

**CITY OF CANBY URBAN RENEWAL AGENCY
CLACKAMAS COUNTY, OREGON**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013

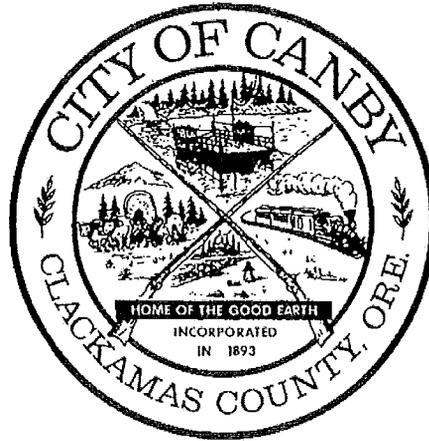


12700 SW 72nd Ave.
Tigard, OR 97223

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Fiscal Year Ended
June 30, 2013



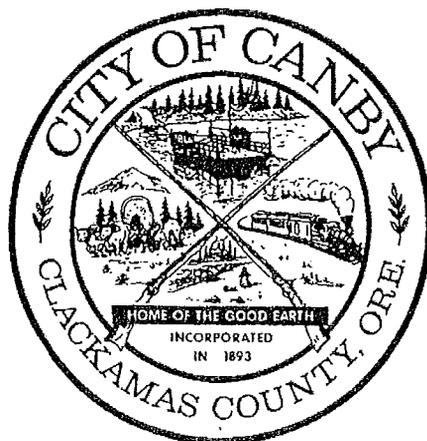
**THIS PAGE INTENTIONALLY
LEFT BLANK**

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

TABLE OF CONTENTS

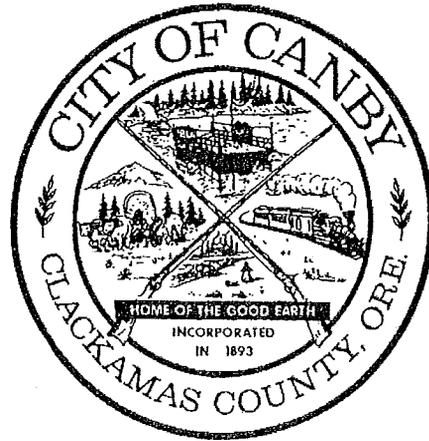
JUNE 30, 2013

	<u>Page</u>
INTRODUCTORY SECTION	
Board of Directors	i
FINANCIAL SECTION	
Independent Auditor's Report	1
<u>Required Supplementary Information</u>	
Management's Discussion and Analysis	3
<u>Basic Financial Statements</u>	
Statement of Net Position	8
Statement of Activities	9
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
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual General Fund	13
Notes to the Basic Financial Statements	14
<u>Supplementary Information</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Debt Service Fund	25
Schedule of Property Tax Transactions	26
<u>Independent Auditors' Report Required by Oregon State Regulations</u>	27



**THIS PAGE INTENTIONALLY
LEFT BLANK**

INTRODUCTORY SECTION



**THIS PAGE INTENTIONALLY
LEFT BLANK**

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

BOARD OF DIRECTORS

JUNE 30, 2013

Board of Directors

Term Expires

Richard Ares, Chairman
Canby, Oregon 97013

December 31, 2014

Brain Hodson, Board Member
Canby, Oregon 97013

December 31, 2014

Traci Hensley, Board Member
Canby, Oregon 97013

December 31, 2016

Ken Rider, Board Member
Canby, Oregon 97013

December 31, 2016

Tim Dale, Board Member
Canby, Oregon 97013

December 31, 2016

Clint Coleman, Board Member
Canby, Oregon 97013

December 31, 2014

Greg Parker, Board Member
Canby, Oregon 97013

December 31, 2014

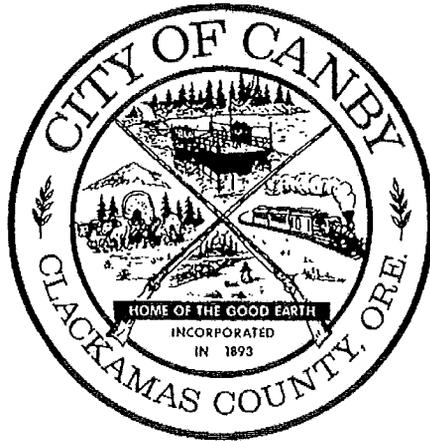
Agency Administration

Greg Ellis

District Manager

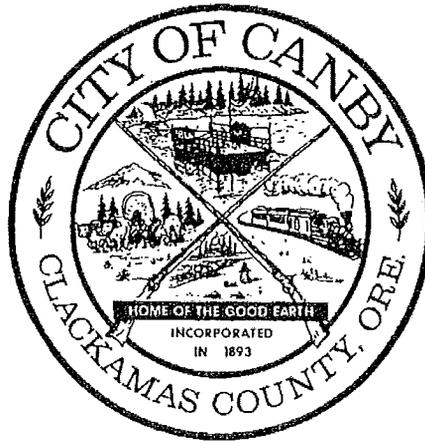
Board members receive mail at the City's address:

City Hall
182 N. Holly Street
PO Box 930
Canby, Oregon 97013



**THIS PAGE INTENTIONALLY
LEFT BLANK**

FINANCIAL SECTION



**THIS PAGE INTENTIONALLY
LEFT BLANK**



PAULY, ROGERS, AND CO., P.C.
12700 SW 72nd Ave. Tigard, OR 97223
(503) 620-2632 (503) 684-7523 FAX
www.paulyrogersandcocpas.com

January 27, 2014

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Canby Urban Renewal Agency (a component unit of the City of Canby), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the 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.

Auditors' 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 auditors' 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 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 internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Canby Urban Renewal Agency, as of June 30, 2013, and the respective changes in financial position and budgetary comparisons for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The City adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial

reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to this 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 management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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 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 supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The listing of board members containing their term expiration dates, located before the table of contents, 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.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated January 27, 2014, on our consideration of 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.



ROY R. ROGERS, CPA
PAULY, ROGERS AND CO., P.C

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

This discussion is intended to be an easily readable analysis of the City of Canby Urban Renewal Agency's (Agency) financial activities based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the financial statements that follow. The accompanying notes are also an integral part of this report.

The report consists of agency-wide statements, fund financial statements, notes to the statements and supplementary information. The agency-wide financial statements present an overview of the Agency's entire operations, while the fund level statements present the financial information of each of the two major funds.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with Agency management.

The Agency's financial statements have been audited by Pauly Rogers and Co, PC, a firm of licensed certified public accountants. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2013. The independent auditors' report is presented as the first component of the financial section of this report.

AGENCY-WIDE STATEMENTS

Statement of Net Position

The Statement of Net Position presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether or not the financial position of the Agency is improving or deteriorating. However, completed Agency projects become assets of the City of Canby; therefore, they have been transferred to the City and do not appear as assets of the Agency. Conversely, the Agency incurred debt to finance major capital projects and that debt is recorded as a liability for the Agency, as shown below. This debt has resulted in reporting deficit net position for the Agency. Again, this could typically be interpreted as a deteriorating position except in the case of this governmental structure.

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2013

AGENCY-WIDE STATEMENTS (Continued)

STATEMENT OF NET POSITION

	Governmental Activities	
	2013	2012
ASSETS:		
Cash and investments	\$ 12,776,084	\$ 5,558,533
Other current assets	920,193	711,415
Capital assets – construction in progress	1,622,988	8,641,254
Total Assets	15,319,265	14,911,202
LIABILITIES:		
Current liabilities other than debt	532,780	1,363,49
Current portion of long-term obligations	742,500	696,663
Noncurrent portion of long-term obligations	27,939,277	15,728,799
Total Liabilities	29,214,557	17,788,711
NET POSITION:		
Net investment in capital assets	(15,782,547)	(5,006,778)
Restricted:		
Capital Projects	12,143,066	4,165,137
Debt Service	252,749	169,733
Unrestricted	(10,508,560)	(2,205,601)
Total net position	\$ (13,895,292)	\$ (2,877,509)

Statement of Activities

The Statement of Activities focuses on the program costs and their matching resources. This Statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues. The Statement of Activities presents information showing how the Agency's net position changed during the most recent fiscal year.

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2013

AGENCY-WIDE STATEMENTS (Continued)

As discussed previously, the Agency's net position decreased \$11,017,783, resulting in a deficit balance in ending net position of \$13,835,292. The deficit reflects a combination of the Agency's reporting of capital-related obligations, without the offset of the capital assets which were transferred to the City, and unspent bond proceeds.

STATEMENT OF ACTIVITIES

	2013	2012
EXPENSES:		
Community development	\$ (742,336)	\$ (84,707)
Interest on long-term obligations	(925,532)	(730,049)
Total program expenses	(1,667,868)	(814,756)
Program revenues:	72,495	66,640
GENERAL REVENUES AND SPECIAL ITEMS:		
Property taxes	2,183,006	1,918,625
Interest	50,182	76,259
Miscellaneous	6,527	-
Special item – Contribution to City	(11,662,125)	-
Total general revenues	(9,422,410)	1,994,884
Change in net position	(11,017,783)	1,246,768
NET POSITION, BEGINNING	(2,877,509)	(4,124,277)
NET POSITION, ENDING	\$ (13,895,292)	\$ (2,877,509)

The Agency's tax levy totaled \$2,252,522 and is restricted to repayment of obligations. The obligations are used to finance the improvements identified in the urban renewal plan.

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2013

FUND FINANCIAL STATEMENTS

Fund Statements

Following the agency-wide statements is a section containing fund financial statements. A fund is a grouping of related accounts that have been segregated for specific activities or objectives. The Agency presents each of its two funds as major funds.

Agency funds are used to account for essentially the same functions reported as agency activities in the agency-wide financial statements. However, unlike the agency-wide financial statements, fund financial statements focus on current inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Agency's programs.

Budgetary Highlights

The budget was based upon a conscious effort by management to start the projects identified in the urban renewal plan as expediently as possible. For each major fund a budgetary comparison statement is presented.

Capital Assets and Debt Administration

The Agency completed the Police Facility and 1st Avenue Project and contributed those completed assets to the City, these costs are reflected as disposals of construction in progress in Note 4. The City continued work on other projects during the 2012-2013 fiscal year, these costs are reflected as additions to construction in progress. For more detailed information on the Agency's capital assets activity refer to Note (4) of the Notes to Basic Financial Statements.

During the fiscal year ended June 30, 2013, the Agency incurred \$14.05 million in long-term obligations through a memorandum of understanding with the City, whereby the City issued Full Faith and Credit Obligations to fund the projects identified in the plan. The Agency under terms with the City is responsible for payment of debt service on the obligations. Part of these proceeds were used to refund 2 loans payable. For more detailed information on the City's debt and amortization terms refer to Note 5 of the Notes to Basic Financial Statements.

Economic Factors

The Urban Renewal Agency continues to be an important partner in economic development within the City of Canby, providing necessary infrastructure improvements to support continued growth and quality of service to those within the Agency's boundaries. Increasing property values within the boundaries of the Agency translate into increasing tax increment available. That tax increment will then be used to pay debt service on loans issued to fund projects and improvements.

Next Year's Budgets

The Agency's budget for fiscal year 2013-2014 will be highlighted by continued work on remaining projects in the urban renewal plan.

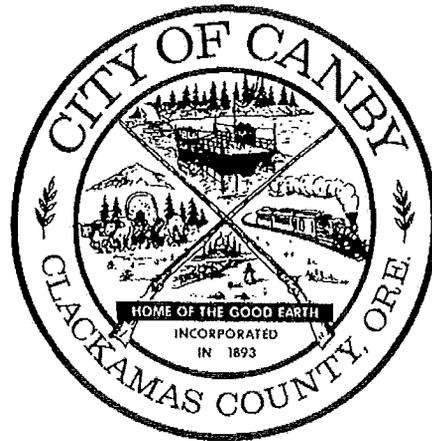
CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2013

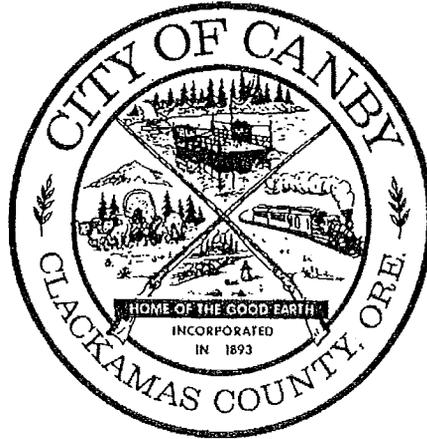
Financial Contact

The Agency's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Agency's finances and to demonstrate the Agency's accountability. If you have questions about the report or need additional financial information, you should contact the Agency's Finance Director at City of Canby, City Hall, 182 North Holly, Canby, Oregon 97013.



**THIS PAGE INTENTIONALLY
LEFT BLANK**

BASIC FINANCIAL STATEMENTS



**THIS PAGE INTENTIONALLY
LEFT BLANK**

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

STATEMENT OF NET POSITION

JUNE 30, 2013

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 12,776,084
Accounts receivable	397,395
Property taxes receivable	135,892
Deferred costs	386,906
Capital assets - construction in progress	<u>1,622,988</u>
Total assets	<u>15,319,265</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 394,610
Interest payable	138,170
Current portion of long-term obligations	<u>742,500</u>
Total current liabilities	<u>1,275,280</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	<u>27,939,277</u>
Total noncurrent liabilities	<u>27,939,277</u>
Total liabilities	<u>29,214,557</u>
NET POSITION:	
Net investment in capital assets	(15,782,547)
Restricted for:	
Capital Projects	12,143,066
Debt Service	252,749
Unrestricted	<u>(10,508,560)</u>
Total net position	<u>(13,895,292)</u>
Total liabilities and net position	<u>\$ 15,319,265</u>

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

		Program Revenues		Net Revenue (Expenses) and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
EXPENSES:				
Community development	\$ 742,336	\$ 51	\$ 72,444	\$ (669,841)
Interest on long-term debt	925,532	-	-	(925,532)
Total activities	1,667,868	51	72,444	(1,595,373)
GENERAL REVENUES AND SPECIAL ITEMS:				
Property taxes				2,183,006
Interest				50,182
Miscellaneous				6,527
Special item - Contribution to City				(11,662,125)
Total general revenues and special items				(9,422,410)
Change in net position				(11,017,783)
NET POSITION, BEGINNING				(2,877,509)
NET POSITION, ENDING				\$ (13,895,292)

The accompanying notes are an integral part of these financial statements

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

	Urban Renewal General	Urban Renewal Debt Service	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$ 12,537,676	\$ 238,408	\$ 12,776,084
Local improvement districts assessments receivable	-	397,395	397,395
Property taxes receivable	-	135,892	135,892
Total assets	<u>\$ 12,537,676</u>	<u>\$ 771,695</u>	<u>\$ 13,309,371</u>
LIABILITIES:			
Accounts payable and other current liabilities	\$ 394,610	\$ -	\$ 394,610
Unavailable revenue	-	518,946	518,946
Total liabilities	<u>394,610</u>	<u>518,946</u>	<u>913,556</u>
FUND BALANCES:			
Restricted for:			
Capital Projects	12,143,066	-	12,143,066
Debt Service	-	252,749	252,749
Total fund balance	<u>12,143,066</u>	<u>252,749</u>	<u>12,395,815</u>
Total liabilities and fund balance	<u>\$ 12,537,676</u>	<u>\$ 771,695</u>	

Amounts reported in the Statement of Net Position are different because:

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.

Unavailable revenue	518,946
Bond cost	386,906

Capital assets are not financial resources and are not reported in the governmental funds.

1,622,988

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest expense	(138,170)
--------------------------	-----------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

(28,681,777)

Net position

\$ (13,895,292)

The accompanying notes are an integral part of these financial statements

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2013

	Urban Renewal General Fund	Urban Renewal Debt Service Fund	Total Governmental Funds
REVENUES:			
Charges for services	\$ 51	\$ -	\$ 51
Property taxes	-	2,183,006	2,183,006
Special assessments	-	66,641	66,641
Grants & donations	10,300	62,144	72,444
Miscellaneous	6,527	-	6,527
Interest	47,334	2,848	50,182
	<hr/>	<hr/>	<hr/>
Total revenues	64,212	2,314,639	2,378,851
EXPENDITURES:			
Current:			
General government	695,422	-	695,422
Capital outlay	4,879,719	-	4,879,719
Debt service:			
Principal	-	2,876,483	2,876,483
Interest	-	1,045,993	1,045,993
	<hr/>	<hr/>	<hr/>
Total expenditures	5,575,141	3,922,476	9,497,617
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	(5,510,929)	(1,607,837)	(7,118,766)
OTHER FINANCING SOURCES (USES):			
Principal proceeds of bonds	14,050,000	-	14,050,000
Premium on bonds	1,129,711	-	1,129,711
Transfers in	522,000	2,212,853	2,734,853
Transfers out	(2,212,853)	(522,000)	(2,734,853)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	13,488,858	1,690,853	15,179,711
	<hr/>	<hr/>	<hr/>
Net change in fund balances	7,977,929	83,016	8,060,945
FUND BALANCE, BEGINNING	<hr/>	<hr/>	<hr/>
	4,165,137	169,733	4,334,870
FUND BALANCE, ENDING	<hr/>	<hr/>	<hr/>
	\$ 12,143,066	\$ 252,749	\$ 12,395,815

The accompanying notes are an integral part of these financial statements

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

**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, 2013

Amounts reported in the Statement of Activities are different because:

Net change in fund balance	\$ 8,060,945
Some revenue reported in the Statement of Activities does not provide current financial resources in the governmental funds.	99,164
Governmental funds report all capital outlay as expenditures. However, in the Statement of Activities the cost of certain assets is allocated over their estimated useful lives and reported as depreciation expense.	4,643,859
Completed assets contributed to the City.	(11,662,125)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in accrued interest expense	(138,170)
Amortization of issuance costs	17,709
Accrued issuance costs	264,063
The proceeds of borrowing provide current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This is the amount by which proceeds exceeded repayments.	<u>(12,303,228)</u>
Changes in net position	<u>\$ (11,017,783)</u>

The accompanying notes are an integral part of these financial statements

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2013

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 100	\$ 100	\$ 51	\$ (49)
Excise tax	-	-	10,300	10,300
Interest	10,000	10,000	47,334	37,334
Miscellaneous	-	-	6,527	6,527
Total revenues	<u>10,100</u>	<u>10,100</u>	<u>64,212</u>	<u>54,112</u>
EXPENDITURES:				
Materials and service	514,462	783,550	695,422	88,128
Capital outlay	4,664,919	18,600,669	4,879,719	13,720,950
Contingency	150,000	139,875	-	139,875
Total expenditures	<u>5,329,381</u>	<u>19,524,094</u>	<u>5,575,141</u>	<u>13,948,953</u>
Revenues over (under) expenditures	(5,319,281)	(19,513,994)	(5,510,929)	14,003,065
OTHER FINANCING SOURCES (USES):				
Principal proceeds of bonds	1,860,000	17,039,712	14,050,000	(2,989,712)
Premium on bonds	-	-	1,129,711	1,129,711
Transfers in	522,000	522,000	522,000	-
Transfers out	-	(2,212,856)	(2,212,853)	3
Total other financing sources (uses)	<u>2,382,000</u>	<u>15,348,856</u>	<u>13,488,858</u>	<u>(1,859,998)</u>
Net changes in fund balances	(2,937,281)	(4,165,138)	7,977,929	12,143,067
FUND BALANCES, BEGINNING	<u>2,937,281</u>	<u>4,165,138</u>	<u>4,165,137</u>	<u>(1)</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,143,066</u>	<u>\$ 12,143,066</u>

The accompanying notes are an integral part of these financial statements

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

(1) Summary of Significant Accounting Policies

The financial statements of the Agency have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The financial statements have incorporated all applicable GASB pronouncements.

A. Description of Reporting Entity

The Canby Urban Renewal Agency (the Agency), a component unit of the City of Canby, was organized December 24, 1999 under the provisions of Oregon Revised Statutes, Chapter 457, to assist in the redevelopment of the City of Canby. The City Council and the Mayor of the City of Canby comprise the Board of Directors of the Agency.

The Agency's financial statements include all funds of the Agency. There are no known entities that should be included in the Agency's financial statements as a component unit based on their operational or financial relationship with the Agency in accordance with GAAP. The Agency is a component unit of the City of Canby and, as such is included in the financial statements of the City of Canby for the year ended June 30, 2013.

B. Basic Financial Statements

The Agency's financial operations are presented at both the agency-wide and fund financial levels. The statement of net position and the statement of activities display information about the Agency as a whole.

Agency-wide financial statements

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the program, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

Fund financial statements

The Agency uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

These 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, and fiduciary. Currently the Agency has only governmental fund types.

C. Basis of Presentation

The financial transactions of the Agency are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The GASB 34 model sets forth minimum criteria (percentage of the assets liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. For purposes of presentation, each of the Agency's funds are presented as major funds.

The General Fund is used to administer the statutory tax increment revenues for the funding of the Urban Renewal plan through designated projects within the Urban Renewal District.

The Debt Service Fund is used to account for tax increment revenues and debt service activities for debt incurred to finance Urban Renewal contracts and capital projects.

D. Measurement Focus and Bases of Accounting

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

The Agency-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Bases of Accounting (Continued)

Governmental fund financial statements are 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 Agency considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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. The reconciliations are presented with the fund financial statements.

E. Cash and Cash Equivalents

The Agency considers cash equivalents as all highly liquid investments with maturity of three months or less from the date of purchase. Investments included in cash and cash equivalents are reported at fair value.

F. Receivables and Property Tax Calendar

Uncollected property taxes receivable, which have been collected within 45 days following year-end are considered measurable and available and are recognized as revenue. The remaining balance is recorded as unavailable revenue in the fund financial statements because it is not deemed available to finance operations of the current period. Real and personal property taxes are levied in July of each fiscal year. Property taxes attach as an enforceable lien on property as of July 1, and are payable in three installments on November 15, February 15, and May 15. All property taxes are billed and collected by Clackamas County and remitted to the City. Uncollected taxes, including delinquent amounts, are considered substantially collectible or recoverable through liens, and accordingly no allowance for uncollected taxes has been established. All property taxes receivable are due from property owners within the Agency's boundaries.

G. Capital Assets

Capital assets are stated at historical cost or estimated historical cost if actual historical cost is not available. Capital assets include land, buildings and improvements and street infrastructure costing over \$5,000 with an estimated life of more than one year. Capital assets acquired, or at the completion of construction, are transferred to the City of Canby.

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

H. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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 amortized over the term of the respective bonds.

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 financial sources while premiums and discounts on debt proceeds received are reported as other financing sources and uses, respectively. Bond issue costs, whether paid directly or from proceeds of issuance, are reported as debt service expenditures.

I. Fund Equity

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Agency is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. In accordance with GAAP allowable fund balance classifications include:

Non-Spendable – Includes items not immediately converted to cash, such as prepaid items.

Restricted – Includes items that are restricted by external creditors, grantors or contributors, or restricted by legal constitutional provisions.

Committed – Includes items committed by the Board of Directors, by formal board action. Commitments of fund balance must be made prior to the end of the fiscal year.

Assigned – Includes items assigned for specific uses, authorized by the Agency. Assignments of fund balance can be done at any time, including after the fiscal year end date. In accordance with the Agency's fund balance policy, amounts may be assigned by the Agency administrator.

Unassigned – This is the residual classification of the General Fund, used for those balances not assigned to another category.

There are no non-spendable, committed, assigned or unassigned fund balance as of June 30, 2013.

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

J. Net Position

Net position comprise the various net earnings from operations, non-operating revenues, expenses and contributions of capital assets. In accordance with GAAP allowable net position classifications include:

Net investment in capital assets – consist of all capital assets, net of accumulated depreciation less outstanding debt attributable to the acquisition of capital assets net of unspent bond proceeds.

Restricted – consists of external constraints placed on assets use by creditors, grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – consists of all other assets that are not include in the other classifications.

K. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources, as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use it is the Agency's policy to use committed resources first, then assigned, and then unassigned as they are needed.

L. Use of Estimates

In preparing the Agency's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Budget

A budget is prepared for each governmental fund in accordance with the legal requirements set forth in Oregon Local Budget Law. The Agency budgets its funds on the modified accrual basis of accounting. Budget appropriations lapse at the end of each fiscal year. Appropriations are adopted in the categories of materials and services, capital outlay, contingency and transfers. Actual expenditures may not legally exceed appropriations in any of the categories. Expenditures in all funds were within authorized appropriations.

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2013

(3) Cash and Cash Equivalents

At June 30, 2013, cash and cash equivalents consisted of the following:

	<u>Fair Value</u>
Cash on deposit	\$ 147,895
Oregon State Local Government Investment Pool	<u>12,628,189</u>
Total	<u>\$12,776,084</u>

A. 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 interest bearing accounts and fully insures all non-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.

B. Interest rate risk

The Agency does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Currently, the Agency maintains excess cash in the Local Government Investment Pool.

C. Credit risk

State statutes authorize the Agency to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the State Treasurer's Oregon Local Government Investment Pool, among others. The Agency has no investment policy that would further limit its investment choices.

D. Concentration of credit risk

The Agency does not currently have an investment policy for concentration of credit risk.

E. Custodial credit risk – investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2013

(4) Capital Assets

Capital asset activity for the year ended June 30, 2013 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Construction in progress	\$ 8,641,254	\$ 4,643,859	\$ 11,662,125	\$ 1,622,988

(5) Long-Term Obligations

A. Changes in General Long-Term Obligations

During the year ended June 30, 2013, long-term liability activity was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Loans Payable	\$ 4,490,223	\$ -	\$ 2,432,436	\$ 2,057,787	\$ 116,540
Bonds	635,000	-	300,000	335,000	335,000
Notes Payable- City	11,300,239	15,179,711	190,960	26,288,990	290,960
Total long-term liabilities	<u>\$ 16,425,462</u>	<u>\$ 15,179,711</u>	<u>\$ 2,923,396</u>	<u>\$ 28,681,777</u>	<u>\$ 742,500</u>

B. Loans Payable

Governmental Activities

In 2009, the City borrowed \$1,981,047 through the OECD to finance completion of Township Road, Berg Parkway and Sequoia Parkway. The loan included a premium of \$19,067 for a total initial amount of \$2,000,114. The loan carries interest rates from 3.00% to 5.25% over its 20 year term. The loan has a final maturity date of December 1, 2028.

\$ 1,700,947

Loan Premium

15,255

In 2010, the City borrowed \$417,927 from Business Oregon Infrastructure Finance Authority to finance construction of Walnut Street in the Canby Pioneer Industrial Park. The loan carries an interest rate of 5% over its 10-year term. Money to repay the loan will come from the benefitted property owners who formed a local improvement district to finance construction.

341,585

Total loans payable

\$ 2,057,787

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2013

(4) Long-Term Obligations (Continued)

B. Loans Payable (Continued)

Annual debt service requirements to maturity for loans payable are as follows:

	<u>OECD #B08002</u>			<u>Business Oregon X09004</u>		<u>Total Government Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Premium</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 78,543	\$ 77,107	\$ 953	\$ 37,044	\$ 17,079	\$ 116,540	\$ 94,186
2015	79,018	74,358	953	38,896	15,227	118,867	89,585
2016	79,578	71,198	953	40,841	13,282	121,372	84,480
2017	85,161	68,014	953	42,883	11,240	128,997	79,254
2018	90,768	64,608	953	45,027	9,096	136,748	73,704
2019-2023	504,446	262,833	4,765	136,894	13,325	646,105	276,158
2024-2028	637,418	133,049	4,765	-	-	642,183	133,049
2029-2033	146,015	6,571	960	-	-	146,975	6,571
Total	<u>\$ 1,700,947</u>	<u>\$ 757,738</u>	<u>\$ 15,255</u>	<u>\$ 341,585</u>	<u>\$ 79,249</u>	<u>\$ 2,057,787</u>	<u>\$ 836,987</u>

The Agency refunded OECD loans B03004 and B04004 in the respective amount of \$839,700 and \$1,373,154 with a portion of the proceeds from the series 2012 bond issue. This transaction will result in debt service savings of approximately \$285,000 resulting in an economic gain of approximately \$248,000 after factoring in issuance costs.

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2013

(5) Long-Term Obligations (Continued)

C. Bonds and Notes

Bonds Payable

In 2008, the City issued \$1,915,000 of bonds to finance improvements to NE 2nd Avenue and a public parking lot at the end of the street. The bonds carry an interest rate of 4.15% over the 6 year term. The bonds have a final maturity date of June 1, 2014.

\$ 335,000

Notes Payable – City of Canby

In 2011, the City issued \$9,000,000 of Full Faith and Credit Obligations to finance a new Police facility in conjunction with the urban renewal plan. The obligations carry interest rates from 2.00% to 5.00% and have final a maturity date of June 1, 2036. The Agency is obligated to service the obligations under agreement within the City.

8,915,000

Bond Discount

(21,850)

In 2010, the City issued \$2,500,000 of Full Faith and Credit Obligations to finance redevelopment of NE 1st Avenue. The obligations carry interest rates from 3.75% to 7.00% and have final a maturity date of December 15, 2030. They are Recovery Zone Economic Development Obligations which provide the City a 45% rebate of the amount of interest paid. The Agency is obligated to so service the obligations under the agreement with the City.

2,305,000

Bond Discount

(39,753)

In 2012, the City issued \$14,050,000 of bonds to refinance two OECDD loans, to finance extension of Sequoia Parkway, and to finance a new library and refurbish the existing library building for city offices. The bonds carry interest rates from 3.00% to 4.00% and have a final maturity date of December 1, 2034.

14,050,000

Bond Premium

1,080,593

Total Obligations

\$ 26,623,990

Annual debt service requirements to maturity for bonds and notes payable are as follows:

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2013

(5) Long-Term Obligations (Continued)

	U.S. Bank - URD Bond Series 2008		City of Canby - Bond Series 2010		Bond Discount
	Principal	Interest	Principal	Interest	Principal
2014	\$ 335,000	\$ 13,902	\$ 100,000	\$ 140,544	\$ (2,208)
2015	-	-	100,000	136,794	(2,208)
2016	-	-	105,000	132,950	(2,208)
2017	-	-	105,000	128,159	(2,208)
2018	-	-	110,000	122,381	(2,208)
2019-2023	-	-	585,000	516,457	(11,040)
2024-2028	-	-	705,000	300,825	(11,040)
2029-2033	-	-	495,000	52,675	(6,633)
2034-2037	<u>\$ 335,000</u>	<u>\$ 13,902</u>	<u>\$ 2,305,000</u>	<u>\$ 1,530,785</u>	<u>\$ (39,753)</u>
	City of Canby - Bond Series 2011		Bond Discount		
	Principal	Interest	Principal		
2014	\$ -	\$ 425,738	\$ (950)		
2015	-	425,738	(950)		
2016	25,000	425,738	(950)		
2017	30,000	425,238	(950)		
2018	45,000	424,548	(950)		
2019-2023	625,000	2,069,263	(4,750)		
2024-2028	1,635,000	1,877,060	(4,750)		
2029-2033	3,540,000	1,326,600	(4,750)		
2034-2037	3,015,000	306,500	(2,850)		
Total	<u>\$ 8,915,000</u>	<u>\$ 7,706,423</u>	<u>\$ (21,850)</u>		
	City of Canby - Bond Series 2012		Bond Premium	Total Governmental Bonds and Notes	
	Principal	Interest	Principal	Principal	Interest
2014	\$ 145,000	\$ 489,788	\$ 49,118	\$ 625,960	\$ 1,069,972
2015	550,000	479,363	49,118	695,960	1,041,895
2016	610,000	461,963	49,118	785,960	1,020,651
2017	650,000	443,063	49,118	830,960	996,460
2018	645,000	425,638	49,118	845,960	972,567
2019-2023	3,245,000	1,824,040	245,590	4,684,800	4,409,760
2024-2028	3,190,000	1,171,065	245,590	5,759,800	3,348,950
2029-2033	3,460,000	551,714	245,590	7,729,207	1,930,989
2034-2037	1,555,000	50,944	98,233	4,665,383	1,902,131
Total	<u>\$ 14,050,000</u>	<u>\$ 5,897,578</u>	<u>\$ 1,080,593</u>	<u>\$ 26,623,990</u>	<u>\$ 16,693,375</u>

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2013

(6) Risk Management

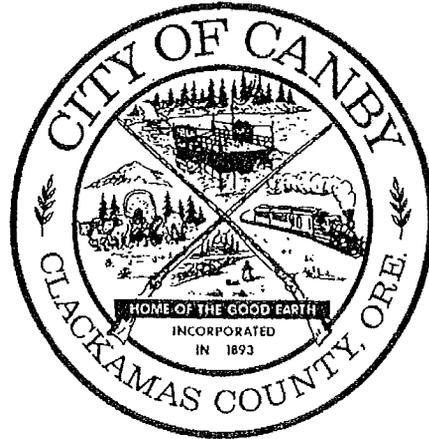
The Agency is exposed to various risks of loss and insurance coverage is provided by the City of Canby, which carries commercial insurance. Settled claims resulting from risks of loss have not exceeded commercial insurance coverage in any of the past three years.

(7) Commitments and Contingencies

At June 30, 2013, the Agency had approximately \$1,760,000 outstanding in construction commitments.

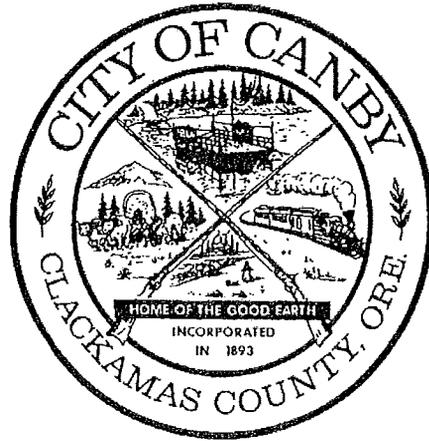
(8) Related Party Transactions

The Agency paid the City \$330,228 for salary and benefits for services performed by the City's employees on behalf of the Agency and \$57,934 for support services. As noted in note 5 the Agency entered into a note payable with the City through an intergovernmental agreement which commits the Agency to paying the series 2012 bond in the amount of \$14,050,000 with tax increment revenues.



**THIS PAGE INTENTIONALLY
LEFT BLANK**

**SUPPLEMENTARY
INFORMATION**



**THIS PAGE INTENTIONALLY
LEFT BLANK**

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

DEBT SERVICE FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Licenses, fees, permits	\$ 1,983,000	\$ 2,169,129	\$ 2,183,006	\$ 13,877
Miscellaneous	69,461	69,461	66,641	(2,820)
Excise tax	64,932	64,932	62,144	(2,788)
Interest	1,200	1,200	2,848	1,648
Total revenues	<u>2,118,593</u>	<u>2,304,722</u>	<u>2,314,639</u>	<u>9,917</u>
EXPENDITURES:				
Debt service:				
Principal	951,172	3,098,100	2,876,483	221,617
Interest	790,631	1,045,888	1,045,993	(105)
Total expenditures	<u>1,741,803</u>	<u>4,143,988</u>	<u>3,922,476</u>	<u>221,512</u>
Revenues over (under) expenditures	<u>376,790</u>	<u>(1,839,266)</u>	<u>(1,607,837)</u>	<u>231,429</u>
OTHER FINANCING SOURCES (USES):				
Net changes in fund balances	-	2,212,856	2,212,853	(3)
Interest	<u>(522,000)</u>	<u>(522,000)</u>	<u>(522,000)</u>	<u>-</u>
Net changes in fund balances	<u>(145,210)</u>	<u>(148,410)</u>	<u>83,016</u>	<u>231,426</u>
FUND BALANCES, BEGINNING	<u>145,210</u>	<u>148,410</u>	<u>169,733</u>	<u>21,323</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 252,749</u>	<u>\$ 252,749</u>

* Debt service appropriated as a total of principal and interest, therefore no non-compliance noted herein.

CANBY URBAN RENEWAL AGENCY
(A Component Unit of the City of Canby, Oregon)

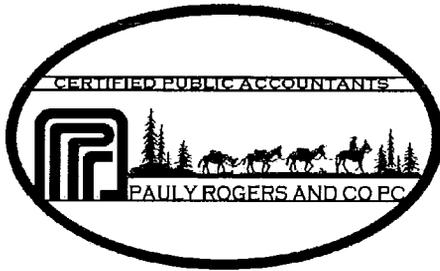
SCHEDULE OF PROPERTY TAX TRANSACTIONS

FOR THE YEAR ENDED JUNE 30, 2013

<u>Tax Year</u>	<u>Taxes Receivable 6/30/12</u>	<u>2012-13 Levy</u>	<u>Adjustments/ Discounts</u>	<u>Interest</u>	<u>Collections</u>	<u>Taxes Receivable 6/30/13</u>
2012-13		\$ 2,252,522	\$ (71,132)	\$ 761	\$ (2,129,733)	52,418
2011-12	71,076	-	(2,435)	1,743	(29,067)	41,317
2010-11	33,806	-	(1,690)	1,609	(9,988)	23,737
2009-10	21,851	-	(253)	2,062	(9,241)	14,419
2008-09	6,041	-	(98)	818	(3,407)	3,354
Prior	1,646	-	-101	(577)	(321)	647
Total	<u>\$ 134,420</u>	<u>\$ 2,252,522</u>	<u>\$ (75,709)</u>	<u>\$ 6,416</u>	<u>\$ (2,181,757)</u>	<u>\$ 135,892</u>

Reconciliation to revenue:

Collections per above	2,181,757
Change in receivables	1,472
Change in unavailable revenue	<u>(223)</u>
	<u>\$ 2,183,006</u>



PAULY, ROGERS, AND CO., P.C.
12700 SW 72nd Ave. Tigard, OR 97223
(503) 620-2632 (503) 684-7523 FAX
www.paulyrogersandcocpas.com

January 27, 2014

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the Canby Urban Renewal Agency as of and for the year ended June 30, 2013, and have issued our report thereon dated January 27, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of 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:

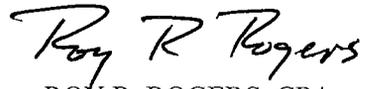
- **Deposit of public funds with financial institutions (ORS Chapter 295)**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Authorized investment of surplus funds (ORS Chapter 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.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of internal control over financial reporting.

This report is intended solely for the information and use of the Board of Directors, Management, and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

A handwritten signature in black ink that reads "Roy R. Rogers". The signature is written in a cursive style with a large, prominent "R" at the beginning.

ROY R. ROGERS, CPA
PAULY, ROGERS AND CO., P.C.