

CITY OF TUALATIN
DEVELOPMENT COMMISSION

AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 2004

City of Tualatin
 DEVELOPMENT COMMISSION
 AUDITOR'S REPORT
 AND
 FINANCIAL STATEMENTS
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INTRODUCTORY SECTION

CITY OF TUALATIN, OREGON

DEVELOPMENT COMMISSION

JUNE 30, 2004

BOARD OF COMMISSIONERS

CITY COUNCIL

Lou Ogden

Steve Chrisman

Chris Bergstrom

Ed Truax

Bob Boryska

James Harris

Chris Barhyte

TERM EXPIRES

December 31, 2006

December 31, 2004

December 31, 2006

December 31, 2004

December 31, 2004

December 31, 2006

December 31, 2006

ADMINISTRATIVE

Steve Wheeler, City Manager
Brenda Braden, City Attorney
Nancy Gritta, Finance Director

City Hall
18880 SW Martinazzi Avenue
Tualatin, Oregon 97062

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Council of the
City of Tualatin Development Commission -
The Urban Renewal Agency

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Tualatin Development Commission - The Urban Renewal Agency of the City (a component unit of the City of Tualatin, Oregon), as of and for the year ended June 30, 2004, which collectively comprise the City of Tualatin Development Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Tualatin Development Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

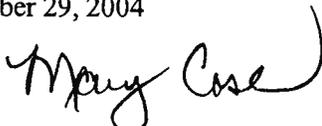
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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 opinion.

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 City of Tualatin Development Commission, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management discussion and analysis and budgetary comparison information on pages 2 through 12 and 36 through 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tualatin Development Commission, Oregon's basic financial statements. The other financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other financial information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

September 29, 2004



For Moss Adams LLP
Certified Public Accountants
Eugene, Oregon

Management's Discussion And Analysis

As management of the Tualatin Development Commission, we include this narrative presenting an overview and analysis of the financial activities of the Tualatin Development Commission for the fiscal year ended June 30, 2004

The purpose of this presentation is to comply with changes in governmental accounting standards (most notably, Governmental Accounting Standards Board Statement No. 34.) These changes were implemented to aid users of governmental financial statements in more easily judging the overall financial position and activities of the government as a whole.

Financial Highlights

- The assets of the Tualatin Development Commission exceeded its liabilities at the close of the most recent fiscal year by \$25,533,897. Of this amount, \$727,122 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$444,019. Revenues were greater in 2004 as compared to 2003; the change in net assets is primarily due to the increases in expenditures in capital outlay in 2004.
- At the end of the 2004 fiscal year, unreserved fund balance for the General Fund is \$217,592 as compared to \$201,103 in 2003.
- The Tualatin Development Commissions total debt for bonds, leases, and loans decreased to \$6,740,490 from \$7,001,640 from in 2003. The decrease of debt is the result of regular payments on debt and the restructuring of debt in 2003-04

Overview of Financial Statements

These financial statements comprise three components: 1) fund financial statements, 2) government-wide financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves

Fund Financial Statements

In the past, Tualatin and other government presented fund *financial statements* in their annual reports. Fund financial statements focus on the most significant funds rather than the Agency as a whole. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The use of fund financial statements is directly related to the budgeting process because some revenues are legally earmarked to be used for certain kinds of expenditures. Fund financial statements ensure and demonstrate compliance with finance-related laws and regulations.

In addition, the total amount of budgeted appropriations for expenditures is considered in terms of the revenue available to fund the expenditures and the type of expenditures competing for the same dollars.

Government wide financial statements

Fund financial statements report short-term accountability focusing on the use of spendable resources and balances of spendable resources at year-end. These statements could not be used as a barometer to measure the performance of the government as a whole. The government-wide financial statements were designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

For the first time in 2002 the Tualatin Development Commission's annual report included government-wide financial statements. These statements provide both long term and short-term information about the Agency's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This statement presents information on all of the Tualatin Development Commission's assets and liabilities, with the difference between the two reported as *net assets*. In other words, this statement compares what the government *owns* to what it *owes* and, although there are differences and qualifiers, is a loose parallel to what average citizens understand as "owner's equity" or "net worth".

Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating. Other factors being equal, the extent by which assets exceed liabilities is a cushion to be called upon during stressful economic times. Evaluation of the overall health of the Agency would extend to other non-financial factors such as the condition of Agency infrastructure, in addition to the other financial information provided in this report.

The second government-wide statement is the Statement of Activities, which 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 the changes occurs, regardless of the timing of related cash flows.

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 and earned, but unused, vacation leave.) The obvious advantage to such an approach is to nurture a long term prospective by emphasizing the effects of yearly budget decisions have on long term goals.

The government-wide financial statements distinguish functions of Tualatin Development Commission, which are principally supported by taxes and intergovernmental revenues (governmental activities). There are no proprietary funds, or funds which are expected to recover all, or a significant portion of their costs through user fees and charges (*business-type activities*.) Governmental activities at the Tualatin Development Commission include the identification of, planning of, and financing of urban renewal projects, which enhance the City of Tualatin and make it a better place to live.

The Tualatin Development Commission is considered a blended *component unit* and, in substance is part of the City's Operations, although it is a legally separate entity. Separate financial statements of the Agency can be obtained from the Finance Department of the City at 18880 S. W. Martinazzi Avenue, Tualatin, Oregon, 97062.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows*. Such information may be useful in evaluation a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Tualatin Development Commission consists of five funds the General Fund (which is known within the City as the Urban Renewal Administration Fund), the Central Urban Renewal District Project Fund, the Central Urban Renewal District Bond Fund, the Leveton Tax Increment District Project Fund, and the Leveton Tax Increment District Bond Fund. All are governmental funds; the General Fund is considered a special revenue fund, the two project funds are capital project funds which account for the urban renewal expenditures for construction of various projects and the two bond funds account for debt used to fund projects.

The annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the Agency's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination ore reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Development Commission's statement of position presenting information that includes all of the Commission's assets and liabilities with the difference reported as net assets.

**CITY OF TUALATIN
DEVELOPMENT COMMISSION'S
NET ASSETS**

	Governmental Activities	
	2004	2003
Revenues:		
Taxes and assessments	5,457,488	3,754,083
Interest	221,556	215,615
Miscellaneous	218,851	53,682
Transfers	(241,361)	(646,347)
Total general revenues:	5,656,534	3,377,033
Expenses:		
General government	324,905	1,534,056
Interest	274,291	170,437
Capital Outlay Transferred	5,501,357	-
Total expenses	6,100,553	1,704,493
Increase (decrease)/net assets	(444, 019)	1,672,540
Net assets – beginning of the year	25,977,916	24,305,376
Net assets – ending of the year	25,553,897	25,977,916

**CITY OF TUALATIN DEVELOPMENT COMMISSION
NET ASSETS**

	Governmental Activities	
	2004	2003
Assets:		
Current and other Assets	17,162,735	17,186,102
Capital Assets	15,873,454	16,027,998
Total Assets	33,036,189	33,214,100
Long-term liabilities Outstanding	6,740,490	7,001,640
Other liabilities	761,802	234,544
Total liabilities	7,502,292	7,236,184
Net assets:		
Invested in capital assets, net of Related debt	9,132,964	9,026,358
Restricted	15,673,811	4,668,725
Unrestricted	727,122	12,282,833
Total net assets	25,533,897	25,977,916

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the case of the Tualatin Development Commission, assets exceeded liabilities by \$25,533,897 at the end of the most recent fiscal year. The largest portion of the Commission's net assets reflects the investment in capital assets (e. g. buildings and land). The Commission develops these capital assets to provide services to citizens: consequently, these assets are not available for future spending. The investment in cash is higher than it was in 2003 because of bond sales at the end of the fiscal year.

Capital Asset Reporting and Activity During The Year

It is the purpose of the Tualatin Development Commission to develop and build capital assets for the City of Tualatin; they are legally deeded to the City upon completion and therefore are not intended to be permanent assets of the Commission.

Resources to pay debt must come from tax increment dollars since capital assets themselves cannot be used to liquidate liabilities for the Commission or the City. Note G in the Notes to the Financial Statements Section contains the capital asset activity for the year. All urban renewal districts have a defined life and are ended when the planned urban renewal projects are finished.

Capital activity for urban renewal is confined to the two areas of the City represented by the two urban renewal districts—Central Urban Renewal (downtown area) and the Leveton District (industrial area). In 2003-2004 in the Central district \$1,622,804 was spent in improving the underground utilities in the downtown area. These improvements are related to downtown beautification with the addition of decorative light posts, preparation for road improvements, which will improve traffic in the downtown area, and the start of work of a train station, which will be part of the Washington County Rail Line. Tualatin's part of the Washington County light rail will connect Tualatin and other cities to greater Portland's light rail system.

In the Leveton Project Fund, \$3,720,000 was spent in 2003-04 for project construction, most of which were road improvements in the Leveton District. The primary project was the extension of 124th Avenue from Leveton Drive to Myslony Street. This project will improve the transportation system in this industrial district, for which transportation is an important priority.

Traditionally state and local governments have not been required to report general infrastructure assets (e.g. roads, bridges) in their financial statements. This followed the line of thought that governments used their infrastructure for operations, to sell them would in effect "put the government out of business" and that these were assets were only usable to the government and therefore were not saleable.

With the move to a more private-sector-like focus for all activities in government wide financial statements the importance of capital assets including infrastructure was recognized as important as was its reporting.

The cost of infrastructure represents the largest cost of all tangible assets, has a direct relationship on safety and quality of life, and is considered the most basic of all requirements for a civilized society—it is little wonder its importance has emerged as a measure of financial viability.

The importance of urban renewal as a vehicle to improve infrastructure cannot be underestimated. Improving infrastructure is an immense problem for cities to accomplish without the help of an urban renewal agency. The reasons for this are many:

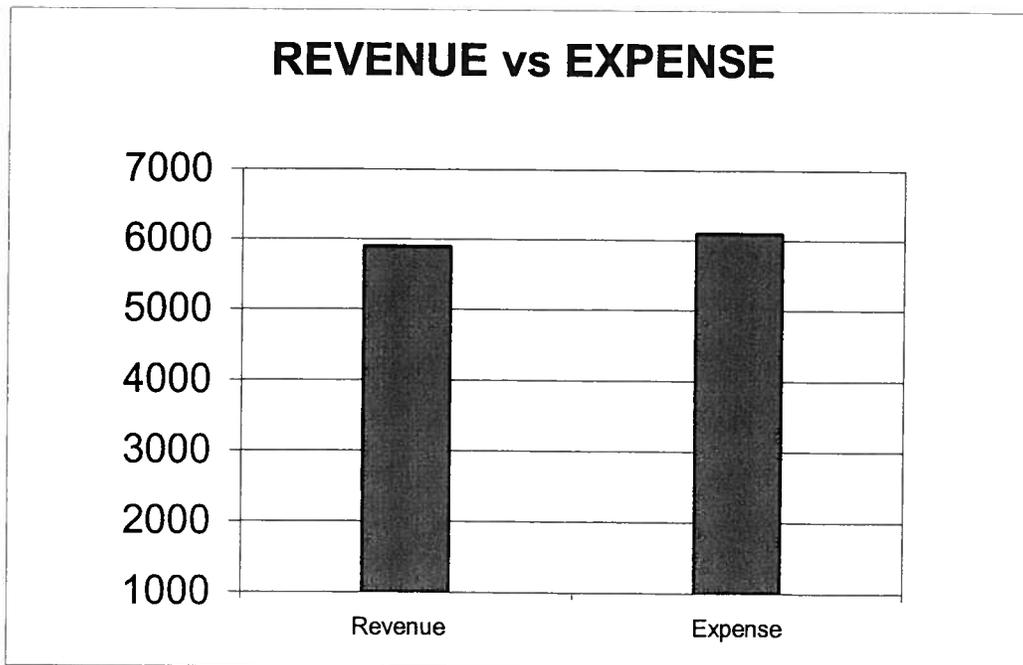
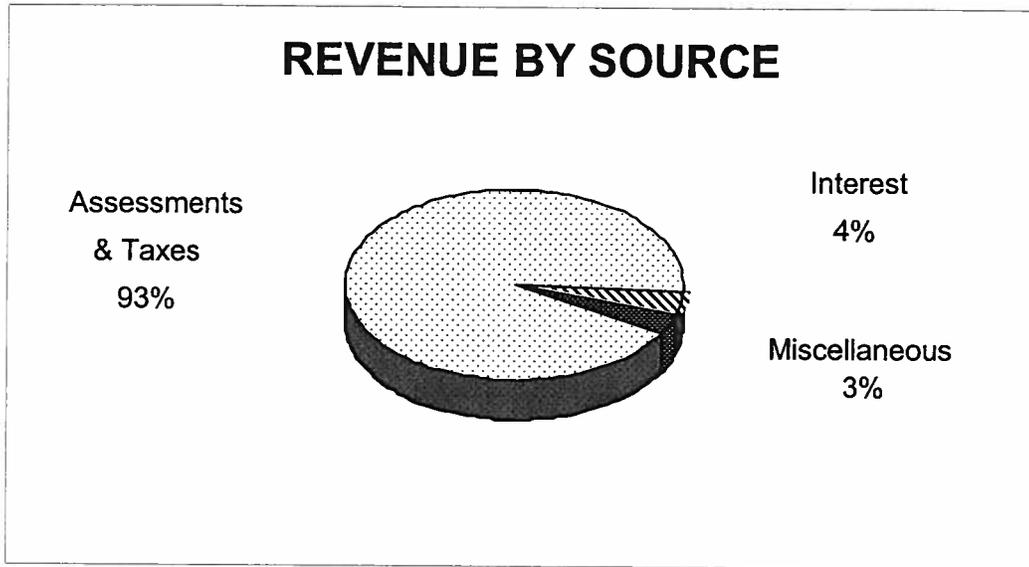
- Such projects, however necessary, translate into a drain on current, often inadequate resources, and are more likely to be clearly understood by the taxpayer as an increase in taxes for the same services.
- Urban renewal agencies' projects are more clearly seen by citizens as "an improvement" for the future.
- Urban renewal personnel develop an expertise which results in efficiencies difficult to achieve for those for which it is not a day-to-day vocation.
- Urban renewal projects often result in upgrades which would have not have been addressed until years later, were they not contiguous to an urban renewal project.
- Funding of urban renewal projects is separate from, and earmarked for, capital improvements

Summary of Revenues and Expenses by Source

During 2003-04 the following notable factors concerning revenues and expenditures are demonstrated in the statement of activities:

- Taxes and assessments are responsible for the overwhelming share of revenues. Of total revenues of \$5,879,895, taxes and assessments represent \$5,457,488 or 93 percent. Tax increment revenues represent growth in taxable valuation from a predetermined frozen base.
- Expenditures for 2003-04 are \$6,100,553 of which \$5,501,357 is attributed to Capital Outlay Transfer. This is consistent with the reason for which Urban Renewal exists. The agency develops improvements, which are then deeded to the City of Tualatin.

TUALATIN DEVELOPMENT COMMISSION GOVERNMENTAL FUNDS



Discussion of Significant Changes in Individual Fund balances

During 2003-04 there are significant changes in fund balances in all of the Tualatin Development Commission's funds with the exception of the General Fund. These changes are related to relationships between the bond fund for each district and its corresponding project fund.

The purpose of the Commission is to build pre-approved projects paid for by debt for which primarily tax increment revenues pay principal and interest. Tax increment revenues are received in the bond funds and used to pay principal and interest on the debt financing the construction in the project funds. It is necessary that balances in the bond funds remain large enough to pay all principal and provide for any reserves required by bond indentures or loan agreements. However, any funds above these requirements are moved to the project funds for fund construction.

During 2003-04 the Central Urban Renewal District Bond Fund's fund balance was reduced for \$2,190,349 at the beginning of the year to \$1,678,056 at the end of the year. The Leveton Tax Increment District Bond Fund's fund balance was reduced to \$1,926,892 from \$2,368,041 at the end of the year. These reductions were due primarily to the retirement and restructuring of debt. Reserves, not normally expended, were used in restructuring, since reserve requirements had been reduced. Note H to the financial statements describes in detail this restructuring.

In the Central Urban Renewal Project Fund, the fund balance increased significantly from \$4,753,054 to \$7,013,467 during the year the primary reason for the changing being the receipt of \$3,547,725 in bond proceeds and only slightly more than half that (\$1,677,384) in capital outlay.

The Leveton Tax Increment District Project Fund's fund balance decreased from \$6,496,925 at the beginning of the year to \$5,055,396 at the end of the year. This decrease occurred primarily because of the large expenditures for capital compared to bond proceeds -expenditures, \$3,718,748; bond proceeds, \$2,400,000.

Significant Differences in Variations in Revenues and Expenditures & Differences Between Actual and Budgeted Figures

During 2003-04 variations in revenues and expenditures and differences between budgeted and actual numbers are much more noteworthy in the expenditure section of the financial statements as compared to the revenue section of these statements. This is normally the case for the Tualatin Development Commission; because actual revenues, with careful research, can be projected more precisely on a year-to-year basis than can actual expenditures, especially in the project construction funds. Expenditures are subject to change from many forces outside the control of the Commission.

Large capital projects, which span many years, can be budgeted as a whole more easily than they can be budgeted on a year-to-year basis. Such projects often consist of many types of construction (i.e. roads, lights, landscaping, sanitary sewer lines, and water lines) involving many parties with which agreements must be made and work must be done. Design work is required, rights-of-way and/or land must be obtained, legal issues must be settled, and construction must be completed. Many tasks are sequential, and an interruption early in the process, stops the process.

Following are significant differences, which are noteworthy for 2003-04:

- Expenditures in the two bond funds demonstrate a slightly different pattern than what is typically seen in the average year. This is the result of the bond restructuring (discussed in Note H and in the Debt Administration Section herein.) The effect of the restructuring resulted in favorable differences between budgeted and actual in both bond funds. However, because of the restructuring and the reduction of the need for bond reserves, an expenditure of reserves occurs in both bond funds. Normally such reserves would be budgeted with no amount being spent.
- In the Central Urban Renewal Project Fund capital outlay was budgeted at \$4,862,392 and expenditures were \$1,677,384. Most of the large budgeted projects were related to projects at the center of the downtown area. Much was completed on the first in the sequence of projects in this area, the Boones Ferry Road Underground Utilities for which \$1,623,000 were expended. The other projects will be carried forward in subsequent manner.
- In the Leveton Project Fund the amount budgeted for capital projects was \$5,490,365. Actual expenditures were \$3,718,748. Significant projects, which were less than budget includes the 124th Avenue, project which was budgeted at \$4,810,365, whereas \$3,691,300 was expended. Other projects for which there were expenditures less than the amount budgeted include Wetland Mitigation, budgeted at \$70,000 and recording expenditures of \$14,000 and Herman RD and 108th Project budgeted at \$400,000 and recording expenditures of \$10,500. The Wetland Mitigation projects did not require the budgeted expenditures because the survival rate of the plants reached the required numbers. The Herman RD project was delayed in the planning process.

Debt Administration

Bond activity and loan activity for the Tualatin Development Commission is illustrated below:

	Beginning	Additions	Reductions	Ending
Urban Renewal Bonds	\$ 6, 675,000	1,500,000	(1,575,000)	\$ 6,600,000
Loans Payable	326,640	-	(186,150)	140,490
Total Long Term Liabilities	\$ 7,001,640	1,500,000	1,761,150	\$ 6,740,490

Significant factors in long-term debt activity include the following:

- The Tualatin Development Commission has been pro-active in the restructuring of debt when saving is available. Note H in this report describes the restructuring accomplished in 2003-04 and the net savings from these refundings.
- The restructuring of debt in 2003-04 not only saved money but also allowed the Commission to ease requirements for bond reserves in the Central Urban Renewal Bond Fund. The bank with the winning bid in the request for bids on the restructuring now current holds all outstanding bond debt, which constitutes 98% of all outstanding debt at June 30.
- The Development Commission continues to use short-term bonds to move funds to the project funds. These bonds are sold and redeemed within a few days. The proceeds of the bonds are recorded in the project funds (Central Urban Renewal Project Fund and Leveton Tax Increment Project Fund).

The payments for principal, interest, and costs of issuance are recorded in the bond funds (Central Urban Renewal Bond Fund and Leveton Bond Fund). In 2003-04 Central Urban renewal sold a "du jour" bond for \$2,047,625 and Leveton sold one for \$2,400,000. There is no liability on the books for such bonds at year-end.

Economic Factors and Next Year's Budgets

The State of Oregon and the Portland metropolitan area have been heavily affected by the nation's sluggish economy. The State has continued to be one of the top two states for high unemployment in the nation. At the time of this writing, it appears the nation's economy and the State's economy may be beginning to recover. The speed with which this occurs will continue to be a factor for Tualatin Development Commission as well as the City of Tualatin.

Tualatin Development Commission has a history of being able to lure attractive development, which has subsequently made positive contributions to Tualatin. This has helped shield the City of Tualatin against the perils of cutting services because of its relatively low permanent tax rate of \$2.26 per \$1,000 taxable assessed value.

The Commission is presently developing a shopping center to be located directly adjacent to the I-5 freeway, which runs north and south through Oregon and California. The project will be constructed at an approximate cost of \$150,000,000 for about 550,000 square feet. This center should be completed within the year. The first store, Crate and Barrel, opened November 12, 2004. This is the first location in Oregon for this high-end home furnishings store.

The challenges of the future will be to continue productive development and dealing with the high cost of maintaining livability within the larger metropolitan area.

Request for Information

This financial report is designated to provide a general overview of the City of Tualatin Development Commissions financial activities and position.

Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Director, City of Tualatin, 18880 S. W. Martinazzi Avenue, Tualatin, OR 97062-7092.

BASIC FINANCIAL STATEMENTS

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
STATEMENT OF NET ASSETS
JUNE 30, 2004**

ASSETS

Cash and investments	\$ 16,588,841
Receivable	
Accounts	374,400
Taxes and assessments	196,707
Interest	237
Prepays	2,550
Land	5,184,096
Construction in progress	9,939,099
Infrastructure	965,607
Accumulated depreciation	<u>(215,348)</u>
Total assets	<u>33,036,189</u>

LIABILITIES

Accounts payable	575,512
Retainage payable	186,290
Long-term liabilities	
Due within one year	1,300,490
Due after one year	<u>5,440,000</u>
Total liabilities	<u>7,502,292</u>

NET ASSETS

Invested in capital net of related debt	9,132,964
Restricted for debt service	3,604,948
Restricted for capital projects	12,068,863
Unrestricted	<u>727,122</u>
Total net assets	<u><u>\$ 25,533,897</u></u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
					Governmental Activities
Primary Government					
Governmental Activities:					
General Government	\$ 324,905	\$ -	\$ -	\$ -	\$ (324,905)
Interest	274,291	-	-	-	(274,291)
Capital outlay transferred	5,501,357	-	-	-	(5,501,357)
Total Governmental Activities	\$ 6,100,553	\$ -	\$ -	\$ -	(6,100,553)

General Revenues	
Taxes and Assessments	5,457,488
Intergovernmental	17,500
Miscellaneous	201,351
Investment Earnings	221,556
Total General Revenues	5,897,895
Transfers	(241,361)
Total General Revenues and Transfers	5,656,534
Change in Net Assets	(444,019)
Net Assets, beginning of year	25,977,916
Net Assets, end of year	\$ 25,533,897

GOVERNMENTAL FUND FINANCIAL STATEMENTS MAJOR GOVERNMENTAL FUNDS

General Fund - accounts for the financial operations of the Agency that are not accounted for in any other fund. Principal source of revenue is interest from investments.

Central Urban Renewal District Bond Sinking Fund - accounts for resources received from property taxes within the Central Urban Renewal area for the payment of principal and interest on the Agency's tax increment bonds.

Leveton Tax Increment District Bond Sinking Fund - accounts for property taxes received within the Leveton Urban Renewal and are to be used for the payment of principal and interest on the Agency's tax increment debt.

Central Urban Renewal District Projects Fund - accounts for resources provided from the sale of tax increment bonds and interest earnings used for the acquisition and construction of capital assets within the Urban Renewal Agency's boundary and payment of nonbonded indebtedness.

Leveton Tax Increment District Projects Fund - accounts for the proceeds of tax or construction increment bonds which are used for the acquisition and construction of capital assets within the Urban Renewal District.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
GOVERNMENTAL FUNDS - COMBINING BALANCE SHEET
JUNE 30, 2004**

	General Fund	Central Urban Renewal District Bond Sinking Fund	Leveton Tax Increment District Bond Sinking Fund
ASSETS			
Cash and investments	\$ 215,164	\$ 1,845,833	\$ 1,898,616
Receivable			
Accounts	-	-	-
Taxes and assessments	-	96,854	99,853
Interest	-	101	136
Prepays	2,550	-	-
Land	-	-	-
Construction in progress	-	-	-
Infrastructure	-	-	-
Accumulated depreciation	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 217,714</u>	<u>\$ 1,942,788</u>	<u>\$ 1,998,605</u>
LIABILITIES			
Accounts payable	\$ 122	\$ 195,000	\$ 6,315
Retainage payable	-	-	-
Deferred revenue	-	69,732	65,398
Long-term liabilities			
Due within one year	-	-	-
Due after one year	-	-	-
Total liabilities	<u>122</u>	<u>264,732</u>	<u>71,713</u>
FUND BALANCES			
Unreserved, reported in			
General fund	217,592	-	-
Debt service funds	-	1,678,056	1,926,892
Capital projects funds	-	-	-
Total fund balance	<u>217,592</u>	<u>1,678,056</u>	<u>1,926,892</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 217,714</u>	<u>\$ 1,942,788</u>	<u>\$ 1,998,605</u>

Central Urban Renewal District Projects Fund	Leveton Tax Increment District Projects Fund	Total	Adjustments	Statement of Net Assets
\$ 7,362,421	\$ 5,266,807	\$ 16,588,841	\$ -	\$ 16,588,841
374,400	-	374,400	-	374,400
-	-	196,707	-	196,707
-	-	237	-	237
-	-	2,550	-	2,550
-	-	-	5,184,096	5,184,096
-	-	-	9,939,099	9,939,099
-	-	-	965,607	965,607
-	-	-	(215,348)	(215,348)
<u>\$ 7,736,821</u>	<u>\$ 5,266,807</u>	<u>\$ 17,162,735</u>	<u>15,873,454</u>	<u>33,036,189</u>
\$ 289,608	\$ 84,467	\$ 575,512	\$ -	\$ 575,512
59,346	126,944	186,290	-	186,290
374,400	-	509,530	(509,530)	-
-	-	-	1,300,490	1,300,490
-	-	-	5,440,000	5,440,000
<u>723,354</u>	<u>211,411</u>	<u>1,271,332</u>	<u>6,230,960</u>	<u>7,502,292</u>
-	-	217,592	(217,592)	-
-	-	3,604,948	(3,604,948)	-
7,013,467	5,055,396	12,068,863	(12,068,863)	-
<u>7,013,467</u>	<u>5,055,396</u>	<u>15,891,403</u>	<u>(15,891,403)</u>	<u>-</u>
<u>\$ 7,736,821</u>	<u>\$ 5,266,807</u>	<u>\$ 17,162,735</u>		

Net assets

Invested in capital net of related debt	9,132,964
Restricted for debt service	3,604,948
Restricted for capital projects	12,068,863
Unrestricted	727,122
Total net assets	<u>\$ 25,533,897</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	General Fund	Central Urban Renewal District Bond Sinking Fund	Leveton Tax Increment District Bond Sinking Fund
REVENUES			
Taxes and assessments	\$ -	\$ 2,231,104	\$ 3,240,940
Interest	1,567	39,280	43,920
Intergovernmental	-	-	-
Miscellaneous	-	-	-
Total revenues	<u>1,567</u>	<u>2,270,384</u>	<u>3,284,860</u>
EXPENDITURES			
Current			
General government	211,682	10,675	15,984
Debt Service			
Principal	-	2,322,625	3,336,150
Interest	-	80,063	194,228
Reserves	-	369,314	179,647
Capital outlay	-	-	-
Capital outlay transferred to the City	-	-	-
Total expenditures	<u>211,682</u>	<u>2,782,677</u>	<u>3,726,009</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(210,115)</u>	<u>(512,293)</u>	<u>(441,149)</u>
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Proceeds of refunding bonds	-	-	-
Payment to bond escrow agent	-	-	-
Payment received on notes receivable	-	-	-
Transfers in	383,745	-	-
Transfers out	<u>(157,141)</u>	<u>-</u>	<u>-</u>
Total other financing sources and (uses)	<u>226,604</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	16,489	(512,293)	(441,149)
Change in net assets	-	-	-
Fund balance / net assets			
Beginning of the year	<u>201,103</u>	<u>2,190,349</u>	<u>2,368,041</u>
End of the year	<u>\$ 217,592</u>	<u>\$ 1,678,056</u>	<u>\$ 1,926,892</u>

See auditor's report and accompanying notes.

Central Urban Renewal District Projects Fund	Leveton Tax Increment District Projects Fund	Total Governmental Funds	Adjustments	Statement of Activities
\$ -	\$ -	\$ 5,472,044	\$ (14,556)	\$ 5,457,488
68,363	68,426	221,556	-	221,556
17,500	-	17,500	-	17,500
188,277	13,074	201,351	-	201,351
<u>274,140</u>	<u>81,500</u>	<u>5,912,451</u>	<u>(14,556)</u>	<u>5,897,895</u>
28,408	9,876	276,625	48,280	324,905
-	-	5,658,775	(5,658,775)	-
-	-	274,291	-	274,291
-	-	548,961	(548,961)	-
1,677,384	3,718,748	5,396,132	(5,396,132)	-
-	-	-	5,501,357	5,501,357
<u>1,705,792</u>	<u>3,728,624</u>	<u>12,154,784</u>	<u>(6,054,231)</u>	<u>6,100,553</u>
<u>(1,431,652)</u>	<u>(3,647,124)</u>	<u>(6,242,333)</u>	<u>6,039,675</u>	<u>(202,658)</u>
3,547,625	2,400,000	5,947,625	(5,947,625)	-
575,000	440,000	1,015,000	(1,015,000)	-
(575,000)	(440,000)	(1,015,000)	1,015,000	-
418,000	-	418,000	(418,000)	-
-	-	383,745	(383,745)	-
<u>(273,560)</u>	<u>(194,405)</u>	<u>(625,106)</u>	<u>383,745</u>	<u>(241,361)</u>
<u>3,692,065</u>	<u>2,205,595</u>	<u>6,124,264</u>	<u>(6,365,625)</u>	<u>(241,361)</u>
2,260,413	(1,441,529)	(118,069)	118,069	-
-	-	-	(444,019)	(444,019)
<u>4,753,054</u>	<u>6,496,925</u>	<u>16,009,472</u>	<u>9,968,444</u>	<u>25,977,916</u>
<u>\$ 7,013,467</u>	<u>\$ 5,055,396</u>	<u>\$ 15,891,403</u>	<u>\$ 9,642,494</u>	<u>\$ 25,533,897</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
STATEMENT OF REVENUES AND EXPENDITURES
-ACTUAL AND BUDGET (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
GENERAL FUND**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest	\$ 2,570	\$ 2,570	\$ 1,567	\$ (1,003)
Total revenues	<u>2,570</u>	<u>2,570</u>	<u>1,567</u>	<u>(1,003)</u>
EXPENDITURES				
Materials and services	250,682	250,682	211,682	39,000
Contingency	<u>172,369</u>	<u>172,369</u>	<u>-</u>	<u>172,369</u>
Total expenditures	<u>423,051</u>	<u>423,051</u>	<u>211,682</u>	<u>211,369</u>
Excess of revenues over (under) expenditures	<u>(420,481)</u>	<u>(420,481)</u>	<u>(210,115)</u>	<u>210,366</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	383,745	383,745	383,745	-
Operating transfers out	<u>(157,141)</u>	<u>(157,141)</u>	<u>(157,141)</u>	<u>-</u>
Total other financing sources (uses)	<u>226,604</u>	<u>226,604</u>	<u>226,604</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(193,877)</u>	<u>(193,877)</u>	<u>16,489</u>	<u>210,366</u>
BEGINNING FUND BALANCE	<u>193,877</u>	<u>193,877</u>	<u>201,103</u>	<u>7,226</u>
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,592</u>	<u>\$ 217,592</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Financial Reporting Entity

These financial statements present the City of Tualatin Development Commission - The Urban Renewal Agency of the City (the Agency), a component unit of the City of Tualatin, Oregon. The Agency was established on September 23, 1974 to provide for rehabilitation of blighted and deteriorated areas within the City's designated urban renewal area. The City Council of the City of Tualatin is the governing body of the Agency. The Agency is considered a blended component unit and, in substance, is part of the City's operations, although it is a legally separate entity.

2. Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Agency has no proprietary or fiduciary funds.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 sixty 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, as well as expenditures related to compensated absences and claims and judgments, 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. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

The Agency reports the following major governmental funds:

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 by another fund.

Central Urban Renewal District Bond Sinking Fund - accounts for resources received from property taxes within the Central Urban Renewal area for the payment of principal and interest on the Agency's tax increment bonds.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leveton Tax Increment District Bond Sinking Fund - accounts for property taxes received within the Leveton Urban Renewal area to be used for the payment of principal and interest on the Agency's tax increment debt.

Urban Renewal District Projects Fund - accounts for resources provided from the sale of tax increment bonds and interest earnings used for the acquisition and construction of capital assets within the Urban Renewal Agency's boundary.

Leveton Tax Increment District Projects Fund - accounts for the proceeds of tax or construction increment bonds which are used for the acquisition and construction of capital assets within the Urban Renewal District.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Agency has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

4. Cash and Investments

The Agency maintains a cash and investment pool that is available for use by all funds. Interest earned on pooled investments is allocated to funds based on the pro-rata amount each fund has in the pool. Each fund type's portion of this pool is displayed on the combined balance sheet as Cash and Investments.

Cash includes amounts in demand deposits, cash on hand, cash with fiscal agent and amounts in investment pools that have the general characteristics of demand deposit accounts, such as the State of Oregon Treasurer's Local Government Investment Pool.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State statutes authorize the Agency to invest in general obligations of the United States and its agencies, certain debt of Oregon municipalities, time deposits, savings accounts, certificates of deposit, bankers' acceptances, the Oregon State Treasurer's Investment Pool and certain highly rated commercial paper. Investments are stated at fair value.

5. Property Taxes Receivable

In the governmental fund financial statements, property taxes receivable, which have been collected within sixty days subsequent to year-end, are considered measurable and available and are recognized as revenues. All other property taxes receivable are offset by deferred property tax revenue and, accordingly, have not been recorded as revenue. The property tax calendar is as follows:

Lien	July 1
Levy	July 1
First Installment	November 15
Second Installment	February 15
Third Installment	May 15

6. Receivables and Payables

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

7. Pre-paid Items

Payments made to vendors that will benefit periods beyond June 30, 2004 are recorded as pre-paid items.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. roads, pathways, street lights, etc.) are reported in the applicable governmental columns in the government-wide financial statements. In the governmental fund statements, capital assets are charged to expenditures as purchased. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value as of the date of the donation.

Capital assets are defined by the Agency as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life of greater than five years. Additions or improvements and other capital outlays that significantly extended the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets and is provided on the straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Building and improvements	25 - 40
Improvements other than buildings	10 - 30
Machinery and equipment	5 - 10
Infrastructure	20 - 40

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premium and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the governmental fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The repayment of General Obligation, Urban Renewal and Redevelopment, and Limited Tax Improvement Bonds will be made from the Debt Service Funds. All other General Long-Term Debt will be repaid by the General and Debt Service Funds. All debt service payments are budgeted in the debt service category.

10. Fund Equity

Fund Balance - In the governmental fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

11. Interfund Transactions

Interfund transactions are accounted for as revenues, expenditures or expenses. Normally, reimbursements from other funds are recorded as revenues since they are budgeted as such. Some funds could not budget enough revenue to cover budgeted expenditures if this were not the case; and these funds are highly dependent on revenue from funds for which they provide services.

All other interfund transactions are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers in the governmental fund financial statements. All other interfund transfers are reported as operating transfers.

15. 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 amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes adjustments to arrive at the amounts reported on the statement of net assets the following is an explanation of those adjustments:

Governmental fund balance	\$ 15,891,403
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds.	
Land	5,184,096
Construction in progress	9,939,099
Infrastructure	965,607
Accumulated depreciation	(215,348)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred revenue in the funds	
	509,530
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
Payable within one year	(1,300,490)
Due in more than one year	(5,440,000)
	9,642,494
Net adjustment to fund balance - total governmental funds to arrive at net assets - governmental activities.	9,642,494
Government-wide statement of net assets	\$ 25,533,897

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE B - DESCRIPTION OF FUNDS AND ACCOUNT GROUPS (Continued)

B. Explanation of differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues expenditures and includes changes in fund balance includes adjustments to arrive at the amounts reported on the statement of net assets the following is an explanation of those adjustments:

Change in fund balance - total government funds	\$ (118,069)
---	--------------

Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred revenue in the funds
This adjustment reflects the change in the deferred revenue

Taxes and assessments	(14,556)
Payment received on notes	(418,000)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of assets is allocated over their estimated useful lives, and reported as depreciation

Capital outlay	5,396,132
Depreciation expense	(48,280)
Assets transferred to the City	(5,501,357)

The issuance of long-term debt provides resources to governmental fund, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Payments of long-term debt (including refunding)	6,673,775
Issuance of bonds (including refunding)	(6,962,625)
Reserves paid	548,961

Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at change in net assets of governmental activities.	(325,950)
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Change in net assets	<u>\$ (444,019)</u>
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**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE C - BUDGETARY COMPLIANCE AND ACCOUNTING

1. Budgetary Information

A budget is prepared for each governmental fund in accordance with the legal requirements as set forth in the Oregon Local Budget Law.

The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. The level of budgetary control is established by budget category (Personal Services, Materials and Services, Capital Outlay, etc.) in all funds. The legal level of control is as shown on the budget to actual schedules. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publication in newspapers and approval by the Board of Commissioners. Original and supplemental budgets may be modified by the use of appropriations transfers between the levels of control as approved by the Board of Commissioners. Agency management is authorized to make any changes to the budget within each organizational unit. Appropriations lapse as of year-end.

2. Basis of Accounting

The budgets for the governmental fund types are prepared in accordance with modified accrual basis of accounting excluding capitalized lease proceeds and related capital outlay.

NOTE D - CASH AND INVESTMENTS

Cash and investments consisted of the following:

Depository accounts	\$ (160,058)
Investments	<u>16,748,899</u>
Total	<u><u>\$ 16,588,841</u></u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE D - CASH AND INVESTMENTS (Continued)

Deposits

State statutes require that the Agency obtain from its depositories, a certificate of participation for the full amount of the Agency's deposits. The depositories are required to pledge, with an independent pool manager, securities in the Agency's name equal to twenty-five percent of the face value of the certificate of participation issued to the Agency.

The Agency's deposits and investments are categorized to give an indication of the level of risk assumed by the Agency at year end. Category 1 includes insured deposits and investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the City's name. Category 3 includes uninsured and uncollateralized deposits and uninsured and unregistered investments of which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. Uninsured and collateralized deposits are classified into these three categories depending on who holds the collateral security and how they are held.

Deposits include bank demand deposits. The carrying amount of deposits is \$(160,058). The total bank balance per the bank statements is \$30,956. Of this, \$100,000 is covered by federal depository insurance and classified as Category 1. There were no bank balances on deposit that were not entirely insured or collateralized at June 30, 2004.

Local Government Investment Pool

The Agency participates in the Oregon State Treasurer's Local Government Investment Pool (LGIP), a non-SEC regulated, open-ended, no-load diversified portfolio created under ORS 294.805 to 294.895. The LGIP is administered by the State Treasurer and the Oregon Investment Council with the advice of the Oregon Short-Term Fund Board. The Oregon State Treasurer's Office has calculated the fair value of the underlying investments of the LGIP and the Agency's share of market value is reflected below.

Investments

Investments are recorded at fair value.

State of Oregon Treasurer's Local
Government Investment Pool

\$ 16,748,899

Amounts in the state local government investment pool are not required to be categorized.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE E - RECEIVABLES

Receivables at June 30, 2004 consist of the following:

	<u>Accounts Receivable</u>	<u>Taxes Receivable</u>	<u>Interest Receivable</u>	<u>Total</u>
Central Urban Renewal District				
Bond Sinking	\$ -	\$ 96,854	\$ 101	\$ 96,955
Leveton Tax Increment Bond Sinking	-	99,853	136	99,989
Central Urban Renewal District Projects	<u>374,400</u>	<u>-</u>	<u>-</u>	<u>374,400</u>
	<u>\$ 374,400</u>	<u>\$ 196,707</u>	<u>\$ 237</u>	<u>\$ 571,344</u>

Governmental funds reported deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable - Central Urban Renewal District Bond Fund	\$ 69,732	\$ -
Property taxes receivable - Leveton Tax Increment District Bond Fund	65,398	-
Principal payments on land sales not yet due - Central Urban Renewal District Projects Fund	<u>374,400</u>	<u>-</u>
	<u>\$ 509,530</u>	<u>\$ -</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE F - INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

Amounts for interfund transfers are comprised of the following:

	Transfers from			Total
	General Fund	Central Urban Renewal District Bond Projects Fund	Leveton Tax Increment District Bond Projects Fund	
Transfers in:				
General	\$ -	\$ 200,000	\$ 183,745	\$ 383,745
Transfers out to primary government				241,361
Total transfers out				<u>\$ 241,361</u>

In the fund financial statements, total transfers out of \$625,106 are less than transfers in of \$383,745 due to transfers made to the primary government.

NOTE G - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases/ Reclassifications	Decreases/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,183,126	\$ 970	\$ -	\$ 5,184,096
Construction in progress	5,546,309	11,127,050	(6,734,260)	9,939,099
Total capital assets, not being depreciated	<u>10,729,435</u>	<u>11,128,020</u>	<u>(6,734,260)</u>	<u>15,123,195</u>
Capital assets, being depreciated:				
Improvements other than buildings	5,743,284	-	(5,743,284)	-
Infrastructure	965,607	-	-	965,607
Less accumulated depreciation for:				
Improvements other than buildings	(1,243,260)	-	1,243,260	-
Infrastructure	(167,068)	(48,280)	-	(215,348)
Total capital assets, being depreciated, net	<u>5,298,563</u>	<u>(48,280)</u>	<u>(4,500,024)</u>	<u>750,259</u>
Governmental activities capital assets, net	<u>\$ 16,027,998</u>	<u>\$ 11,079,740</u>	<u>\$ (11,234,284)</u>	<u>\$ 15,873,454</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE H - LONG-TERM DEBT

Urban renewal and redevelopment bonds

In May 2003, the Tualatin Development Commission issued \$4,700,000 in Urban Renewal Bonds with an interest rate of 2.9%. The agreement was modified in April 2004. The outstanding balance on these bonds at June 30, 2004 was \$4,085,000, with final maturity in June 2010. In April 2004, the Commission issued Urban Renewal Bonds in the amount of \$1,500,000 with an interest rate of 3.05%. The proceeds of these 2004 bonds were used for various improvement projects including Boones Ferry Road. The outstanding balance on these bonds at June 30, 2004 was \$1,500,000 with final maturity in June 2010. In addition, in April 2004, the Commission issued Urban Renewal Bonds in the amount of \$575,000 with an interest rate of 2.40%. The proceeds of these bonds were used to refund the 1987 bond series. The outstanding balance on these bonds at June 30, 2004 was \$575,000, with final maturity in June 2007. In April 2004, the Commission also issued \$440,000 in Urban Renewal Bonds with an interest rate of 2.75%. The proceeds from the bonds were used to refund the 1993 bond series. The outstanding balance on these bonds at June 30, 2004 was \$440,000, with final maturity in June 2008.

Urban Renewal and Redevelopment Bond debt service requirements to maturity are as follows:

<u>YEAR ENDING JUNE 30,</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,160,000	\$ 186,667
2006	1,190,000	157,238
2007	1,220,000	123,483
2008	1,060,000	88,875
2009	970,000	57,925
2010	1,000,000	29,405
Total	<u>\$ 6,600,000</u>	<u>\$ 643,593</u>

Loans Payable

In March 1989, the Agency borrowed \$1,000,000 at an interest rate of 5% through the State of Oregon Economic Development Department's Special Public Works Fund to finance road, water, sewer and storm drain improvements to the Leveton Tax Increment District. The outstanding balance of the loan at June 30, 2004 was \$87,570 with a final maturity of January 2005.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE H - LONG-TERM DEBT (Continued)

In July of 1989, the Agency borrowed \$1,000,000 at an interest rate of 5% through the State of Oregon Economic Development Department's Special Public work fund to finance road, water, sewer and storm drain improvements within the Leveton Tax Increment District. The outstanding balance of the loan at June 30, 2004 was \$52,920, with a final maturity of July 2004.

Both loans are to be repaid from tax increment revenues, but full faith and credit pledges back the obligations.

Loans payable debt service requirements to maturity are as follows:

<u>YEAR ENDING JUNE 30,</u>	Governmental activities	
	Principal	Interest
2005	\$ 140,490	\$ 4,620

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
Urban renewal and redevelopment bonds	\$ 6,675,000	\$ 1,500,000	\$ (1,575,000)	\$ 6,600,000	\$ 1,160,000
Total bonds payable	6,675,000	1,500,000	(1,575,000)	6,600,000	1,160,000
Loans payable	326,640	-	(186,150)	140,490	140,490
Governmental activity long-term liabilities	\$ 7,001,640	\$ 1,500,000	\$ (1,761,150)	\$ 6,740,490	\$ 1,300,490

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE H - LONG-TERM DEBT (Continued)

Advance Refunding of Debt

On April 29, 2004, The Tualatin Development Commission issued Urban Renewal Bonds to refund the 1987 bond series. Proceeds from the sale were placed in an irrevocable trust that is to be used to service the future debt requirements of the defeased debt. This refunding resulted in an economic gain as well as savings from refunding. The economic gain realized in this refunding was \$55,595 and the savings from the refunding was as follows:

Cash flow requirements to service defeased debt	\$ 1,087,338
Less: Cash flow requirements for new debt (including reserves paid)	<u>(967,511)</u>
Net savings from refunding	<u>\$ 119,827</u>

In addition, on April 29, 2004, the Commission also issued Urban Renewal Bonds to refund the 1993 bond series. Proceeds from the sale were placed in an irrevocable trust that is to be used to service the future debt requirements of the defeased debt. This refunding resulted in an economic gain as well as savings from refunding. The economic gain realized in this refunding was \$28,121 and the savings from the refunding was as follows:

Cash flow requirements to service defeased debt	\$ 713,600
Less: Cash flow requirements for new debt (including reserves paid)	<u>(651,385)</u>
Net savings from refunding	<u>\$ 62,215</u>

The trust account assets and the liability for the defeased 1987 and 1993 series bonds are not included in the City's financial statements. At June 30, 2004, \$1,565,000 of these bonds are considered defeased.

NOTE I - COMMITMENTS AND CONTINGENCIES

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Agency carries commercial insurance. There have been no settlements in excess of insurance coverage for the year ended June 30, 2004.

The Agency is a defendant in various pending litigation proceedings. Management believes any losses arising from these actions will not materially affect the Agency's financial position.

The Agency had approximately \$1,044,507 of commitments with respect to unfinished capital projects at June 30, 2004.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE J - CONSTITUTIONAL PROPERTY TAX LIMITATION

The State of Oregon has a constitutional limit on property taxes for governmental operations. Under the limit, tax revenues are separated into those for public schools and those for other local governments. The limitation specifies a maximum rate for local government operations of \$10.00 per \$1,000 of real market value. Local government taxes in the Agency currently do not exceed the \$10.00 rate limit; however, this limitation may effect the availability of future tax revenues for the Agency.

In May 1997, the voters approved Measure 50 which rolled back assessed values to 90 percent of 1995-96 levels and limits future increases to 3 percent, except for major improvements. Tax rates are now fixed and not subject to change. Voters may approve local initiatives above the fixed rate provided a majority approves at either (i) a general election in an even numbered year, or (ii) at any other election in which at least 50 percent of registered voters cast a ballot.

BUDGETARY COMPARISON SCHEDULES

Pursuant to the provisions of Oregon Revised Statute 297.465, Oregon Administrative Rule #162-010-0130, *Minimum Standards for Audits of Oregon Municipal Corporations*, requires an individual schedule of revenues, expenditures/expenses, and changes in fund balances/net assets, budget and actual be displayed for each fund where legally adopted budgets are required.

In accordance with GASB Statement #34, the Agency's General Fund and any major special revenue fund are presented as the third of the basic government fund financial statements. All other fund budgetary comparisons are displayed in the following pages as supplemental information.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
SCHEDULE OF REVENUES AND EXPENDITURES
-ACTUAL AND BUDGET (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
CENTRAL URBAN RENEWAL DISTRICT BOND SINKING FUND**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes				
Current	\$ 2,042,889	\$ 2,042,889	\$ 2,195,679	\$ 152,790
Prior	20,000	20,000	35,425	15,425
Interest	42,304	42,304	39,280	(3,024)
<u>Total revenues</u>	<u>2,105,193</u>	<u>2,105,193</u>	<u>2,270,384</u>	<u>165,191</u>
EXPENDITURES				
Materials and services	10,201	10,201	10,675	(474)
Debt service				
Principal	2,842,625	2,842,625	2,322,625	520,000
Interest	194,770	194,770	80,063	114,707
Reserve funds	1,167,321	1,167,321	369,314	798,007
<u>Total expenditures</u>	<u>4,214,917</u>	<u>4,214,917</u>	<u>2,782,677</u>	<u>1,432,240</u>
Excess of revenues over (under) expenditures	(2,109,724)	(2,109,724)	(512,293)	1,597,431
BEGINNING FUND BALANCE	<u>2,109,724</u>	<u>2,109,724</u>	<u>2,190,349</u>	<u>80,625</u>
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,678,056</u>	<u>\$ 1,678,056</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
SCHEDULE OF REVENUES AND EXPENDITURES
-ACTUAL AND BUDGET (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
LEVETON TAX INCREMENT DISTRICT BOND SINKING FUND**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes				
Current	\$ 3,400,000	\$ 3,400,000	\$ 3,212,603	\$ (187,397)
Prior	13,200	13,200	28,337	15,137
Interest	46,475	46,475	43,920	(2,555)
<u>Total revenues</u>	<u>3,459,675</u>	<u>3,459,675</u>	<u>3,284,860</u>	<u>(174,815)</u>
EXPENDITURES				
Materials and services	60,000	60,000	15,984	44,016
Debt service				
Principal	3,506,150	3,506,150	3,336,150	170,000
Interest	270,336	270,336	194,228	76,108
Reserve funds	1,940,906	1,940,906	179,647	1,761,259
<u>Total expenditures</u>	<u>5,777,392</u>	<u>5,777,392</u>	<u>3,726,009</u>	<u>2,051,383</u>
Excess of revenues over (under) expenditures	(2,317,717)	(2,317,717)	(441,149)	1,876,568
BEGINNING FUND BALANCE	<u>2,317,717</u>	<u>2,317,717</u>	<u>2,368,041</u>	<u>50,324</u>
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,926,892</u>	<u>\$ 1,926,892</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
SCHEDULE OF REVENUES AND EXPENDITURES
-ACTUAL AND BUDGET (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
CENTRAL URBAN RENEWAL DISTRICT PROJECTS FUND**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest	\$ 78,017	\$ 78,017	\$ 68,363	\$ (9,654)
Intergovernmental	17,500	17,500	17,500	-
Miscellaneous	225,120	225,120	188,277	(36,843)
Total revenues	<u>320,637</u>	<u>320,637</u>	<u>274,140</u>	<u>(46,497)</u>
EXPENDITURES				
Materials and services	90,535	90,535	28,408	62,127
Capital outlay	4,862,392	4,862,392	1,677,384	3,185,008
Contingency	500,000	500,000	-	500,000
Reserve funds	2,998,155	2,998,155	-	2,998,155
Total expenditures	<u>8,451,082</u>	<u>8,451,082</u>	<u>1,705,792</u>	<u>6,745,290</u>
Excess of revenues over (under) expenditures	<u>(8,130,445)</u>	<u>(8,130,445)</u>	<u>(1,431,652)</u>	<u>6,698,793</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	3,565,125	3,565,125	3,547,625	(17,500)
Payment received on note receivable	288,000	288,000	418,000	130,000
Operating transfers out	(273,560)	(273,560)	(273,560)	-
Total other financing sources (uses)	<u>3,579,565</u>	<u>3,579,565</u>	<u>3,692,065</u>	<u>112,500</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(4,550,880)</u>	<u>(4,550,880)</u>	<u>2,260,413</u>	<u>6,811,293</u>
BEGINNING FUND BALANCE	<u>4,550,880</u>	<u>4,550,880</u>	<u>4,753,054</u>	<u>202,174</u>
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,013,467</u>	<u>\$ 7,013,467</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
SCHEDULE OF REVENUES AND EXPENDITURES
-ACTUAL AND BUDGET (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2004
LEVETON TAX INCREMENT DISTRICT PROJECTS FUND**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest	\$ 125,174	\$ 125,174	\$ 68,426	\$ (56,748)
Miscellaneous	9,700	9,700	13,074	3,374
Total revenues	<u>134,874</u>	<u>134,874</u>	<u>81,500</u>	<u>(53,374)</u>
EXPENDITURES				
Materials and services	30,000	30,000	9,876	20,124
Capital outlay	5,490,365	5,490,365	3,718,748	1,771,617
Contingency	400,000	400,000	-	400,000
Reserve funds	2,678,835	2,678,835	-	2,678,835
Total expenditures	<u>8,599,200</u>	<u>8,599,200</u>	<u>3,728,624</u>	<u>4,870,576</u>
Excess of revenues over (under) expenditures	<u>(8,464,326)</u>	<u>(8,464,326)</u>	<u>(3,647,124)</u>	<u>4,817,202</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	2,400,000	2,400,000	2,400,000	-
Operating transfers out	(194,405)	(194,405)	(194,405)	-
Total other financing sources (uses)	<u>2,205,595</u>	<u>2,205,595</u>	<u>2,205,595</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(6,258,731)</u>	<u>(6,258,731)</u>	<u>(1,441,529)</u>	<u>4,817,202</u>
BEGINNING FUND BALANCE	<u>6,258,731</u>	<u>6,258,731</u>	<u>6,496,925</u>	<u>238,194</u>
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,055,396</u>	<u>\$ 5,055,396</u>

OTHER FINANCIAL SCHEDULES

**TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
SCHEDULE OF PROPERTY TAX TRANSACTION AND BALANCES OF TAXES UNCOLLECTED
FOR THE YEAR ENDED JUNE 30, 2004**

<u>TAX YEAR</u>	<u>ORIGINAL LEVY OR BALANCE UNCOLLECTED JULY 1, 2003</u>	<u>DEDUCT DISCOUNTS</u>	<u>ADJUSTMENTS</u>	<u>ADD INTEREST</u>	<u>CASH COLLECTIONS BY COUNTY TREASURER</u>	<u>BALANCE UNCOLLECTED OR UNSEGREGATED JUNE 30, 2004</u>
ALL FUNDS						
Current:						
2003-2004	\$ 5,679,734	\$ 142,176	\$ (32,074)	\$ 2,114	\$ 5,366,770	\$ 140,828
Prior Years:						
2002-2003	100,898	(87)	(5,169)	3,882	66,954	32,744
2001-2002	31,452	(25)	(2,635)	2,870	16,705	15,007
2000-2001	13,477	(15)	(1,725)	2,276	8,625	5,419
1999-2000	5,075	(14)	(1,374)	1,268	3,698	1,285
1998-1999 and Prior	2,343	(29)	(1,068)	369	250	1,424
	<u>153,246</u>	<u>(170)</u>	<u>(11,972)</u>	<u>10,665</u>	<u>96,231</u>	<u>55,878</u>
	<u>\$ 5,832,980</u>	<u>\$ 142,006</u>	<u>\$ (44,045)</u>	<u>\$ 12,779</u>	<u>\$ 5,463,001</u>	<u>\$ 196,706</u>

FUND DISTRIBUTION:

Revenue:						
Central Urban Renewal District Bond Sinking Fund						\$ 2,231,104
Leveton Tax Increment District Bond Sinking Fund						3,240,940
Accrual Adjustments						<u>(9,043)</u>
						<u>5,463,001</u>
Uncollected Taxes:						
Central Urban Renewal District Bond Sinking Fund						\$ 80,203
Leveton Tax Increment District Bond Sinking Fund						<u>116,504</u>
						<u>\$ 196,706</u>

**REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
REQUIRED BY STATUTES**

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
THE AGENCY'S COMPLIANCE AND CERTAIN ITEMS BASED ON AN
AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH OREGON AUDITING STANDARDS**

September 29, 2004

To the Board of Commissioners
City of Tualatin Development Commission -
The Urban Renewal Agency

We have audited the financial statements of the governmental activities and each major fund of the City of Tualatin Development Commission - The Urban Renewal Agency of the City (the Agency) (a component unit of the City of Tualatin, Oregon) as of and for the year ended June 30, 2004 and have issued our report thereon dated September 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting records and related internal control structure.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal years 2004 and 2005.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The requirements pertaining to the use of revenue from taxes on motor vehicle use fuel funds.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

