GASB) Statements.

**A. Reporting entity**

The Agency is the urban renewal agency of the City of McMinnville, Oregon (the City) and was organized on July 23, 2013 under the provisions of Oregon Revised Statutes, Chapter 457, to undertake urban renewal projects and activities pursuant to the Downtown and Northeast Gateway Redevelopment Plans.

The Agency's governing body is substantively the same as the City's governing body, therefore the Agency is presented as a blended component unit in the City's basic financial statements. All significant activities over which the Agency exercises oversight responsibility have been included in the component unit financial statements. This governing body has the ability to impose its will on the Agency as determined on the basis of budget adoption, taxing authority, and funding. The Agency has no component units.

**B. Agency-wide and fund financial statements**

The Agency's financial operations are presented at both the agency-wide and fund financial level. All activities of the Agency are categorized as governmental activities.

*Agency-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.

The *Statement of Net Position* presents information on all of the Agency's assets and liabilities, with the difference reported as *net position*.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

*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. All of the Agency's funds are classified as governmental fund types.

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
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**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2016**

**C. Measurement focus, basis of accounting, and financial statement presentation**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded.

The agency-wide financial statements are presented on a full accrual basis of accounting with an *economic resource measurement focus*. An economic resource focus concentrates on the Agency's net position. All transactions and events that affect the total economic resources (net position) during the period are reported. An economic resources measurements focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

The fund financial statements are presented on a modified accrual basis of accounting with a *current financial resource* measurement focus. This measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus and full accrual basis of accounting, a current financial resource measurement focus is inseparable from a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). *Measurable* means the amount of the transaction can be determined and revenues are considered *available* when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The Agency considers tax increment revenues susceptible to this accrual.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the agency-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the agency-wide presentation. This reconciliation is part of the basic financial statements.

GASB Statement No. 34 sets forth criteria for the determination of major funds. For purposes of presentation, both the McMinnville Urban Renewal Fund and the Debt Service Fund are presented as major funds of the Agency.

Major Governmental Funds:

- *McMinnville Urban Renewal Fund*

This fund accounts for the acquisition and development of capital improvement projects. Other financing sources consist of operating transfers from the debt service fund, bond proceeds, investment earnings, and other miscellaneous revenues. This fund functions as the Agency's "General Fund".

- *Urban Renewal Debt Service Fund*

This fund accounts for the payments of principal and interest on debt incurred. The primary sources of revenue are tax increment revenues and investment income.

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
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**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2016**

**D. Assets, liabilities, deferred outflows/inflows of resources and net position or fund balance**

**1. Deposits and investments**

Cash and investments, including restricted cash and investments, consist of cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and the State of Oregon Local Government Investment Pool (LGIP) deposits. Investments in the LGIP are stated at share value, which approximates fair value, and is the value at which the shares can be withdrawn.

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

The City's investment policy, adopted by the City Council, essentially mirrors the requirements of the Oregon Revised Statutes. Currently, the City's investment portfolio consists of investments in the LGIP.

The Agency's investment policy is the same as the City's and essentially mirrors the Oregon Revised Statutes. Currently, the Agency's investment portfolio primarily includes investments in the State of Oregon Local Government Investment Pool.

**2. Receivables and payables**

Tax increment revenues (property taxes) are levied on and become a lien against the property on July 1 in the year in which they are due. Collection dates are November 15, February 15, and May 15 following the lien date. Discounts are allowed if the amount due is received by November 15 or February 15. Tax increment revenues that are unpaid and outstanding on May 16 are considered delinquent.

In the fund financial statements, tax increment revenues receivable that are collected within 60 days after the end of the fiscal year are considered measurable and available and, therefore are recognized as revenue. Any remaining balance is deferred and recorded as unavailable revenue.

In the agency-wide financial statements, tax increment revenues receivable are recognized as revenue when earned.

**3. Restricted assets**

Assets whose use is restricted by legal requirements external to the Agency, are segregated on the agency-wide statement of net position. These legal restrictions include use limitations, as well as urban renewal tax increment funds legally restricted by applicable state statutes.

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**

**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2016**

**4. Capital Assets**

In the government-wide financial statements, capital assets include property, plant, equipment, infrastructure assets (roads, pathways, street lights, etc.). In the governmental fund financial statements, capital assets are charged to expenditures as purchased.

Capital assets are defined by the Agency as assets with an initial cost of \$10,000 or more and an estimated useful life of more than one year. Cost generally includes materials, labor and an allocation of overhead costs. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend assets' lives are not capitalized. Assets are recorded at historical cost or estimated historical cost if historical cost is not available.

Land, land rights, and easements have an indefinite life and therefore are not amortized. Construction in progress that has not been put into use is not depreciated. Exhaustible assets are depreciated using the straight-line method.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and building improvements	20 – 50
Computer equipment	4 – 5
Street infrastructure	20 – 50

**5. Long-term obligations**

In the agency-wide financial statements, long-term debt is reported as a liability in the statement of net position. Debt premiums and discounts are amortized over the applicable debt term.

In the fund financial statements, debt premiums and discounts are recognized as period costs in the year of issue. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**6. Net Position and Fund Balance**

In the fund financial statements, the funds report restricted fund balances for amounts that are not available for unlimited use because they are legally segregated for a specific purpose. These legal segregations include use limitations, as well as urban renewal tax increment funds legally restricted by applicable state statutes.

In the government-wide statement of net position, equity is referred to as *net position* and is segregated into the following three components: 1) amount invested in capital assets, 2) legally restricted by outside parties for a specific purpose, and 3) unrestricted.

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**

**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2016**

**7. Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Agency does not have an item that qualifies for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**E. Use of estimates**

The preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

**II. Stewardship, compliance, and accountability**

The Agency's budget is adopted on a basis consistent with Oregon Revised Statutes (ORS 294 – Local Budget Law). The process under which the budget is adopted is described in the following paragraphs.

The Budget Officer is responsible for submitting a proposed budget to the Budget Committee, which is comprised of the Agency Board and an equal number of citizens of the District.

The Agency is required to prepare a balanced budget for all funds, subject to the budget requirements of state law. The Agency's budget is prepared for each fund on the modified accrual basis of accounting.

The budget document is required to contain specific detailed information for various revenue and expenditure categories. Information on the past two years' actual receipts and expenditures as well as current-year estimates is also included in the budget document.

The Budget Committee conducts public hearings for the purpose of obtaining citizens' comments, and then approves a budget and submits it to the Board for final adoption. The approved expenditures for each fund may not be increased by more than 10 percent by the Board without returning to the Budget Committee for a second approval. After the Board adopts the budget and certifies the total of *ad valorem* taxes to be levied, no additional tax levy may be made for that budget period.

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**

**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2016**

The Board legally adopts the budget by resolution before July 1. The resolution establishes appropriations for each fund and sets the level by which expenditures cannot legally exceed appropriations. For the Agency's funds, the levels of budgetary control established by resolution are materials and services, debt service, capital outlay, transfers and operating contingency. Appropriations lapse as of the end of the fiscal year for goods not yet received or services not yet incurred.

The Board may change the budget throughout the year by transferring appropriations between levels of control and by adopting supplemental budgets. Unexpected additional resources may be added to the budget through the use of a supplemental budget. Some supplemental budgets require hearings before the public, publications in newspapers and approval by the Board. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the Board.

**III. Detailed notes on accounts**

**A. Cash and investments**

Oregon Revised Statutes authorize the Agency to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, high-grade corporate indebtedness, and the State of Oregon Local Government Investment Pool.

The Agency participates in the State of Oregon Local Government Investment Pool (LGIP), an open-ended, no-load diversified portfolio created under ORS 294.805 to 294.895 that is not registered with the U.S. Securities and Exchange Commission as an investment company and is not rated. The State Treasurer administers the LGIP with the oversight of the Oregon Investment Council and with the advice of the Oregon Short Term Fund Board. These funds must be invested and managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the fund are further governed by portfolio guidelines issued by the Oregon Short-Term Funds Board, which establish diversification percentages and specify the types and maturities of investments. The Oregon Audits Division of the Secretary of State's Office audits the LGIP annually.

The agency has no investments subject to custodial risk.

**B. Receivables**

Receivables for the Agency as of the fiscal year ended June 30, 2016 consists of tax increment revenues and are as follows:

Receivables	
Property taxes	\$ 6,286
Cash with county treasurer	1,233
Total	\$ 7,519

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**

**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2016**

**C. Capital assets**

Capital assets consist of improvements to Alpine Avenue.

	Beginning Balance	Increases	Ending Balance
Non-depreciable:			
Construction in progress	-	181,878	181,878
Total capital assets	-	181,878	181,878

**D. Long-term obligations**

The Agency and the City entered into an intergovernmental agreement that requires the Agency to repay the City for all contract expenses related to the completion of the Urban Renewal Feasibility Study and the Urban Renewal Plan and Report. The agreement provides for a five-year repayment schedule. Interest accrues at the rate earned by the Local Government Investment Pool plus one percent. The Agency paid principal of \$5,000 during the year ended June 30, 2016. The remaining balance is being repaid over three years as follows:

June 30	Principal	Interest	Total
2017	\$ 5,000	\$ -	\$ 5,000
2018	10,000	-	10,000
2019	10,000	-	10,000
	\$ 25,000	\$ -	\$ 25,000

The following table shows the current fiscal year changes in notes payable:

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Governmental Activities:</b>				
Note payable - City of McMinnville	\$ 30,000	\$ -	\$ (5,000)	\$ 25,000

The Agency and the City entered into an intergovernmental agreement for the City to loan the Agency money to improve Alpine Avenue and accomplish some additional capital projects in the urban renewal boundaries. The agreement provides for a three year repayment schedule. Interest accrues at the rate earned by the Local Government Investment Pool plus one percent. The Agency paid principal of \$16,347 during the year ended June 30, 2016. The remaining balance is being repaid over three years as follows:

June 30	Principal	Interest	Total
2017	\$ 54,333	\$ -	\$ 54,333
2018	54,333	-	54,333
2019	54,334	-	54,334
	\$ 163,000	\$ -	\$ 163,000

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**

**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2016**

The following table shows the current fiscal year changes in notes payable:

<b>Governmental activities:</b>	Beginning Balance 7/1/2015	Additions	Payments	Ending Balance 6/30/2016
Loan payable - City of McMinnville	-	179,347	(16,347)	163,000

**E. Short-term Notes**

In June 2016, the City had paid accounts payable on behalf of the Agency. At June 30, 2016, the Agency owed the City \$24,784 for the payment made on its behalf. The Agency repaid the \$24,784 in July 2016.

**F. Fund Balances**

At fiscal year end 2016, all Urban Renewal fund balances are considered restricted.

**IV. Other information**

**A. Risk management**

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees. The Agency is covered for comprehensive liability, property, auto liability and physical damage, employer's liability, and workers' compensation insurance through City County Insurance Services (CIS), a public entity risk pool. The pooling agreement does not permit the pool to make additional assessments to its members in the event of unanticipated losses.

**B. Related party transactions**

The City provides services for the Agency, including administrative functions.

**C. Prior-period adjustment**

An error was discovered in the 2015 annual financial report. Expenses paid by the City on behalf of the Agency were not recorded as expenditures to the Agency. The net impact of the error caused a decrease of \$30,000 in the beginning net position of the Agency.

**D. Subsequent Events**

On October 31, 2016, the City of McMinnville entered into a financing agreement with JPMorgan Chase Bank to borrow \$2,192,300 to fund urban renewal projects. The first payment is due on February 1, 2018 and the final payment is due no later than August 1, 2031. Interest is 2.04%. On October 31, 2016, the Agency entered into an intergovernmental agreement with the City of McMinnville to borrow the \$2,192,300 loan proceeds received by the City. Loan proceeds will fund capital projects within the urban renewal district. Repayment terms from the Agency to the City coincide with the repayment terms between the City and JPMorgan Chase Bank.



## **REQUIRED SUPPLEMENTARY INFORMATION**

- Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**  
**McMinnville Urban Renewal Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 61,100	\$ 224,100	\$ -	\$ (224,100)
Miscellaneous	-	-	1	1
Total revenues	<u>61,100</u>	<u>224,100</u>	<u>1</u>	<u>(224,099)</u>
Expenditures				
Materials and services	56,100	219,100	205,132	13,968
Capital outlay	5,000	5,000	-	5,000
Total expenditures	<u>61,100</u>	<u>224,100</u>	<u>205,132</u>	<u>18,968</u>
Other Financing Sources (Uses)				
Loan proceeds	-	-	205,131	(205,131)
Net Change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>(410,262)</u>
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (410,262)</u>

## **OTHER SUPPLEMENTARY INFORMATION**

- Individual Fund Financial Statements and Schedules

**SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES – BUDGET AND ACTUAL**

- **Urban Renewal Debt Service Fund**

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**  
**Urban Renewal Debt Service Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Tax increment revenues	\$ 117,200	\$ 117,200	\$ 118,366	\$ 1,166
Investment income	250	250	603	353
Total revenues	<u>117,450</u>	<u>117,450</u>	<u>118,969</u>	<u>1,519</u>
Expenditures				
Debt service				
Principal	66,100	66,100	21,347	44,753
Interest	400	400	-	400
Total expenditures	<u>66,500</u>	<u>66,500</u>	<u>21,347</u>	<u>45,153</u>
Other Financing Sources (Uses)				
Transfers	-	-	-	-
Net Change in fund balances	<u>50,950</u>	<u>50,950</u>	<u>97,622</u>	<u>46,672</u>
Fund balance, beginning	<u>75,750</u>	<u>75,750</u>	<u>77,213</u>	<u>1,463</u>
Fund balance, ending	<u>\$ 126,700</u>	<u>\$ 126,700</u>	<u>\$ 174,835</u>	<u>\$ 48,135</u>

## **OTHER FINANCIAL SCHEDULES**

- Schedule of Property Tax Transactions and Outstanding Balances

**McMinnville Urban Renewal Agency**  
**The Urban Renewal Agency of the City of McMinnville, Oregon**  
**(a component unit of the City)**  
**Schedule of Property Tax Transactions and Outstanding Balances**  
**June 30, 2016**

<u>Tax levy fiscal year</u>	<u>Balance June 30, 2015</u>	<u>Levy assessed</u>	<u>Add (deduct) adjustments and discounts</u>	<u>Deduct cash collections</u>	<u>Balance June 30, 2016</u>
2015-16	\$ -	\$ 125,148	\$ (4,947)	\$ (116,562)	\$ 3,639
2014-15	4,404	-	29	(1,786)	2,647
	<u>\$ 4,404</u>	<u>\$ 125,148</u>	<u>\$ (4,918)</u>	<u>\$ (118,348)</u>	<u>\$ 6,286</u>
				Property Tax collections	\$ 118,348
				Interest	18
			Property Tax revenue as reported		<u>\$ 118,366</u>

## **COMPLIANCE SECTION**

- Independent Auditor's Report Required by Oregon State Regulations



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

We have audited the basic financial statements of the McMinnville Urban Renewal Agency (the Agency), a component unit of the City of McMinnville, Oregon, as of and for the year ended June 30, 2016 and have issued our report thereon dated January 30, 2017. 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 any 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 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

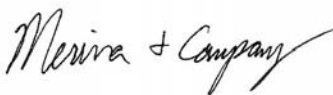
**OAR 162-10-0230 Internal Control**

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 Agency Officials, 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  
January 30, 2017