

McMinnville Urban Renewal Agency, Oregon
Annual Financial Report

For the fiscal year ended June 30, 2017

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)

Table of Contents

Elected Officials	i
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	4
Basic Financial Statements:	
Agency-Wide Financial Statements:	
Statement of Net Position.....	8
Statement of Activities.....	9
Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	10
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	12
Notes to Basic Financial Statements.....	13
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance:	
Budget and Actual:	
McMinnville Urban Renewal Fund.....	22
Other Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance:	
Budget and Actual:	
Urban Renewal Debt Service Fund.....	23
Compliance	
Independent Auditor’s Report On Compliance and on Internal Control Over Financial Reporting on an Audit of Financial Statements Performed in Accordance with <i>Oregon State Regulations</i>	24

INTRODUCTORY SECTION

McMinnville Urban Renewal Agency

ELECTED OFFICIALS AND PRINCIPAL APPOINTED OFFICERS OF THE AGENCY

JUNE 30, 2017

URBAN RENEWAL AGENCY BOARD

TERM EXPIRES

Scott Hill

1525 Gilson Court
McMinnville Oregon 97128

December 31, 2020

Wendy Stassens

166 SW Eckman Street
McMinnville Oregon 97128

December 31, 2020

Kevin Jeffries

2355 SW Peggy Street
McMinnville Oregon 97128

December 31, 2018

Kellie Menke

678 NW Wintergreen
McMinnville Oregon 97128

December 31, 2020

Alan Ruden

1688 NW Emerson Drive
McMinnville Oregon 97128

December 31, 2018

Adam Garvin

2940 NE Lafayette Avenue
McMinnville Oregon 97128

December 31, 2020

Remy Drabkin

1400 NE 17th Street
McMinnville Oregon 97128

December 31, 2018

URBAN RENEWAL AGENCY ADMINISTRATION

Jeffrey R. Towery

City of McMinnville City Manager

David R. Koch

City of McMinnville City Attorney

Marcia T. Baragary, CPA

City of McMinnville Finance Director

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Agency Officials
McMinnville Urban Renewal Agency
City of McMinnville, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of McMinnville Urban Renewal Agency, a component unit of the City of McMinnville, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise McMinnville Urban Renewal Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

McMinnville Urban Renewal Agency's 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 McMinnville Urban Renewal Agency, as of June 30, 2017, 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 the required supplementary information, such as management's discussion and analysis and required supplementary information, as listed in the table of contents under required supplement information, 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 the 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 – budget and actual, 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 McMinnville Urban Renewal Agency's basic financial statements. The elected officials and other supplementary information 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 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, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The elected officials has 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 it.

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated January 8, 2018, on our consideration of McMinnville Urban Renewal 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.



For Merina & Company, LLP
West Linn, Oregon
January 8, 2018

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 and should be read 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, 2017 was the third year that the Agency incurred financial transactions.

- Assets exceeded liabilities by approximately \$266,964 at June, 30, 2017, meaning that the Agency has a positive net position.
- The Agency received property taxes of approximately \$179,000 in this fiscal year.
- During the current fiscal year, the Agency began construction 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, 2017

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 \$266,964 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, 2017 and 2016

	2017	2016
Current and other assets	\$ 2,590,674	\$ 397,097
Total assets	2,590,674	397,097
Current and long-term liabilities	2,323,710	248,193
Total liabilities	2,323,710	248,193
Net position		
Invested in capital assets	802,418	181,878
Restricted for:		
Debt service	-	-
Unrestricted	(535,454)	(32,974)
Total net position	\$ 266,964	\$ 148,904

The Agency's net position increased by \$118,060 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, 2017 and 2016 Governmental Activities

	2017	2016
Revenues		
General revenues		
Tax increment revenues	\$ 179,000	\$ 121,064
Investment income	18,752	603
Other	150	-
Total revenues	\$ 197,902	\$ 121,667
Expenses		
Governmental activities		
General government	\$ 78,425	\$ 23,254
Interest on long-term debt	1,417	-
Total expenses	79,842	23,254
Increase in net position	\$ 118,060	\$ 98,413

Governmental activities increased the Agency's net position by approximately \$118,060 and accounts for the entire growth in the net position of the Agency. The Agency's tax increment revenues of \$179,000 are the majority of total revenues of the Agency. The fiscal year ended 2017 was the third year the Agency collected taxes.

All of taxes collected 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*.

McMinnville Urban Renewal Agency Management's Discussion and Analysis

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 2017 and 2016 were \$266,964 and \$148,904 respectively, for an increase of \$118,060. The increase is due to higher tax increment revenues received in 2017, the third year of the Agency's existence.

In the fund financial statement, the Urban Renewal Fund ending fund balance was \$1,687,075 in 2017. In 2016, the Urban Renewal Fund did not carry an ending fund balance. The purpose of this fund is to account for urban renewal project costs.

Urban Renewal Fund Budgetary Highlights

There were no supplemental budgets adopted by the McMinnville Urban Renewal Agency Board in the current fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At fiscal year end June 30, 2017, the Agency had \$802,418 in capital assets. The entire amount of the capital assets represents construction in progress for the Alpine Avenue street improvement project. At fiscal year end June 30, 2016, the Agency's capital assets consisted of \$181,878 in construction in progress. The project is expected to be completed in 2018.

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, 2017, the remaining balance on the debt was \$20,000. 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 2016 fiscal year for the City to loan the Agency funds for the design of the Alpine Avenue street project. During the fiscal year ending June 30, 2017, the Agency prepaid the entire principal balance of \$163,000.

During the 2017 fiscal year, the Agency and City entered into an intergovernmental agreement for the City to loan \$2,192,300 to the Agency for construction of the Alpine Avenue project. The final payment is due on this loan in 2032. 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 2017, the assessed value of the district was \$103.0 million, an increase of 19 percent compared to the frozen base. Taxes assessed on the incremental assessed value between the current and frozen assessed values are paid to the Agency, while taxes on the frozen base are paid 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

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, 2017

	Governmental Activities
Assets	
Current assets:	
Receivables	\$ 10,677
Restricted cash and investments	1,777,579
Noncurrent assets:	
Capital assets:	
Non-depreciable capital assets	802,418
Total assets	2,590,674
 Liabilities	
Current liabilities:	
Accounts payable	92,532
Short-term note	18,878
Notes payable, due within one year	45,000
Notes payable, due after one year	2,167,300
Total liabilities	2,323,710
 Net Position	
Net investment in capital assets	802,418
Unrestricted	(535,454)
Total net position	\$ 266,964

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, 2017

Functions/Programs	Expenses	Net Expense and Change in Net Position Governmental Activities
Governmental activities:		
General government	\$ 78,425	\$ (78,425)
Interest on long-term debt	1,417	(1,417)
Total governmental activities	\$ 79,842	(79,842)
General revenues:		
Property taxes		179,000
Investment income		18,752
Other revenues		150
Total general revenues		197,902
Change in net position		118,060
Net position- beginning,		148,904
Net position - ending		\$ 266,964

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, 2017

	Urban Renewal Fund	Debt Service Fund	Total Governmental Funds
Assets			
Cash and investments	\$ 1,630,553	\$ 147,026	\$ 1,777,579
Property tax receivable	-	10,677	10,677
Total assets	<u>\$ 1,630,553</u>	<u>\$ 157,703</u>	<u>\$ 1,788,256</u>
Liabilities			
Accounts payable	\$ 92,532	\$ -	\$ 92,532
Total liabilities	92,532	-	92,532
Deferred inflows of resources			
Unavailable revenue-property taxes	-	8,649	8,649
Fund balances			
Restricted	1,538,021	149,054	1,687,075
Total fund balances	1,538,021	149,054	1,687,075
Total liabilities, deferred inflow of resources, and fund balances	<u>\$ 1,630,553</u>	<u>\$ 157,703</u>	<u>\$ 1,788,256</u>
Fund balance - modified accrual basis			\$ 1,687,075
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,			802,418
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			8,649
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds			(2,231,178)
Net position of governmental activities			<u>\$ 266,964</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)
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	Urban Renewal Fund	Urban Renewal Debt Service Fund	Total Governmental Funds
Revenues:			
Property taxes	\$ -	\$ 176,326	\$ 176,326
Charges for services	150	-	150
Miscellaneous	16,752	2,000	18,752
Total revenues	<u>16,902</u>	<u>178,326</u>	<u>195,228</u>
Expenditures:			
Current:			
General government	698,965	-	698,965
Debt service:			
Principal	-	202,690	202,690
Interest	-	1,417	1,417
Total expenditures	<u>698,965</u>	<u>204,107</u>	<u>903,072</u>
Excess (deficiency) of revenues over (under) expenditures	(682,063)	(25,781)	(707,844)
Other financing sources (uses):			
Proceeds from borrowing	<u>2,220,084</u>	-	<u>2,220,084</u>
Net change in fund balances	1,538,021	(25,781)	1,512,240
Fund balances - beginning	<u>-</u>	<u>174,835</u>	<u>174,835</u>
Fund balances - ending	<u><u>\$ 1,538,021</u></u>	<u><u>\$ 149,054</u></u>	<u><u>\$ 1,687,075</u></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, 2017

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

Net change in fund balances--total governmental funds	\$ 1,512,240
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:	620,540
Revenues in the statement of activities that provide current financial resources are not reported as revenues in the funds.	
Tax increment revenue	2,674
Change in long-term obligations reported in the fund statements are not reported in the Statement of Activities	
Proceeds of borrowing	(2,220,084)
Principal paid on long-term obligations	<u>202,690</u>
Change in net position--governmental activities	<u><u>\$ 118,060</u></u>

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, 2017

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
(a component unit of the City)

Notes to the Basic Financial Statements (Continued)
June 30, 2017

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
(a component unit of the City)

Notes to the Basic Financial Statements (Continued)
June 30, 2017

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, 2017

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, 2017

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.

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

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, 2017

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, 2017 consists of tax increment revenues and are as follows:

Receivables	
Property taxes	\$ 9,165
Cash with county treasurer	1,512
Total	<u>\$ 10,677</u>

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, 2017

C. Capital assets

Capital assets consist entirely of construction in progress for street improvements to Alpine Avenue.

Capital Assets
FY2017

Governmental Activities

	Beginning Balance	Increases	Ending Balance
Non-depreciable:			
Construction in progress	181,878	620,540	802,418
Total capital assets	181,878	620,540	802,418

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, 2017. The remaining balance is being repaid over three years as follows:

June 30	Principal	Interest	Total
2018	10,000	-	10,000
2019	10,000	-	10,000
	\$ 20,000	\$ -	\$ 20,000

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, 2017

During the 2017 fiscal year, the Agency and City entered into an intergovernmental agreement for the City to loan \$2,192,300 to the Agency for construction of the Alpine Avenue project. The following table shows the debt service schedule for the long-term debt.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 35,000	\$ 56,028
2019	100,000	43,499
2020	146,060	41,228
2021	149,060	38,233
2022	152,120	35,177
2023-2027	808,660	127,800
2028-2032	801,400	41,426
Total	<u>\$ 2,192,300</u>	<u>\$ 383,391</u>

During the 2016 fiscal year, the Agency and the City entered into an intergovernmental agreement for the City to loan \$163,000 to the Agency for design of the Alpine Avenue street improvement project. The agreement provided for a three year repayment schedule, with interest accruing at the rate earned by the Local Government Investment Pool plus one percent. The Agency prepaid the entire principal balance of \$163,000 during the 2017 fiscal year. The following table shows the current fiscal year changes in notes payable, including short-term notes payable.

Urban Renewal Debt	<u>Beginning Balance 7/1/2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance 6/30/2017</u>
Note Payable - City of McMinnville	\$ 25,000	\$ -	\$ (5,000)	\$ 20,000
Note Payable - Operating	25,784	27,784	(34,690)	18,878
Alpine Avenue Loan	163,000	-	(163,000)	-
URA Bank Placement	-	2,192,300	-	2,192,300
Payable to City of McMinnville	<u>\$ 213,784</u>	<u>\$ 2,220,084</u>	<u>\$ (202,690)</u>	<u>\$ 2,231,178</u>

E. Short-term Notes

At June 30, 2017, the City had paid accounts payable on behalf of the Agency. As a result, the Agency owed the City \$18,878 for the payment made on its behalf.

F. Fund Balances

At fiscal year end 2017, all Urban Renewal fund balances are considered restricted.

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, 2017

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, in accordance with an intergovernmental agreement.

C. Subsequent Events

In October 2017, the Agency awarded a \$100,000 grant to a local developer to assist in construction of a four-story luxury boutique hotel in the urban renewal district. The Agency and developer have entered into a five-year forgivable loan agreement that is conditioned upon the developer meeting specific milestones of construction and continued hotel operations for each qualifying year. The loan will be forgiven in an equal amount for each year of the loan. The Agency has secured a personal guarantee from one of the members of the developer's limited liability corporation.

The Agency will disburse the loan through an intergovernmental agreement with the City of McMinnville in installments of \$20,000 plus interest determined by the Local Government Investment Pool rate plus one percent over a period of five years. The interest rate was locked at 2.45 percent at the time the development agreement was signed in October 2017. The first payment is due prior to the certificate of occupancy which will be issued in the fiscal year ending June 30, 2018. Future annual payments will be disbursed on July 1 of 2019 and July 1 of subsequent years until paid in full.

REQUIRED SUPPLEMENTARY INFORMATION

McMinnville Urban Renewal Agency
The Urban Renewal Agency of the City of McMinnville, Oregon
(a component unit of the City)
McMinnville Urban Renewal Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ -	\$ -	\$ 150	\$ 150
Miscellaneous	-	-	16,752	16,752
Total revenues	<u>-</u>	<u>-</u>	<u>16,902</u>	<u>16,902</u>
Expenditures				
Materials and services	164,330	264,330	183,711	80,619
Capital outlay	<u>1,900,000</u>	<u>1,800,000</u>	<u>515,254</u>	<u>1,284,746</u>
Total expenditures	<u>2,064,330</u>	<u>2,064,330</u>	<u>698,965</u>	<u>1,365,365</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,064,330)</u>	<u>(2,064,330)</u>	<u>(682,063)</u>	<u>1,382,267</u>
Other Financing Sources (Uses)				
Loan proceeds	<u>2,064,330</u>	<u>2,064,330</u>	<u>2,220,084</u>	<u>155,754</u>
Net Change in fund balances	<u>-</u>	<u>-</u>	<u>1,538,021</u>	<u>1,538,021</u>
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,538,021</u>	<u>\$ 1,538,021</u>

OTHER SUPPLEMENTARY INFORMATION

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, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 133,870	\$ 133,870	\$ 176,326	\$ 42,456
Miscellaneous	400	400	2,000	1,600
Total revenues	<u>134,270</u>	<u>134,270</u>	<u>178,326</u>	<u>44,056</u>
Expenditures				
Debt service				
Principal	201,730	201,730	202,690	(960)
Interest	<u>50,125</u>	<u>50,125</u>	<u>1,417</u>	<u>48,708</u>
Total expenditures	<u>251,855</u>	<u>251,855</u>	<u>204,107</u>	<u>47,748</u>
Net Change in fund balances	<u>(117,585)</u>	<u>(117,585)</u>	<u>(25,781)</u>	<u>91,804</u>
Fund balance, beginning	<u>148,125</u>	<u>148,125</u>	<u>174,835</u>	<u>26,710</u>
Fund balance, ending	<u>\$ 30,540</u>	<u>\$ 30,540</u>	<u>\$ 149,054</u>	<u>\$ 118,514</u>

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *OREGON STATE REGULATION***

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH OREGON STATE REGULATION**

Agency Officials
McMinnville Urban Renewal Agency
McMinnville, Oregon

We have audited the basic financial statements of McMinnville Urban Renewal Agency, a component unit of the City of McMinnville, Oregon, as of and for the year ended June 30, 2017 and have issued our report thereon dated January 8, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State.

Compliance

As part of obtaining reasonable assurance about whether McMinnville Urban Renewal 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 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:

- 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 McMinnville Urban Renewal 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 McMinnville Urban Renewal Agency does not have any elected officials collecting or receiving money.

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. In connection with our testing, nothing came to our attention that caused us to believe McMinnville Urban Renewal 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 McMinnville Urban Renewal 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 McMinnville Urban Renewal Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of McMinnville Urban Renewal 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



For Merina & Company, LLP
West Linn, Oregon
January 8, 2018