

***CITY OF TUALATIN, OREGON
DEVELOPMENT COMMISSION
AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
Year Ended June 30, 2006***

Prepared by the City of Tualatin - Department of Finance

Nancy Gritta, Finance Director

City of Tualatin
 DEVELOPMENT COMMISSION
 AUDITOR'S REPORT
 AND
 FINANCIAL STATEMENTS
 TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
City Council and Administration	
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis	2-11
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements	
Balance Sheet - Governmental Funds	14-15
Reconciliation of Government-Wide and Fund Financial Statement of Net Assets	
Statement of Revenues and Expenditures, and Changes in Fund	16
Balances - Governmental Funds	17-18
Reconciliation of Government-Wide and Fund Financial Statement of Activities	19
Statement of Revenues, Expenses, and Changes in Fund Balances	
Budget and Actual:	
General Fund	20
Notes to Financial Statements	21-33
Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balances -	
Budget and Actual:	
Central Urban Renewal District Bond Sinking	34
Leveton Tax Increment District Bond Sinking	35
Central Urban Renewal District Projects Fund	36
Leveton Tax Increment District Projects Fund	37
Other Financial Schedules	
Schedule of Property Tax Transactions and Balances of Taxes Uncollected	38
REGULATORY SECTION	
Comments of the Independent Auditor Required by State of Oregon Minimum Standards for Audits of Oregon Municipal Corporations	39-40

INTRODUCTORY SECTION

CITY OF TUALATIN, OREGON

JUNE 30, 2006

*CITY COUNCIL

TERM EXPIRES

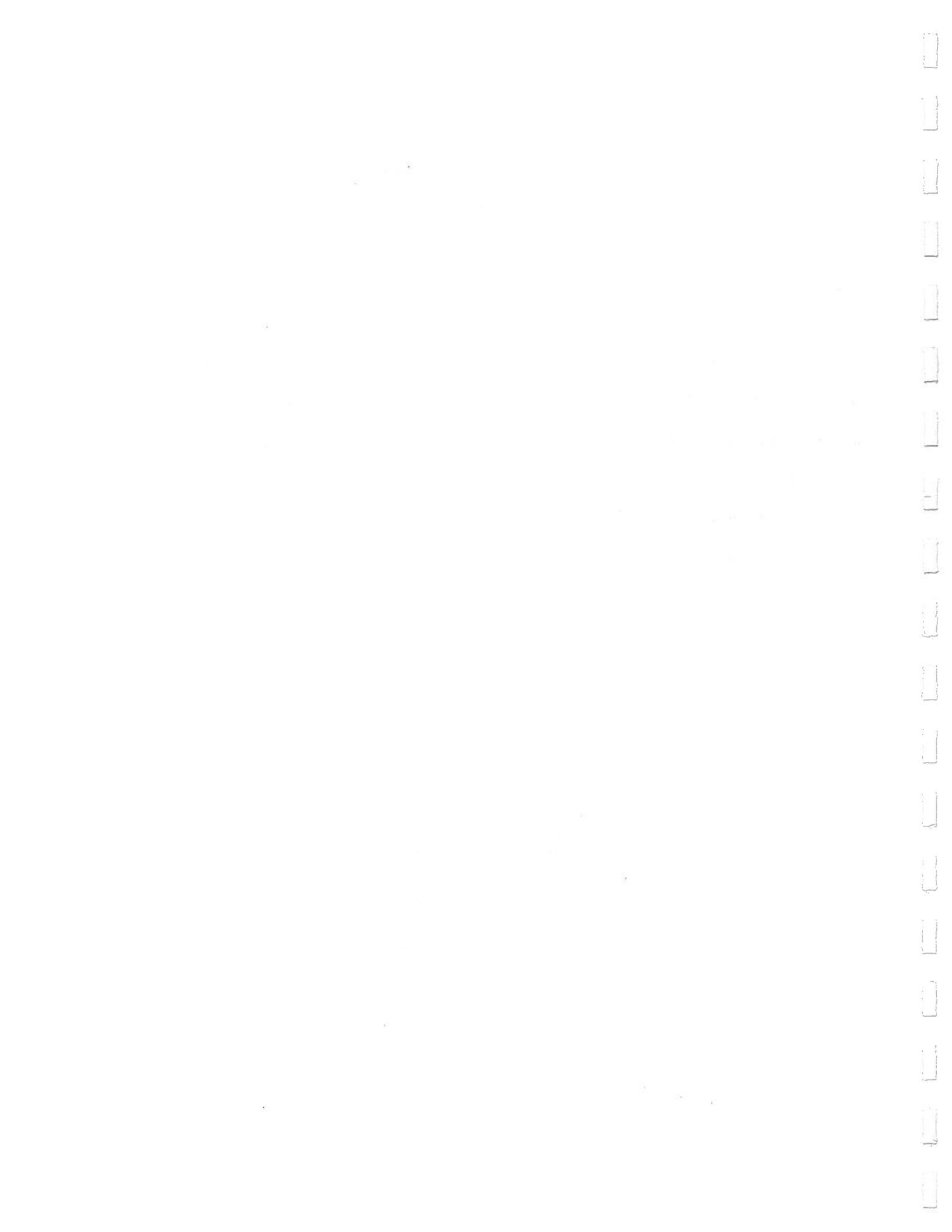
Lou Ogden, Mayor	December 31, 2006
Jay Harris, Position No. 1	December 31, 2006
Mike Gillespie, Position No. 2	December 31, 2008
Chris Bergstrom, Position No. 3	December 31, 2006
Ed Truax, Position No. 4	December 31, 2008
Chris Barhyte, Position No. 5	December 31, 2006
Bob Boryska, Position No. 6	December 31, 2008

ADMINISTRATIVE

Sherilyn Lombos, City Manager
Brenda Braden, City Attorney
Nancy Gritta, Finance Director

City Hall
18880 S. W. Martinazzi Avenue
Tualatin, Oregon 97062

*City Council members may be contacted at the above City Hall address.



FINANCIAL SECTION





GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Tualatin Development Commission – The Urban Renewal Agency
Tualatin, Oregon 97062 -0369

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 of Tualatin (a Component Unit of the City of Tualatin, Oregon) as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express 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 disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 – The Urban Renewal Agency of the City of Tualatin as of June 30, 2006 and the changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Tualatin Development Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 

Charles A. Swank, A Shareholder
October 19, 2006

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, 2006.

The purpose of this presentation is to comply with changes in governmental accounting standards (most notable, 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 \$34,781,257. Of this amount, \$392,140 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- * The government's total net assets increased by \$3,642,232. Revenues were greater in 2006 as compared to 2005; the change in net assets is primarily due to the decrease in expenditures in capital outlay in 2006. In the Leveton Project Fund construction was delayed on the Tualatin 124th to Tualatin Road Project because property acquisition has been slower than anticipated.
- * At the end of the 2006 fiscal year, unreserved fund balance for the General Fund is \$270,934 as compared to \$239,056 in 2005.
- * The Tualatin Development Commission total debt for bonds, leases, and loans decreased from \$5,440,000 in 2005 to \$4,250,000 in 2006. The decrease of debt is the result of regular payments on debt and completion of financings in previous years.

Overview of Financial Statements

These financial statements comprise three components: 1) government-wide financial statements, 2) fund 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 governments 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 group of related accounts that is used to maintain control over resources that have been segregated for specific activities of 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.

Notes to the Financial Statements

The Notes to Financial Statements are an integral part of the financial statements. These notes not only provide additional detail, but also are required to fully understand the financial data as presented, as well as the financial condition of the Tualatin Development Commission as a whole. The notes offer information not only to lay readers and citizens, but also to those interested in a detailed study of the Commission's financial operations.

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-side 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, it is a loose parallel to what average citizens understand as "owners 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. Financial statements of the City 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 statement focus on *near-term inflows and outflows*. Such information may be useful in evaluating 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 decision. Both the governmental fund balance sheet and the governmental fund statements 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 government 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.

**CITY OF TUALATIN
DEVELOPMENT COMMISSION
NET ASSETS**

June 30,

	<u>2006</u>		<u>2005</u>
Assets:			
Current and other assets	\$ 17,944,122	\$	18,424,354
Capital assets	21,414,309		18,540,772
Total Assets	39,358,431		36,965,126
Liabilities:			
Long-term liabilities outstanding	4,250,000		5,440,000
Other liabilities	327,174		386,101
Total Liabilities	4,577,174		5,826,101
Net Assets:			
Invested in capital assets, net of related debt	17,164,309		13,100,772
Restricted	2,129,579		17,677,991
Unrestricted	392,140		360,262
Total net assets	\$ 19,686,028	\$	31,139,025

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Tualatin Development Commission, assets exceeded liabilities by \$34,781,257 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.

Capital Assets 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 F in the Notes to the Financial Statement 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 2005-2006 the Central Urban Renewal District, \$3,139,633 was spent on in city center improvements and Boones Ferry Road that crosses the City at this point. The completion of approximately 65 percent of the downtown project that will be finalized in the early part of fiscal year 2006-07. Contiguous to this area of Boones Ferry Road a rail commuter train station will be constructed. This station will consist of a shelter, benches, bike facilities and public art. As part of the Washington County Commuter Rail line, this line will serve the Interstate I/5 and Highway 217 Corridor and connect with the Tri-Met MAX light rail in to Portland.

Another project in the Central District budgeted for 2005-06 was the Tualatin Commons West Project to improve Nyberg Street, 84th Avenue and Seneca Street west of the Lake of the Commons with pedestrian sidewalks, street lighting, street trees, and curb bump-outs. This project was designed to enhance pedestrian opportunities and streetscape aesthetics consistent with Tualatin Commons Enhancement Strategy. During the fiscal year \$1,257,355 was expended for this project.

In the Leveton Tax Increment District, \$375,933 was expended for the extension of 124th Avenue from Myslony street to Tualatin-Sherwood Road. This project continues improvements of the transportation system in the industrial district of Tualatin.

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 of business" and that these 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 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 which it is not a day-to-day vocation.
- * Urban Renewal projects often result in upgrades, which would have not 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.

**CITY OF TUALATIN
DEVELOPMENT COMMISSION
STATEMENT OF ACTIVITIES**

Year Ended June 30,

	<u>2006</u>		<u>2005</u>
Revenues:			
Taxes and assessments	\$ 5,423,821	\$	5,647,174
Interest	744,440		417,855
Miscellaneous	379,406		33,526
Transfers	(109,101)		(1,855)
	6,438,566		6,096,700
Expenses:			
General government	444,433		289,381
Interest	155,858		202,189
Capital outlay transferred	2,196,043		-
	2,796,334		491,570
Change in net assets	3,642,232		5,605,130
Net Assets - beginning of the year	31,139,025		25,533,895
Net Assets - ending of the year	\$ 34,781,257	\$	31,139,025

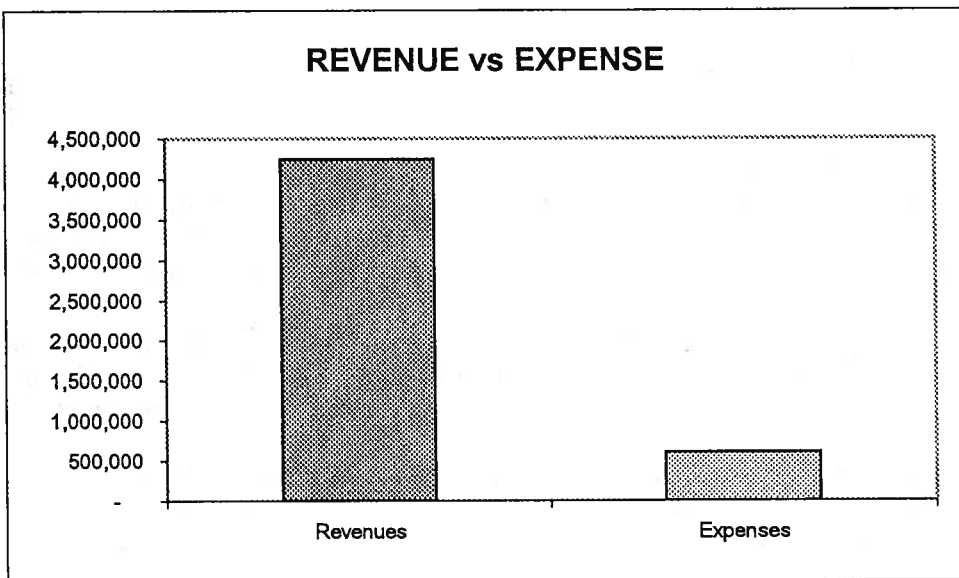
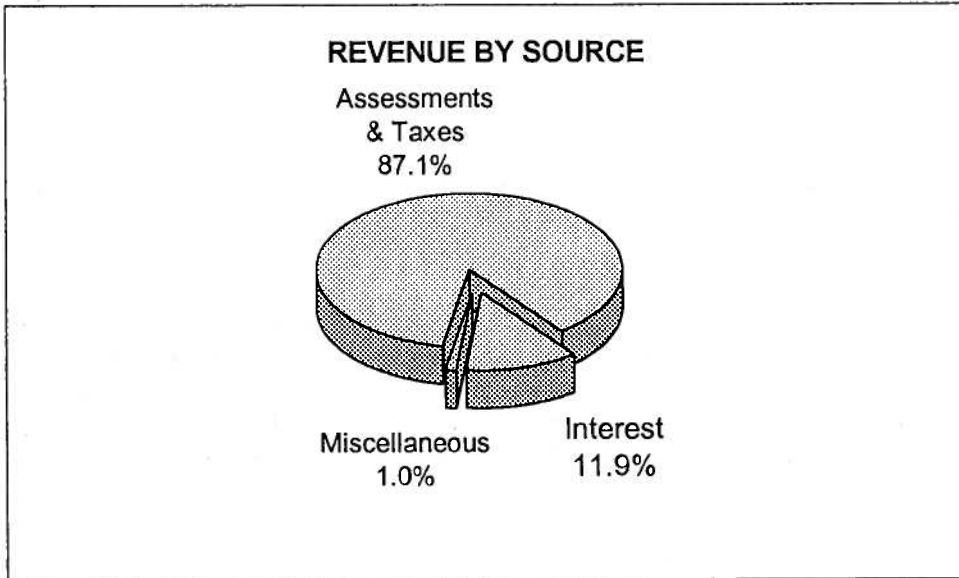
Summary of Revenues and Expenses by Source

During 2005-2006 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. Total revenues of \$6,547,667. Taxes and assessment represent \$5,423,821 or 83 percent. Tax increment revenues represent growth in taxable valuation from a predetermined frozen base.
- * Expenditures for 2005-2006 are \$600,291, of which \$155,858 is attributed to interest payments on the long-term debt.

TUALATIN DEVELOPMENT COMMISSION

GOVERNMENTAL FUNDS



Significant Differences in Variations in Revenues and Expenditure & Differences Between Actual and Budgeted Figures.

The Central Urban Renewal Projects Fund ended with an increased ending balance of \$5,933,793 down from the beginning balance of \$8,103,077, this change is primarily because of large capital expenditures in the fund for which reserves had been accumulated. Some of these expenditures had been delayed in the prior year.

The fund balance in the Leveton Tax District Project increased in 2006 to \$9,161,439 from \$6,951,391 in 2005. As Leveton Tax Increment District is approaching the end of improvements to this area of the City, this rate of expenditures has slowed. All excess funds are retained in the project fund rather than the Leveton Bond Fund at the advice of bond counsel. When the district improvements are completed, any remaining funds will be returned to the assessor's office in accordance with Oregon law.

Discussion of significant changes in Individual Fund Balances

The purpose of the Tualatin Development Commission is to build projects that revitalize areas of the City which are specified in the Leveton and Central Urban Renewal District Plans. These projects are paid for by tax increment revenues. 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

The ending fund balance in the Central Urban Renewal Bond Fund is lower in 2006 than it was in 2005 for several reasons.

- * It is the policy of the Commission to retain as little in cash as is necessary to pay current debt service and provide adequate reserves to meet bond covenant requirements and maintain financial prudence. The purpose of the capital raised by the issuance of debt is to provide for the urban renewal development, which are budgeted and paid for from the Commission's project funds.
- * There are legal ramifications in Oregon for holding excess cash in urban renewal bond funds. State broadly, if too much cash accumulated in an urban renewal bond fund, the Commission can be pressed into paying off outstanding debt and ending the relevant urban renewal district.
- * Currently all of the Development Commission's debt is held by one bank. With the refunding of Central Urban Renewal debt in 2004, the amount outstanding of this district's debt was sufficiently low, as were the bond service payments that this bank no longer required that reserves be budgeted as required.

Debt Administration

Bond activity activity for the Tualatin Development Commission illustrated below:

	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>
Urban Renewal Bonds	<u>\$ 5,440,000</u>	<u>\$ -</u>	<u>\$ (1,190,000.0)</u>	<u>\$ 4,250,000</u>

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

The Development Commission continues to use short-term bonds to move funds to the projects 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 cost of issuance are recorded in the bond funds (Central Urban Renewal Bond Fund and Leveton Bond Fund). In 2005-06 Central Urban renewal sold and redeemed one short term bond for \$1,821,000 and one for Leveton in the amount of \$2,988,483. There is no liability on the books for such bonds at year-end.

Economic Factors and Next Year's Budget

The City of Tualatin is approaching residential build-out. However, in the near term this is not a problem since other development produces greater revenue in relation to the services required. High-end retail development has been stimulated by Bridgepoint Village a 100,000 square foot life style retail center.

Three additional retail developments are under construction. The Point at Bridgeport Village will be a 49,000 square feet development. Among the tenants will be a Starbucks Coffee Shop, Bombay Restaurant, Jarod's Jewelers, and PR Store--a high end design and printing store.

Bridgepoint Commons will include an 80,000 square foot medical office, Claim Jumpers Restaurant and Whole Foods Store. Bridgepoint Commons is contiguous to Bridgepoint Village and the Point at Bridgeport. These developments, like Bridgeport Village are directly adjacent to I/5--the major north/south state freeway

In the industrial area of Tualatin, Phil Knight has announced his intention to locate a new animation and stop action antimation studio on 29 acres in Tualatin. The DPI, a company that manufactures, packages and distributes food products is developing 180,000 square foot plant in the industrial area.

The above mentioned development will increase assessed value to provide increased tax dollars in the next few years. However, it is expected that the City's growth rate will level as the City matures. This will require new sources of revenue in the future.

Request for Information

This financial report is designed to provide a general overview of the City of Tualatin Development Commission's financial activities and position.

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

BASIC FINANCIAL STATEMENTS

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
STATEMENT OF NET ASSETS
JUNE 30, 2006**

ASSETS	
Cash and investments	\$ 17,569,205
Receivables	
Taxes and assessments	184,749
Interest	582
Due from primary government funds	189,500
Due from other funds	86
Land	6,306,758
Construction in progress	1,708,553
Infrastructure	13,846,844
Accumulated depreciation	<u>(447,846)</u>
	39,358,431
LIABILITIES	
Accounts payable	146,194
Matured bonds payable	65,000
Due to other funds	640
Retainage payable	115,340
Long-term liabilities:	
Due within one year	1,220,000
Due after one year	<u>3,030,000</u>
	4,577,174
NET ASSETS	
Invested in capital, net of related debt	17,164,306
Restricted for debt services	2,129,579
Restricted for capital projects	15,095,232
Unrestricted	<u>392,140</u>
	<u>\$ 34,781,257</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

	Expenses	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:		
General government	\$ 444,433	\$ (444,433)
Interest	158,858	(155,858)
Total governmental activities	\$ 603,291	(600,291)
General Revenues:		
Taxes and assessments		5,423,821
Miscellaneous		379,406
Investment earnings		744,440
Total general revenues		6,547,667
Transfers, net		(2,305,144)
Total general revenues and transfers		4,242,523
Change in net assets		3,642,232
Net assets, beginning of year		31,139,025
Net assets, end of year		\$ 34,781,257

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 sources of revenue are interest from investments.

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

Leveton Tax Increment District Bond Sinking Fund - accounts for property taxes received within the Leveton Urban Renewal area 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 Central 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 - BALANCE SHEET
JUNE 30, 2006**

	General Fund	Central Urban Renewal District Bond Sinking Fund	Leveton Tax Increment District Bond Sinking Fund
ASSETS			
Cash and investments	\$ 279,053	\$ 680,689	\$ 1,451,022
Receivables			
Taxes and assessments		75,506	109,243
Interest	-	261	321
Due from primary government			
Due from other funds	86		
Land	-	-	-
Construction in progress	-	-	-
Infrastructure	-	-	-
Accumulated depreciation	-	-	-
Total Assets	\$ 279,139	\$ 756,456	\$ 1,560,586
LIABILITIES			
Accounts payable	\$ 7,658	\$ 630	\$ 630
Matured bond payable	-	65,000	-
Due to other funds	547	-	-
Deferred revenue	-	-	-
Long-term liabilities		65,510	95,842
Due within one year	-	-	-
Due after one year	-	-	-
Total liabilities	8,205	131,140	96,472
FUND BALANCES			
Unreserved, reported in			
General fund	270,934	-	-
Debt service funds	-	625,316	1,464,114
Capital projects funds	-	-	-
Total fund balances	270,934	625,316	1,464,114
Total liabilities and fund balances	\$ 279,139	\$ 756,456	\$ 1,560,586

See auditor's report and accompanying notes.

Central Urban Renewal District Projects Fund	Leveton Tax Increment District Projects Fund	Total	Adjustments	Statement of Net Assets
\$ 5,986,961	\$ 9,171,480	\$ 17,569,205	\$ -	\$ 17,569,205
		184,749	-	184,749
		582	-	582
189,500	-	189,500	-	189,500
		86	-	86
		-	6,306,758	6,306,758
		-	1,708,553	1,708,553
		-	13,846,844	13,846,844
		-	(447,846)	(447,846)
<u>\$ 6,176,461</u>	<u>\$ 9,171,480</u>	<u>\$ 17,944,122</u>	<u>\$ 21,414,309</u>	<u>\$ 39,358,431</u>
\$ 127,235	\$ 10,041	\$ 146,194	\$ -	\$ 146,194
-	-	65,000	-	65,000
93	-	640	-	640
115,340	-	115,340	-	115,340
-	-	161,352	(161,352)	-
-	-	-	-	-
-	-	-	1,220,000	1,220,000
		-	3,030,000	3,030,000
<u>242,668</u>	<u>10,041</u>	<u>488,526</u>	<u>4,088,648</u>	<u>4,577,174</u>
		270,934	(270,934)	-
		2,089,430	(2,089,430)	-
5,933,793	9,161,439	15,095,232	(15,095,232)	-
<u>5,933,793</u>	<u>9,161,439</u>	<u>17,455,596</u>	<u>(17,455,596)</u>	<u>-</u>
<u>\$ 6,176,461</u>	<u>\$ 9,171,480</u>	<u>\$ 17,944,122</u>	<u>\$ 21,414,390</u>	

Net Assets

Invested in capital net of related debt	17,164,306
Restricted for debt service	2,129,579
Restricted for capital projects	15,095,232
Unrestricted	392,140
Total net assets	<u>34,781,257</u>

See auditor's report and accompanying notes.



**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
RECONCILIATION OF GOVERNMENT-WIDE STATEMENT OF
NET ASSETS AND GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006**

Explanation of difference 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	\$	17,455,596
---------------------------	----	------------

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds.

Land		6,306,758
Construction in progress		1,708,553
Infrastructure		13,846,844
Accumulated depreciation		(447,846)

Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred revenue in the funds		161,352
----------------------------------------------------------------------------------------------------------------------------------	--	---------

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

Payable within one year		(1,220,000)
Due in more that one year		(3,030,000)

Government-wide statement of net assets	\$	<u>34,781,257</u>
-----------------------------------------	----	-------------------

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006**

	General Fund	Central Urban Renewal District Bond Sinking Fund	Leveton Tax Increment District Bond Sinking Fund
REVENUES			
Taxes and assessments	\$ -	\$ 2,163,691	\$ 3,219,984
Interest	11,486	104,503	145,935
Miscellaneous	(155)	-	-
Total Revenues	11,331	2,268,194	3,365,919
EXPENDITURES			
Current			
General government	218,762	5,265	7,600
Debt service			
Principal	-	430,000	760,000
Interest	-	46,036	109,822
Reserves	-	-	-
Capital Outlay	-	-	-
Total Expenditures	218,762	481,301	877,422
Excess (deficiency) of revenues and other financing sources over expenditures	(207,431)	1,786,893	2,488,497
OTHER FINANCING SOURCES (USES)			
Issuance of short-term debt	-	-	-
Repayment of short-term debt	-	(1,821,000)	(2,988,483)
Transfers in	406,020	-	-
Transfers out	(166,711)	-	-
Total other financing sources and (uses)	239,309	(1,821,000)	(2,988,483)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	31,878	(34,107)	(499,986)
Fund balance / net assets			
Beginning of the year	239,056	659,423	1,964,100
End of the year	\$ 270,934	\$ 625,316	\$ 1,464,114

See auditor's report and accompanying notes.

Central Urban Renewal District Projects Fund	Leveton Tax Increment District Projects Fund	Total Governmental Funds	Adjustments	Statement Activities
\$ -	\$ -	\$ 5,383,675	\$ 40,146	\$ 5,423,821
234,930	247,586	744,440		744,440
375,800	3,761	379,406		379,406
610,730	251,347	6,507,521	40,146	6,547,667
9,147	78	240,852	203,581	444,433
-		1,190,000	(1,190,000)	-
-		155,858		155,858
-		-		-
4,456,657	816,504	5,273,161	(5,273,161)	-
4,465,804	816,582	6,859,871	(6,259,580)	600,291
(3,855,074)	(565,235)	(352,350)	6,299,726	5,947,376
1,821,000	2,988,483	4,809,483	(4,809,483)	-
-	-	(4,809,483)	4,809,483	-
189,500	-	595,520	-	595,520
(324,710)	(213,200)	(704,621)	(2,196,043)	(2,900,664)
1,685,790	2,775,283	(109,101)	(2,196,043)	(2,305,144)
(2,169,284)	2,210,048	(461,451)	4,103,683	3,642,232
8,103,077	6,951,391	17,917,047	13,221,978	31,139,025
\$ 5,933,793	\$ 9,161,439	\$ 17,455,596	\$ 17,325,661	\$ 34,781,257

See auditor's report and accompanying notes.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Explanation of difference 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 changes in fund balance includes adjustment to arrive at the amounts reported on the statement of net assets the following is an explanation of those adjustments.

Changes in fund balance - total government funds	\$	(461,451)
<p>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.</p>		
Taxes and assessments		40,146
<p>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</p>		
Capital outlay		5,273,161
Depreciation expense		(203,581)
Transfer of capital assets to the City		(2,196,043)
<p>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 fund. Neither transaction, however, has any effect on net assets.</p>		
Payments of long-term debt		1,190,000
Change in net assets	\$	<u>3,642,232</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
STATEMENT OF REVENUES AND EXPENDITURES
- ACTUAL AND BUDGET (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2006
GENERAL FUND**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 6,092	\$ 6,092	\$ 11,486	\$ 5,394
Miscellaneous	-	-	(155)	(155)
Total revenues	6,092	6,092	11,331	5,239
EXPENDITURES				
Materials and service	267,330	274,397	218,762	55,635
Capital outlay	-	-	-	-
Contingency	181,077	174,010	-	174,010
Total expenditures	448,407	448,407	218,762	229,645
Excess of revenues over (under) expenditures	(442,315)	(442,315)	(207,431)	234,884
OTHER FINANCING SOURCES (USES)				
Transfers in	406,020	406,020	406,020	-
Transfers out	(166,711)	(166,711)	(166,711)	-
Total Other financing sources (uses)	239,309	239,309	239,309	-
Excess of revenues and other sources over (under) expenditures and other uses	(203,006)	(203,006)	31,878	234,884
BEGINNING FUND BALANCE	203,006	203,006	239,056	36,050
ENDING FUND BALANCE	\$ -	\$ -	\$ 270,934	\$ 270,934

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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 activities of the Agency). For the most part, the effect of interfund activity has been removed from these statements.

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.

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

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

**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 statement are reported suing 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 account. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment, are recorded only when payment is due.

The Agency reports the following major governmental funds:

The General Fund

Central Urban Renewal District Bond Sinking Fund

Leveton Tax Increment District Bond Sinking Fund

Central Urban Renewal District Projects Fund

Leveton Tax Increment District Projects Fund

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

4. Cash and Investments

The Agency maintains a cash and investment pool with the City of Tualatin 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.

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 deposits, 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

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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

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"). Activity between Tualatin Development Commission and other governments are entitled "due to/from other governments.

7. Pre-paid Items

Payments made to vendors that will benefit periods beyond June 30, 2006 are recorded as pre-paid items.

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 donations.

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 year. Additions or improvements and other capital outlays that significantly extend 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 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 life:

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

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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

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 government activities. Bond premium and discounts are defined and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

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.

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. Uses 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 estimated.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE B - BUDGETARY COMPLIANCE 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 appropriation 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 C - CASH AND INVESTMENTS

Cash and investments consisted of the following:

Depository accounts (deposit in transit)	\$	(256,088)
Investments		<u>17,825,293</u>
Total	\$	<u>17,569,205</u>

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.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE C - CASH AND INVESTMENTS (Continued)

Local Government Investment Pool

The agency participated 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. The Agency has the right to access amounts on deposit in the pool on demand.

Investments

Investments are recorded at fair value.

State of Oregon Treasurers' Local Government Investment Pool	<u>\$ 17,285,293</u>
-----------------------------------------------------------------	----------------------

Custodial credit risk

Deposits include bank demand deposits. The carrying amount of deposits is \$(256,088) (deposit in transit). The total bank balance per the bank statements is \$37,780. The full amount, \$37,780, is covered by federal depository insurance and certificates of participation that are held by third parties in the Agency's name. Bank balances on deposit exceed insured or collateralized amount on one mo more days during the period of July 1, 2005 to June 30, 2006.

Interest rate risk

The Agency does not have a specific policy covering interest rate risk. However, its risk exposure is mitigated by use of demand deposit accounts and the Local Government Investment Pool that allows withdrawals upon demand.

Credit risk

The Agency follow state law which specifies the allowable depositories and investments.

Concentration of credit risk

The Agency does not have a formal policy covering concentration of credit risk. However, this risk is mitigated by the types of depository and investments currently used.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE D - RECEIVABLES

Receivables at June 30, 2006 consist of the following:

	Property Taxes Receivable
Central Urban Renewal District Bond Fund	\$ 75,506
Leveton Tax Increment Bond Fund	109,243
	\$ 184,749

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 year 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:

	Unavailable
Property taxes receivable - Central Urban Renewal District Bond Fund	\$ 65,510
Property taxes receivable - Leveton Tax Increment District Bond Fund	95,842
	\$ 161,352

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE E - INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

Amounts for interfund receivables and interfund payables due to/from the primary government funds are comprised of the following:

	Interfund Receivable	Interfund Payables
Governmental Activities:		
Urban Renewal Fund	\$ 86	\$ 190,047
Central Urban Renewal District Project Fund	189,500	93
	\$ 189,586	\$ 190,140

All interfund transfers were part of routine transactions. Amounts for inter fund transfers are comprised of the following:

	Transfers from			
	General Fund	Central Urban Renewal District Bond Project Fund	Leveton Tax Increment District Bond Projects Fund	
Transfer in:				
General	\$ -	\$ 204,020	\$ 202,000	\$ 406,020
Transfers in from primary government				\$ 59,500
Transfers out to primary government				\$ 100,000
Capital assets transferred to City of Tualatin				\$ 2,196,043

In the fund financial statements, total transfers out do not equal transfers in due to transfer made with the primary government.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE F - CAPITAL ASSETS

Capital asset activity for the ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases/ Reclassifications</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 5,184,096	\$ 2,007,877	\$ (885,215)	\$ 6,306,758
Construction in progress	9,425,967	3,244,099	(10,961,513)	1,708,553
Total capital assets, not being depreciated	14,610,063	5,251,976	(11,846,728)	8,015,311
Capital assets, being depreciated:				
Improvement other than buildings	490,625	32,705	(16,354)	506,976
Infrastructure	3,684,349	9,655,519	-	13,339,868
Less accumulated depreciation for:				
Infrastructure	(244,265)	(203,581)		(447,846)
Total capital assets, being depreciated net	3,930,709	9,484,643	(16,354)	13,398,998
Governmental activities capital assets, net	<u>\$18,540,772</u>	<u>\$ 14,736,619</u>	<u>\$ (11,863,082)</u>	<u>\$ 21,414,309</u>

NOTE G - LONG-TERM DEBT

Urban renewal and redevelopment bond

Outstand Central Urban renewal bonds include the 2004 Bond which consists of two parts: Part A refunded the 1987 Bond which paid for land acquisition, relocation and clearance for the town center, outstanding balance on these bonds at June 30, 2006 was \$195,000 with an interest rate of 2.4% and final maturity in June 2007; Part B, the 2004 Project Bond, financed Boones Ferry Phase 1, utility underground, transportation, and streetscape improvements - this provided new funds. The outstanding balance on these bonds at June 30, 2006 was \$1,030,000 with an interest rate of 3.05% and final maturity in June 2010. In as much as the 1987 bonds were refunded, the reserve requirements associated with them are no longer in effect. The 2004 Series is not secured by a reserve and although a special levy could be imposed, if needed to pay for the debt, all tax increment projections indicate it will not be necessary.

Remaining debt for the Leveton District includes the 2004 Refunding Bond with a balance of \$225,000 as of June 30, 2006. The bond has an interest rate of 2.75% and final maturity in June 2008. Also included is the Intermediate Financing (original amount of \$4,085,000) with an outstanding balance of \$2,800,000 at June 30, 2006. The bond has interest rate of 2.9% and final maturity in June 2010. The proceeds from this financing are being used for improvements of infrastructure at 124th from S.W. Leveton to S.W. Myslony.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE G - LONG-TERM DEBT (Continued)

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Urban Renewal and Redevelopment Bonds	\$ 5,440,000	\$ -	\$ (1,190,000)	\$ 4,250,000	\$ 1,220,000
Short-term bonds	-	4,809,483	(4,809,483)	-	-
Total	<u>\$ -</u>	<u>\$ 4,809,483</u>	<u>\$ (4,809,483)</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE G - LONG-TERM DEBT (Continued)

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

<u>YEAR ENDING JUNE 30, 2006</u>	Governmental activities	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,220,000	\$ 123,483
2008	1,060,000	88,875
2009	970,000	57,925
2010	<u>1,000,000</u>	<u>29,405</u>
Total	<u>\$ 4,250,000</u>	<u>\$ 299,688</u>

Short-term Bonds

The Agency, by state law, is financed with property tax increment revenues, and the projects within them are limited by a cap on the amount of debt that can be issued. Many urban renewal agencies in Oregon issue long-term debt in the amount of the cap, and construct improvements over a short period of time. The improvements generate additional 'tax-increment' property tax revenues in future periods which provide the resources necessary to repay the debt. The debt issued is reported in the governmental funds as a resource in the 'other financing sources' section of the statement of revenues, expenditures, and changes in fund balance. Reporting the debt issued as an 'other financing source' provides the necessary reporting for state law purposes of the amount of debt issued to show legal compliance with the urban renewal district's debt issuance limit.

The Agency, among many other urban renewal districts in Oregon, chooses to construct projects in phases over several years as opposed to constructing nearly all projects at one time. As a result, the Agency issues several small bonds in amounts sufficient to cover each phase of construction. The Agency is fortunate to already have sufficient tax increment revenues to repay these small bond issuances annually. To take advantage of significant interest cost reductions, the Agency issues short-term 'du-jour' bonds and redeems them within days of issuance. Since it is the Agency's option to issue long-term or short-term debt, and given the need to provide a reporting mechanism of all debt issued up to the state legal debt issuance limit, the Agency believes it is appropriate to report the short-term debt issuances within the 'other financing sources' section in the governmental fund statement of revenues, expenditures, and changes in fund balance.

**CITY OF TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE H - 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, 2006.

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 \$1,042,639 of commitments for unfinished capital projects at June 30, 2006.

NOTE I - 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 affect 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 improvement. 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 STATEMENTS

Pursuant to the provision of Oregon Revised Statute 297.465, Oregon Administrative Rule No. 162-040-0130, *Minimum Standards for Audits of Oregon Municipal Corporations*, requires an individual schedule of revenues, expenditures/expenses, and changed in fund balances/net asset, budget and actual be displayed for each fund where legally adopted budgets are required.

In accordance with GASB Statement No. 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 comparison are displayed in the following pages as supplemental information.

**SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS**

Debt Service Funds

- * Central Urban Renewal District Bond Sinking
- * Leveton Tax Increment District Bond Sinking

Capital Project Funds

- * Central Urban Renewal District Projects
- * Leveton Tax Increment District Projects

**CITY OF TUALATIN DEVELOPMENT COMMISSION
SCHEDULE OF REVENUES AND EXPENDITURES
- ACTUAL AND BUDGET (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2006
CENTRAL URBAN RENEWAL DISTRICT BOND SINKING FUND**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes				
Current	\$ 2,266,000	\$ 2,266,000	\$ 2,119,892	\$ (146,108)
Prior	20,000	20,000	43,799	23,799
Interest	15,874	15,874	104,503	88,629
Total revenues	2,301,874	2,301,874	2,268,194	(33,680)
EXPENDITURES				
Materials and services	10,509	10,509	5,265	5,244
Debt service				
Principal	430,000	430,000	430,000	-
Interest	47,495	47,495	46,036	1,459
Reserve funds	503,655	503,655	-	503,655
Total expenditures	991,659	991,659	481,301	510,358
Excess of revenues over (under) expenditures	1,310,215	1,310,215	1,786,893	476,678
OTHER FINANCING SOURCES (USES)				
Repayment of short-term debt	(1,821,000)	(1,821,000)	(1,821,000)	-
BEGINNING FUND BALANCE	510,785	510,785	659,423	148,638
ENDING FUND BALANCE	\$ -	\$ -	\$ 625,316	\$ 625,316

**CITY OF TUALATIN DEVELOPMENT COMMISSION
SCHEDULE OF REVENUES AND EXPENDITURES
- ACTUAL AND BUDGET (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2006
LEVETON TAX INCREMENT DISTRICT BOND SINKING FUND**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes				
Current	\$ 3,315,604	\$ 3,315,604	\$ 3,160,348	\$ (155,256)
Prior	13,400	13,400	59,636	46,236
Interest	53,687	53,687	145,935	92,248
Total revenues	<u>3,382,691</u>	<u>3,382,691</u>	<u>3,365,919</u>	<u>(16,772)</u>
EXPENDITURES				
Materials and services	10,251	10,251	7,600	2,651
Debt service				
Principal	760,000	760,000	760,000	-
Interest	111,263	111,263	109,822	1,441
Reserve funds	1,283,932	1,283,932	-	1,283,932
Total expenditures	<u>2,165,446</u>	<u>2,165,446</u>	<u>877,422</u>	<u>1,288,024</u>
Excess of revenues over (under) expenditures	1,217,245	1,217,245	2,488,497	1,271,252
OTHER FINANCING SOURCES (USES)				
Repayment of short-term debt	(2,988,483)	(2,988,483)	(2,988,483)	-
BEGINNING FUND BALANCE	<u>1,771,238</u>	<u>1,771,238</u>	<u>1,964,100</u>	<u>192,862</u>
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,464,114</u>	<u>\$ 1,464,114</u>

**CITY OF TUALATIN DEVELOPMENT COMMISSION
SCHEDULE OF REVENUES AND EXPENDITURES
- ACTUAL AND BUDGET (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2006
CENTRAL URBAN RENEWAL DISTRICT PROJECTS FUND**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Interest	\$ 194,553	\$ 194,553	\$ 234,930	\$ 40,377
Miscellaneous	-	-	375,800	375,800
Total revenues	194,553	194,553	610,730	416,177
EXPENDITURES				
Materials and services	21,851	21,851	9,147	12,704
Capital outlay	5,753,391	5,753,391	4,456,657	1,296,734
Contingency	562,403	562,403	-	562,403
Reserve funds	2,194,017	2,194,017	-	2,194,017
Total expenditures	8,531,662	8,531,662	4,465,804	4,065,858
Excess of revenues over (under) expenditures	(8,337,109)	(8,337,109)	(3,855,074)	4,482,035
OTHER FINANCING SOURCES (USES)				
Issuance of short-term debt	1,821,000	1,821,000	1,821,000	-
Transfers in	189,500	189,500	189,500	-
Transfers out	(392,307)	(392,307)	(324,710)	67,597
Total Other financing sources (uses)	1,618,193	1,618,193	1,685,790	67,597
Excess of revenues and other sources over (under) expenditures and other uses	(6,718,916)	(6,718,916)	(2,169,284)	4,549,632
BEGINNING FUND BALANCE	6,718,916	6,718,916	8,103,077	1,384,161
ENDING FUND BALANCE	\$ -	\$ -	\$ 5,933,793	\$ 5,933,793

**CITY OF TUALATIN DEVELOPMENT COMMISSION
SCHEDULE OF REVENUES AND EXPENDITURES
- ACTUAL AND BUDGET (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2006
LEVETON TAX INCREMENT DISTRICT PROJECTS FUND**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Interest	\$ 162,646	\$ 162,646	\$ 247,586	\$ 84,940
Miscellaneous	4,850	4,850	3,761	(1,089)
Total revenues	<u>167,496</u>	<u>167,496</u>	<u>251,347</u>	<u>83,851</u>
EXPENDITURES				
Materials and services	10,303	10,303	78	10,225
Capital outlay	6,597,959	6,597,959	816,503	5,781,456
Contingency	453,000	453,000	-	453,000
Reserve funds	1,579,049	1,579,049	-	1,579,049
Total expenditures	<u>8,640,311</u>	<u>8,640,311</u>	<u>816,582</u>	<u>7,823,729</u>
Excess of revenues over (under) expenditures	<u>(8,472,815)</u>	<u>(8,472,815)</u>	<u>(565,234)</u>	<u>7,907,581</u>
OTHER FINANCING SOURCES (USES)				
Issuance of short-term debt	2,988,483	2,988,483	2,988,483	-
Transfers out	(213,200)	(213,200)	(213,200)	-
Total other financing sources (uses)	<u>2,775,283</u>	<u>2,775,283</u>	<u>2,775,283</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	(5,697,532)	(5,697,532)	2,210,048	7,907,580
BEGINNING FUND BALANCE	<u>5,697,532</u>	<u>5,697,532</u>	<u>6,951,391</u>	<u>1,253,859</u>
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,161,439</u>	<u>\$ 9,161,439</u>

OTHER FINANCIAL SCHEDULES

**TUALATIN DEVELOPMENT COMMISSION
THE URBAN RENEWAL AGENCY OF THE CITY
SCHEDULE OF PROPERTY TAX TRANSACTION AND BALANCES OF TAXES UNCOLLECTED
YEAR ENDED JUNE 30, 2006**

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED JULY 1, 2005	DEDUCT DISCOUNTS	ADJUSTMENTS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED JUNE 30, 2006
ALL FUNDS						
Current:						
2005-2006	\$ 5,556,927	\$ (140,577)	\$ (25,517)	\$ 2,116	\$ (5,284,523)	\$ 108,426
Prior years:						
2004-2005	125,862	233	(4,066)	5,998	97,603	225,630
2003-2004	35,884	22	(1,809)	3,538	22,607	60,242
2002-2003	12,220	17	(823)	2,165	9,141	22,720
2001-2002	4,592	13	(467)	1,216	4,149	9,503
2000-2001 and Prior	2,866	2	(948)	310	398	2,628
	<u>181,424</u>	<u>287</u>	<u>(8,112)</u>	<u>13,226</u>	<u>133,898</u>	<u>320,723</u>
	<u>\$ 5,738,351</u>	<u>\$ (140,290)</u>	<u>\$ (33,629)</u>	<u>\$ 15,342</u>	<u>\$ (5,150,625)</u>	<u>429,148</u>
Cash with County						<u>23,397</u>
Tax receivable						<u>\$ 452,545</u>
Uncollected taxes:						
Central Urban Renewal District Bond Sinking Fund				65,944	9,562	75,506
Leveton Tax Increment District Bond Sinking Fund				95,408	13,835	109,243
				<u>161,352</u>	<u>23,397</u>	<u>\$ 184,749</u>

REGULATORY SECTION

CITY OF TUALATIN URBAN RENEWAL AGENCY
COMMENTS OF THE INDEPENDENT AUDITOR REQUIRED BY STATE OF OREGON MINIMUM
STANDARDS FOR AUDITS OF OREGON MUNICIPAL CORPORATIONS
YEAR ENDED JUNE 30, 2006

State of Oregon Compliance Section

Oregon Administrative Rules 162-10-000 through 162-16-000 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in annual financial reports. Required comments and disclosures related to our audit of such financial statements and schedules are set forth on the following pages.

Significant Accounting Policies

The significant accounting policies followed in preparing the Agency's financial statements are summarized in the notes to the financial statements.

Organization and Fund Structure

The organization and fund structure of the Agency is documented on the title page and in the notes to the financial statements.

Internal Accounting Control and Accounting Records

We have audited the fund financial statements of the City of Tualatin Urban Renewal Agency as of and for the year ended June 30, 2006, and have issued our report thereon dated October 19, 2006. As part of our audit, we made a study and evaluation of accounting systems and controls as required by auditing standards generally accepted in the United States of America. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Agency's fund financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control of the Agency taken as a whole. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

Adequacy of Collateral Securing Depository Balances

Oregon Revised Statutes Chapter 295 requires that each depository throughout the period of its possession of public fund deposits shall maintain on deposit with its custodians, at its own expense, securities having a value not less than 25% of the certificates of participation issued by the pool manager for funds in excess of those insured by the Federal Deposit Insurance Corporation. Our review of the adequacy of collateral securing depository balances indicated the collateral was not sufficient at times for the year ended June 30, 2006.

Investments

Our review of deposit and investment balances indicated that, during the year ended June 30, 2006, the Agency was in compliance with ORS 295, as it pertains to investment of public funds.

Budget Compliance

The Agency appears to have complied with Local Budget Law (ORS 294.305 to 294.520) in the preparation and adoption of its budget and tax levy for the years ending June 30, 2006 and 2007. A description of the budgeting process is in the notes to the financial statements.

CITY OF TUALATIN URBAN RENEWAL AGENCY
COMMENTS OF THE INDEPENDENT AUDITOR REQUIRED BY STATE OF OREGON MINIMUM
STANDARDS FOR AUDITS OF OREGON MUNICIPAL CORPORATIONS (Continued)
YEAR ENDED JUNE 30, 2006

Insurance Policies and Fidelity Bonds

We have reviewed the Agency's insurance and fidelity bond coverage at June 30, 2006. We ascertained that such policies appeared to be in force and comply with legal requirements relating to insurance and fidelity bond coverage. We are not competent by training to comment on the adequacy of the insurance policies.

Public Contracts

The Agency's procedures for awarding public contracts were reviewed and found to be in accordance with ORS Chapter 279.

Programs Funded From Outside Sources

We have reviewed the Agency's compliance with appropriate laws, rules and regulations pertaining to programs funded wholly or partially by the other governmental agencies. The Agency is in compliance with the guidelines in all material respects.

Financial Reporting Requirements

We have reviewed financial reports and other data relating to programs funded wholly or partially by other governmental agencies. This data, filed with other governmental agencies, is in agreement with and supported by the accounting records.

Schedule of Accountability of Independently Elected Officials

There are no elected Agency officials who collect or receive funds on behalf of the Agency.

This report is intended solely for the information and use of the City Council and management of the City of Tualatin and is not intended and should not be used by anyone other than those specified parties.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 

Charles A. Swank, A Shareholder

October 19, 2007