

CITY OF DAMASCUS, OREGON
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

CITY OF DAMASCUS, OREGON
TABLE OF CONTENTS

INTRODUCTORY SECTION

Members of the City Council..... i

FINANCIAL SECTION

Independent Auditor’s Report..... 1
Management Discussion and Analysis 3

Basic Financial Statements

Government-Wide Financial Statements 8
 Statement of Net Assets..... 9
 Statement of Activities 10
Fund Financial Statements..... 11
 Balance Sheet – Governmental Funds..... 12
 Statement of Revenues, Expenditures, and Changes
 In Fund Balances – Governmental Funds..... 13
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities 14

Notes to the Basic Financial Statements 15

Required Supplementary Information

Budgetary Comparison Schedules 23
 Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:
 General Fund..... 24
 Community Development Fund..... 25
 Road Fund..... 26
 Street Fund 27

Notes to the Required Supplementary Information 28

Other Supplementary Information

Budgetary Comparison Schedules 29
 Schedule of Expenditures – Budget and Actual:
 General Fund..... 30
 Community Development Fund..... 31
 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:
 Parks Capital Project Fund..... 32
 TAN Fund 33

Other Schedules:
 Schedule of Property Tax Transactions and Outstanding Balances..... 34

Audit Comments and Disclosures Required by State Regulations 35

INTRODUCTORY SECTION

CITY OF DAMASCUS, OREGON
MEMBERS OF THE CITY COUNCIL
June 30, 2010

<u>City Council Members</u>	<u>Term Expires</u>
Jim Wright - Mayor Damascus, Oregon 97089	2010
Diana Helm Damascus, Oregon 97089	2012
Barb Ledbury Damascus, Oregon 97089	2012
Randy Shannon Damascus, Oregon 97089	2010
Marlo Dean Damascus, Oregon 97089	2012
Andrew Jackman Damascus, Oregon 97089	2010
David Jothen Damascus, Oregon 97089	2010

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Damascus, Oregon
Damascus, Oregon

We have audited the accompanying financial statements of the governmental activities and each major fund of City of Damascus, Oregon, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Damascus, Oregon'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 entity'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 City of Damascus, Oregon, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

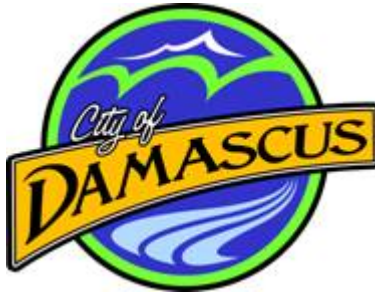
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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 City of Damascus, Oregon's basic financial statements as a whole. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information is the responsibility of management and were derived from and relate 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 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 financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Merina & Company".

Merina & Company, LLP
West Linn, Oregon
September 29, 2010



CITY OF DAMASCUS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of City of Damascus' financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the City's Financial Statements, which follows this MD&A. The City was formed on November 4, 2004. The 2005-06 fiscal year audit was the first audit for the City. This analysis will use the three most recent fiscal year audits for comparative purposes: 2007-08, 2008-09, and 2009-10.

FINANCIAL HIGHLIGHTS

- At June 30, 2010 the City's total assets exceeded its liabilities by \$5,511,763 (+\$859,449). There are two reasons for this increase: 1) the increase in available cash/investments at year end and 2) the increase in capital assets (purchase of Damascus Lane Annex and Anderson Road Construction). Reasons for increase in cash/investments are due to a combination of issues: revenues slightly higher than budgeted, success with grants, expenditures less than budgeted and others.
- The general fund reported an ending fund balance of \$3,415,877 (+\$340,271). Reasons for increase in cash/investments are due to a combination of issues: revenues slightly higher than budgeted, expenditures less than budgeted and others.
- The road fund reported an ending fund balance of \$856,602 (+\$8,306). During the previous fiscal years the city banked its state gas tax revenue, conducted city street studies and adopted a priority list of maintenance projects. In fiscal year 2009-10 the city completed several road maintenance projects and by fiscal year end, completed approximately one third of the Anderson Road construction project. Overall the city netted \$8,306 more in gas tax revenues compared to project expenses.
- The City began working on acquiring grants to fund planning projects in 2006. The City began receiving substantial benefits (\$650,994 in grant revenue) from this work during fiscal year 2008-09. In fiscal year 2009-10 grant revenue came in at \$108,911. Grant revenue offsets expenses for the Damascus comprehensive plan, public facilities plan, transportation system plan and other planning related projects. In addition, the city is receiving the benefits of other state transportation system planning grants that are administered by ODOT and do not show up in the city's financial statements. These grants addressed consultant and engineering expenses and reimbursed the city for staff time on the planning projects.
- Total property tax revenue was \$2,919,998 (+3.75%). Of the 3.75% increase approximately 1.25% is due to new construction (additional value added to the city's total assessed value) and the other 2.5% is from existing properties.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's annual financial report consists of a series of financial statements that show information for the City as a whole. The Statement of Net Assets and the Statement of Activities provides information about the activities of the City as a whole and presents a longer-term view of the City's finances. The fund financial statements are included later in the financial report. For our governmental activities, these statements tell how we financed our services in the short-term as well as what remains for future spending. Fund statements also may give you some insights into the City's overall financial health. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the general fund and other funds.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

These statements present information on the City's finances in a manner similar to private sector businesses. One of the most important questions asked about the City is, "Is the City as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Assets and Statement of Activities report information on the City as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets shows the City's assets and liabilities, with the difference between the two reported as net assets. All capital assets and long-term liabilities, and general government functions, are shown in the Statement of Net Assets.

The Statement of Activities shows revenues, expenses, and the change in net assets for the City as a whole. Revenues and expenses attributable to specific functions are segregated from general revenues, to display the extent to which general revenues support each function.

FUND FINANCIAL STATEMENTS

Governmental funds account for the same functions as are reported as governmental activities in the government-wide financial statements. The governmental fund reporting focuses on how money flows in and out of funds and the balances left at year end that are available for spending. They are reported using the accounting method called "modified accrual" accounting, which measures cash and all other financial assets that can be readily converted to cash. This information is essential for preparation of and compliance with annual budgets. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations following the government statements. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total assets, liabilities and net assets for fiscal years 2007-2008, 2008-09 and 2009-2010 were as follows:

	07/08	08/09	Change	09/10	Change
Assets					
Current and other assets	\$ 4,224,634	\$ 4,829,252	14%	\$ 5,165,910	7%
Capital assets	\$ 227,404	\$ 237,598	4%	\$ 794,654	334%
Total assets	\$ 4,452,038	\$ 5,066,850	14%	\$ 5,960,564	18%
Liabilities					
Current liabilities	\$ 428,715	\$ 414,536	-3%	\$ 448,801	8%
Total liabilities	\$ 428,715	\$ 414,536	-3%	\$ 448,801	8%
Net Assets					
Invested in capital assets: net of related debt	\$ 227,404	\$ 237,598	4%	\$ 794,654	334%
Net assets: restricted	\$ 0	\$ 0	0%	\$ 34,009	100%
Net assets: unrestricted	\$ 3,795,919	\$ 4,414,716	16%	\$ 4,683,010	6%
Total net assets	\$ 4,023,323	\$ 4,652,314	16%	\$ 5,511,763	18%

The City's revenue and expenses for fiscal years 2006-2007, 2007-2008 and 2008-2009 were as follows:

	07/08	08/09	Change	09/10	Change
Revenues					
General Revenues:					
Property Taxes	\$ 2,672,405	\$ 2,814,585	5%	\$ 2,919,998	4%
Other	\$ 1,452,030	\$ 1,425,730	-2%	\$ 1,346,974	-6%
Program Revenues:					
Grant Revenue	\$ 55,000	\$ 650,994	1084%	\$ 108,911	-83%
Total Revenues	\$ 4,179,435	\$ 4,891,309	17%	\$ 4,375,883	-11%
Expenses					
General Government	\$ 1,820,424	\$ 2,095,018	15%	\$ 2,342,440	12%
Community Development	\$ 1,075,111	\$ 1,396,243	30%	\$ 1,074,565	-23%
Highways and Streets	\$ 38,914	\$ 771,057	1881%	\$ 99,429	-87%
Public Safety (9-1-1)	\$ 26,574	-	-100%	-	-
Total Expenses	\$ 2,961,023	\$ 4,262,318	44%	\$ 3,516,434	-18%
Change in Net Assets	\$ 1,218,412	\$ 628,991	-48%	\$ 858,449	36%
Beginning Net Assets	\$ 2,804,911	\$ 4,023,323	43%	\$ 4,652,314	16%
Ending Net Assets	\$ 4,023,323	\$ 4,652,314	16%	\$ 5,511,763	18%

FUND FINANCIAL ANALYSIS

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Unreserved fund balance measures the City's net resources available for appropriation in the next fiscal year. As of June 30, 2010, total fund balance of all governmental funds was \$4,471,503. These amounts are available to use, in accordance with applicable restrictions on the nature of the expenditures.

Breakdown of total ending fund balances is as follows:

General Fund - \$3,415,877 of the total fund balance is in the city's general operational fund titled "general fund". Most of this fund balance is set and constrained by pre-determined factors including:

- Fund balance is the primary revenue used to operate the general fund and community development fund until tax revenues are received in the later part of November. City Council policy has been to carry forward enough money to prevent the need to borrow temporary funds. \$2,000,000 was used as the target to meet this goal. For reference, the actual expenditures through the first five months of fiscal year 2009-10 was approximately \$1,200,000. This amount could have been more if planning projects were to have occurred earlier in the fiscal year.
- Within this fund balance \$34,099 is P.E.G. (public, educational and governmental) funds that must be used to purchase equipment for televising meetings via cable.
- City Council has set a policy to fund capital land purchase to the extent possible. \$819,777 remained in this appropriation after purchasing the Damascus Lane Annex property and buildings.
- The City Council/Budget Committee approved \$250,000 for unappropriated ending fund balance "rainy day funds". This line item in the budget cannot be spent during the fiscal year unless there is a disaster.

Community Development Fund – \$33,200 ending fund balance in this fund is due to the recognition of accounts receivable at June 30, 2010. This fund balance is constrained by grant agreements.

Road Fund – The ending balance of the road fund is \$856,602. These funds are restricted by statute and can only be used on transportation projects.

Street Fund – The ending balance of the street fund is \$165,824, and is shown as unappropriated in FY 2010-11. City Council has established the Street Fund for receipt of all cable, telephone and solid waste franchises. The fund is dedicated to street improvements by City Council.

BUDGET VARIATIONS IN THE GENERAL FUND

No variations between adopted budget amounts and actual expenditure results were noted in the General Fund for the fiscal year 2009-10.

CAPITAL ASSETS

The City had \$794,654 invested in a broad range of capital assets at June 30, 2010. The Anderson Road project was the first significant capital improvement project for the City. Planning and engineering expenses of Anderson Road occurred in 2007-08, 2008-2009 and in 2009-10 and show up as construction in progress. The other significant factor in the increase in capital assets was the purchase of the Damascus Lane Annex for Public Works activities. See note 3 "Capital Assets" to the basic financial statements for further information.

DEBT ADMINISTRATION

The City did not have any long-term debt at June 30, 2010.

ECONOMIC FACTORS AND THE 2009-2010 BUDGET

- Inflationary trends in the Portland area (Portland CPI-U) have remained relatively low in recent years as follows:

Date	% Annual Increase
1 st half 2010	1.6%
2 nd half 2009	0.5%
1 st half 2009	-0.24%
2 nd half 2008	2.7%
1 st half 2008	3.9%
2 nd half 2007	3.9%
1 st half 2007	3.4%

- The State of Oregon does not have a sales tax, thus local governments are heavily dependent upon property taxes and self-generating revenues. Self-generating revenues (system development charges, permit fees, franchise fees and other miscellaneous fees) will require voter approval before enactment. Growth in property taxes is limited by a voter initiative that separated assessed value from real market value. Assessed values can grow by no more than 3% annually, thus capping tax growth on existing development. Property taxes account for approximately one-third of the City's revenue. Levying the same tax rate (\$3.30/\$1,000 of AV), new construction and annual 3% increase in assessed values net approximately \$140,000 per year more in property taxes. New construction accounted for approximately 37% (previously 50%) of the increase in 2009-2010. AV increase due to new construction is anticipated to be the same or decrease slightly in 2010-11.
- The city is scheduled to complete its comprehensive plan in November 2010 followed by the completion of its zoning ordinance and development code in 2011, then, depending on financing of infrastructure, and the overall economy; growth in property taxes due to new construction could increase significantly.
- The City has authorization to levy a property tax rate of \$3.88/\$1,000 of assessed value. The 2009-10 and 2010-11 and all previous budgets were established based on levying a rate of \$3.30/\$1,000.

The budget for 2010-2011 totals \$10,548,913 of which \$649,487 is shown as being unappropriated. The total budget is up 6.3% from the 2009-2010 fiscal year. This is due primarily to budgeted planning projects and road projects that were not completed were moved forward to the 2010-11 budget.

REQUESTS FOR INFORMATION

Our financial report is designed to provide our taxpayers, employees, investors and creditors with an overview of the City's finances. If you have any questions about this report or need any clarification of information please contact the Finance Department at the City of Damascus offices, located at: 19920 SE Hwy 212, Damascus, Oregon 97089.

BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

The basic financial statements include interrelated sets of financial statements as required by the GASB. The sets of statements include:

- Government-Wide Financial Statements
- Fund Financial Statements
 - Major Governmental Funds

In addition, the notes to the basic financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF DAMASCUS, OREGON
STATEMENT OF NET ASSETS
June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 4,708,059
Property taxes receivable	186,960
Due from other governments	21,568
Accounts receivable	<u>249,323</u>
Total current assets	<u>5,165,910</u>
Noncurrent assets:	
Capital assets:	
Nondepreciable	488,554
Depreciable, net	<u>306,100</u>
Total noncurrent assets	<u>794,654</u>
Total assets	<u><u>\$ 5,960,564</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	\$ 301,729
Compensated absences	67,682
Payroll liabilities	<u>79,390</u>
Total current liabilities	<u>448,801</u>
NET ASSETS	
Invested in capital assets, net of related debt	794,654
Restricted for:	
P.E.G.	34,099
Unrestricted	<u>4,683,010</u>
Total net assets	<u>5,511,763</u>
Total liabilities and net assets	<u><u>\$ 5,960,564</u></u>

CITY OF DAMASCUS, OREGON
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating Grants</u> <u>and Contributions</u>	<u>Net Expense Revenue and</u> <u>Change in Net Asset</u> <u>Total Governmental</u> <u>Activities</u>
Governmental activities:			
General government	\$ 2,342,440	\$ -	\$ (2,342,440)
Community development	1,074,565	108,911	(965,654)
Highways and streets	<u>99,429</u>	<u>-</u>	<u>(99,429)</u>
Total governmental activities	<u>\$ 3,516,434</u>	<u>\$ 108,911</u>	<u>(3,407,523)</u>
General revenues:			
Taxes:			
Property taxes			2,919,998
Franchise fees			373,245
Intergovernmental revenue			617,318
Interest income			39,144
Fines and penalties			315,686
Miscellaneous revenue			<u>1,581</u>
Total general revenues			<u>4,266,972</u>
Change in net assets			<u>859,449</u>
Net assets - beginning			<u>4,652,314</u>
Net assets - ending			<u>\$ 5,511,763</u>

FUND FINANCIAL STATEMENTS

Major Governmental Funds

General Fund

The General Fund accounts for City Council, Administration, Finance, Court and Public Works Department financial resources and expenditures. Primary source of revenues are property taxes, franchise fees, court revenue and intergovernmental revenue. Primary expenditures are for personal services and material and services.

Community Development Fund

The Community Development Fund organizes the efforts of the Planning and Engineering Department. The primary revenue sources are grants and transfers from the general fund. The primary expenditures are for personal services and materials and services.

Road Fund

The Road Fund accounts for the State of Oregon apportioned gasoline tax. The use of all State Highway Trust Fund dollars is restricted to road-related purposes according to Section 3 of Article I of the Oregon Constitution.

Street Fund

The Street Fund accounts for all road related revenue sources other than State Gas Tax. Revenue resources in FY 2009-10 were dedicated franchise fees and interest. Franchise fees were terminated as a result of the November 2008 election where voters rejected continuance of the fees.

CITY OF DAMASCUS, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	Community Development Fund	Road Fund	Street Fund	Total Governmental
<u>ASSETS</u>					
Cash and investments	\$ 3,692,592	\$ 27,903	\$ 821,740	\$ 165,824	\$ 4,708,059
Accounts receivable	181,261	33,200	34,862	-	249,323
Property taxes receivable	186,960	-	-	-	186,960
Due from other governments	21,568	-	-	-	21,568
 Total assets	 <u>\$ 4,082,381</u>	 <u>\$ 61,103</u>	 <u>\$ 856,602</u>	 <u>\$ 165,824</u>	 <u>\$ 5,165,910</u>

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable	\$ 301,729	\$ -	\$ -	\$ -	\$ 301,729
Payroll liabilities	51,487	27,903	-	-	79,390
Deferred revenue	313,288	-	-	-	313,288
 Total liabilities	 <u>666,504</u>	 <u>27,903</u>	 <u>-</u>	 <u>-</u>	 <u>694,407</u>

FUND BALANCES:

Reserved for:					
Roads	-	-	856,602	-	856,602
P.E.G.	34,099	-	-	-	34,099
Unreserved	<u>3,381,778</u>	<u>33,200</u>	<u>-</u>	<u>165,824</u>	<u>3,580,802</u>
 Total fund balance	 <u>3,415,877</u>	 <u>33,200</u>	 <u>856,602</u>	 <u>165,824</u>	 <u>4,471,503</u>
 Total liabilities and fund balance	 <u>\$ 4,082,381</u>	 <u>\$ 61,103</u>	 <u>\$ 856,602</u>	 <u>\$ 165,824</u>	

Amounts reported in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	794,654
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	313,288
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(67,682)</u>
	<u>\$ 5,511,763</u>

CITY OF DAMASCUS, OREGON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010

	General Fund	Community Development Fund	Road Fund	Street Fund	Total Governmental
REVENUES:					
Property taxes	\$ 2,910,879	\$ -	\$ -	\$ -	\$ 2,910,879
Licenses, franchises, permits	372,303	-	-	942	373,245
Intergovernmental	202,951	-	414,367	-	617,318
Fines & penalties	237,954	-	-	-	237,954
Grants	-	108,911	-	-	108,911
Miscellaneous	324	1,257	-	-	1,581
Interest	32,447	-	5,683	1,014	39,144
	<u>3,756,858</u>	<u>110,168</u>	<u>420,050</u>	<u>1,956</u>	<u>4,289,032</u>
Total revenues					
EXPENDITURES:					
Current:					
General government	2,285,131	-	-	-	2,285,131
Community development	-	1,074,565	-	-	1,074,565
Highways and streets	-	-	246,113	-	246,113
Capital outlay	289,899	-	165,631	-	455,530
	<u>2,575,030</u>	<u>1,074,565</u>	<u>411,744</u>	<u>-</u>	<u>4,061,339</u>
Total Expenditures					
Revenues over (under) expenditures	1,181,828	(964,397)	8,306	1,956	227,693
OTHER FINANCING SOURCES (USES):					
Transfers in	-	841,557	-	-	841,557
Transfers out	(841,557)	-	-	-	(841,557)
	<u>(841,557)</u>	<u>841,557</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)					
Net changes in fund balances	340,271	(122,840)	8,306	1,956	227,693
FUND BALANCES, BEGINNING	<u>3,075,606</u>	<u>156,040</u>	<u>848,296</u>	<u>163,868</u>	<u>4,243,810</u>
FUND BALANCES, ENDING	<u>\$ 3,415,877</u>	<u>\$ 33,200</u>	<u>\$ 856,602</u>	<u>\$ 165,824</u>	<u>\$ 4,471,503</u>

CITY OF DAMASCUS, OREGON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

Amounts reported in the statement of activities are different because:

Net change in fund balances \$ 227,693

The statement of revenues, expenditures, and changes in fund balances report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Depreciation	(45,158)	
Capital assets additions, net	602,214	557,056

Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds. 86,851

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (12,151)

Change in net assets of governmental activities \$ 859,449

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

(1) Summary of Significant Accounting Policies

The basic financial statements of the City of Damascus (City) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Description of Reporting Entity

The City of Damascus is a municipal corporation governed by an elected seven member council. Accounting principles generally accepted in the United States of America require that these financial statements present the City of Damascus (the primary government) and all component units, if any. Component units, as established by the Governmental Accounting Standards Board (GASB) Statement 39, are separate organizations that are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. For financial reporting purposes, the City has considered all potential component units for which it is financially accountable. Financial accountability may be evidenced by the ability to appoint the voting majority of the governing body, imposition of will by the primary government on the component unit, the existence of financial benefit or burden by the primary government, or intergovernmental relationships so close that the exclusion from the financial reporting entity would render the financial statements of the City incomplete or misleading. There were no component units that were required to be included in these financial statements.

B. Basis of Presentation

The City's financial operations are presented at both the government-wide and fund financial levels. All activities of the City are categorized as governmental.

Government-wide financial statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include all the financial activities of the City. Eliminations have been made to minimize the double-counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

Fund financial statements

These 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, and fiduciary. Currently the City has only governmental fund types.

The GASB 34 model sets forth minimum criteria (percentage of the assets liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. For purposes of presentation, all of the City's funds are presented as major funds.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded with the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

A deferred revenue liability arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable deferred revenue consists primarily of uncollected property taxes and assessments not deemed available to financial operation of the current period. In the government-wide Statement of Net Assets, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the Governmental Fund Balance Sheet for unavailable deferred revenue is eliminated. Note that deferred revenues also arise outside the scope of measurement focus and basis of accounting, such as when the City receives resources

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

before it has a legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as fund liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expended to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the Government-wide statements, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the Government-wide presentation.

D. Cash and Investments

Cash on the balance sheet include bank demand deposits.

Investments included in cash and cash investments are reported at fair value. The City invests in the State of Oregon Local Government Investment Pool, which is authorized by Oregon Revised Statutes. Interest earned from pooled investments is allocated based on a fund's portion of the total investment balance. The City maintains depository insurance under federal depository insurance funds and state and financial institution collateral pools for its cash deposits and investments, except the Local Government Investment Pool, which is exempt from statutes requiring such insurance.

E. Receivables

Uncollected property taxes receivable collected within sixty days following year end are considered measurable and available and are recognized as revenues. All other uncollected property taxes receivable are offset by deferred revenue and, accordingly, have not been recorded as revenue. Property taxes are assessed and become a lien against the property as of July 1 each year and are payable in three installments on November 15, February 15, and May 15 following the lien date. Taxes unpaid and outstanding on May 16 are considered delinquent.

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

Receivables for grants and state shared revenues, included in accounts receivable are recorded as revenues in governmental fund types as earned.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental type activities column in the government-wide financial statements. Capital assets are charged to expenditures as purchased in the governmental fund statements. Capital assets are recorded at historical cost, or estimated historical cost if actual cost. Donated assets are recorded at their estimated fair market value at the time received.

Capital assets are defined by the City as assets with an initial, individual cost of \$10,000 or more, and having useful lives extending beyond a single reporting period. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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

Buildings and Improvements	20 to 40 years
Furniture and Equipment	5 to 10 years

G. Compensated Absences

Accumulated vested vacation pay is accrued as it is earned. For governmental funds, accumulated vested vacation pay is maintained separately and represents a reconciling item between the fund-level and government-wide presentations. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

H. Net Assets and Fund Equity

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Currently the City has no capital debt. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. All of the City's net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

I. Accounting Estimates

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

(2) Cash and Investments

At June 30, 2010, investments included in cash and investments consist of the following:

	<u>Weighted Average Maturity (Years)</u>	<u>Fair Value</u>
Investments in the State Treasurer's Local Government Investment Pool	<u>0.00</u>	<u>\$ 4,292,669</u>
Total cash equivalent	<u>0.00</u>	<u>\$ 4,292,669</u>

A. Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the Oregon Short-Term Fund Board. The City does not have any investments that have a maturity date.

B. Credit Risk

State statutes authorize the City to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the State Treasurer's Oregon Local Government Investment Pool, among others. The City has no investment policy that would further limit its investment choices.

C. Concentration of Credit Risk

The City's policy is to follow state statutes governing cash management. Statutes authorize the City to invest in banker's acceptances, time certificates of deposit, repurchase agreements, obligations of the United States and its agencies and instrumentalities, and the Oregon State Treasurer's Local Government Investment Pool.

The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations, but is not regulated by other laws, organizations or regulations. The reported value of

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

the Pool is the same as the fair value of Pool shares. Investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). The Pool is not registered with the SEC as an investment company. The Pool is unrated.

The City has a concentration in the Local Government Investment Pool representing 95% of cash and cash equivalents at June 30, 2010.

D. Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. Oregon Revised Statutes require the depository institution to pledge collateral against any public funds deposits in excess of deposit insurance amounts. Depositories are required to pledge collateral valued from 10% to 110% of their quarter-end public fund deposits. In accordance with state statutes, the State Treasurer allows certain depository banks to be the custodian with respect to their own pledge collateral securities. For these institutions, the State Treasurer is the collateral pool manager. The City's total bank balance, at June 30, 2010, shown on the bank statements was \$436,442. Of these deposits, \$343,707 was covered by federal depository insurance. The remaining balance of \$92,735 was uninsured, but collateralized with securities held by the pledging financial institution's agent, but not in the government's name. This City's deposits are in compliance with state statutes.

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

(3) Capital Assets

For the year ended June 30, 2010 was as follows:

Primary Government	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, not being depreciated:				
Land - Damascus Lane Annex	\$ -	\$ 84,071	\$ -	\$ 84,071
Construction in progress	92,168	312,315	-	404,483
Total capital assets, not being depreciated	92,168	396,386	-	488,554
Capital assets, being depreciated:				
Buildings and improvements	-	205,828	-	205,828
Furniture and equipment	228,342	-	-	228,342
Vehicles	24,043	-	-	24,043
Total capital assets being depreciated	252,385	205,828	-	458,213
Total assets	344,553	602,214	-	946,767
Less accumulated depreciation for:				
Buildings and improvements	-	(620)	-	(620)
Furniture and equipment	(105,888)	(42,134)	-	(148,022)
Vehicles	(1,067)	(2,404)	-	(3,471)
Total accumulated depreciation	(106,955)	(45,158)	-	(152,113)
Total capital assets, being depreciated, net	145,430	160,670	-	306,100
Governmental activities capital assets, net	\$ 237,598	\$ 557,056	\$ -	\$ 794,654
Depreciation by Function:				
General Government	45,158			
	\$ 45,158			

(4) Interfund Transfers

	Transfer In	Transfer Out
General Fund	\$ -	\$ 841,557
Community Development Fund	841,557	-
Total Transfers	\$ 841,557	\$ 841,557

Interfund transfers are used to pay for administrative services provided by the general fund and contribute to the cost of capital projects.

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

(5) Pension Plan

The City has available to its full-time employees a 401K qualified retirement plan.

The plan is a defined contribution plan, where by council resolution the City contributes 15% of earnings on behalf of each participant. The employee is not required to contribute, but may elect to contribute 1%-20% of that employees earnings each year. The total amount contributed to the plan by the City in the current fiscal year was \$164,286, and the amount contributed by the participating employees was \$18,495.

Benefits vest 20% after one year, 40% after two years, 60% after three years, 80% after four years and 100% after five years of permanent employment. Under the plan employees may not withdraw funds until reaching age 55.

(6) Risk Management

The City is exposed to various risks of loss related to: torts; theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City purchases commercial insurance to minimize its exposure to these risks. There has been no reduction in commercial insurance coverage from fiscal year 2009 to 2010. Settled claims have not exceeded this commercial coverage for any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements.

- Budgetary Comparison Schedules
 - General Fund
 - Community Development Fund
 - Road Fund
 - Street Fund

CITY OF DAMASCUS, OREGON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		Positive (Negative)
REVENUES:				
Property taxes	\$ 2,779,942	\$ 2,779,942	\$ 2,910,879	\$ 130,937
Licenses, franchises, permits	350,000	350,000	372,303	22,303
Intergovernmental	206,500	206,500	202,951	(3,549)
Fines & penalties	197,500	197,500	237,954	40,454
Miscellaneous	3,000	3,000	324	(2,676)
Interest	70,000	70,000	32,447	(37,553)
Total revenues	<u>3,606,942</u>	<u>3,606,942</u>	<u>3,756,858</u>	<u>149,916</u>
EXPENDITURES:				
Current:				
General government	2,659,147	2,659,147	2,285,131	374,016
Capital outlay	1,144,676	1,144,676	289,899	854,777
Contingency	200,000	200,000	-	200,000
Total expenditures	<u>4,003,823</u>	<u>4,003,823</u>	<u>2,575,030</u>	<u>1,428,793</u>
Revenues over (under) expenditures	(396,881)	(396,881)	1,181,828	1,578,709
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>1,540,219</u>	<u>1,540,219</u>	<u>(841,557)</u>	<u>(2,381,776)</u>
Total other financing sources (uses)	<u>1,540,219</u>	<u>1,540,219</u>	<u>(841,557)</u>	<u>(2,381,776)</u>
Net changes in fund balances	1,143,338	1,143,338	340,271	(803,067)
FUND BALANCE, BEGINNING	<u>2,187,100</u>	<u>2,187,100</u>	<u>3,075,606</u>	<u>888,506</u>
FUND BALANCE, ENDING	<u>\$ 3,330,438</u>	<u>\$ 3,330,438</u>	<u>\$ 3,415,877</u>	<u>\$ 85,439</u>

**CITY OF DAMASCUS, OREGON
COMMUNITY DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Grants	\$ 178,124	\$ 242,431	\$ 108,911	\$ (133,520)
Miscellaneous	50	50	1,257	1,207
Total Revenues	<u>178,174</u>	<u>242,481</u>	<u>110,168</u>	<u>(132,313)</u>
EXPENDITURES:				
Current:				
Community development	1,543,393	1,607,700	1,074,565	533,135
Contingency	150,000	150,000	-	150,000
Total Expenditures	<u>1,693,393</u>	<u>1,757,700</u>	<u>1,074,565</u>	<u>683,135</u>
Revenues over (under) expenditures	(1,515,219)	(1,515,219)	(964,397)	550,822
OTHER FINANCING SOURCES (USES):				
Transfers in	1,515,219	1,515,219	841,557	(673,662)
Total other financing sources (uses)	<u>1,515,219</u>	<u>1,515,219</u>	<u>841,557</u>	<u>(673,662)</u>
Net changes in fund balances	-	-	(122,840)	(122,840)
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>156,040</u>	<u>156,040</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,200</u>	<u>\$ 33,200</u>

CITY OF DAMASCUS, OREGON
ROAD FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 396,144	\$ 396,144	\$ 414,367	\$ 18,223
Interest	10,000	10,000	5,683	(4,317)
Total revenues	<u>406,144</u>	<u>406,144</u>	<u>420,050</u>	<u>13,906</u>
EXPENDITURES:				
Materials and service	435,000	435,000	246,113	188,887
Capital outlay	<u>900,000</u>	<u>900,000</u>	<u>165,631</u>	<u>734,369</u>
Total expenditures	<u>1,335,000</u>	<u>1,335,000</u>	<u>411,744</u>	<u>923,256</u>
Revenues over (under) expenditures	<u>(928,856)</u>	<u>(928,856)</u>	<u>8,306</u>	<u>937,162</u>
Net changes in fund balances	(928,856)	(928,856)	8,306	937,162
FUND BALANCES, BEGINNING	<u>1,060,438</u>	<u>1,060,438</u>	<u>848,296</u>	<u>(212,142)</u>
FUND BALANCES, ENDING	<u>\$ 131,582</u>	<u>\$ 131,582</u>	<u>\$ 856,602</u>	<u>\$ 725,020</u>

CITY OF DAMASCUS, OREGON
STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Licenses, franchises, permits	\$ -	\$ -	\$ 942	\$ 942
Interest	1,200	1,200	1,014	(186)
Total revenues	1,200	1,200	1,956	756
EXPENDITURES:				
Materials and services	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Revenues over (under) expenditures	1,200	1,200	1,956	756
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net changes in fund balances	1,200	1,200	1,956	756
FUND BALANCES, BEGINNING	152,719	152,719	163,868	11,149
FUND BALANCES, ENDING	<u>\$ 153,919</u>	<u>\$ 153,919</u>	<u>\$ 165,824</u>	<u>\$ 11,905</u>

Budgetary Information

On or before June 30 of each year, the City enacts a resolution approving the budget, appropriating the expenditures, and levying the property taxes. Prior to enacting this resolution, the proposed budget is presented to a budget committee consisting of members of the City Council and a like number of interested citizens. The budget committee presents the budget to the City Council for budget hearings prior to enactment of the resolution. The City budgets all funds as required by Oregon Local Budget Law.

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Expenditure categories of personal services, materials and services, capital outlay, debt service transfers, and contingency are the legal level of control for all funds. The detail budget document, however, is required to contain more specific information for the above mentioned expenditure categories.

Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and adoption by the City Council. Management may modify original and supplemental budgets by the use of appropriation transfers between the legal levels of control within a fund. Such transfers require approval by the City Council. The City had appropriation transfers during the year-ended June 30, 2010. Appropriations lapse as of year-end.

OTHER SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedules include:

- Budgetary Comparison
 - General Fund - Expenditures
 - Community Development Fund - Expenditures
 - Parks Capital Project Fund - Revenues, Expenditures, and Changes in Fund Balance
 - TAN Fund - Revenues, Expenditures, and Changes in Fund Balance
- Other Financial Schedules

Nonmajor Governmental Funds

Special Revenue Funds

These funds account for revenue derived from specific taxes or other earmarked revenue sources, which are legally restricted to expenditures for specified purposes. Funds included in this category are:

TAN Fund

The Tax Anticipation Note Fund accounts for short-term borrowing. The primary revenue source is loan proceeds. The only expenditures of the fund are debt service interest payments.

Capital Projects Funds

These funds are used to account for financial resources to be used for the acquisition or construction of major capital items and facilities. Funds included in this category are:

Parks Capital Project Fund

The Parks Capital Project Fund accounts for all resources and expenditures for the purpose of acquiring capital facilities related to parks. Primary sources of revenues are bonds, grants, and transfers. Primary expenditures are capital outlay.

CITY OF DAMASCUS, OREGON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
EXPENDITURES:				
City council				
Materials and services	\$ 29,000	\$ 29,000	\$ 18,272	\$ 10,728
Total city council	<u>29,000</u>	<u>29,000</u>	<u>18,272</u>	<u>10,728</u>
Administration				
Personal service	387,676	387,676	354,659	33,017
Materials and services	119,479	119,479	92,426	27,053
Total administration	<u>507,155</u>	<u>507,155</u>	<u>447,085</u>	<u>60,070</u>
Finance				
Personal service	207,562	207,562	193,350	14,212
Materials and services	62,750	62,750	15,315	47,435
Total finance	<u>270,312</u>	<u>270,312</u>	<u>208,665</u>	<u>61,647</u>
Public Works				
Personal service	152,004	152,004	142,753	9,251
Materials and services	57,500	57,500	7,747	49,753
Total Public Works	<u>209,504</u>	<u>209,504</u>	<u>150,500</u>	<u>59,004</u>
Court				
Personal service	133,181	133,181	120,901	12,280
Materials and services	61,369	61,369	59,108	2,261
Total Court	<u>194,550</u>	<u>194,550</u>	<u>180,009</u>	<u>14,541</u>
Non-departmental				
Materials and services	1,448,626	1,448,626	1,280,600	168,026
Capital outlay	1,144,676	1,144,676	289,899	854,777
Total non-departmental	<u>2,593,302</u>	<u>2,593,302</u>	<u>1,570,499</u>	<u>1,022,803</u>
Total expenditures	<u>\$ 3,803,823</u>	<u>\$ 3,803,823</u>	<u>\$ 2,575,030</u>	<u>\$ 1,228,793</u>

**CITY OF DAMASCUS, OREGON
COMMUNITY DEVELOPMENT FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
EXPENDITURES:				
Planning				
Personal service	\$ 513,969	\$ 513,969	\$ 471,597	\$ 42,372
Materials and services	248,802	248,802	197,284	51,518
Total planning department	<u>762,771</u>	<u>762,771</u>	<u>668,881</u>	<u>93,890</u>
Engineering				
Materials and services	665,300	729,607	303,040	426,567
Total engineering	<u>665,300</u>	<u>729,607</u>	<u>303,040</u>	<u>426,567</u>
Non-departmental				
Materials and services	115,322	115,322	102,644	12,678
Total non-departmental	<u>115,322</u>	<u>115,322</u>	<u>102,644</u>	<u>12,678</u>
Total expenditures	<u>\$ 1,543,393</u>	<u>\$ 1,607,700</u>	<u>\$ 1,074,565</u>	<u>\$ 533,135</u>

**CITY OF DAMASCUS, OREGON
PARKS CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Grants	\$ 724,997	\$ 724,997	\$ -	\$ (724,997)
Total revenues	724,997	724,997	-	(724,997)
EXPENDITURES:				
Capital outlay	724,997	724,997	-	724,997
Total expenditures	724,997	724,997	-	724,997
Revenues over (under) expenditures	-	-	-	-
Net changes in fund balances	-	-	-	-
FUND BALANCE, BEGINNING	-	-	-	-
FUND BALANCE, ENDING	\$ -	\$ -	\$ -	\$ -

CITY OF DAMASCUS, OREGON
TAN FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
EXPENDITURES:				
Debt service	\$ 25,000	\$ 25,000	\$ -	\$ 25,000
Total expenditures	25,000	25,000	-	25,000
Revenues over (under) expenditures	(25,000)	(25,000)	-	25,000
OTHER FINANCING SOURCES (USES):				
Transfers in	25,000	25,000	-	(25,000)
Total other financing sources (uses)	25,000	25,000	-	(25,000)
Net changes in fund balances	-	-	-	-
FUND BALANCES, BEGINNING	-	-	-	-
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF DAMASCUS, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
For the Fiscal Year Ended June 30, 2010

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2009</u>	<u>2009-10 Levy</u>	<u>Discount</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Uncollected Balance June 30, 2010</u>
2009-10		\$ 3,003,040	\$ (72,235)	\$ (6,748)	\$ (2,812,535)	\$ 111,522
2008-09	124,191	0	47	(2,156)	(72,658)	49,424
2007-08	36,001	0	16	(654)	(16,603)	18,760
2006-07	12,963	0	9	(458)	(6,537)	5,977
2005-06	4,050	0	8	(470)	(2,310)	1,278
Prior years	0	0	0	0	0	0
Totals	<u>\$ 177,205</u>	<u>\$ 3,003,040</u>	<u>\$ (72,155)</u>	<u>\$ (10,486)</u>	<u>\$ (2,910,643)</u>	<u>\$ 186,961</u>

Taxes receivable classified by fund:
 General Fund

\$ 186,961

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

CITY OF DAMASCUS, OREGON
AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS
June 30, 2010

Introduction

Oregon Administrative Rules 162-10-000 through 162-10-330 incorporate the Minimum Standards for Audits of Oregon Municipal Corporations. These standards, 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 the preceding section of this report. Required comments and disclosures related to our audit of such statements and schedules are contained in this section.

Internal Accounting Control

We have audited the financial statements of City of Damascus, Oregon for the year ended June 30, 2010 and have issued our report thereon dated September 29, 2010.

The management of City of Damascus, Oregon is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure 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 financial statements in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Also, projection of any evaluation of the structure 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 operations of policies and procedures may deteriorate.

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

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 significant deficiency is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 City of Damascus, Oregon's financial statements will not be prevented, or detected and corrected, on a timely basis.

CITY OF DAMASCUS, OREGON
AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS
June 30, 2010

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

In connection with our audit:

Accounting Records

We found the accounting records of the City to be adequate for audit purposes considering the size and complexity of the municipal corporation.

Collateral

The City was in compliance with ORS Chapter 295 regarding collateral securing deposits for fiscal year ended June 30, 2010.

Indebtedness

The City currently does not have any debt or bonded debt.

Budgets

We reviewed budgets adopted by the City for the current and ensuing fiscal year. Budget preparation and adoption procedures followed by the City appear to be in compliance with Oregon Local Budget Law (ORS Chapter 294.305 to 294.520)

Insurance and Fidelity Bonds

We reviewed policies relating to insurance and fidelity bond coverage and ascertained that such policies appeared to be in force. We are not competent by training to state whether the insurance policies covering City owned property in force at June 30, 2010 are adequate.

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. The City appeared to have appropriate procedures for making expenditures on behalf of, and reporting for, such programs.

Highway Funds

The City was in compliance with legal requirements pertaining to the use of Highway Funds.

Investments

The City's investments for the year ended June 30, 2010 were tested and appear to be in compliance with Oregon Revised Statutes Chapter 295 with regard to legal restrictions pertaining to the investment of public funds.

CITY OF DAMASCUS, OREGON
AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS
June 30, 2010

Public Contracts and Purchasing

We reviewed and tested the City's procedures for awarding public contracts. The City appears to be in compliance with the cost accounting guidelines developed by the State of Oregon Executive Department with regard to the City's construction projects and ORS Chapter 279 in the awarding of public contracts and the construction of public improvements.

Independently Elected Officials

The Independently Elected Officials of the City do not receive and disburse funds. Accordingly a Schedule of Accountability for Independently Elected Officials is not included.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
September 29, 2010