



Home of the Tualatin River National Wildlife Refuge

URBAN RENEWAL AGENCY
OF THE CITY OF SHERWOOD, OREGON
(A COMPONENT UNIT OF THE CITY OF SHERWOOD, OREGON)

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**URBAN RENEWAL AGENCY
OF THE CITY OF SHERWOOD, OREGON**
(A component unit of the City of Sherwood, Oregon)

Annual Financial Report

Year Ended June 30, 2012

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

**AGENCY OFFICIALS
JUNE 30, 2012**

<u>Name</u>	BOARD CHAIR	<u>Term End Date</u>
Keith Mays 23237 SW Pine Sherwood, Oregon 97140		December 31, 2012
BOARD MEMBERS		
Linda Henderson 14715 SW Brooke Court Sherwood, Oregon 97140		December 31, 2012
Krisanna Clark 23854 SW Aldergrove Avenue Sherwood, Oregon 97140		December 31, 2012
Robyn Folsom 15587 SW Oriole Court Sherwood, Oregon 97140		December 31, 2012
Dave Grant 14845 SW Brooke Court Sherwood, Oregon 97140		December 31, 2014
Matt Langer 21315 SW Baler Way Sherwood, Oregon 97140		December 31, 2014
Bill Butterfield 23614 SW Heron Lakes Drive Sherwood, Oregon 97140		December 31, 2014

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

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**Talbot, Korvola
& Warwick, LLP**

Certified Public Accountants
& Consultants

4800 Meadows Road, Suite 200
Lake Oswego, Oregon 97035-4293

P 503.274.2849
F 503.274.2853

www.tkw.com

INDEPENDENT AUDITOR'S REPORT

November 29, 2012

Board Members

Urban Renewal Agency of the City of Sherwood, Oregon
(A component unit of the City of Sherwood, Oregon)
Sherwood, Oregon

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Urban Renewal Agency of the City of Sherwood, Oregon, (the Agency), a component unit of the City of Sherwood, Oregon, as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to

INDEPENDENT AUDITOR'S REPORT (Continued)

Board Members
Urban Renewal Agency of the City of Sherwood, Oregon
(A component unit of the City of Sherwood, Oregon)
Page 2

the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying budgetary comparison information for the Urban Renewal Operations Fund, as listed in the Table of Contents as Required Supplementary Information, is not a required part of the basic financial statements and is presented for purposes of additional analysis as required by the Governmental Accounting Standards Board, who considers it to be an essential part of basic financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing procedures generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The other schedules, listed in the Table of Contents as Other Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By  _____
Robert G. Moody, Jr., Partner

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

This discussion and analysis of the Urban Renewal Agency of the City of Sherwood's *Annual Financial Report* for the fiscal year ended June 30, 2012 presents the highlights of financial activities and financial position for the Agency for the year ended June 30, 2012 ("FY12"). It has been prepared by management and should be read in conjunction with the financial statements and notes.

1. FINANCIAL HIGHLIGHTS

The Agency's net assets increased by \$1.9 million during the fiscal year ended June 30, 2012. This reduced the Agency's deficit in net assets from \$9.9 million to \$8.0 million.

Net assets on June 30, 2012 consisted of \$15.3 million in assets and \$23.3 million in liabilities. The deficit in net assets reflects the nature of the Agency: the Agency borrows money for projects and the completed projects are transferred to City ownership.

Of the (\$8.0 million) in net assets, \$3.1 million is restricted, \$1.7 million is unrestricted, and (\$12.8 million) is invested in capital assets, net of related debt.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction and summary of the Agency's financial statements. It is followed by the financial statements themselves, which consist of four elements:

1. Government-Wide Financial Statements
 - a. Statement of Net Assets
 - b. Statement of Activities
2. Fund Financial Statements – Governmental Funds
 - a. Balance Sheet
 - b. Statement of Revenues, Expenditures and Changes in Fund Balance
3. Notes to Financial Statements
4. Required Supplemental Information and Other Supplementary Information

The Government Wide Financial Statements are designed to provide the reader with a broad overview of the Agency's finances, in a manner similar to a private-sector business. These statements include all assets of the Agency (including infrastructure such as streets, buildings, etc.) as well as all liabilities.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as "Net Assets." Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2012

2. OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The Statement of Activities presents information showing how the Agency'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 change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will result in cash inflows or outflows in a future fiscal period.

Fund financial statements – 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 Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for activities where the emphasis is placed on available financial resources, rather than upon net asset determination. Therefore, unlike the government-wide financial statements, governmental fund financial statements focus on the acquisition and use of current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Agency's near-term requirements.

Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for the 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 financial decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance are accompanied by reconciliations to facilitate this comparison between governmental funds and governmental activities.

Notes to basic financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide fund financial statements. They are an integral part of the basic financial statements and should be read in conjunction with them.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2012

3. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets (below) shows the Agency's net assets as of the end of the last two fiscal years. The deficit in Net Assets decreased by \$1.9 million during FY12.

Statement of Net Assets

	<u>2012</u>	<u>2011</u>
ASSETS:		
Cash and investments	\$ 2,872,892	\$ \$ 4,337,301
Restricted Cash	826,800	-
Receivables, net	1,419,887	155,196
Capital assets	<u>10,227,368</u>	<u>7,608,606</u>
TOTAL ASSETS	<u>15,346,947</u>	<u>12,101,103</u>
LIABILITIES:		
Current liabilities	1,171,272	2,146,508
Long-term obligations:	22,172,906	19,842,218
TOTAL LIABILITIES	<u>23,344,178</u>	<u>21,988,726</u>
NET ASSETS:		
Invested in capital assets, net of related debt	(11,993,021)	(12,715,079)
Restricted	3,078,268	2,269,126
Unrestricted	<u>917,522</u>	<u>558,330</u>
TOTAL NET ASSETS	<u>(7,997,231) \$</u>	<u>(9,887,623)</u>

Total deficit net assets decreased by \$1.9 million relative to the prior year. This change is due to the following factors:

- \$2.6 million increase in capital assets from construction projects
- \$1.0 million decrease in current liabilities from the early payoff of four loans
- \$0.6 million decrease in cash related to the early payoff of loans
- \$2.3 million net increase in long term liabilities (debt)
- \$1.1 million net increase in receivables for reimbursement of loan proceeds

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2012

3. GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

The Statement of Activities (below) presents the changes in net assets by detailing the revenues and expenses for the Fiscal Years 2012 and 2011.

Statement of Activities

	<u>2012</u>	<u>2011</u>
REVENUES		
Property taxes	\$ 3,260,460	\$ 3,094,966
Miscellaneous	6,866	94,727
Interest Earnings	24,650	-
Intergovernmental	-	2,717,815
TOTAL REVENUES	<u>3,291,976</u>	<u>5,907,508</u>
EXPENSES:		
Administration	531,693	-
Community Development	39,500	172,528
Community Services	4,696	-
Public Works	3,087	-
Interest on long term debt	822,608	1,153,643
TOTAL EXPENSES	<u>1,401,584</u>	<u>1,326,171</u>
CHANGE IN NET ASSETS	1,890,392	4,581,337
BEGINNING NET ASSETS	<u>(9,887,623)</u>	<u>(14,468,960)</u>
NET ASSETS as of June 30, 2012	<u>\$ (7,997,231)</u>	<u>\$ (9,887,623)</u>

Operating revenue exceeded expenditures by \$1.9 million in FY12 resulting in a decrease in the reported deficit in net assets.

Expenses increased significantly this year as the Agency underwent a major plan amendment and received increased scrutiny and financial analysis. Allocation of expenditures was also changed this year to a program basis.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2012

4. CAPITAL ASSETS

At June 30, 2012, the Agency had \$10,227,368 invested in capital assets as compared to \$7,608,606 at June 30, 2011.

Capital Assets (net of depreciation)

	<u>2012</u>	<u>2011</u>
Land	\$ 3,744,481	\$ 3,744,481
Construction in progress	617,407	3,563,561
Buildings, infrastructure and equipment, net	5,865,480	300,564
	<u>\$ 10,227,368</u>	<u>\$ 7,608,606</u>

Major capital asset events during FY12 include the following:

- The Cannery site infrastructure project was completed.
- The Cannery Plaza project was completed.
- The design work for the Community Center was completed.

The Agency owned the following tracts of land on June 30, 2012:

- The cannery
- The machine works site
- The old school site
- An undeveloped lot near the Senior Center
- The Robin Hood Theatre lot
- Two abutting properties on First Street

Construction-in-progress includes amounts paid in FY12 for the design of the Community Center. For additional information on the Agency's capital assets, refer to the Capital Assets Note in the Notes to Basic Financial Statements section.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

JUNE 30, 2012

5. DEBT OUTSTANDING

During FY12 the Agency's debt obligations had a net increase of \$2 million, ending the year at \$23 million. No new debt was issued. But the Agency took a draw of \$4 million from the loan for cannery projects obtained in 2010. Of the \$8.5 million loan total draws of \$5.9 million had been made as of June 30, 2012. In addition, The Agency elected to pay off four loans early, reducing the outstanding debt issues to 5.

Debt Outstanding

	2012		2011	
	#	Amount	#	Amount
Long-Term Full Faith and Credit Notes	5	\$23,047,189	9	\$21,054,559

All Agency Debt is in the form of long term loans backed by the Full Faith and Credit of the City of Sherwood. Intergovernmental agreements between the City and the Agency obligate the Agency to pay debt service. The Agency does not have a bond rating. It relies on the City's A1 bond rating (Moody's Investors Service) as all debt is Full Faith and Credit borrowing. For additional information on the Agency's capital assets, refer to the Capital Assets Note in the Notes to Basic Financial Statements section.

6. HIGHLIGHTS OF FISCAL YEAR 2012 BUDGET

There were two midyear adjustments to the FY12 budget. Appropriations were adjusted to cover unanticipated staffing costs and for a property acquisition for a water quality facility. All expenditures were within appropriation caps.

7. ECONOMIC FACTORS AND FISCAL YEAR 2013 BUDGET

The projected economic situation for fiscal year 2013 is cautiously optimistic. As of the date of this report several commercial and residential projects are in the final stages of the application/permit process. Property tax revenue (virtually the sole source of URA revenue) is anticipated to increase. The cost of providing goods and services is anticipated to increase by 3%. The Oregon Public Employees Retirement System adjusts rates every two years, and FY13 will be an off year. So no PERS rate increase is budgeted for FY13.

8. FINANCIAL CONTACT

The Agency's financial statements are designed to present Agency taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability. If you have questions about the report or need additional financial information, please contact the Agency's Director of Finance at 22560 SW Pine Street, Sherwood Oregon, 97140 or gibonsc@sherwoodoregon.gov.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Government Activities</u>
ASSETS:	
Cash and investments	\$ 2,872,892
Restricted Cash	826,800
Property taxes receivable	174,327
Accounts receivable	1,245,560
Capital assets:	
Land, improvements and construction in progress	4,361,888
Other capital assets, net	<u>5,865,480</u>
TOTAL ASSETS	<u>15,346,947</u>
LIABILITIES:	
Accounts payable	23,119
Accrued interest payable	263,028
Compensated absences	10,842
Long-term obligations:	
Due with in one year	874,283
Due in more than one year	<u>22,172,906</u>
TOTAL LIABILITIES	<u>23,344,178</u>
NET ASSETS (DEFICIT):	
Invested in capital assets, net of related debt	(12,819,821)
Restricted	3,078,268
Unrestricted	<u>1,744,322</u>
TOTAL NET ASSETS (DEFICIT)	<u>\$ (7,997,231)</u>

See notes to basic financial statements.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

Function/Program	Expenses	Net (Expense) Revenue and Change in Net Assets Total Governmental Activities
Governmental activities:		
Administration	\$ 531,693	\$ (531,693)
Community Development	39,500	(39,500)
Community Services	4,696	(4,696)
Public Works	3,087	(3,087)
Interest on long-term borrowings	822,608	(822,608)
Total	<u>\$ 1,401,584</u>	<u>\$ (1,401,584)</u>
General revenues:		
Property taxes		3,260,460
Miscellaneous		6,866
Unrestricted Interest earnings		24,650
Total general revenues		3,291,976
Change in net assets		1,890,392
Net assets - beginning		(9,887,623)
Net assets - ending		<u>\$ (7,997,231)</u>

See notes to basic financial statements.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Government Activities</u>
ASSETS:	
Cash and investments	\$ 2,872,892
Restricted Cash	826,800
Property taxes receivable	174,327
Accounts receivable	1,245,560
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Restricted	3,078,268
Unrestricted	<u>1,744,322</u>
TOTAL NET ASSETS (DEFICIT)	<u>\$ (7,997,231)</u>

See notes to basic financial statements.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

**RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS**

JUNE 30, 2012

TOTAL FUND BALANCE			\$ 4,935,294
Total net assets shown in the Statement of Net Assets are different because:			
Capital assets are not financial resources for budgetary purposes and therefore are not reported in the governmental funds.			
			10,227,368
A portion of the City's receivables are collected after year-end but they are not collected soon enough to be available as financial resources for the current year. The revenues related to these receivables are deferred and not reported in the governmental funds.			
			161,166
Compensated absences not payable in the current year are not recorded as governmental fund liabilities.			
			(10,842)
Long-term assets, such as bond discount and issuance costs are not reported as governmental fund assets and liabilities not payable in the current year are not reported as governmental fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expense when it is due. These long-term assets and liabilities consist of:			
Bonds and note payable		(23,047,189)	
Accrued interest payable		<u>(263,028)</u>	<u>(23,310,217)</u>
TOTAL NET ASSETS			<u>\$(7,997,231)</u>

See notes to basic financial statements.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

GOVERNMENTAL FUNDS

**STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE**

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Urban Renewal Operations</u>	<u>Urban Renewal Capital</u>	<u>Totals</u>
REVENUES:			
Property Taxes	\$ 3,225,997	\$ -	\$ 3,225,997
Interest on investments	10,991	13,659	24,650
Miscellaneous	6,866	-	6,866
TOTAL REVENUES	<u>3,243,854</u>	<u>13,659</u>	<u>3,257,513</u>
EXPENDITURES:			
Current:			
Administration	3,437,687	2,641,618	6,079,305
Community Development	4,110	35,390	39,500
Community Services	340	4,359	4,699
Public Works	861	2,226	3,087
TOTAL EXPENDITURES	<u>3,442,998</u>	<u>2,683,593</u>	<u>6,126,591</u>
Excess (deficiency) of revenues over expenditures	<u>(199,144)</u>	<u>(2,669,934)</u>	<u>(2,869,078)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from borrowing	<u>-</u>	<u>4,085,972</u>	<u>4,085,972</u>
NET CHANGE IN FUND BALANCES	<u>(199,144)</u>	<u>1,416,038</u>	<u>1,216,894</u>
FUND BALANCES, beginning of year	<u>2,056,170</u>	<u>1,662,230</u>	<u>3,718,400</u>
FUND BALANCES, end of year	<u>\$ 1,857,026</u>	<u>\$ 3,078,268</u>	<u>\$ 4,935,294</u>

See notes to basic financial statements.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$1,216,894

Amounts reported for governmental activities in the
Statement of Activities are different because of the following:

Governmental funds report capital assets additions as expenditures while
governmental activities report depreciation expense to allocate those expenditures
over the life of the assets.

Expenditures capitalized	2,630,831	
Depreciation	<u>(12,070)</u>	<u>2,618,761</u>

Receivables that do not meet the measurable and available criteria are not
recognized as revenue in the current year in governmental funds. In the
Statement of Activities they are recognized as revenue when levied or earned. 34,467

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of Net Assets 2,093,342

Proceeds from borrowing is recorded in the governmental funds,
but the issuance increases long-term liabilities in the Statement of Net Assets. (4,085,972)

Some expenses reported in the Statement of Activities do not require the
use of current financial resources and therefore are not reported as

Accrued Interest	16,844	
Compensated Absences	<u>(3,944)</u>	<u>12,900</u>

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$1,890,392

See notes to basic financial statements.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Urban Renewal Agency of the City of Sherwood, Oregon (the Agency), a component unit of the City of Sherwood, Oregon, (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. The more significant of the Agency's accounting policies are described below.

Reporting Entity

The Agency was created on July 1, 2001 to promote the economic welfare and prosperity of the City's inhabitants. The Agency is governed by a seven-member board of directors that include the City's mayor and council members and is reported as a component unit in the City's financial statements as special revenue and capital project funds.

Government-wide and Fund Financial Statements

Government-wide financial statements display information about the Agency as a whole. These statements focus on the sustainability of the Agency as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary. Currently, the Agency has two governmental funds; the Operations Fund (which serves as the Agency's General Fund) and the Capital Fund. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues and expenditures.

Measurement Focus and Basis of Accounting

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.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

The modified accrual basis of accounting is used by the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Agency considers amounts collected within 30 days of year end to be available, and susceptible to accrual. Property tax revenues are susceptible to accrual using the 30 day window. Expenditures are recorded when the related fund liability is incurred.

Cash and Investments

The Agency maintains its cash balance as a part of the pooled cash of the City of Sherwood. State statutes authorize the City to invest primarily in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial paper and the state treasurer's investment pool, among others. Information on the City's cash and disclosures related to cash and investments can be found in the Comprehensive Annual Financial Report of the City.

Receivables and Deferred Revenues

Property taxes receivable for the governmental fund type, which have been collected within thirty days subsequent to year end, are considered measurable and available and are recognized as revenues. All other property taxes receivable are offset by deferred revenues and, accordingly, have not been recorded as revenue. Real and personal property taxes are levied upon all taxable property within the Agency and become liens against the property as of July 1 of each year and are payable in three installments which are due on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent. Property taxes receivable by the Agency represent the Agency's allocated share of delinquent property taxes and other amounts to be collected from property owners.

Capital Assets

Capital assets (items lasting more than one year and costing in excess of \$5,000) are stated at historical cost. Capital assets are charged to expenditures in the governmental fund type as purchased.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

<u>Assets</u>	<u>Years</u>
Infrastructure	20 to 100
Buildings	50 to 60
Land improvements	12 to 20
Machinery and equipment	7 to 20
Licensed vehicles	5 to 10

Normal maintenance and repairs are charged to operations as incurred. Major additions, improvements and replacements are capitalized. Gains or losses from sales or retirements of capital assets are included in operations.

Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities.

In the fund financial statements, the face amount of loans received are reported as other financing sources.

Budget and Budgetary Accounting

A budget is prepared in accordance with the modified accrual basis of accounting. Appropriations are made at the category level for all funds. Expenditures may not legally exceed appropriations. Appropriations lapse at the end of each fiscal year. Budget amounts include original approved amounts and all subsequent appropriation transfers approved by the governing board. After budget approval, the governing board may approve supplemental appropriations if an occurrence, condition, or need exists which had not been ascertained at the time the budget was adopted. Management may not amend the budget. A supplemental budget requires hearings before the public, publications in newspapers and approval by the governing board if it exceeds 10% of a fund's expenditures.

Fund Balance/Net Assets

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

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact.

Fund balance is reported as restricted when the constraints placed on the use of the resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance/Net Assets (Continued)

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Agency's highest level of decision-making authority should be reported as committed fund balances. The Agency reports fund balances as committed when the Agency's Board passes a resolution that places specific constraints on how the resources may be used. The Agency's Board can modify or rescind the resolution at any time through passage of an additional resolution.

Amounts that are constrained by the Agency's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the Agency Board approves certain amounts as "designated" during the adoption of the annual budget. "Designated" amounts are reported as assigned in the Agency's Annual Financial Report.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned to specific purposes within the General Fund. This classification is also used to report deficit fund balance amounts in other governmental funds.

Use of Restricted Assets

When disbursements are paid for purposes in which both restricted and unrestricted net assets are available, the Agency deems restricted net assets to be spent first. The same is true at the fund level with respect to use of available fund balance, in that if appropriate those revenues with the highest level of constraint are used first.

Deposits and investments

Cash and cash equivalents include cash on hand, demand deposits, and balances in the Oregon State Treasury's Local Government Investment Pool (LGIP).

LGIP balances can be withdrawn with one day's notice. The LGIP operates in accordance with appropriate state laws and regulations. Reported values of the Agency's share of the LGIP are the same as fair values.

Receivables

Accounts receivable are largely for property taxes and loan reimbursements. Property tax receivables become liens on real property if not paid; consequently, no allowances for uncollectible accounts are recorded.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

DETAILED NOTES ON ALL ACCOUNTS

Cash and Investments

Cash and Investments are reflected on the Statement of Net Assets at June 30, 2012 as \$3,699,692.

1. Custodial Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At June 30, 2012, the Agency had deposits (combined with the City's deposits) in financial institutions totaling \$1,124,108, all of which were insured by federal depository insurance.

Any deposits not covered by FDIC insurance are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon. The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or so directed by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities.

2. Investments

The City participates in an external investment pool, the State of Oregon Treasurer's Local Government Investment Pool (LGIP). The LGIP is not registered with the U.S. Securities and Exchange Commission as an investment company. The State's investment policies are governed by the Oregon Revised Statutes (ORS) and the Oregon Investment Council (Council).

The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds are invested exercising reasonable care, skill and caution. Investments in the LGIP are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board which establishes diversification percentages and specifies investment types and maturities. The portion of the external investment pool belonging to local government participants is reported in an Investment Trust Fund in the State's Comprehensive Annual Financial Report.

A copy of the State's Comprehensive Annual Financial Report may be obtained online at www.ost.state.or.us or by mail at the Oregon State Treasurer's Office, 350 Winter St. NE, Salem, Oregon 97310-0840. The City's position in the LGIP at June 30, 2012 is stated at fair market value, which is 100 percent of pool shares.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

DETAILED NOTES ON ALL ACCOUNTS (Continued)

Cash and Investments (Continued)

3. Custodial Risk – Investments

For an investment, this is the risk that, in the event of a failure of the counterparty, the Agency will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The Agency has no investments that are subject to custodial credit risk.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U. S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. The LGIP is not rated for credit quality. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

Capital Assets

The changes in capital assets for the year ended June 30, 2012 are as follows:

	Balances June 30, 2011	Additions	Deletions	Balances June 30, 2012
Land	\$ 3,744,481	\$ -	\$ -	\$ 3,744,481
Construction in progress	3,563,561	2,630,831	(5,576,985)	617,407
Total capital assets not being depreciated	7,308,042	2,630,831	(5,576,985)	4,361,888
Buildings and infrastructure	336,000	2,326,993	-	2,662,993
Infrastructure	-	3,249,993	-	3,249,993
Equipment	2,071	-	-	2,071
Total capital assets being depreciated	338,071	5,576,986	-	5,915,057
Less accumulated depreciation	(37,507)	(12,070)	-	(49,577)
Total capital assets being depreciated, net	300,564	5,564,916	-	5,865,480
Total capital assets	\$ 7,608,606	\$ 8,195,747	\$(5,576,985)	\$ 10,227,368

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

DETAILED NOTES ON ALL ACCOUNTS (Continued)

Long-Term Obligations

Transactions for the year were as follows:

	<u>Original Amount</u>	<u>Outstanding at June 30, 2011</u>	<u>Issued/ Assumed</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding at June 30, 2012</u>
Long-term Loans					
2003 Civic building - BofA (interest 3.55-4.65%) Paid off in 2012	\$ 2,435,000	\$ 580,000	\$ -	\$(580,000)	\$ -
2003 Civic building - OECCDD (interest 3-4.625%) Matures December of 2023	5,845,708	4,254,561	-	(258,648)	3,995,913
2004 Cannery Purchase & Demo (interest 3.6%) Paid off in 2012	350,000	105,000	-	(105,000)	-
2005 URA Old School (interest 5.75%) Paid off in 2012	550,000	384,000	-	(384,000)	-
2005 URA Sports Fields (interest 3.4%) Paid off in 2012	280,000	184,000	-	(184,000)	-
2006 URA Streets #1 (interest 5.38%) Matures August of 2021	1,800,000	1,376,005	-	(103,686)	1,272,319
2006 URA Streets #2 (interest variable) Matures December of 2026	6,400,000	5,538,077	-	(253,008)	5,285,069
2010 URA Cannery & Streets (interest 4.65%) Matures June of 2030	7,065,000	6,820,000	-	(225,000)	6,595,000
2010 URA Cannery Projects (interest 0.55%) Maturity as of project completion	8,500,000	1,812,916	4,085,972	-	5,898,888
Total		<u>\$ 21,054,559</u>	<u>\$4,085,972</u>	<u>\$(2,093,342)</u>	<u>\$23,047,189</u>

Future maturities of long-term obligations are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total URA Activities</u>
2013	\$ 874,283	\$ 775,750	\$ 1,650,033
2014	908,691	737,565	1,646,256
2015	948,637	697,380	1,646,017
2016	994,171	654,778	1,648,949
2017	1,035,220	610,113	1,645,333
2018-2022	5,815,662	2,286,679	8,102,341
2023-2027	5,051,637	950,554	6,002,191
2028-2032	1,520,000	108,113	1,628,113
Thereafter	5,898,888	3,244,388	9,143,276
	<u>\$ 23,047,189</u>	<u>\$ 10,065,320</u>	<u>\$ 33,113,509</u>

In the current year the Agency took a draw of \$4,085,972 from the loan for cannery projects obtained in 2010. Of the \$8,500,000 loan total draws of \$5,898,888 have been made as of June 30, 2012.

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

COMMITMENTS AND CONTINGENCIES

The Agency is involved in various claims and legal matters relating to its operations which have all been tendered to the Agency's liability insurer or are being defended by attorneys. The Agency does not believe that any of these matters will have a material impact on its June 30, 2012 financial statements. The Agency has outstanding commitments at June 30, 2012 totaling \$343,049 related to construction contracts.

SUBSEQUENT EVENTS

On October 9, 2012 the City issued bonds in the amount of \$5,245,000 to refinance the 2003 Civic building and 2006 URA Street #1 loans which results in interest savings of approximately \$700,000.

RELATED PARTY TRANSACTIONS

The City provides services for the Agency, including accounting and clerical functions. The Agency's personnel are comprised exclusively of employees of the City. The Agency paid \$80,566, to the City for services, reimbursement for City personnel, and materials and supplies that were provided in the current fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES (USES)
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Property taxes	\$ 3,292,012	\$ 3,292,012	\$ 3,225,997	\$ (66,015)
Fines, interest and other	36,000	36,000	10,991	(25,009)
Miscellaneous	-	-	6,866	6,866
TOTAL REVENUES	3,328,012	3,328,012	3,243,854	(84,158)
EXPENDITURES:				
Personal services	100,982	120,000	118,094	1,906
Materials and services	154,569	484,569	392,111	92,458
Capital outlay	42,000	42,000	-	42,000
Debt Service	2,957,257	2,957,257	2,932,794	24,464
Contingency	2,938,444	2,589,425	-	2,589,425
TOTAL EXPENDITURES	6,193,252	6,193,252	3,442,998	2,750,254
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,865,240)	(2,865,240)	(199,144)	2,666,096
NET CHANGE IN FUND BALANCE	(2,865,240)	(2,865,240)	(199,144)	2,666,096
FUND BALANCE, beginning of year	2,865,240	2,865,240	2,056,170	(809,070)
FUND BALANCE, end of year	\$ -	-	\$ 1,857,026	\$ 1,857,026

OTHER SUPPLEMENTARY INFORMATION

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

CAPITAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES (USES)
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance
	Original	Final		
REVENUES:				
Intergovernmental	\$ 42,000	\$ 42,000	\$ -	\$ (42,000)
Fines, interest and other	-	-	13,659	13,659
TOTAL REVENUES	<u>42,000</u>	<u>42,000</u>	<u>13,659</u>	<u>(28,341)</u>
EXPENDITURES:				
Personal services	65,185	65,185	44,210	20,975
Materials and services	50,973	50,973	44,051	6,922
Capital outlay	3,893,783	3,893,783	2,595,333	1,298,450
TOTAL EXPENDITURES	<u>4,009,941</u>	<u>4,009,941</u>	<u>2,683,593</u>	<u>1,326,348</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,967,941)</u>	<u>(3,967,941)</u>	<u>(2,669,934)</u>	<u>1,298,007</u>
OTHER FINANCING SOURCES:				
Proceeds from borrowing	<u>3,967,941</u>	<u>3,967,941</u>	<u>4,085,972</u>	<u>118,031</u>
NET CHANGE IN FUND BALANCE	-	-	1,416,038	1,416,038
FUND BALANCE, beginning of year	<u>-</u>	<u>-</u>	<u>1,662,230</u>	<u>1,662,230</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,078,268</u>	<u>\$ 3,078,268</u>

URBAN RENEWAL AGENCY OF THE CITY OF SHERWOOD, OREGON

(A component unit of the City of Sherwood, Oregon)

SCHEDULE OF PROPERTY TAX TRANSACTIONS

FOR THE YEAR ENDED JUNE 30, 2012

<u>Fiscal</u> <u>Year</u>	<u>Receivable</u> <u>July 1, 2011</u>	<u>Levy</u>	<u>Interest,</u> <u>Discounts</u> <u>& Adjustments</u>	<u>Collections</u>	<u>Receivable</u> <u>June 30, 2012</u>
2011-12	\$ -	\$3,320,192	\$ (78,937)	\$(3,150,047)	\$ 91,208
2010-11	75,224	-	521	(29,002)	46,743
2009-10	31,601	-	1,436	(5,471)	27,566
2008-09	14,508	-	2,539	(11,003)	6,044
2007-08	3,671	-	755	(3,231)	1,194
2006-07	818	-	(2)	(155)	662
Prior years	881	-	134	(106)	910
Total	<u>\$ 126,704</u>	<u>\$3,320,192</u>	<u>\$ (73,554)</u>	<u>\$(3,199,015)</u>	<u>\$ 174,327</u>

COMPLIANCE SECTION

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



Talbot, Korvola
& Warwick, LLP

Certified Public Accountants
& Consultants

4800 Meadows Road, Suite 200
Lake Oswego, Oregon 97035-4293

P 503.274.2849

F 503.274.2853

www.tkw.com

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

November 29, 2012

Board Members
Urban Renewal Agency of the City of Sherwood, Oregon
(A component unit of the City of Sherwood, Oregon)
Sherwood, Oregon

We have audited the basic financial statements of the Urban Renewal Agency of the City of Sherwood, Oregon (the Agency), a component unit of the City of Sherwood, Oregon, as of and for the year ended June 30, 2012 and have issued our report thereon dated November 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

In connection with our testing, nothing came to our attention that caused us to believe the Agency was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

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

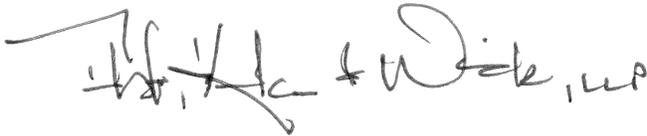
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OAR 162-10-230 INTERNAL CONTROL

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

* * * * *

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



Certified Public Accountants