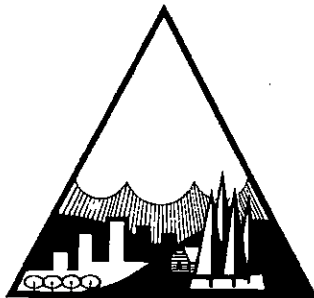


**AUDIT COMMENTS AND
DISCLOSURE REQUIRED BY
STATE REGULATIONS**





PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

October 22, 2004

2003-2004 AUDITORS' COMMENTS AND DISCLOSURES

Oregon Administrative Rules 162-10-000 through 162-16-000 (the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy) enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required statements and schedules are set forth in preceding pages of this report. Required comments and disclosures related to our audit of such statements and schedules are set forth as follows.

REPORT ON INTERNAL ACCOUNTING CONTROL

We have audited the basic financial statements of City of Tigard, Oregon, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004.

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 basic financial statements are free of material misstatement.

The management of City of Tigard, Oregon, is responsible for establishing and maintaining an internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of City of Tigard, Oregon, for the year ended June 30, 2004, we obtained an understanding of the internal control. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control. Accordingly, we do not express such an opinion.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

2003-2004 AUDITORS' COMMENTS AND DISCLOSURES (Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of City management, the City Council, and the State of Oregon, Secretary of State, Audits Division. However, this report is a matter of public record and its distribution is not limited.

ACCOUNTING RECORDS

The City's accounting records were adequate to meet the City's financial accounting requirements.

BUDGET TRANSACTIONS

Expenditures of the various funds were within authorized appropriations for the City's budget period.

2003-2004 and 2004-2005 BUDGETS

The budgets adopted by the City for the current and ensuing fiscal years were reviewed during the audit. Based on our testing, the budget preparation and adoption procedures followed by the City were in compliance with the Oregon Local Budget Law.

COLLATERAL SECURING BANK DEPOSITS

Based on our selective testing, collateral pledged by the depositories appeared to be adequate at all times during the year to meet requirements of Oregon Law. Each depository is required by ORS Chapter 295 to maintain securities having a value of not less than 25% of the face amount of the collateral certificate issued by the pool manager, for funds deposited in the depository in excess of the amounts insured by the Federal Deposit Insurance Corporation. Deposits in the State Local Government Investment Pool and are not required to be collateralized.

INVESTMENTS

The City's investments held during the year ending June 30, 2004, were reviewed and appeared to comply with the legal requirements pertaining to the investment of public funds contained in ORS 294.035.

PUBLIC CONTRACTS AND PURCHASING

The City's procedures for awarding public contracts were reviewed and appeared to be in compliance with ORS Chapter 279.

HIGHWAY FUNDS

We reviewed and tested, to the extent we considered necessary, the City's compliance with the requirements to expend highway funds exclusively for road, footpath, and bicycle path improvements and construction. We noted no noncompliance with those requirements.

2003-2004 AUDITORS' COMMENTS AND DISCLOSURES (Continued)

INSURANCE AND FIDELITY BONDS

Details concerning insurance and fidelity bond coverage were reviewed during the audit. The coverage provided appears to meet legal requirements. We do not have the professional expertise to state whether the insurance coverage is adequate.

STATUTORY BONDED DEBT LIMITATION

The City's statutory bonded debt limitation was not exceeded during the fiscal year 2002-2004. The debt outstanding appeared to be within this limit.

OUTSTANDING WARRANTS

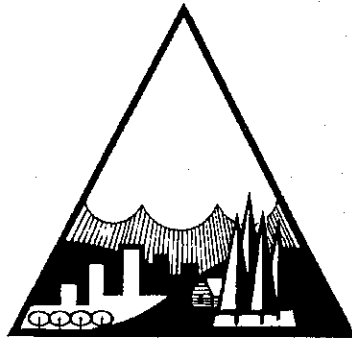
The City had no outstanding endorsed warrants at June 30, 2004.

PROGRAMS FUNDED FROM OUTSIDE SOURCES

We reviewed and tested, to the extent we considered necessary in the circumstances, transactions and reports relative to federal and state grant programs. Based on our testing, we noted no noncompliance with rules and regulations related to programs funded from outside sources.

Nawly, Rogers and Co; N.C.





CITY OF TIGARD

**SETTING THE STANDARD FOR SERVICE
EXCELLENCE**

We are committed to:

PARTICIPATION

Citizens and employees working together

INNOVATION

Consider and respect ideas

RESPONSIVENESS

Accurate and timely

COMMUNICATION

Open and clear

COURTESY

To all