



City of Hillsboro, Oregon
Hillsboro Economic Development Council



GROWING GREAT THINGS

Financial Statements for the Year Ended June 30, 2019

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

Basic Financial Statements
and Supplemental Information

Year Ended June 30, 2019

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

BOARD OF COUNCILORS

JUNE 30, 2019

		<u>Term Expires</u>
Steve Callaway, Chairperson		January 2021
Councilors:		
Fred Nachtigal, Council President	Ward 3, Position B	January 2021
Beach Pace	Ward 1, Position A	January 2023
Rick Van Beveren	Ward 1, Position B	January 2021
Kyle Allen	Ward 2, Position A	January 2023
Anthony Martin	Ward 2, Position B	January 2021
Olivia Alcaire	Ward 3, Position A	January 2023

Council Address

City of Hillsboro
150 East Main Street
Hillsboro, Oregon 97123

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Councilors
Hillsboro Economic Development Council
(A component unit of the City of Hillsboro, Oregon)
Hillsboro, Oregon

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hillsboro Economic Development Council (the Council), a component unit of the City of Hillsboro, Oregon, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the Table of Contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

AUDITOR'S RESPONSIBILITY (Continued)

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

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Council as of June 30, 2019, and the respective changes in its financial position and its respective budgetary comparison for the Downtown Hillsboro Capital Projects Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

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 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The Supplemental Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2019 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated November 27, 2019, on our consideration of the Council's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

By: 

Timothy R. Gillette, Partner

Lake Oswego, Oregon
November 27, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

As management of the Hillsboro Economic Development Council (the Council), a component unit of the City of Hillsboro (the City), Oregon, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2019. The analysis focuses on significant financial issues, major financial activities, and resulting changes in financial position, budget changes and variances from the budget and specific issues related to funds and the economic factors affecting the Council, an urban renewal district.

Financial Highlights

- The Council's assets totaled approximately \$6.3 million at June 30, 2019, and consisted of approximately \$5.5 million in deposits and investments held by the City of Hillsboro and Washington County, approximately \$750,000 in notes receivables and approximately \$61,000 in other receivables.
- Net position (assets minus liabilities) was approximately \$5.8 million at June 30, 2019.
- As of June 30, 2019, the Council had approximately \$447,000 in outstanding notes payable.
- The Council's net position increased by approximately \$2.2 million from June 30, 2018, as a result of property tax revenue of approximately \$2.9 million and earnings on investments of approximately \$109,000, offset by contributions to other governments of approximately \$510,000, community development expenses of approximately \$287,000 and approximately \$19,000 in interest on long term debt.

Report Layout

The Council prepared its report to include this Management Discussion and Analysis (MD&A) section intended to provide users of the basic financial statements with a narrative introduction, overview, and analysis of those statements. Also included are the government-wide statements, fund financial statements and notes to basic financial statements. The first several statements are highly condensed and present a Council-wide view of the finances. Within this view, all the Council operations are categorized and reported as governmental activities.

Taken together, the sections provide a comprehensive financial look at the Council's operations. The individual components of the report layout include the following:

- **Management's Discussion and Analysis.** This section of the report provides financial highlights, overview and economic factors affecting the Council.
- **Basic Financial Statements.** Includes the Statement of Net Position, Statement of Activities, fund financial statements and the Notes to Basic Financial Statements. Statements of Net Position and Activities focus on an entity-wide presentation using the accrual basis of accounting. They are designed to resemble more closely private-sector financial statements in that all activities are consolidated into a total for the Council.
 - The Statement of Net Position focuses on resources available for future operations. This statement presents a snap-shot view of the assets, the liabilities it owes and the Council's net position.

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2019

Report Layout (Continued)

- The Statement of Activities focuses on gross and net costs of the Council's programs and the extent to which such programs rely upon other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
 - Fund financial statements follow the more traditional presentation of financial statements. The Council's major governmental funds are presented.
 - The Notes to Basic Financial Statements provide additional disclosures to provide information to assist the reader in understanding the Council's financial condition.
- **Supplemental Information.** Readers desiring additional information can find it in this section of the report.
- **Independent Auditor's Report Required by Oregon State Regulation.** Consists of information on the Council's compliance and internal controls as required by Oregon Revised Statutes.

Statement of Position

A condensed version of the Statement of Net Position as of June 30 is as follows:

	2019	As Reclassified 2018
Deposits and investments held by the City of Hillsboro and county treasurer	\$ 5,471,350	\$ 3,362,941
Other current assets	60,643	47,220
Notes receivable	749,788	772,169
Total assets	6,281,781	4,182,330
Current liabilities	78,707	33,097
Notes payable	447,028	571,445
Total liabilities	525,735	604,542
Net Position		
Restricted for construction	3,960,921	3,190,957
Restricted for debt service	1,795,125	386,831
Total net position	\$ 5,756,046	\$ 3,577,788

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2019

Statement of Activities

The Council's Statement of Activities for the fiscal years ended June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Revenues and contributions:		
Program revenues:		
Operating grants and contributions	\$ 446	\$ 643,414
General revenues:		
Property taxes	2,885,716	1,952,814
Earnings on investments	108,662	40,623
Total revenues	<u>2,994,824</u>	<u>2,636,851</u>
Expenses:		
Community development	287,453	333,931
Interest on long term debt	18,741	27,851
Contributions	510,372	282,569
Total expenses	<u>816,566</u>	<u>644,351</u>
Change in net position	2,178,258	1,992,500
Net position, beginning of year	<u>3,577,788</u>	<u>1,585,288</u>
Net position, end of year	<u>\$ 5,756,046</u>	<u>\$ 3,577,788</u>

The cost of the Council's activities totaled approximately \$817,000 for the year. Property taxes and operating revenues covered all expenses. Excess revenues have increased ending net position.

Budgetary Highlights

There was one supplemental budget for the North Hillsboro Industrial Capital Projects Fund. Capital Outlay appropriations were reduced by \$2 million and intergovernmental revenue was reduced by \$2 million as a land purchase initially budgeted by the Council was not made by the Council, but by the City of Hillsboro.

Debt Administration

As of year-end June 30, 2019, the Council had approximately \$447,000 in notes payable compared to approximately \$571,000 outstanding in fiscal year 2018. Of this debt, approximately \$342,000 is due to the City of Hillsboro. Approximately \$129,000 of the Council's debt at June 30, 2019, is due within one year.

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

YEAR ENDED JUNE 30, 2019

Note Receivable

The Council issued a \$775,000 loan in July of 2015, to a local business for the establishment of a professional theatre in the urban renewal district. The note bears an annual interest rate of 1% commencing September 15, 2015, compounded monthly. The interest increases to 7% in the event of default. Principal and interest payment commenced September 15, 2017, monthly for a period of 20 years. The outstanding principal as of June 30, 2019, is \$749,788. Options of forgivable interest are included in the note for prepayment.

Economic Factors

The Council was established as an urban renewal agency in the late 1980's. The projects under the original urban renewal district have been completed. After the Council approved the establishment of the Downtown Hillsboro Urban Renewal Area in May 2010, collection of tax increment property tax revenues began in fiscal year 2011-12. In addition to this approved Area, the Council approved another urban renewal area in fiscal year 2015-16 which is referred to as the North Hillsboro Industrial Urban Renewal Area. Collection of revenue began in fiscal year 2016-17.

Financial Contact

The Council's financial statements are designed to present users including taxpayers, citizens, customers, investors and creditors with a general overview of the Council's finances and overall accountability. If you have questions about the contents of this report, or need additional financial information, please contact the City of Hillsboro's Finance Director at 150 East Main St., Hillsboro, OR 97123. Financial information for current and prior years is also available at www.hillsboro-oregon.gov.

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BASIC FINANCIAL STATEMENTS

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

STATEMENT OF NET POSITION

JUNE 30, 2019

ASSETS

Deposits and investments held by the City of Hillsboro	\$ 5,464,925
Collections held by county treasurer	6,425
Property taxes receivable	39,281
Accounts receivable	21,362
Noncurrent asset:	
Note receivable, due within one year	22,606
Note receivable, due in more than one year	727,182
	<hr/>
TOTAL ASSETS	6,281,781

LIABILITIES

Accounts payable	75,731
Accrued interest payable	2,976
Noncurrent liabilities:	
Due within one year	128,887
Due in more than one year	318,141
	<hr/>
TOTAL LIABILITIES	525,735

NET POSITION

Restricted for construction	3,960,921
Restricted for debt service	1,795,125
	<hr/>
TOTAL NET POSITION	\$ 5,756,046

See notes to basic financial statements.

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

<u>ACTIVITY</u>	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net Expense and Change in Net Position</u>
GOVERNMENTAL ACTIVITIES:			
Community development	\$ 287,453	\$ 446	\$ (287,007)
Interest on long term debt	<u>18,741</u>	<u>-</u>	<u>(18,741)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 306,194</u>	<u>\$ 446</u>	<u>(305,748)</u>
GENERAL REVENUES AND CONTRIBUTIONS:			
Property taxes			2,885,716
Earnings on investments			108,662
Contributions			<u>(510,372)</u>
TOTAL GENERAL REVENUES AND CONTRIBUTIONS			<u>2,484,006</u>
CHANGE IN NET POSITION			2,178,258
NET POSITION - beginning			<u>3,577,788</u>
NET POSITION - ending			<u>\$ 5,756,046</u>

See notes to basic financial statements.

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

**BALANCE SHEET -
GOVERNMENTAL FUNDS**

JUNE 30, 2019

	<u>Downtown Hillsboro Capital Projects</u>	<u>North Hillsboro Industrial Capital Projects</u>	<u>Downtown Hillsboro Debt Service</u>	<u>North Hillsboro Industrial Debt Service</u>	<u>Total</u>
ASSETS:					
Deposits and investments held by the City of Hillsboro	\$ 1,328,692	\$ 1,945,365	\$ 325,035	\$ 1,865,833	\$ 5,464,925
Collections held by county treasurer	-	-	1,937	4,488	6,425
Property taxes receivable	-	-	19,015	20,266	39,281
Accounts receivable	5,211	7,596	1,258	7,297	21,362
TOTAL ASSETS	<u>\$ 1,333,903</u>	<u>\$ 1,952,961</u>	<u>\$ 347,245</u>	<u>\$ 1,897,884</u>	<u>\$ 5,531,993</u>
LIABILITIES:					
Accounts payable	\$ 7,456	\$ 68,275	\$ -	\$ -	\$ 75,731
TOTAL LIABILITIES	<u>7,456</u>	<u>68,275</u>	<u>-</u>	<u>-</u>	<u>75,731</u>
DEFERRED INFLOW OF RESOURCES:					
Unavailable revenue - property taxes	-	-	14,520	17,440	31,960
TOTAL DEFERRED INFLOW OF RESOURCES:	<u>-</u>	<u>-</u>	<u>14,520</u>	<u>17,440</u>	<u>31,960</u>
FUND BALANCES:					
Restricted for debt service	-	-	332,725	1,880,444	2,213,169
Restricted for capital projects	1,326,447	1,884,686	-	-	3,211,133
TOTAL FUND BALANCES	<u>1,326,447</u>	<u>1,884,686</u>	<u>332,725</u>	<u>1,880,444</u>	<u>5,424,302</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES	<u>\$ 1,333,903</u>	<u>\$ 1,952,961</u>	<u>\$ 347,245</u>	<u>\$ 1,897,884</u>	<u>\$ 5,531,993</u>

See notes to basic financial statements.

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

**RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

JUNE 30, 2019

TOTAL FUND BALANCE	\$ 5,424,302
A portion of the Council's property taxes are collected after year-end, but are not available soon enough to pay for the current year's operations, and therefore are not reported as revenue in the governmental funds.	31,960
Long-term assets, including notes receivable and related interest receivable, are not due and receivable in the current period and, therefore, are not reported in the funds.	749,788
Accrued interest payable as of the end of the fiscal year are not payable in the current period, and therefore, are not reported in the funds.	(2,976)
Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(447,028)</u>
TOTAL NET POSITION	<u><u>\$ 5,756,046</u></u>

See notes to basic financial statements.

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

**STATEMENT OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES
(USES), AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2019

	Downtown Hillsboro Capital Projects	North Hillsboro Industrial Capital Projects	Downtown Hillsboro Debt Service	North Hillsboro Industrial Debt Service	Total
REVENUES:					
Property taxes	\$ -	\$ -	\$ 1,258,200	\$ 1,620,578	\$ 2,878,778
Interest income	32,128	35,661	8,620	32,253	108,662
Note receivable principal collected	22,381	-	-	-	22,381
Other income	-	-	223	223	446
TOTAL REVENUES	54,509	35,661	1,267,043	1,653,054	3,010,267
EXPENDITURES:					
Materials and services	69,259	218,194	-	-	287,453
Debt service	-	-	144,068	-	144,068
Other expenditures	510,372	-	-	-	510,372
TOTAL EXPENDITURES	579,631	218,194	144,068	-	941,893
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(525,122)	(182,533)	1,122,975	1,653,054	2,068,374
OTHER FINANCING SOURCES (USES):					
Transfers in	1,000,000	500,000	-	-	1,500,000
Transfers out	-	-	(1,000,000)	(500,000)	(1,500,000)
TOTAL OTHER FINANCING SOURCES (USES):	1,000,000	500,000	(1,000,000)	(500,000)	-
NET CHANGE IN FUND BALANCE	474,878	317,467	122,975	1,153,054	2,068,374
FUND BALANCE - BEGINNING	851,569	1,567,219	209,750	727,390	3,355,928
FUND BALANCE - ENDING	\$ 1,326,447	\$ 1,884,686	\$ 332,725	\$ 1,880,444	\$ 5,424,302

See notes to basic financial statements.

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES (USES),
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2019

NET CHANGE IN FUND BALANCE	\$ 2,068,374
The change in net position reported in the Statement of Activities is different because:	
Property taxes that do not meet the measurable and available criteria are not recognized as revenue in the current year in the governmental funds.	6,938
The collection of the principal of long-term note receivable increases the current financial resources of governmental funds. This is the amount of current year note receivable principal and accrued interest collected.	(22,381)
Interest on long term debt is recognized as expense when paid in the current financial resources of governmental funds, but in the economic resources measurement focus, expenses are recorded at the time liabilities are incurred.	910
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This is the amount of current year long-term debt principal repayments.	<u>124,417</u>
CHANGE IN NET POSITION	<u><u>\$ 2,178,258</u></u>

See notes to basic financial statements.

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

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

DOWNTOWN HILLSBORO CAPITAL PROJECTS FUND

YEAR ENDED JUNE 30, 2019

	<u>Budget</u>		Variance with
	Original and		Final Budget
	Final	Actual	Positive
			(Negative)
REVENUE:			
Note receivable principal collected	\$ 22,830	\$ 22,381	\$ (449)
Interest	10,619	32,128	21,509
TOTAL REVENUES	<u>33,449</u>	<u>54,509</u>	<u>21,060</u>
EXPENDITURES:			
Personnel services	55,225	-	55,225
Materials and services	777,000	69,259	707,741
Capital outlay	461,224	-	461,224
Special expenditures	525,000	510,372	14,628
TOTAL EXPENDITURES	<u>1,818,449</u>	<u>579,631</u>	<u>1,238,818</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>(1,785,000)</u>	<u>(525,122)</u>	<u>1,259,878</u>
OTHER FINANCING SOURCES:			
Transfers in	1,000,000	1,000,000	-
NET CHANGE IN FUND BALANCE	<u>(785,000)</u>	<u>474,878</u>	<u>1,259,878</u>
FUND BALANCE - BEGINNING	<u>785,000</u>	<u>851,569</u>	<u>66,569</u>
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ 1,326,447</u>	<u>\$ 1,326,447</u>

See notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Hillsboro Economic Development Council (the Council) is the urban renewal agency of the City of Hillsboro, Oregon (the City). It was organized in 1989 to assist in the redevelopment of targeted areas of the City through tax increment financing.

The Council's basic financial statements include all activities and organizations over which the Council exercises authoritative appointment of governing authority or where financial dependency on the Council exists. The Council is considered to be a component unit of the City and, as such, is included in the City's financial statements. Copies of the City's financial statements can be obtained from the Finance Department of the City at 150 East Main Street, Hillsboro, Oregon 97123.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Council, including all of its financial activities. The Council is funded with tax increment property taxes and other program income.

The Statement of Activities presents a comparison between direct expenses and program revenues for the Council's programs. The Council does not allocate indirect expenses. Program revenues include operating grants and contributions that are restricted to meeting operational requirements. Revenues that are not classified as program revenues, including earnings on investments, and property taxes, are presented as general revenues. Expenses that are not classified as direct expenses are contributions made to the City of Hillsboro for activities related to urban renewal revitalization.

Fund Financial Statements

The fund financial statements provide information about the Council's funds. The emphasis of fund financial statements is on major funds, each displayed in a separate column.

For the purpose of management review in presentation, the Council reports all funds as major funds:

- Downtown Hillsboro Capital Projects Fund (acts as the general fund for the Council)
- North Hillsboro Industrial Capital Projects Fund
- Downtown Hillsboro Debt Service Fund
- North Hillsboro Industrial Debt Service Fund

These funds account for the general administration of the Council's urban renewal agency and to stimulate economic growth within the designated urban renewal areas.

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

Government-wide financial statements report using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Council receives value without giving equal value in exchange, include tax increment revenue, grants, entitlements and donations. On the accrual basis of accounting, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Council considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Tax increment revenue is considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from debt and acquisitions under capital leases are reported as other financing sources and uses, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Deposits and Investments Held by the City of Hillsboro

All deposits and investments are held by the City of Hillsboro on behalf of the Council. The Council considers these items as a demand deposit account, whereby funds may be deposited or withdrawn without prior notice or penalty. Interest earnings are allocated from the City based on the proportion of the Council's funds to the total of the City of Hillsboro funds.

Pension Plan and Other Post Employment Benefits

The Council's employees are employees of the City of Hillsboro; therefore, no pension or other post employment benefit costs are attributable to the Council.

Risk Management

The Council is exposed to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; and natural disasters for which the Board of Councilors carries commercial insurance. The Council does not engage in risk financing activities where the risk is retained (self-insurance). Settled claims have not reached the level of commercial coverage in any of the past three fiscal years.

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

While not all categories are presently in use, fund balance can presented in five categories. The fund balance categories are:

- Non-spendable – Includes items not in spendable form, such as prepaid items and inventory, and items legally or contractually required to be maintained intact, such as endowments.
- Restricted – Includes items that are restricted by external creditors, grantors or contributors, or restricted by legal constitutional provisions.
- Committed – Includes items committed by the Council’s Board of Councilors, by formal resolution which is the highest level of action taken by the Board.
- Assigned – Includes items assigned by specific uses, authorized by the City of Hillsboro’s City Manager and/or Finance Director.
- Unassigned – This is the residual classification within the capital projects fund used for those balances not assigned to another category.

The Board of Councilors approved action to authorize commitments of fund balance. Council has authorized the City of Hillsboro City Manager and/or Finance Director to make assignments of ending fund balance (which can be made at any time, including after the fiscal year end date).

The order of spending fund balance has been approved by the Board of Councilors for use in the following order:

1. Restricted Fund Balance
2. Committed Fund Balance
3. Assigned Fund Balance
4. Unassigned Fund Balance

Budgets

Annual budgets are adopted on the modified accrual basis of accounting for each fund. The budgetary process begins by appointing Budget Committee members each year. Budget recommendations are developed by management and staff through early spring, with the Budget Committee approving the budget document in late spring. Public notices of the budget hearing are published prior to the public hearing held in June. The Board of Councilors adopts the budget and authorizes appropriations no later than June 30.

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets (Continued)

The ordinance authorizing appropriations sets the level by which expenditures cannot legally exceed appropriations. The level of budgetary control is set at the personnel services, materials and services, capital outlay, special expenditures, debt service, operating transfers and contingency category levels. Unexpected additional resources may be added to the budget through the use of a supplemental budget and transfers of appropriation resolutions. Supplemental budgets less than 10% of the fund's original budget may be adopted by the Board of Councilors at a regular Board meeting. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publication in newspapers and approval by the Board of Councilors. Original and supplemental budgets may be modified by the use of appropriation transfers between category levels. Such transfers require approval by the Board of Councilors. One supplemental budget was adopted during the year. All annual appropriations lapse at fiscal year-end.

2. NOTE RECEIVABLE

On July 9, 2015, the Council issued a \$775,000 loan to a local business for the establishment of a professional theatre in the downtown urban renewal district. The note bears an annual interest rate of 1% commencing September 15, 2015, compounded monthly. The interest increases to 7% in the event of default. Principal and interest payment commenced September 15, 2017, monthly for a period of 20 years. The outstanding principal balance of the note at June 30, 2019, was \$749,788, with a current portion due of \$22,606. Options of forgivable interest are included in the note for prepayment.

3. LONG-TERM DEBT

Notes Payable

	<u>Original Amount</u>	<u>Outstanding June 30, 2018</u>	<u>Decrease</u>	<u>Outstanding June 30, 2019</u>
Brownfields note; interest at 3.25%, annual payments of principal and interest due on December 31 of \$39,000, due 2021	\$ 300,000	\$ 139,460	\$ 34,466	\$ 104,994
4th and Main SDC note due to City; interest at 3.69%, principal and interest due semi-annually on June 1 and December 1 of \$52,534; due 2023	<u>872,000</u>	<u>431,985</u>	<u>89,951</u>	<u>342,034</u>
	<u>\$ 1,172,000</u>	<u>\$ 571,445</u>	<u>\$ 124,417</u>	<u>447,028</u>
Current portion				<u>(128,887)</u>
Long-term portion				<u>\$ 318,141</u>

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2019

3. LONG-TERM DEBT (Continued)

Future maturities are as follows:

Fiscal Year	Note Payable	
	Principal	Interest
2020	\$ 128,887	\$ 15,182
2021	133,513	10,556
2022	133,048	5,752
2023	51,580	950
	\$ 447,028	\$ 32,440

4. TRANSFERS TO/FROM OTHER FUNDS

Transfers were made from the Downtown Hillsboro Debt Service Fund to the Downtown Capital Projects Fund in the amount of \$1,000,000 for the purpose of making contributions to the City of \$510,372 for the acquisition of downtown Hillsboro property for future development and \$489,628 for future development of the District. Transfers from the North Hillsboro Industrial Debt Service Fund to the North Hillsboro Industrial Capital Projects Fund were made in the amount of \$500,000 for the purpose of preliminary development work for the North Hillsboro Industrial Area.

5. TAX ABATEMENT

The Council's tax increment fund revenues were reduced under agreements entered into by the City of Hillsboro and Washington County for the year ended June 30, 2019 as follows:

<u>Tax Abatement Program</u>	<u>Amount of Property Taxes Abated</u>
Strategic Investment Program	\$ 2,240,000
Enterprise Zone	138,000
Vertical Housing	19,000

6. SUBSEQUENT EVENTS

On October 10, 2019 the Council paid off notes payable for the Brownfields note in the amount of \$104,994. On October 21, 2019, the Council paid off the SDC Financing due to the City in the amount of \$342,034. On November 20, 2019, the Council issued private placement notes payable of \$23 million for the North Hillsboro Urban Renewal Area, at 3.07%, last maturity June 1, 2034.

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SUPPLEMENTAL INFORMATION

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

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

NORTH HILLSBORO INDUSTRIAL CAPITAL PROJECTS FUND

YEAR ENDED JUNE 30, 2019

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE:				
Intergovernmental revenue	\$ 2,000,000	\$ -	\$ -	\$ -
Interest	1,000	1,000	35,661	34,661
TOTAL REVENUES	2,001,000	1,000	35,661	34,661
EXPENDITURES:				
Personnel services	55,240	55,240	-	55,240
Materials and services	600,000	600,000	218,194	381,806
Capital outlay	2,975,760	975,760	-	975,760
TOTAL EXPENDITURES	3,631,000	1,631,000	218,194	1,412,806
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(1,630,000)	(1,630,000)	(182,533)	1,447,467
OTHER FINANCING SOURCES:				
Transfers in	500,000	500,000	500,000	-
NET CHANGE IN FUND BALANCE	(1,130,000)	(1,130,000)	317,467	1,447,467
FUND BALANCE - BEGINNING	1,130,000	1,130,000	1,567,219	437,219
FUND BALANCE - ENDING	\$ -	\$ -	\$ 1,884,686	\$ 1,884,686

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

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

DOWNTOWN HILLSBORO DEBT SERVICE FUND

YEAR ENDED JUNE 30, 2019

	Budget Original and Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Property taxes - current	\$ 1,215,000	\$ 1,232,120	\$ 17,120
Property taxes - prior years	10,000	26,080	16,080
Interest income	10,000	8,620	(1,380)
Other income	-	223	223
TOTAL REVENUES	1,235,000	1,267,043	32,043
EXPENDITURES:			
Debt service	144,069	144,068	1
Contingency	270,931	-	270,931
TOTAL EXPENDITURES	415,000	144,068	270,932
EXCESS OF REVENUES OVER EXPENDITURES	820,000	1,122,975	302,975
OTHER FINANCING USES:			
Transfers out	(1,000,000)	(1,000,000)	-
NET CHANGE IN FUND BALANCE	(180,000)	122,975	302,975
FUND BALANCE - BEGINNING	180,000	209,750	29,750
FUND BALANCE - ENDING	\$ -	\$ 332,725	\$ 332,725

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

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

NORTH HILLSBORO INDUSTRIAL DEBT SERVICE FUND

YEAR ENDED JUNE 30, 2019

	<u>Budget</u>		Variance with
	Original and		Final Budget
	Final	Actual	Positive
			(Negative)
REVENUES:			
Property taxes - current	\$ 850,000	\$ 1,612,105	\$ 762,105
Property taxes - prior years	5,000	8,473	3,473
Interest income	8,000	32,253	24,253
Other income	-	223	223
	<u>863,000</u>	<u>1,653,054</u>	<u>790,054</u>
EXPENDITURES:			
Capital outlay	1,083,000	-	1,083,000
	<u>(220,000)</u>	<u>1,653,054</u>	<u>1,873,054</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			
	<u>(220,000)</u>	<u>1,653,054</u>	<u>1,873,054</u>
OTHER FINANCING USES:			
Transfers out	(500,000)	(500,000)	-
	<u>(720,000)</u>	<u>1,153,054</u>	<u>1,873,054</u>
NET CHANGE IN FUND BALANCE			
	<u>(720,000)</u>	<u>1,153,054</u>	<u>1,873,054</u>
FUND BALANCE - BEGINNING	<u>720,000</u>	<u>727,390</u>	<u>7,390</u>
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ 1,880,444</u>	<u>\$ 1,880,444</u>

HILLSBORO ECONOMIC DEVELOPMENT COUNCIL
(A Component Unit of the City of Hillsboro, Oregon)

SCHEDULE OF PROPERTY TAX TRANSACTIONS

YEAR ENDED JUNE 30, 2019

<u>Tax Year</u>	<u>Uncollected June 30, 2018</u>	<u>Levy as Extended by Assessor</u>	<u>Discounts Allowed</u>	<u>Interest</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Uncollected June 30, 2019</u>
Current Year							
2018-19	\$ -	\$ 2,962,960	\$ (81,194)	\$ 620	\$ (8,321)	\$ (2,844,226)	\$ 29,839
Prior Years							
2017-18	13,928	-	223	868	10,791	(19,965)	5,845
2016-17	8,711	-	(101)	505	(28)	(6,508)	2,579
2015-16	3,080	-	(41)	338	(11)	(2,638)	728
2014-15	3,286	-	(82)	92	(10)	(3,116)	170
2013-14	1,490	-	(42)	4	(17)	(1,374)	61
2012-13 and prior	1,800	-	(27)	8	(819)	(903)	59
Total	\$ 32,295	\$ 2,962,960	\$ (81,264)	\$ 2,435	\$ 1,585	\$ (2,878,730)	\$ 39,281

RECONCILIATION OF TAX COLLECTIONS TO TAX REVENUES:	<u>Tax Collections Above</u>	<u>Change in Taxes Subject to Accrual</u>	<u>Property Tax Revenues</u>
	<u>\$ 2,878,730</u>	<u>\$ 48</u>	<u>\$ 2,878,778</u>

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Councilors
Hillsboro Economic Development Council
(A component unit of the Council of Hillsboro, Oregon)
Hillsboro, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Hillsboro Economic Development Council (the Council), a component unit of the City of Hillsboro, Oregon, as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated November 27, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Page 2

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Talbot, Korveta & Warwick LLP

Lake Oswego, Oregon
November 27, 2019

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



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH OREGON STATE REGULATIONS

Board of Councilors
Hillsboro Economic Development Council
(A component unit of the Council of Hillsboro, Oregon)
Hillsboro, Oregon

We have audited the financial statements of the governmental activities and each major fund of Hillsboro Economic Development Council (the Council), a component unit of the City of Hillsboro, Oregon, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated November 27, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Council'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 162-10-330 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 procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

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

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An independently owned member
RSM US Alliance



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
OREGON STATE REGULATIONS (Continued)**

Page 2

COMPLIANCE (Continued)

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

OAR 162-10-0230 INTERNAL CONTROL

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

PURPOSE OF THIS REPORT

This report is intended solely for the information and use of the Board of Councilors, 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.

Robert Kovala & Warwick LLP

Lake Oswego, Oregon
November 27, 2019

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