



Financial Statements and Supplemental Information



Medford Urban Renewal Agency

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



For the Fiscal Year Ended
June 30, 2012

MEDFORD URBAN RENEWAL AGENCY
(A Component Unit of the City of Medford, Oregon)

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
with Independent Auditors' Report

Year Ended June 30, 2012

MEDFORD URBAN RENEWAL AGENCY
(A Component Unit of the City of Medford, Oregon)

June 30, 2012

BOARD OF DIRECTORS

	<u>Term Expires December 31,</u>
Dick Gordon, Chair	2012
Al Densmore	2014
Eli Mathews	2012
Chris Corcoran	2012
Greg Jones	2012
Bob Strosser	2014
Karen Blair	2014
John Michaels	2014

MANAGEMENT

P. Eric Swanson Executive Director
John Huttli, Attorney
Alison Chan, Finance Director

AGENCY ADDRESS

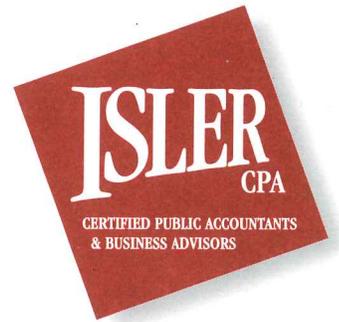
Medford Urban Renewal Agency
411 West 8th Street
Medford, OR 97501

MEDFORD URBAN RENEWAL AGENCY

Fiscal Year Ended June 30, 2012

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Independent Auditors' Report

Board of Directors
Medford Urban Renewal Agency
Medford, Oregon

An Independently Owned Member
McGLADREY ALLIANCE



We have audited the accompanying financial statements of the governmental activities and each major fund of the Medford Urban Renewal Agency (the Agency), a component unit of the City of Medford, Oregon, as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Medford Urban Renewal Agency as of June 30, 2012, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Debt Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 5 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The supplementary information on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. The 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Isler CPA

by Paul Nielson, CPA, a member of the firm
Eugene, Oregon
January 18, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS MEDFORD URBAN RENEWAL AGENCY

Fiscal Year Ended June 30, 2012

This Management Discussion and Analysis (MD&A) is presented to facilitate financial analysis and provide an overview of the financial activities of the Medford Urban Renewal Agency (the Agency) for the fiscal year ended June 30, 2012. Information in the MD&A is based on currently known facts, decisions and conditions. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The Agency's assets totaled \$46.9 million at June 30, 2012, and consisted mainly of cash and cash equivalents of \$20.7 million and capital assets of \$25.5 million.
- The Agency's liabilities totaled \$27.7 million at June 30, 2012, and consisted mainly of long-term debt of \$5.2 million.
- Net assets (assets minus liabilities) were \$19.2 million at June 30, 2012. Net assets increased by \$2.7 million.
- As of the end of the current fiscal year, the Agency's two funds reported a combined fund balance of \$19.1 million, an increase of \$14.1 million.
- The Agency's net capital assets increased by \$3.2 million.
- Revenues for the fiscal year ended June 30, 2012, totaled \$4.8 million and consisted mainly of property taxes of \$4.7 million.

FINANCIAL STATEMENTS

The Agency's basic financial statements are presented using the integrated approach as prescribed by GASB Statement No. 34. The basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

The Agency has combined the government-wide and fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column.

The basic financial statements present financial information about the Agency as a whole and about its activities. Following the basic financial statements is the Schedule of Property Tax Transactions and report by the independent certified public accountants, as required by statute.

Government-wide Financial Statements

The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities and are designed to present the financial picture of the Agency in a manner similar to a private-sector business (i.e. from the economic resources measurement focus using the accrual basis of accounting).

The Statement of Net Assets includes all assets of the Agency (including infrastructure) as well as all liabilities (including long-term debt). Net assets are the difference between assets and liabilities, which is one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net assets may be an indicator of whether its financial health is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to change occurs, regardless of the timing of related cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

Fund Financial Statements

Funds are used to segregate resources for specific activities or objectives. The Agency has two governmental funds: the Urban Renewal Capital Fund (reported as the General Fund) and the Urban Renewal Debt Service Fund.

The Governmental Funds' statements emphasize available financial resources rather than net income. They are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Notes to the Basic Financial Statements

The notes provide information that is essential for a full understanding of the data presented in the government-wide and fund financial statements (the basic financial statements). Information such as significant accounting policies and detail of certain assets and liabilities are included in the notes that should be read in conjunction with the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statements of Net Assets

The Agency's assets exceeded liabilities by \$19.2 million at June 30, 2012. The largest portions of its net assets were capital assets net of related debt and cash and cash equivalents. A condensed version of the Statement of Net Assets follows:

Amounts in thousands	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 20,665	\$ 5,081
Other current assets	383	391
Capital assets, net	25,496	22,269
Other assets	<u>380</u>	<u>427</u>
Total assets	<u>46,924</u>	<u>28,168</u>
Liabilities		
Bonds and notes payable	5,151	11,470
Advance from the City of Medford	20,950	
Other liabilities	<u>1,601</u>	<u>169</u>
Total liabilities	<u>27,702</u>	<u>11,639</u>
Net Assets		
Invested in capital assets, net of related debt	17,064	11,599
Restricted for debt service	3,067	3,119
Restricted for capital projects	17,668	800
Unrestricted	<u>(18,577)</u>	<u>1,011</u>
Total net assets	<u>\$ 19,222</u>	<u>\$ 16,529</u>

At the end of the current fiscal year, the Agency reports a positive balance in unrestricted net assets and in net assets invested in capital assets, net of related debt. There was an increase in total net assets of \$2.7 million. Long-term debt increased by \$(6.3) million. This is a result the Agency receiving a loan from the City of Medford of \$20 million and making scheduled debt payments.

Statements of Activities

The Agency's Statements of Activities for fiscal year ended June 30, 2012 and June 30, 2011, follows:

Amounts in thousands	<u>2012</u>	<u>2011</u>
Revenues		
General Revenues:		
Property taxes	\$ 4,688	\$ 4,744
Investment earnings	85	48
Miscellaneous	<u>23</u>	<u>49</u>
	4,796	4,841
Expenses		
Community development	<u>2,901</u>	<u>2,330</u>
	1,895	2,511
Change in net assets, before contributions		
Loss on sale and disposition of capital assets	<u>-</u>	<u>(90)</u>
Increase in net assets before transfers	1,895	2,421
Transfers	798	(918)
Net assets, beginning of the year	<u>16,529</u>	<u>15,026</u>
Net assets, end of the year	<u>\$ 19,222</u>	<u>\$ 16,529</u>

The cost of the Agency's community development activities totaled \$2.9 million for the year, an increase of \$0.6 million.

Financial Analysis of the Government's Funds

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows and balances of expendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$19.1 million, an increase of \$14.1 million.

The General Fund is the chief operating fund of the Agency. At the end of the current fiscal year, the fund balance of the General Fund was \$16.1 million, an increase of \$14.2 million during the current fiscal year.

At the end of the current fiscal year, the reserved fund balance of the Debt Service Fund was \$3.1 million, a decrease of \$0.1 million during the year.

CAPITAL ASSETS

As of June 30, 2012, the Agency had invested \$25.5 million in capital assets, net of depreciation as reflected in the following table, which represents a net decrease (additions less deductions and depreciation) of \$0.2 million.

Amounts in thousands	2012	2011
Land and improvements	\$ 4,794	\$ 4,794
Construction in progress	4,873	417
Buildings	290	290
Leasehold improvements	-	-
Parking structure	6,351	6,327
Infrastructure	1,813	1,813
Equipment	-	-
Improvements	16,598	16,598
Less accumulated depreciation	<u>(9,223)</u>	<u>(7,970)</u>
	<u>\$ 25,496</u>	<u>\$ 22,269</u>

For more detailed information on the Agency's capital asset activity, refer to Note III. C. of the financial statements.

DEBT ADMINISTRATION

At June 30, 2012, the Agency had \$5.0 million in Urban Redevelopment Bonds outstanding and a \$21.0 million advance from the City of Medford. These Bonds and the advance were issued to finance improvements in the downtown Urban Renewal District. In accordance with the City Center Revitalization Plan adopted by the Agency, the maximum amount of indebtedness that the Agency can issue or incur and has incurred is \$67,307,013. This amount was based upon good faith estimates of the scope and costs of projects in the City Center Revitalization Plan.

Amounts in thousands	Beginning of year	Additions	Payments	End of year	Current portion
Urban redevelopment bonds	\$ 11,214	\$ -	\$ (6,248)	\$ 4,966	\$ 159
Loans payable	246	-	(61)	185	62
Loan from City of Medford	-	20,950	-	20,950	1,250
Total debt	<u>\$ 11,460</u>	<u>\$ 20,950</u>	<u>\$ (6,309)</u>	<u>\$ 26,101</u>	<u>\$ 1,471</u>

For more detailed information on the Agency's long-term debt, refer to Note III. D. and Note III E. of the financial statements.

ECONOMIC FACTORS

The mission of the Urban Renewal Agency's Board is to eliminate blight and depreciating property values in areas within the Agency's jurisdiction, and in the process, attract aesthetically pleasing, job producing private investments that will improve and stabilize property values and protect the area's historic places and values. The City Center Revitalization Plan (CCRP) was adopted in 1988. The Plan identified a blighted area of 576.51 acres within Medford's downtown core area and set forth a revitalization strategy involving nineteen public projects to be completed over a twenty-five year period. In May of 2006, a substantial amendment was made to the CCRP extending the life of the Agency and increasing the number of projects to

twenty. Future growth is projected to result almost exclusively from appreciation in property values, improvement of existing buildings and redevelopment of selected sites.

The current City Center Vision Plan was completed in 1995. The Vision Plan defined an image of the community's future for the downtown and developed a pragmatic approach to attaining that future.

Agency expenditures are based on both the City Center Revitalization Plan, which defines the Agency's mission, and the City Center Vision Plan, which provides the basic framework for the revitalization of the City Center.

The "tax increment financing" method is being used to provide funds for the Agency. Under this method, a base year value within the urban renewal area is established (1988, in this case). Any increase in the assessed value over that base year cannot be used by the assessor to compute tax rates for local taxing bodies. The assessor computes the tax rate on the base year value of the area, then applies that rate to the increase in assessed value. The tax on the increased value can be used by the Agency only to pay indebtedness incurred to finance the urban renewal projects.

In December 2001, the Oregon Supreme Court issued its *Shilo v. Multnomah County et al.* decision. The effect of this decision was that all revenues received by tax increment financing programs are considered "Other Government" revenues regardless of the levy origin and are subject to compression testing under Measure 5 at \$10 per \$1,000 of taxable assessed value. To date there is no material loss from compression to the Agency's tax increment financing revenues.

The base value was established in 1988 but adjusted in 1997 as a result of Senate Bill 1215. Future revenues are derived from assessed value growth in the district. To maintain its relative share of assessed valuation growth, the district must encourage for-profit development at urban densities.

NEXT YEAR'S BUDGET

For Fiscal Year 2012-2013, the Agency projected the property taxes to be received at \$4.4 million. The Agency projected capital outlay expenditures to be \$12.5 million and debt service expenditures of \$4.7 million.

REQUEST FOR INFORMATION

The Agency's financial statements are designed to present users with a general overview of the Agency's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Agency's Executive Director, at 411 West 8th Street, Medford, Oregon 97501.

MEDFORD URBAN RENEWAL AGENCY

Governmental Funds Balance Sheet / Statement of Net Assets

June 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments (Note II A)</u>	<u>Statement of Net Assets</u>
ASSETS					
Cash and cash equivalents	\$ 17,668,208	\$ 2,996,812	\$ 20,665,020	\$ -	\$ 20,665,020
Accounts receivable	2,327	-	2,327	-	2,327
Property taxes receivable	-	381,057	381,057	-	381,057
Loans receivable	373,114	-	373,114	-	373,114
Bond issuance costs, net	-	-	-	6,411	6,411
Land and improvements	-	-	-	4,793,519	4,793,519
Construction in progress	-	-	-	4,873,000	4,873,000
Other capital assets, net of accumulated depreciation	-	-	-	15,829,434	15,829,434
Total assets	<u>\$ 18,043,649</u>	<u>\$ 3,377,869</u>	<u>\$ 21,421,518</u>	<u>\$ 25,502,364</u>	<u>\$ 46,923,882</u>
LIABILITIES					
Accounts payable	\$ 1,589,051	\$ -	\$ 1,589,051	\$ -	\$ 1,589,051
Accrued interest payable	-	-	-	11,595	11,595
Deferred revenue	373,114	310,834	683,948	(683,948)	-
Payroll and related accruals	473	-	473	-	473
Long-term debt:					
Advance from the City of Medford	-	-	-	20,950,000	20,950,000
Due within one year	-	-	-	220,501	220,501
Due in more than one year	-	-	-	4,930,300	4,930,300
Total liabilities	<u>1,962,638</u>	<u>310,834</u>	<u>2,273,472</u>	<u>25,428,448</u>	<u>27,701,920</u>
FUND BALANCES / NET ASSETS					
Fund balances:					
Restricted for debt service	-	3,067,035	3,067,035	(3,067,035)	-
Unassigned	<u>16,081,011</u>	<u>-</u>	<u>16,081,011</u>	<u>(16,081,011)</u>	<u>-</u>
Total fund balances	<u>16,081,011</u>	<u>3,067,035</u>	<u>19,148,046</u>	<u>(19,148,046)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 18,043,649</u>	<u>\$ 3,377,869</u>	<u>\$ 21,421,518</u>		<u>-</u>
Net assets:					
Invested in capital assets, net of related debt				17,063,360	17,063,360
Restricted for debt service				3,067,035	3,067,035
Restricted for capital projects				17,668,208	17,668,208
Unrestricted				<u>(18,576,641)</u>	<u>(18,576,641)</u>
Total net assets				<u>19,221,962</u>	<u>19,221,962</u>
Total liabilities and net assets				<u>\$ 25,502,364</u>	<u>\$ 46,923,882</u>

See accompanying notes to financial statements.

MEDFORD URBAN RENEWAL AGENCY

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance
/ Statement of Activities

For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments (Note II B)</u>	<u>Statement of Activities</u>
GENERAL REVENUES					
Property taxes	\$ -	\$ 4,684,921	\$ 4,684,921	\$ 3,278	\$ 4,688,199
Investment earnings	71,320	14,056	85,376	-	85,376
Other revenue	29,186	-	29,186	(28,174)	1,012
Rental income	21,987	-	21,987	-	21,987
	<u>122,493</u>	<u>4,698,977</u>	<u>4,821,470</u>	<u>(24,896)</u>	<u>4,796,574</u>
URBAN RENEWAL EXPENDITURES/ EXPENSES					
Current:					
Community development	148,145	-	148,145	2,318,294	2,466,439
Capital outlay	5,545,504	-	5,545,504	(5,545,504)	-
Debt service:					
Principal	-	6,308,892	6,308,892	(6,308,892)	-
Interest	-	441,876	441,876	(26,468)	415,408
Bond issuance costs amortization	-	-	-	19,614	19,614
	<u>5,693,649</u>	<u>6,750,768</u>	<u>12,444,417</u>	<u>(9,542,956)</u>	<u>2,901,461</u>
Excess (deficiency) of revenues over (under) expenditures / expenses	<u>(5,571,156)</u>	<u>(2,051,791)</u>	<u>(7,622,947)</u>	<u>9,518,060</u>	<u>1,895,113</u>
OTHER FINANCING SOURCES/(USES)					
Transfers in and out	(2,000,000)	2,000,000	-	-	-
City of Medford transfers in	797,866	-	797,866	-	797,866
Long-term loan from the City of Medford	20,950,000	-	20,950,000	(20,950,000)	-
	<u>19,747,866</u>	<u>2,000,000</u>	<u>21,747,866</u>	<u>(20,950,000)</u>	<u>797,866</u>
Change in fund balance/net assets	14,176,710	(51,791)	14,124,919	(11,431,940)	2,692,979
Fund balance / net assets:					
Beginning of year	<u>1,904,301</u>	<u>3,118,826</u>	<u>5,023,127</u>	<u>11,505,856</u>	<u>16,528,983</u>
End of year	<u>\$ 16,081,011</u>	<u>\$ 3,067,035</u>	<u>\$ 19,148,046</u>	<u>\$ 73,916</u>	<u>\$ 19,221,962</u>

See accompanying notes to financial statements.

MEDFORD URBAN RENEWAL AGENCY
GENERAL FUND
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Licenses, permits and fees	\$ 25,000	\$ 25,000	\$ -	\$ (25,000)
Investment earnings	50,000	50,000	71,320	21,320
Other revenue	5,000	5,000	29,186	24,186
Rental income	<u>35,000</u>	<u>35,000</u>	<u>21,987</u>	<u>(13,013)</u>
Total revenues	<u>115,000</u>	<u>115,000</u>	<u>122,493</u>	<u>7,493</u>
Expenditures:				
Personal services	64,000	64,000	13,836	50,164
Materials and services	157,500	162,500	134,309	28,191
Capital outlay	5,618,500	5,788,500	5,545,504	242,996
Contingency	<u>175,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>6,015,000</u>	<u>6,015,000</u>	<u>5,693,649</u>	<u>321,351</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,900,000)</u>	<u>(5,900,000)</u>	<u>(5,571,156)</u>	<u>328,844</u>
Other financing sources:				
Transfers in	2,000,000	2,797,000	797,866	(1,999,134)
Transfers out	-	(2,000,000)	(2,000,000)	-
Long-term loan from the City of Medford	<u>-</u>	<u>20,950,000</u>	<u>20,950,000</u>	<u>-</u>
Net change in fund balance	<u>(3,900,000)</u>	<u>15,847,000</u>	<u>14,176,710</u>	<u>(1,670,290)</u>
Fund balance:				
Beginning of year	<u>5,900,000</u>	<u>5,900,000</u>	<u>1,904,301</u>	<u>(3,995,699)</u>
End of year	<u>\$ 2,000,000</u>	<u>\$ 21,747,000</u>	<u>\$ 16,081,011</u>	<u>\$ (5,665,989)</u>

See accompanying notes to financial statements.

MEDFORD URBAN RENEWAL AGENCY
DEBT SERVICE FUND
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Budget</u>
Revenues:				
Property taxes	\$ 4,465,000	\$ 4,465,000	\$ 4,684,921	\$ 219,921
Investment earnings	<u>18,151</u>	<u>18,151</u>	<u>14,056</u>	<u>(4,095)</u>
Total revenues	4,483,151	4,483,151	4,698,977	215,826
Expenditures:				
Debt service	<u>5,277,600</u>	<u>5,277,600</u>	<u>6,750,768</u>	<u>(1,473,168)</u>
Excess of expenditures over revenues	<u>(794,449)</u>	<u>(794,449)</u>	<u>(2,051,791)</u>	<u>(1,257,342)</u>
Other financing sources (uses):				
Transfers in	-	2,000,000	2,000,000	-
Transfers out	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>-</u>	<u>2,000,000</u>
Total other financing sources (uses)	<u>(2,000,000)</u>	<u>-</u>	<u>2,000,000</u>	<u>2,000,000</u>
Net change in fund balance	(2,794,449)	(794,449)	(51,791)	742,658
Fund Balance:				
Beginning of year	<u>5,158,000</u>	<u>5,158,000</u>	<u>3,118,826</u>	<u>(2,039,174)</u>
End of year	<u>\$ 2,363,551</u>	<u>\$ 4,363,551</u>	<u>\$ 3,067,035</u>	<u>\$ (1,296,516)</u>

See accompanying notes to financial statements.

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2012

Note I - Summary of significant accounting policies

A. Organization

Medford Urban Renewal Agency (the Agency) was organized in 1987 under the provisions of ORS Chapter 457 as the urban renewal agency in the City of Medford, Oregon ("City"), responsible for implementing various public improvement programs as identified in the City Center Revitalization Plan. The Agency's Board of Directors consists of the City of Medford City Council.

The "tax increment financing" method is being used to provide funds for the Agency. Under this method, a base year value within the urban renewal area is established (1988, in this case). Any increase in the assessed value over that base year cannot be used by the assessor to compute tax rates for local taxing bodies. The assessor computes the tax rate on the base year value of the area, then applies that rate to the increase in assessed value. The tax on the increased value can be used by the Agency only to pay indebtedness incurred to finance the urban renewal projects.

The City Center Revitalization Plan will remain in force until October 2025, or until the maximum amount of indebtedness permitted under the Plan (\$67,307,013) has been reached and all related debt service retired, whichever comes first. The maximum amount of indebtedness has been reached.

The Agency's financial statements include all activities and organizations with which the Agency exercises authoritative appointment of governing authority or where financial dependency on the Agency exists. The Agency has no potential component units but, as determined under generally accepted accounting principles, is considered to be a component unit of the City of Medford, Oregon, and, as such, is included in the basic financial statements of the City for the year ended June 30, 2012, copies of which can be obtained from the Finance Department of the City of Medford Oregon, which is located at 411 W 8th Street, Medford, Oregon 97501.

B. Measurement focus, basis of accounting, and financial presentation

The Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances display information about the Agency, including all of its financial activities. The Agency's activities are financed primarily through property taxes.

The basic financial statements listed in the table of contents provide information about the Agency's funds. These funds account for the general administration of the Agency's urban renewal areas and for the acquisition and rehabilitation of property within the designated urban renewal areas. The financial statements are initially (left-most columns) reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2012

Note I - Summary of significant accounting policies (continued)

B. Measurement focus, basis of accounting, and financial presentation (continued)

The government reports the following major governmental funds:

- The *Capital Projects Fund* (acts as the *general fund*) is the Agency's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in the debt service fund.
- The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

On the same basic financial statements as listed in the table of contents, the balances are reported (right-most columns) using the *economic resources measurement focus* and the *accrual basis of accounting* using an "adjustments" column. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Agency receives value without giving equal value in exchange, include property taxes. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year in which the taxes are levied.

As a general rule, the effect of interfund activity has been eliminated from the basic financial statements.

C. Use of estimates

The preparation of 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results may differ from those estimates.

D. Assets, liabilities, and net assets

1. Cash and cash equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, and deposits in the State of Oregon's Treasurer's Local Government Investment Pool (LGIP).

2. Property taxes receivable

Real and personal property taxes are assessed and become a lien against the property as of July 1 each year, and are payable in three installments on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding are considered delinquent on May 16. Management has determined that an allowance for uncollectible accounts is not required for property taxes.

3. Capital assets

Purchased or constructed capital assets are reported at cost. The Agency defines capital assets as assets with an initial cost of more than \$5,000, and an estimated life in excess of one year. Donated capital assets are recorded at their fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or extend assets' lives are not capitalized. Depreciation is computed using the straight-line method over 5 to 20 years.

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2012

Note I - Summary of significant accounting policies (continued)

D. Assets, liabilities, and net assets (continued)

4. Long-term liabilities

In the basic financial statements, under the current financial resources measurement focus and the modified accrual basis of accounting, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are 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 expenditures. Bond premiums and discounts, as well as bond issuance costs, are recognized during the current period.

In the basic financial statements under the economic resources measurement focus and accrual basis of accounting, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

5. Fund balance

In the fund financial statements, the fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The fund balance classifications are:

Nonspendable - resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for sale.

Restricted - constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grants, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - the City Council passes an ordinance that places specific constraints on how the resources may be used. The City Council can modify or rescind the ordinance at any time through passage of an additional ordinance.

Assigned - resources that are constrained by the City's intent to use them for a specific purpose, but are neither restricted nor committed. Intent is expressed when the City Council approves which resources should be "reserved" during the adoption of the annual budget.

Unassigned - resources that have not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds.

E. Budget

A budget is prepared and legally adopted for all funds on the modified accrual basis of accounting. The budget is adopted by the Board, appropriations made, and the tax levy is declared no later than June 30. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Appropriations at the principal object levels - personnel, materials and services (including contractual payments), capital outlay, debt service, and operating contingency - are the levels of control established by the resolution. The detailed budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories. Management may make transfers of appropriations within object levels. However, transfers of appropriations between object levels require the approval of the Board. Unexpected additional resources may be added to the budget through the use of a supplemental budget. The Board, at a regular Board meeting, may adopt supplemental budgets of less than 10% of the fund's original budget. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publication in newspapers, and approval by the Board. The Debt Service fund reported expenditures over budgeted amounts of \$1,473,168 for debt service for the year ended June 30, 2012.

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2012

Note II - Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of differences between the Government-wide Statement of Net Assets and the Governmental Fund Balance Sheet.

Reconciliation of total fund balances of the Agency's Governmental Funds to total net assets.

Fund balances - Governmental Funds \$ 19,148,046

When capital assets that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Agency as a whole.

Governmental capital assets, cost \$ 34,718,759
less accumulated depreciation (9,222,806) 25,495,953

Because the focus of governmental funds is on short-term financing, some assets, such as receivables, will not be available to pay for current-period expenditures. Receivables are offset by deferred revenue in the governmental funds, and thus are not included in the fund balance.

Adjustment of deferred revenue 683,948

In a prior year the Agency paid bond issuance costs, this transaction was recorded as an expenditure in the governmental funds when the transaction occurred.

6,411

Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2012 were:

Bonds and notes payable (5,150,801)
Accrued interest payable (11,595)
Advance from the City of Medford (20,950,000)

Net assets of governmental activities

\$ 19,221,962

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2012

Note II - Reconciliation of Government-wide and Fund Financial Statements (continued)

B. Explanation of differences between the Government-wide Statement of Activities and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance.

Reconciliation of total fund balances of the Agency's Governmental Funds to total net assets.

Net change in fund balance - Governmental Funds \$ 14,124,919

Governmental funds report capital outlay 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. The amount by which depreciation exceeds capital outlay in the current period is:

	Capital outlay	\$ 4,479,822	
	less current year depreciation	<u>-</u>	4,479,822

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Change in deferred revenue (24,896)

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Amortization of deferred charge for issuance costs (19,614)

Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2012 were:

	Principal payments	6,308,892	
	Change in bond discount	9,882	
	Advance from the City of Medford	(20,950,000)	
	Change in accrued interest	<u>16,586</u>	<u>(14,614,640)</u>

Change in net assets of governmental activities \$ 3,945,591

Note III - Detailed notes on all funds

A. Cash and cash equivalents

The Agency participates in the City of Medford's cash and investment pool. At June 30, 2012, the City's cash and investments were maintained in deposits at a local financial institution and the State of Oregon's Local Government Investment Pool ("LGIP"). The Agency's portion of this pool is displayed in the Statement of Net Assets and the Balance Sheet as "Equity in pooled cash and cash equivalents." Detail information for the Agency's pooled cash and investments can be found in the City of Medford's June 30, 2012 Financial Statements and Supplemental Information (Notes to the financial statements).

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2012

Note III - Detailed notes on all funds (continued)

B. Loan receivables

The Agency entered into loan agreements whereby the Agency provided local businesses in downtown Medford monies for rehabilitation construction costs. Each loan bears an interest rate of 2% and is collateralized by a deed of trust.

<u>Issue Date</u>	<u>Monthly Payment</u>	<u>Balance 6/30/12</u>	<u>Final Payment Date</u>
December 1, 2003	\$ 759	\$ 92,652	December 1, 2013
August 11, 2003	506	61,917	December 1, 2013
March 15, 2004	1,733	218,545	December 15, 2013
		<u>\$ 373,114</u>	

No allowance has been established by the Agency because all loans receivable are considered entirely collectible.

C. Capital assets

Components of capital assets consist of the following at June 30:

	<u>2011</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>2012</u>
Capital assets, not being depreciated:				
Land and improvements	\$ 4,793,519	\$ -	\$ -	\$ 4,793,519
Construction in progress	<u>416,459</u>	<u>4,456,541</u>	<u>-</u>	<u>4,873,000</u>
Total capital assets, not being depreciated	<u>5,209,978</u>	<u>4,456,541</u>	<u>-</u>	<u>9,666,519</u>
Capital assets, being depreciated:				
Buildings	290,324	-	-	290,324
Parking structure	6,327,309	23,280	-	6,350,589
Infrastructure	1,813,475	-	-	1,813,475
Improvements	<u>16,597,852</u>	<u>-</u>	<u>-</u>	<u>16,597,852</u>
Total capital assets being depreciated	<u>25,028,960</u>	<u>23,280</u>	<u>-</u>	<u>25,052,240</u>
Less accumulated depreciation for:				
Buildings	(96,165)	(14,516)	-	(110,681)
Parking structure	(3,598,306)	(317,529)	-	(3,915,835)
Infrastructure	(965,134)	(920,566)	-	(1,885,700)
Improvements	<u>(3,310,590)</u>	<u>-</u>	<u>-</u>	<u>(3,310,590)</u>
Total accumulated depreciation	<u>(7,970,195)</u>	<u>(1,252,611)</u>	<u>-</u>	<u>(9,222,806)</u>
Total capital assets, being depreciated, net	<u>17,058,765</u>	<u>(1,229,331)</u>	<u>-</u>	<u>15,829,434</u>
Total capital assets, net	<u>\$ 22,268,743</u>	<u>\$ 3,227,210</u>	<u>\$ -</u>	<u>\$ 25,495,953</u>

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2012

Note III - Detailed notes on all funds (continued)

D. - Advance from the City of Medford

On December 15, 2011, the City of Medford issued a \$20,950,000 loan payable. The proceeds of this note were loaned to the Agency. The payable to the City is due in annual installments beginning on January 1, 2013. Interest payments are due semiannually starting July 15, 2012. The interest rates are 5% in 2013-2017, 3% in 2018-2024 and 3.25% in 2025. Loan activity and balances for the year ended June 30, 2012 was as follows:

	<u>Beginning of year</u>	<u>Additions</u>	<u>Payments</u>	<u>End of year</u>	<u>Current portion</u>
Long-term loan from City of Medford	<u>\$ -</u>	<u>\$ 20,950,000</u>	<u>\$ -</u>	<u>\$ 20,950,000</u>	<u>\$ 1,250,000</u>

Annual debt service requirements to maturity at year end are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,250,000	\$ 834,465
2014	1,345,000	707,775
2015	1,370,000	640,525
2016	1,410,000	572,025
2017	1,455,000	501,525
2018 - 2022	8,205,000	1,671,825
2023 - 2027	<u>5,915,000</u>	<u>376,275</u>
Total	<u>\$ 20,950,000</u>	<u>\$ 5,304,415</u>

E. Long-term debt

Bonds and loan payable transactions for the year are as follows:

	<u>Original Amount</u>	<u>Outstanding July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding June 30, 2012</u>	<u>Due Within One Year</u>
Urban Redevelopment Bonds						
2002 Series, interest 3.0% - 4.5%, maturing 6/1/2013	\$ 9,050,000	\$ 1,975,000	\$ -	\$ (1,975,000)	\$ -	\$ -
2004 Series, interest 3.55%, maturing 6/15/2013	9,500,000	2,345,000	-	(2,345,000)	-	-
2005 Series A, interest 3.73% maturing on 6/15/2013	3,488,000	1,776,000	-	(1,776,000)	-	-
2007 Series A, interest 4.65% maturing on 6/15/2022	2,570,000	2,118,000	-	(152,000)	1,966,000	159,000
2009 Series A, interest 4.75% maturing on 6/15/2024	<u>3,000,000</u>	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
Urban Redevelopment Bonds subtotal	27,608,000	11,214,000	-	(6,248,000)	4,966,000	159,000
Loans Payable						
2004 Oregon Housing, interest 1.00%, maturing 8/1/2013	<u>600,000</u>	<u>245,693</u>	<u>-</u>	<u>(60,892)</u>	<u>184,801</u>	<u>61,501</u>
Total bonds and loans payable	<u>\$28,208,000</u>	<u>\$11,459,693</u>	<u>\$ -</u>	<u>\$ (6,308,892)</u>	<u>\$ 5,150,801</u>	<u>\$ 220,501</u>

MEDFORD URBAN RENEWAL AGENCY

Notes to Financial Statements

June 30, 2012

Note III - Detailed notes on all funds (continued)

E. Long-term debt(continued)

The general fund and debt service fund have been used to liquidate long-term liabilities in prior years.

Annual debt service requirements to maturity at year end are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 220,501	\$ 235,767
2014	467,300	227,758
2015	360,000	210,352
2016	377,000	193,425
2017	394,000	175,700
2018 - 2022	2,268,000	582,388
2023 - 2027	1,064,000	76,380
Total	<u>\$ 5,150,801</u>	<u>\$ 1,701,770</u>

Note IV - Other information

A. Commitments - The Commons Project

On September 6, 2006 the Agency approved a resolution to form a public/private partnership in the development of the downtown urban renewal area. This was formalized in the Agreement for Disposition and Development of Property (DDA) dated as of September 19, 2006. On February 26, 2011 the Commons Project Amended and Restated Agreement for Disposition and Development of Property was signed. The development includes a partnership with Lithia Real Estate Inc. and the City of Medford, and includes the development of additional parking spaces in downtown, renovation of current downtown city streets being affected and acquisition of certain designated properties in the project area. Under the original DDA, the Agency agreed to contribute \$14.1 million. As of the date of the amended restated DDA, the Agency had expended \$2.5 million leaving a commitment of \$11.6 million. As of June 30, 2012 a total of \$8.8 million has been expended leaving a remaining commitment of \$5.3 million

B. Risk management

The Agency is exposed to various risks of loss related to errors and omissions; automobile; damage to and destruction of assets; and bodily injury.

Effective July 1, 2010, the City and the Agency became self-insured. Premiums are paid into the Risk Management internal service fund by City departments based on each department's operating budget, claim activity, and vehicle usage. The City carries a supplemental liability policy with a \$10 million limit per occurrence or wrongful act, and a \$500,000 deductible. The annual aggregate limit of the policy is \$10 million. The policy renews July 1 of each year.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

In addition, Workers Compensation Insurance is purchased under a retrospective rate plan with the final cost depending on claims.

Detail information for the City of Medford's risk management can be found in the City of Medford's June 30, 2012 Financial Statements and Supplemental Information (Notes to the financial statements).

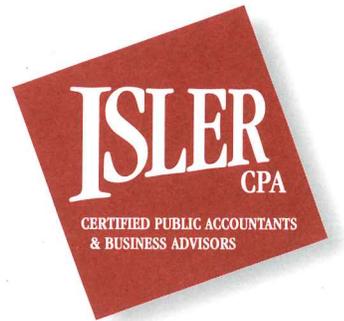
SUPPLEMENTAL INFORMATION

MEDFORD URBAN RENEWAL AGENCY

Schedule of Property Tax Transactions

For the Year Ended June 30, 2012

<u>Tax Year</u>	<u>Uncollected July 1, 2011</u>	<u>Levy Extended by Assessor</u>	<u>Discounts Allowed</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Uncollected June 30, 2012</u>
2011 - 2012	\$ -	\$ 4,818,697	\$ (1,144)	\$ -	\$ (4,630,948)	\$ 186,605
2010 - 2011	198,322	-	-	(56)	(106,225)	92,041
2009 - 2010	93,713	-	-	(152)	(39,022)	54,539
2008 - 2009	56,877	-	-	958	(35,020)	22,815
2007 - 2008	18,348	-	-	(472)	(9,805)	8,071
2006 - 2007	5,274	-	-	(217)	(1,149)	3,908
2005 - 2006	3,827	-	-	(322)	(618)	2,887
Prior	12,054	-	-	(1,105)	(758)	10,191
Total	\$ 388,415	\$ 4,818,697	\$ (1,144)	\$ (1,366)	\$ (4,823,545)	\$ 381,057



INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

An Independently Owned Member
McGLADREY ALLIANCE



To the Board of Directors
Medford Urban Renewal Agency
Medford, Oregon

We have audited the basic financial statements of Medford Urban Renewal Agency (the Agency), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 10, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

Compliance with laws, regulations, contracts and grants applicable to the Agency is the responsibility of the Agency's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Agency's 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 statements 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**
- **Programs funded from outside sources**
- **Highway revenues used for public highways, roads, and streets**
- **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 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except as follows:

1. Expenditures exceeded budgeted amounts as described in Note I. E. to the financial statements.

OAR 162-10-0230 Internal Control

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Directors and the Secretary of State, Audits Division, of the State of Oregon. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Paul R. Nielson". The signature is written in a cursive style with a long, sweeping tail on the letter 'n'.

By, Paul Nielson member of the firm
by Paul Nielson, CPA, a member of the firm
Eugene, Oregon
January 18, 2013