

FOREST GROVE URBAN RENEWAL AGENCY
Forest Grove, Oregon
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2016

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**FOREST GROVE URBAN RENEWAL AGENCY
OFFICERS AND MEMBERS OF THE GOVERNING BODY
For the Year Ended June 30, 2016**

BOARD OF DIRECTORS

Peter Truax
3131 Forest Gale Drive
Forest Grove, OR 97116

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Forest Grove, OR 97116

CONTACT PERSON

Paul Downey
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Forest Grove, OR 97116

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FOREST GROVE URBAN RENEWAL AGENCY

TABLE OF CONTENTS
For the Year Ended June 30, 2016

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	A – B
MANAGEMENT'S DISCUSSION AND ANALYSIS	i – v
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Governmental Fund	
Balance Sheet	3
Statement of Revenues, Expenditures and Changes in Fund Balance	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund	
Balances of the Governmental Fund to the Statement of Activities	5
General (Special Revenue) Fund Statement of Revenues, Expenditures and Changes in	
Fund Balance – Budget and Actual	6
Notes to Basic Financial Statements	7 – 14
INDEPENDENT AUDITOR'S REPORT REQUIRED BY	
OREGON STATE REGULATIONS	15, 16

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INDEPENDENT AUDITOR'S REPORT

Agency Officials
FOREST GROVE URBAN RENEWAL AGENCY
Forest Grove, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the **FOREST GROVE URBAN RENEWAL AGENCY**, *component unit of the CITY OF FOREST GROVE*, 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 the major fund of the **FOREST GROVE URBAN RENEWAL AGENCY**, as of June 30, 2016, the respective changes in financial position, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through v 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 required supplementary information 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.

Other Reporting Required by Oregon State Regulations

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated January 31, 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.

Boldt Carlisle + Smith
Certified Public Accountants
Salem, Oregon
January 31, 2017

By:



Bradley G. Bingenheimer, Member

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2016

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

Management's discussion and analysis (MD&A) focuses on the current year activities and resulting changes from the prior year. Please read it in conjunction with the Agency's financial statements (beginning on page 1).

FINANCIAL HIGHLIGHTS

- The total assets of the Agency were \$1,108,410 at June 30, 2016 which was the end of the Agency's first fiscal year.
- The major transaction for 2016 was the purchase of property from the City which was financed by a loan from the City to be repaid over a ten-year period.
- Overall, expenditures were \$18,800. The primary expenditure for 2015-16 was \$13,750 for interest paid to the City for the loan for the property.

REPORT LAYOUT

The Agency's annual financial report consists of several sections. The components of the report include the following:

Management's Discussion and Analysis. This section of the report provides financial highlights, overview, and economic factors affecting the Agency.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

REPORT LAYOUT (continued)

Basic Financial Statements. Includes statement of net position, statement of activities, fund financial statements, and notes to the financial statements. Statements of net position and activities focus on entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the Agency.

The statement of net position focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets the Agency owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The statement of activities presents information showing how the Agency’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The focus is on Agency revenues and expenditures, the net of which equals change in net assets.

Fund financial statements focus separately on major governmental funds. Governmental fund statements follow the more traditional presentation of financial statements. The Agency’s General Fund is presented here along with budgetary comparisons.

The notes to the basic financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Agency’s financial condition.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

AGENCY AS A WHOLE

Government-wide financial statements

Statement of Net Assets at June 30, 2016:

Table 1
Net Assets at Fiscal Year End
Governmental Activities

	<u>2016</u>
Assets	
Cash and investments	\$8,410
Land held for sale	<u>1,100,000</u>
Total assets	<u>1,108,410</u>
Liabilities	
Long-term liabilities	1,100,000
Total liabilities	<u>1,100,000</u>
Net position:	
Unrestricted	<u><u>8,410</u></u>

As of June 30, 2016, the Agency had no current liabilities, and long-term liabilities of \$1,100,000. Major asset is land held for sale. Subsequent to the end of FY 2016, the URA sold approximately two-thirds of the land to a developer.

Governmental Activities

The Agency's net position is \$8,410 which is the cash and investments held by the Agency. The cost of the land is equal to the note payable for the purchase of the land.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Statement of Activities for the Year Ended June 30, 2016:

Table 2
Governmental Activities For Fiscal Year Ending

	<u>2016</u>
REVENUES	
General revenues	
Taxes	\$ 27,079
Investment earnings	<u>131</u>
Total revenues	27,210
EXPENSES	
Program	<u>18,800</u>
Change in net position	8,410
Beginning net position	<u>-</u>
Ending net position	<u>\$ 8,410</u>

Nearly all of the general revenue was tax increment funding. The remainder was from investment earnings.

Program expenses included \$13,750 for interest on long-term debt obligations.

DEBT ADMINISTRATION

As of June 30, 2016, the Agency had \$1,100,000 of outstanding debt for a note payable to the City for the purchase of land to be held for sale. The note is interest only for the first three with the principal to be repaid by the end of FY 2025.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

ECONOMIC FACTORS

Like all municipalities in Oregon, the Agency is operating under Measure 50, the tax limitation measure approved by voters on May 20, 1997. This measure rolled back assessed values to 1995-96 levels and effectively limited increased property tax revenues the City could anticipate in future years to a maximum of 3 percent, with permitted allowances for increasing valuations based on new construction and annexations. No substantive changes to the basic provisions of Measure 50 have been enacted during subsequent Oregon Legislative sessions.

As an urban renewal agency, the Agency receives tax increment revenues; calculated on the assessed value over the frozen base, which was set at the time the urban renewal district was formed. When the Agency completes projects, it is actually investing in itself; as the value of property increases in the district, the tax increment revenues increases.

REQUEST FOR INFORMATION

The Agency's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with the general overview of the Agency's finances and to demonstrate the Agency's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Administrative Services Department at the City of Forest Grove. Our address is: PO Box 326, Forest Grove, Oregon 97116.

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BASIC FINANCIAL STATEMENTS

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FOREST GROVE URBAN RENEWAL AGENCY

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and investments	\$ 8,410
Land held for sale	<u> 1,100,000</u>
 TOTAL ASSETS	 1,108,410
 <u>LIABILITIES</u>	
Long-term obligations:	
Due in more than one year	<u> 1,100,000</u>
 <u>NET POSITION</u>	
Unrestricted	<u><u> \$ 8,410</u></u>

See accompanying notes

FOREST GROVE URBAN RENEWAL AGENCY

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

	<u>Governmental Activities</u>
Program expenses	
General government	\$ 5,050
Interest on long-term obligations	<u>13,750</u>
TOTAL PROGRAM EXPENSES	<u>18,800</u>
General revenues	
Property taxes, levied for debt service	27,079
Unrestricted investment earnings	<u>131</u>
TOTAL GENERAL REVENUES	<u>27,210</u>
Change in net position	8,410
NET POSITION - beginning	<u>-</u>
NET POSITION - ending	<u><u>\$ 8,410</u></u>

See accompanying notes

FOREST GROVE URBAN RENEWAL AGENCY

**BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016**

	<u>General</u>
<u>ASSETS</u>	
Cash and investments	\$ <u>8,410</u>
<u>FUND BALANCES</u>	
Unrestricted	\$ <u>8,410</u>
 RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION	
 <i>Amounts reported for governmental activities in the statement net position are different because:</i>	
Fund balance	\$ 8,410
Land held for sale is not reported in the fund.	1,100,000
Some liabilities are not due and payable in the current period and, therefore, are not reported in the fund.	<u>(1,100,000)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>8,410</u>

See accompanying notes

FOREST GROVE URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
For the Year Ended June 30, 2016

	General
REVENUES	
Property taxes	\$ 27,079
Interest	131
TOTAL REVENUES	27,210
EXPENDITURES	
Current	
General government	5,050
Debt service	13,750
Capital outlay	1,100,000
TOTAL EXPENDITURES	1,118,800
Excess (deficiency) of revenues over expenditures	(1,091,590)
OTHER FINANCING SOURCES (USES)	
Issuance of long term debt	1,100,000
Net change in fund balances	8,410
Fund balances at beginning of year	-
Fund balances at end of year	\$ 8,410

See accompanying notes

FOREST GROVE URBAN RENEWAL AGENCY

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF THE
GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND	\$ 8,410
<i>Amounts reported for governmental activities in the statement of activities are different because of the following:</i>	
The governmental fund reports capital outlays as expenditures. However, governmental activities show these as assets.	1,100,000
The issuance of long-term debt provides current financial resources to the governmental fund, while repayment of the principal of long-term obligations consumes the current financial resources of the governmental fund. Neither transaction, however effects net position	<u>(1,100,000)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 8,410</u>

See accompanying notes

FOREST GROVE URBAN RENEWAL AGENCY

**GENERAL (SPECIAL REVENUE) FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
For the Year Ended June 30, 2016**

	Budget		Actual	Variance
	Original	Final		
REVENUES				
Property taxes	\$ 43,021	\$ 43,021	\$ 27,079	\$ (15,942)
Interest	50	50	131	81
TOTAL REVENUES	<u>43,071</u>	<u>43,071</u>	<u>27,210</u>	<u>(15,861)</u>
EXPENDITURES				
Materials and services	22,446	22,446	5,050	17,396
Debt service	20,625	20,625	13,750	6,875
Capital outlay	-	-	1,100,000	(1,100,000)
TOTAL EXPENDITURES	<u>43,071</u>	<u>43,071</u>	<u>1,118,800</u>	<u>(1,075,729)</u>
Excess (deficiency) of revenues over expenditures	-	-	(1,091,590)	(1,091,590)
OTHER FINANCING SOURCES (USES)				
Issuance of long-term obligations	-	-	1,100,000	1,100,000
Net change in fund balance	-	-	8,410	8,410
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,410</u>	<u>\$ 8,410</u>

See accompanying notes

FOREST GROVE URBAN RENEWAL AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

1. Summary of significant accounting policies

A. Organization

The Agency, a component unit of the City of Forest Grove, was organized in May 2014 under ORS 457 and is a municipal corporation created by the City of Forest Grove to facilitate urban renewal within the boundaries of the City. The City Council serves as the governing body and is accountable for the fiscal matters of the Agency.

B. Urban renewal areas

Tax allocation bonds for urban renewal plan areas are authorized by state law to 1) "...eliminate and prevent the development or spread of urban blight and deterioration; and 2) encourage needed urban conservation and rehabilitation and provide for redevelopment of blighted or deteriorated areas."

Projects are financed in urban renewal plan areas as follows:

- The Agency (City Council) selects an urban renewal plan area and defines its boundaries.
- The county assessor "freezes" the assessed value of property within the urban renewal area. This is referred to as the "frozen" value.
- Any increase in assessed value above the frozen value is called the "incremental value." The tax revenue generated by the tax rate times the incremental value is provided for use in paying the principal and interest on any indebtedness incurred to finance urban renewal projects.
- Urban renewal tax increment revenues are used to repay the indebtedness of the Agency. The proceeds of the indebtedness finance the Agency's activities.

As required by ORS 457.190(3)(a), the Agency has included in its current plan the maximum amount of indebtedness that may be issued or incurred under the plan in the amount of \$15,000,000.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

C. Basis of presentation, measurement focus, and basis of accounting

i. Government-wide financial statements

The statement of net position and the statement of activities display information about the Agency, including all of its financial activities. Governmental activities are financed primarily through property taxes and proceeds from borrowings.

The statement of activities presents a comparison between direct expenses and program revenues for the Agency's program. The Agency does not allocate indirect expenses. Program revenues include grants and contributions that are restricted to meeting operational requirements. Revenues that are not classified as program revenues, including property taxes, earnings on investments and the gain on sale of property, are presented as general revenues.

ii. Fund financial statements

The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major funds, each displayed in a separate column.

The General Fund accounts for general administration of the Agency's urban renewal areas, for acquisition and rehabilitation of blighted and deteriorated areas within the designated urban renewal areas.

iii. Measurement focus and basis of accounting

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

D. Capital assets

i. Fund financial statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay disbursements of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

ii. Government-wide statements

Capital assets are recorded at amounts estimated by the City and adjusted by estimated amounts for accumulated depreciation in the statement of net position and depreciation expense in the statement of activities.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the time received. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

E. Equity classification

Government-wide statements

Equity is classified as net position and displayed in three components:

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

In the government-wide financial statements when both restricted and unrestricted net position are available, unrestricted resources are used only after the restricted resources are depleted.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

E. Equity classification (continued)

ii. **Governmental fund type fund balance reporting**

Governmental type fund balances are to be reported within the fund balance categories listed below:

Non-spendable — Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted — Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — Amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned — Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City Council has granted authority to the Administrative Services Director to assign fund balance amounts.

Unassigned — The residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. Additionally, other funds may report negative unassigned fund balance in certain circumstances.

In the governmental fund financial statements, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Agency considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Agency considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the city council has provided otherwise in its commitment or assignment actions.

F. Budget policies and budgetary control

Generally, Oregon Local Budget Law requires annual budgets be adopted for all funds. The modified accrual basis of accounting is used for all budgets. All annual appropriations lapse at fiscal year end.

The Agency begins its budgeting process by appointing budget committee members in the fall of each year. Budget recommendations are developed by management through early spring, with the budget committee meeting and approving the budget document in late spring. Public notices of the budget hearing are generally published in May or June and the hearing is held in June. The governing body adopts the budget, makes appropriations, and declares the tax levy no later than June 30. Expenditure appropriations may not be legally overexpended.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. Summary of significant accounting policies (continued)

F. Budget policies and budgetary control (continued)

The resolution authorizing appropriations for each fund sets the level at which expenditures cannot legally exceed appropriations. The governing body established the levels of budgetary control at the personal services, materials and services, capital outlay, operating contingencies, debt service, and all other requirement levels for all funds.

Budget amounts shown in the financial statements have been revised since the original budget amounts were adopted. The governing body must authorize all appropriation transfers and supplementary budgetary appropriations.

G. Long-term obligations

In the government-wide financial statements' long-term obligations are reported as liabilities in the governmental activities' statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are deferred and amortized over the life of the bond.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. 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.

2. Deposits and investments

The Agency's deposits and investments are held by the City of Forest Grove in a pool of cash and investments that are available for use by the Agency and all funds of the City. The Agency's portion of this pool is displayed on the financial statements as cash and investments. Interest earned on pooled cash and investments is allocated to participating funds based upon their combined cash and investment balances.

Investments are stated at fair value. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments with a remaining maturity of more than one year, at the time of purchase are stated at fair value. Fair value is determined at the quoted market price, if available; otherwise the fair value is estimated based on the amount at which the investment could be exchanged in a current transaction between willing parties, other than a forced liquidation sale. Investments in the State of Oregon Local Government Investment Pool (LGIP) are stated at fair value.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

2. Deposits and investments (continued)

The Oregon State Treasury administers the LGIP. The LGIP is an unrated, open-ended, no-load, diversified portfolio offered to any agency, political subdivision or public corporation of the state who by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. To provide regulatory oversight, the Oregon Legislature established the Oregon Short-Term Fund Board and LGIP investments are approved by the Oregon Investment Council. The fair value of the Agency's position in the LGIP is the same as the value of the pool shares.

Credit risk: Oregon statutes authorize the Agency to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and the state treasurer's investment pool.

As of June 30, 2016, the Agency had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
State Treasurer's Investment Pool	N/A	\$ <u>7,557</u>

Interest Rate Risk: The Agency does not have a formal policy that limits investment maturities as a means of managing its exposure to fair-value losses arising from increases in interest rates.

Concentration of Credit Risk: The Agency does not have a formal policy that places a limit on the amount that may be invested in any one insurer.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City does not have a policy which limits the amount of investments that can be held by counterparties.

Custodial credit risk – Deposits: This is the risk that in the event of a bank failure, the Agency's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the Agency's deposits with financial institutions up to \$250,000 each for the aggregate of all non-interest bearing accounts and the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage with institutions participating in the Oregon Public Funds Collateralization Program are considered fully collateralized. As of June 30, 2016, none of the Agency's bank balances were exposed to custodial risk.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

2. Deposits and investments (continued)

The Agency's deposits at June 30, 2016 are as follows:

Total investments	\$	7,557
Deposits with financial institutions		<u>853</u>
Total deposits and investments	\$	<u>8,410</u>

3. Property taxes

A. Collection procedures

Taxes are levied on July 1 and are payable in three installments due November 15, February 15, and May 15. Washington County bills and collects property taxes for the Agency.

B. Ensuing year's levy

The Agency will levy 100 percent of the amount of its authority under option one of ORS 457.435(2)(a) for the retirement of long-term obligations principal and interest without making a special levy in 2016-17.

The tax rate limit of \$10 per thousand of assessed value imposed by the Oregon Constitution is not expected to affect this levy.

4. Land held for sale

The Agency purchased property for \$1,100,000 from the City of Forest Grove. Approximately two-thirds of the property will be sold for \$10 pursuant to a disposition and development agreement. The remainder of the property will continue to be held by the Agency for sale.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

5. Long-term obligations

A. Transactions for the governmental activities for the year ended June 30, 2016 were as follows:

	Outstanding June 30, 2015	Additions	Reductions	Outstanding June 30, 2016	Balances Due Within One Year
Loans					
City of Forest Grove	\$ -	\$ 1,100,000	\$ -	\$ 1,100,000	\$ -

B. Governmental activities long-term debt obligations

City of Forest Grove – the Agency borrowed \$1,100,000 from the City of Forest Grove to purchase land held for sale. Interest only payments are due annually for three years. Principal and interest payments are due for seven years beginning June 15, 2019. Interest is accrued and paid on the loan at 2.5 percent.

C. Future matures are as follows:

Fiscal Year	City of Forest Grove	
	Principal	Interest
2017	\$ -	\$ 27,500
2018	-	27,500
2019	147,531	27,469
2020	151,219	23,781
2021-25	801,250	60,504
	<u>\$ 1,100,000</u>	<u>\$ 166,754</u>

6. Subsequent events

Subsequent to year end, the Agency borrowed an additional \$962,561 from the City of Forest Grove. A new note was signed to include the original \$1,100,000 borrowing and to reduce the interest rate to 2 percent on the total borrowed of \$2,062,561. Semiannual, interest only, payments of \$20,626 are due between June 1, 2017 and December 1, 2019. Annual interest and principal payments of \$312,442 are due June 1, 2020 through June 1, 2026.

In November 2016 the Agency sold a portion of the land held for sale for \$10 pursuant to a disposition and development agreement. Additionally, pursuant to that agreement, the Agency paid \$962,561 in system development charges on behalf of the property developer.

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

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INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Agency Officials
FOREST GROVE URBAN RENEWAL AGENCY
Forest Grove, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the **FOREST GROVE URBAN RENEWAL AGENCY** as of and for the year ended June 30, 2016 and have issued our report thereon dated January 31, 2017.

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 Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

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 Oregon Administrative Rules 162-10-240 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations except as follows:

1. Resources in the General Fund do not equal requirements in the 2016-17 budget detail.
2. Expenditures in excess of appropriations occurred in capital outlay in the amount of \$1,100,000.

INDEPENDENT AUDITOR'S REPORT REQUIRED BY
OREGON STATE REGULATIONS (Continued)

OAR 162-10-0230 Internal Control

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. Deficiencies in internal control were communicated separately.

Restriction on Use

This report is intended solely for the information and use of the agency officials and management of FOREST GROVE URBAN RENEWAL AGENCY and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

Boldt Carlisle + Smith
Certified Public Accountants
Salem, Oregon
January 31, 2017
By:

A handwritten signature in black ink, appearing to read 'Bradley G. Bingenheimer', is written over a light gray circular stamp or watermark.

Bradley G. Bingenheimer, Member