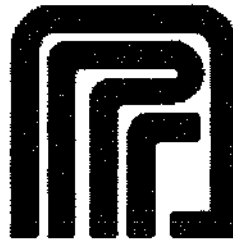


**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

FINANCIAL REPORT

FOR THE YEAR 2005-2006



**Pauly, Rogers, and Co., P.C.
12700 SW 72nd Ave
Tigard, OR 97223**

CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON

2005-2006
FINANCIAL REPORT

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CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON

2005-2006
FINANCIAL REPORT

<u>CITY COUNCIL</u>	<u>TERM EXPIRES</u>
Dee Wescott, Mayor	2009
John Hartsock, Mayor Pro Tem	2007
Barb Ledbury	2009
Randy Shannon	2007
Jim Wright	2007

All council members receive mail at the address shown below.

ADMINISTRATION

Dan R. Bartlett, Interim City Manager
19920 SE Hwy 212
Damascus, OR 97089

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**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

August, 25 2006

Mayor and City Council
City of Damascus
Damascus, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Damascus, Clackamas County, Oregon, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. The basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Damascus at June 30, 2006 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed on the table of contents, is not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Damascus's basic financial statements. The supplementary information, including budgetary comparison schedules listed in the table of contents, have 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.

Pauly, Rogers and Co., P.C.
PAULY, ROGERS AND CO., P.C.

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**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, 2006. Please read it in conjunction with the City's Financial Statements, which follows this MD&A. The City was formed during the 2004-05 fiscal year on November 4. A financial review was performed by the City's auditor for this period. The 2005-06 fiscal year audit is the first audit for the City. Comparative information is shown in this MD&A but is not information that is useable due to the comparison to the partial year start up period. Comparative information will be presented in future years.

FINANCIAL HIGHLIGHTS

- At June 30, 2006, the City's assets exceeded its liabilities by \$1,403,457.
- The general fund reported an ending fund balance of \$837,146.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's annual 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 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>	<u>CHANGE</u>
Assets			
Current and other assets	\$ 1,529,855	\$ 60,978	2409%
Capital Assets	90,417	-	100%
Total assets	<u>1,620,272</u>	<u>60,978</u>	2557%
Liabilities			
Current liabilities	216,815	233,569	-7%
Total liabilities	<u>216,815</u>	<u>233,569</u>	-7%
Net Assets			
Net assets: unrestricted	1,403,457	(172,591)	-913%
Total net assets	<u>\$ 1,403,457</u>	<u>\$ (172,591)</u>	-913%

The City's revenue and expenses for fiscal years 2005-2006 and 2004-05, were as follows:

	<u>2006</u>	<u>2005</u>	<u>CHANGE</u>
Revenues			
Total Revenues	\$ 3,383,553	\$ -	100%
Expenses			
General Government	1,428,059	172,591	727%
Development	351,804	-	100%
Interest	27,642	-	100%
Total Expenses	<u>1,807,505</u>	<u>172,591</u>	947%
Change in Net Assets	1,576,048	(172,591)	-1013%
Beginning Net Assets	(172,591)	-	100%
Ending Net Assets	<u>\$ 1,403,457</u>	<u>\$ (172,591)</u>	-913%

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, 2006, total fund balance of the governmental funds was \$1,260,594. These amounts are available to use, in accordance with applicable restrictions on the nature of the expenditures.

General Fund - \$837,146 is the general fund's ending fund balance, and is the primary resource used to operate the general fund and community development fund until tax revenues are received in the later part of November. This amount is predicted to be adequate for the 2006-07 fiscal year, thus eliminating the need to borrow funds.

Road Fund -- The fund balance is \$423,448 in the road fund. These funds are restricted by statute.

BUDGET VARIATIONS IN THE GENERAL FUND

Typically a budget is established by reviewing expenditure and revenue history along with estimating costs of council goals. The 2005-06 fiscal year budget was established without history and with limited time to establish goals. To the credit of the budget committee and budget officer there are only minor differences in budget versus actual expenditures for 2005-2006. Only three transfers were required to insure the city was in compliance with Oregon budget law.

CAPITAL ASSETS

The City had \$90,417 invested in a broad range of capital assets at June 30, 2006. See note 4 to the basic financial statements for further information.

DEBT ADMINISTRATION

The City did not have any long-term debt at June 30, 2006.

2006-2007 BUDGET

The budget for 2006-2007 has total appropriations of \$6,382,255 and total unappropriated amounts of \$933,463.

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.

SIGNED: James D O'Sell

TITLE: Finance Director

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CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON

STATEMENT OF NET ASSETS
June 30, 2006

ASSETS:

Cash and Investments	\$ 1,396,918
Property Taxes Receivable	59,602
Accounts Receivable	73,335
Capital Assets, net	<u>90,417</u>
Total Assets	<u>1,620,272</u>

LIABILITIES

Accounts Payable	193,727
Payroll Liabilities	21,539
Accrued Vacation	<u>1,549</u>
Total Liabilities	<u>216,815</u>

NET ASSETS

Invested in Capital Assets, net of related debt	90,417
Restricted for Roads	423,448
Unrestricted	<u>889,592</u>
Total Net Assets	<u>\$ 1,403,457</u>

See accompanying notes to basic financial statements

**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

**STATEMENT OF ACTIVITIES
For the year ended June 30, 2006**

FUNCTIONS	EXPENSES	PROGRAM REVENUES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
General Government	\$ 1,428,059	\$ 0	\$ (1,428,059)
Community Development	351,804	0	(351,804)
Interest	27,642	0	(27,642)
Total Governmental Activities	<u>\$ 1,807,505</u>	<u>\$ 0</u>	<u>(1,807,505)</u>

General Revenues:

Taxes	2,854,849
Franchise Fees	391,096
Intergovernmental Revenues	97,571
Interest and Miscellaneous	<u>40,037</u>

Total General Revenues 3,383,553

Changes in Net Assets 1,576,048

Net Assets - Beginning (172,591)

Net Assets - Ending \$ 1,403,457

See accompanying notes to basic financial statements

**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006**

	GENERAL FUND	ROAD FUND	9-1-1 FUND	TOTAL
ASSETS:				
Cash and Investments	\$ 1,013,450	\$ 383,468	\$ 0	\$ 1,396,918
Property Taxes Receivable	59,602	0	0	59,602
Accounts Receivable	21,055	39,980	12,300	73,335
Total Assets	\$ 1,094,107	\$ 423,448	\$ 12,300	\$ 1,529,855
LIABILITIES AND FUND BALANCE:				
LIABILITIES:				
Accounts Payable	\$ 181,427	\$ 0	\$ 12,300	\$ 193,727
Payroll Liabilities	21,539	0	0	21,539
Deferred Revenue	53,995	0	0	53,995
Total Liabilities	256,961	0	12,300	269,261
FUND BALANCE:				
Fund Balances:				
Unreserved	837,146	423,448	0	1,260,594
Total Fund Balance	837,146	423,448	0	1,260,594
Total Liabilities and Fund Balances	\$ 1,094,107	\$ 423,448	\$ 12,300	\$ 1,529,855

See accompanying notes to basic financial statements

CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS
June 30, 2006

Total Fund Balances - Governmental Funds	\$ 1,260,594
Capital assets are not current financial resources and therefore are not reported in the governmental funds. (Net of depreciation).	90,417
A portion of the City's property taxes are collected after year-end but are not available soon enough to pay for the current years' operations, and therefore are not reported as revenue in the governmental funds.	53,995
Accrued compensated absences are not current financial requirements and therefore are not reported in the governmental funds.	<u>(1,549)</u>
Net Assets	<u>\$ 1,403,457</u>

See accompanying notes to basic financial statements

**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006**

	GENERAL FUND	COMMUNITY DEVELOPMENT FUND	ROAD FUND	9-1-1 FUND	TAN FUND	TOTALS
REVENUES:						
Taxes	\$ 2,352,501	\$ 0	\$ 418,084	\$ 30,269	\$ 0	\$ 2,800,854
Franchise Fees	391,096	0	0	0	0	391,096
Intergovernmental	97,571	0	0	0	0	97,571
Interest	28,874	13	5,364	35	0	34,286
Miscellaneous	5,751	0	0	0	0	5,751
Total Revenues	2,875,793	13	423,448	30,304	0	3,329,558
EXPENDITURES:						
Personal Services	186,716	68,615	0	0	0	255,331
Materials & Services	1,241,899	280,711	0	30,304	0	1,552,914
Debt Service	0	0	0	0	735,959	735,959
Capital Outlay	55,770	4,716	0	0	0	60,486
Total Expenditures	1,484,385	354,042	0	30,304	735,959	2,604,690
Excess of Revenues Over, -Under Expenditures	1,391,408	(354,029)	423,448	0	(735,959)	724,868
Other Financing Sources, -Uses						
Line of Credit Proceeds	0	0	0	0	504,917	504,917
Transfers In	0	354,029	0	0	231,042	585,071
Transfers Out	(585,071)	0	0	0	0	(585,071)
Total Other Financing Sources, -Uses	(585,071)	354,029	0	0	735,959	504,917
Net Change in Fund Balance	806,337	0	423,448	0	0	1,229,785
Beginning Fund Balance	30,809	0	0	0	0	30,809
Ending Fund Balance	\$ 837,146	\$ 0	\$ 423,448	\$ 0	\$ 0	\$ 1,260,594

See accompanying notes to basic financial statements

CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON

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

For the year ended June 30, 2006

Net Changes in Fund Balances - Governmental Funds	\$ 1,229,785
<p>Property tax revenue in the Statement of Activities differs from the amount reported in the governmental funds. In the governmental funds, which are on the modified accrual basis, the City recognizes a deferred revenue for all property taxes levied but not received, however in the Statement of Net Assets, there is no deferred revenue and the full property tax receivable is accrued.</p>	
	53,995
<p>Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:</p>	
Depreciation Expense	(4,716)
Capital asset additions	95,133
<p>Accrued compensated absences are not current financial requirements and therefore are not reported in the governmental funds.</p>	
	(1,549)
<p>Repayment of principal on a line of credit is classified as an expenditure in the governmental funds, and proceeds from a line of credit draw-down is classified as a revenue in the governmental funds, however, in the Statement of Activities, re-payment of debt is a reduction to liabilities and increases net assets and new debt issued increases liabilities and decreases net assets. Net line of credit transactions are:</p>	
	<u>203,400</u>
Change in Net Assets	<u>\$ 1,576,048</u>

See accompanying notes to basic financial statements

**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (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. THE FINANCIAL REPORTING ENTITY

The City of Damascus is a municipal corporation governed by an elected five 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. The City of Damascus has no component units.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS)

The Statement of Net Assets and Statements of Activities display information about the reporting government as a whole.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions."

Program Revenues included in the Statement of Activities derive directly from the program itself or from parties outside the City's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

The City reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Interest of general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified.

FUND FINANCIAL STATEMENTS

The accounts of the City are organized and operated on the basis of fund accounting. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION (CONTINUED)

GOVERNMENTAL FUND TYPES

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 government 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 and claims and judgments, are recorded only when payment is due.

C. DESCRIPTION OF FUNDS

The City reports the following major funds:

GENERAL FUND

The general fund accounts for City Council, Administration and Finance Department financial resources and expenditures. Primary source of revenues are Property Tax, Franchise Fees 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.

9-1-1 FUND

The 9-1-1 Tax Fund is used as a pass-through fund. 9-1-1 emergency telephone tax revenues are collected and then paid to Clackamas County. The County provides 9-1-1 services for the City.

TAN FUND

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

**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

D. BUDGET

A budget is prepared and legally adopted for each governmental fund type on the modified accrual basis of accounting in the main program categories required by the Oregon Local Budget Law. The budgets for all budgeted funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

The City begins its budget process early in each fiscal year with the establishment of the budget committee. Recommendations are developed through late winter with the budget committee approving the budget in early spring. Public notices of the budget hearing are published generally in early spring with a public hearing being held approximately three weeks later. The Council may amend the budget prior to adoption, however, budgeted expenditures for each fund may not be increased by more than ten percent. The budget is then adopted, appropriations are made and the tax levy declared no later than June 30th.

Expenditure budgets are appropriated at the following levels of control for:

<u>GENERAL FUND</u>	<u>ALL OTHER FUNDS</u>
City Council	Personal Services
Administration	Materials and Services
Finance	Debt Service
Non-Departmental	Capital Outlay
Interfund Transfers	Interfund Transfers
Operating Contingency	Operating Contingency

Expenditures can not legally exceed the above appropriation levels except in the case of restricted revenues which could not be estimated at the time of budget adoption. Appropriations lapse at the fiscal year end. Management may amend line items in the budget without Council approval as long as appropriation levels (the legal level of control) are not changed. Supplemental appropriations may occur if the Council approves them due to a need which exists which was not determined at the time the budget was adopted. Expenditures of the various funds were within authorized appropriations except for the Tax Anticipation Note Fund, which was over-expended by \$485,959.

E. PROPERTY TAXES RECEIVABLE

In the Government-Wide Financial Statements uncollected property taxes are recorded on the Statement of Net Assets. In the Fund Financial Statements property taxes that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as deferred revenue because it is not deemed available to finance operation of the current period. An allowance for doubtful accounts is not deemed necessary, as uncollectible taxes become a lien on the property. Property taxes are levied on all taxable property as of July 1, the beginning of the fiscal year, and become a lien on that date. Property taxes are payable on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CAPITAL ASSETS

Capital assets are recorded at the original or estimated cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The City defines capital assets as assets with an initial cost of more than \$10,000 and an estimated life in excess of 5 years. Interest incurred during construction, maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Buildings and improvements	20 to 40 years
Equipment	5 years

G. RETIREMENT PLAN

City employees are eligible to participate in a qualified 401k retirement plan. Contributions to the plan are charged to expenditures as funded. Although the City employees are eligible to participate in the State of Oregon Public Employees Retirement System (PERS), an agent multiple-employer defined benefit, public employee pensions plan, they choose not to participate.

H. VESTED COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned unused paid time off (PTO) benefits. All unused PTO pay is accrued when earned in the government-wide financial statements.

I. 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 the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

J. NET ASSETS

Net assets comprise the various net earnings from operations, non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three categories:

Invested in capital assets, net of related debt – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of external constraints placed on asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There are net assets restricted for roads.

Unrestricted net assets – consists of all other assets that are not included in the other categories previously mentioned.

CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS

DEPOSITS

Deposits with financial institutions are comprised of bank demand deposits and certificates of deposit. The total bank balance per the bank statements was \$50,000. Of these deposits, all were covered by federal depositor insurance. For deposits in excess of federal depository insurance, Oregon Revised Statutes require the depositor institution to maintain on deposit with the collateral pool manager securities having a value not less than 25% of the outstanding certificates of participation issued by the pool manager. All bank balances in excess of federal depository insurance, if any, are collateralized by securities held by an entity other than the financial institution as an agent of the bank. This collateral is held in the name of the bank(s).

INVESTMENTS

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 Local Government Investment Pool (LGIP) is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State's investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board (OSTFB), which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund was in compliance with all portfolio guidelines at June 30, 2006. The City did not have any funds in the LGIP at June 30, 2006.

Cash and Investments at June 30, 2006, (recorded at fair value) consisted of:

Deposits With Financial Institutions:	<u>2006</u>
Demand Deposits:	
Checking	\$ 49,627
Sweep Account	<u>1,347,291</u>
Total	<u>\$ 1,396,918</u>

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 OSTFB. The City does not have any investments that have a maturity date.

Credit Risk

Oregon Revised Statutes does not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

Concentration of Credit Risk

At June 30, 2006, the City had no investments.

**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

3. PROPERTY TAX LIMITATIONS

The State of Oregon imposes a constitutional limit on property taxes for schools and non-school government operations. School operations include community colleges, local school districts, and education service districts. The limitation provides that property taxes for non-school operations are limited to \$10.00 for each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt. The State further reduced property taxes by replacing the previous constitutional limits on tax bases with a rate and value limit in 1997. This reduction is accomplished by rolling property values back to their 1995-96 values less 10% and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The State Constitution sets restrictive voter approval requirements for most tax and many fee increases and new bond issues, and requires the State to minimize the impact to school districts from the impact of the tax cuts.

4. CAPITAL ASSETS

The changes in Capital assets for 2005-2006 are as follows:

	Balance on 07/01/05	Additions	Deletions	06/30/06
Governmental Activities:				
Buildings & Improvements	\$ -	\$ -	\$ -	\$ -
Equipment	-	95,133	-	95,133
Total Capital Assets	-	95,133	-	95,133
Accumulated Depreciation	-	\$ (4,716)	\$ -	(4,716)
Net Capital Assets	<u>\$ -</u>			<u>\$ 90,417</u>

Depreciation expense was allocated to the functions as follows:

General Government	\$3,787
Development	<u>929</u>
Total Depreciation Expense	<u>\$4,716</u>

5. QUALIFIED 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 in the current fiscal year was \$2,133.

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.

**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS

6. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City purchases commercial insurance to minimize its exposure to these risks. Settled claims have not exceeded this commercial coverage for the past year.

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**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2006**

GENERAL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES:				
Taxes	\$ 2,207,788	\$ 2,207,788	\$ 2,352,501	144,713
Franchise Fees	351,500	351,500	391,096	39,596
Intergovernmental	101,222	101,222	97,571	(3,651)
Miscellaneous	1,050	1,050	34,625	33,575
Total Revenues	2,661,560	2,661,560	2,875,793	214,233
EXPENDITURES:				
City Council				
Materials and Services			19,127	
Total City Council	18,500	19,500 (1)	19,127	373
Administration				
Personal Services			137,355	
Materials and Services			127,189	
Capital Outlay			0	
Total Administration	305,728	305,728 (1)	264,544	41,184
Finance				
Personal Services			49,361	
Materials and Services			17,801	
Total Finance	76,051	76,051 (1)	67,162	8,889
Non-Departmental				
Materials and Services	935,599	1,085,599 (1)	1,077,782	7,817
Capital Outlay	50,000	56,000 (1)	55,770	230
Total Expenditures	1,385,878	1,542,878	1,484,385	58,493
Excess of Revenues Over/-Under Expenditures	1,275,682	1,118,682	1,391,408	272,726
OTHER FINANCING SOURCES (USES):				
Transfers in	0	0	0	0
Transfers out	(866,332)	(866,332) (1)	(585,071)	281,261
Contingency	(235,850)	(78,850) (1)	0	78,850
Total Other Financing Sources	(1,102,182)	(945,182)	(585,071)	360,111
Net Change in Fund Balance	173,500	173,500	806,337	632,837
Beginning Fund Balance	0	0	30,809	30,809
Ending Fund Balance	\$ 173,500	\$ 173,500	\$ 837,146	\$ 663,646

(1) Appropriation Level

**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2006**

COMMUNITY DEVELOPMENT FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES:				
Intergovernmental	\$ 75,000	\$ 75,000	\$ 0	(75,000)
Interest	50	50	13	(37)
Total Revenues	75,050	75,050	13	(75,037)
EXPENDITURES:				
Planning				
Personal Services	157,378	157,378	68,615	88,763
Materials and Services	404,825	404,825	242,415	162,410
Capital Outlay	6,500	6,500	4,716	1,784
Total Planning	568,703	568,703 (1)	315,746	252,957
Engineering				
Personal Services	55,834	55,834	0	55,834
Materials and Services	11,650	11,650	12,983	(1,333)
Capital Outlay	0	0	0	0
Total Engineering	67,484	67,484 (1)	12,983	54,501
Non-Departmental				
Materials and Services	30,195	30,195 (1)	25,313	4,882
Total Expenditures	666,382	666,382	354,042	312,340
Excess of Revenues Over/-Under Expenditures	(591,332)	(591,332)	(354,029)	237,303
OTHER FINANCING SOURCES (USES):				
Transfers in	616,332	616,332	354,029	(262,303)
Contingency	(25,000)	(25,000) (1)	0	25,000
Total Other Financing Sources	591,332	591,332	354,029	(237,303)
Net Change in Fund Balance	0	0	0	0
Beginning Fund Balance	0	0	0	0
Ending Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0

(1) Appropriation Level

CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 ACTUAL AND BUDGET
 For the Year Ended June 30, 2006

ROAD FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES:				
State Gas Tax	\$ 459,620	\$ 459,620	\$ 418,084	(41,536)
Interest	0	0	5,364	5,364
Total Revenues	<u>459,620</u>	<u>459,620</u>	<u>423,448</u>	<u>(36,172)</u>
Net Change in Fund Balance	459,620	459,620	423,448	(36,172)
Beginning Fund Balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	<u>\$ 459,620</u>	<u>\$ 459,620</u>	<u>\$ 423,448</u>	<u>\$ (36,172)</u>

(1) Appropriation Level

**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2006**

9-1-1 FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE -NEGATIVE
REVENUES:				
9-1-1 Taxes	\$ 46,243	\$ 46,243	\$ 30,269	(15,974)
Interest	0	0	35	35
Total Revenues	46,243	46,243	30,304	(15,939)
EXPENDITURES				
Materials and Services	46,243	46,243 (1)	30,304	15,939
Net Change in Fund Balance	0	0	0	0
Beginning Fund Balance	0	0	0	0
Ending Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0

(1) Appropriation Level

CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON

SUPPLEMENTARY INFORMATION

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**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
For the Year Ended June 30, 2006**

TAX ANTICIPATION NOTE FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE -NEGATIVE</u>
EXPENDITURES:				
Debt Service				
Principal			\$ 710,166	
Interest			25,793	
Total Expenditures	\$ 250,000	\$ 250,000 (1)	735,959	\$ (485,959)
OTHER FINANCING SOURCES (USES):				
Line of Credit Proceeds	0	0	504,917	504,917
Transfers in	250,000	250,000	231,042	(18,958)
Total Other Financing Sources	250,000	250,000	735,959	485,959
Net Change in Fund Balance	0	0	0	0
Beginning Fund Balance	0	0	0	0
Ending Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0

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CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
 OF TAXES UNCOLLECTED
 For The Year Ended June 30, 2006

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED 7/01/05	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED 6/30/06
<u>General Fund:</u>						
CURRENT:						
2005-06	\$ 2,469,539	\$ 60,084	\$ (3,876)	\$ 917	\$ 2,346,894	\$ 59,602
Total All Funds	<u>\$ 2,469,539</u>	<u>\$ 60,084</u>	<u>\$ (3,876)</u>	<u>\$ 917</u>	<u>\$ 2,346,894</u>	<u>\$ 59,602</u>

RECONCILIATION OF REVENUE:

	<u>Revenue</u>
Per County Treasurer Above	\$ 2,346,894
Accrual of Receivables:	
June 30, 2006	5,607
Other Taxes	<u>0</u>
Total General Fund Collections per Financial Statements	<u>\$ 2,352,501</u>

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**CITY OF DAMASCUS
CLACKAMAS COUNTY, OREGON**

2005-2006 AUDITORS' COMMENTS AND DISCLOSURES

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

August 25, 2006

2005-2006 AUDITORS' COMMENTS AND DISCLOSURES

Oregon Administrative Rules 162-10-000 through 162-16-000 of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in 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 Damascus, Clackamas County, Oregon, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006.

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 Damascus, Clackamas County, 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 basic financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. 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 operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of City of Damascus, Clackamas County, Oregon, for the year ended June 30, 2006, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 structure. Accordingly, we do not express such an opinion.

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

INTERNAL CONTROL (CONTINUED)

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

Our audit did not reveal any significant errors or irregularities resulting from this lack of segregation of employee duties and responsibilities.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure 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 structure and its operations that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

ACCOUNTING RECORDS

The City's accounting records are adequate for audit.

BUDGET TRANSACTIONS

Expenditures of the various funds were within authorized appropriations except for the Tax Anticipation Note Fund, which was over-expended by \$485,959.

2005-2006 and 2006-2007 BUDGETS

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

COLLATERAL SECURING BANK DEPOSITS

The City's deposits appear to be adequately covered by federal depository insurance or certificates of participation during 2005-2006, based upon our testing.

INVESTMENTS

The City's investments for the year ending June 30, 2006, were reviewed and based upon our testing, 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 based upon our testing, we found no instances of non-compliance with ORS Chapter 279 during 2005-2006.

INSURANCE AND FIDELITY BONDS

Details concerning insurance and fidelity bond coverage were reviewed during the audit. Fidelity bond coverage provided appears to meet legal requirements set forth in ORS 221.903. We do not have the professional expertise to state whether the insurance coverage is adequate.

DEBT LIMITATION

The City did not have any bonded debt at June 30, 2006.

OUTSTANDING WARRANTS

The City did not have any outstanding endorsed warrants at June 30, 2006.

CITY HIGHWAY FUNDS

The City's compliance with requirements of Article IX, Section 3a of the Oregon Constitution and ORS 294 and 373 was reviewed, and based upon our testing, were found to comply with the restrictions on the use of revenue from taxes on motor vehicle use and fuel.

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 programs. Since the City did not expend greater than \$500,000 in federal financial assistance for the year ended June 30, 2006, it was not necessary to perform, nor did we perform, tests in accordance with the Federal Single Audit Act, as amended (U.S. Office of Management and Budget Circular A-133)

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PAULY, ROGERS AND CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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October 16, 2006

City Council
City of Damascus

AUDIT PROCESS - EXECUTIVE SUMMARY

We were engaged, in compliance with the Oregon Municipal Audit Law, to audit the basic financial statements, fiscal affairs and accounts of the City of Damascus for the 2005-2006 fiscal year.

Purpose of the Audit

The audit was designed to determine the fair presentation or compliance with:

- generally accepted accounting principles and auditing standards,
- the Oregon Municipal Audit Law and the related administrative rules, and
- federal, state and other agency rules and regulations related to financial assistance.

Results of Audit

1. **Audit opinion letter** - an unqualified opinion on the City's financial statements has been issued. This means we have given a "clean" opinion with no reservations.
2. **State minimum standards for audits** - We found no exceptions or issues requiring comment, except as noted on page 25 regarding appropriations.

Management Letter

We noted no reportable conditions.

Other Matters

We found the books and records of the City were maintained in a very professional manner throughout the 2005-2006 fiscal year and were in good condition for audit.

The budget was professionally managed in accordance with Oregon Local Budget Law.

In a prior year we implemented a new accounting standard issued by the Accounting Standards Board, SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*. SAS No. 99 was issued to improve auditor performance relating to identifying and responding to the risks of material misstatement of the financial statements due to fraud, and outlines an expanded approach to fraud risk assessment for the purpose of identifying, assessing and responding to risks of material misstatement due to fraud.

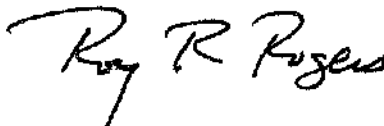
Our testing determined that the internal controls utilized appear adequate to safeguard assets and assure that financial records are materially correct. Our testing does not necessarily disclose all matters in the internal control structure that might be material weaknesses since we are not engaged to provide an opinion on the internal control structure.

Summary

There were no disagreements with management, difficulties encountered in performing the audit, significant audit adjustments, or disagreements about accounting policies or accounting estimates.

The City's financial affairs have been professionally conducted. The accounting records were in good condition and we commend the staff for their assistance and support during the audit.

Sincerely,

A handwritten signature in black ink that reads "Roy R. Rogers". The signature is written in a cursive style with a large, prominent "R" at the beginning.

Roy R. Rogers
PAULY, ROGERS AND CO., P.C.



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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MEMORANDUM

TO: City of Damascus Audit File
CC: City of Damascus City Council and Finance Department
FROM: Matt Graves, CPA
DATE: October 16, 2006

For the fiscal year ended June 30, 2006, the City of Damascus budgeted total appropriations of \$250,000 in the Tax Anticipation Note Fund. Actual expenditures in that fund for the year were \$735,959, of which \$25,793 was expended for interest and \$710,166 was expended for principal. Oregon Local Budget Law contains a specific provision by which principal repayments "need not be included as a budgetary...requirement." (See ORS 294.443 below). The Local Budget Manual provides further clarification (see below).

A comment in the Auditors' Comments and Disclosures report dated August 25, 2006, which is shown on page 25 of the City's 2005-2006 financial report, indicates that the Tax Anticipation Note fund over-expended by \$485,959. According to ORS 294.443, this over-expenditure appears to be allowable, however it is our job as the auditor to comment on all budgetary over-expenditures.

ORS 294.443 Certain interest to be included in budget; method. In the exercise of the authority granted by ORS 288.165, 328.565 and 341.715, specific provision for interest must be contained in duly adopted budgets. However, reporting of anticipated loan and related principal repayments within a particular fiscal year or budget period may be accomplished in narrative form or by footnoted schedules to the duly adopted budget and need not be included as a budgetary resource or requirement. Such narrative or footnoted disclosure must indicate that principal repayments are a liability of the applicable fund from which they are made. [1985 c.356 §3; 1993 c.97 §16; 2001 c.135 §19]

Local Budget Manual - Chapter 6, page 20

Tax Anticipation Notes

Local governments are authorized to contract indebtedness by issuing short-term promissory notes for the purposes of meeting current expenses, retiring outstanding bonds, or paying the interest on the bonds (ORS 287.442, ORS 328.565, and ORS 341.715).

Tax anticipation notes are a form of short-term borrowing. They are issued in anticipation of the collection of property taxes. The anticipated loan proceeds and the related principal repayments within a fiscal year are not budgeted as resources or expenditures. However, they must be reported in narrative form or by footnoted schedules to the adopted budget. (ORS 294.443).

The interest due on the principal must be budgeted as an anticipated expenditure. Also, any interest anticipated to be earned from the principal must be budgeted as a resource.