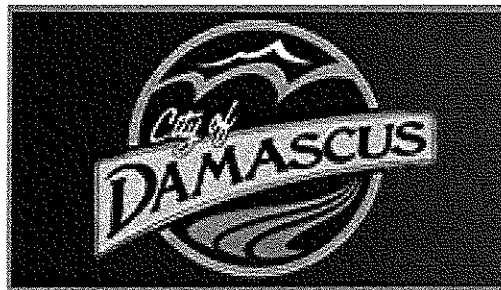


CITY OF DAMASCUS, OREGON
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008



CITY OF DAMASCUS, OREGON
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**CITY OF DAMASCUS, OREGON
MEMBERS OF THE CITY COUNCIL
June 30, 2008**

<u>City Council Members</u>	<u>Term Expires</u>
Dee Wescott - Mayor Damascus, Oregon 97089	2008
Jim Wright Damascus, Oregon 97089	2010
Barb Ledbury Damascus, Oregon 97089	2008
Randy Shannon Damascus, Oregon 97089	2010
Diana Helm Damascus, Oregon 97089	2008
Andrew Jackman Damascus, Oregon 97089	2010
David Jothen Damascus, Oregon 97089	2008

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Damascus
Damascus, Oregon 97089

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Damascus, Oregon (the City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Damascus, Oregon'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 financial statements are free of material misstatement. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the City of Damascus, Oregon as of June 30, 2008, 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.

The management's discussion and analysis and required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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. 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. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
October 1, 2008

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, 2008. 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, November 4, 2004. Due to the mid-fiscal year incorporation of Damascus a financial review instead of an audit was performed by the City's auditor for this period. The 2005-06 fiscal year audit was the first audit for the City. The 2005-06, 2006-07 and now the 2007-08 audits present comparative information for the first three complete fiscal years.

FINANCIAL HIGHLIGHTS

- At June 30, 2008 the City's assets exceeded its liabilities by \$4,023,323 (+\$1,218,412). The primary reason for the increase is due to the available cash/investments at year end. Road projects were delayed and some of the planning projects were not completed, accounting for the majority of the increase in available cash. These projects were forwarded to the 2008-09 fiscal year budget.
- The general fund reported an ending fund balance of \$2,445,069 (+\$737,749). This increase is primarily due to some budgeted planning projects not being completed in fiscal year 2007-08. Most of these projects are now underway.
- The road fund reported an ending fund balance of \$1,244,108 (+\$365,446). This increase is primarily due to the timing of the road maintenance projects. A good portion of the planning and engineering of the planned projects occurred in fiscal year 2007-08. The actual work on the roads began in August 2008 and is included in the 2008-09 budget.
- Total property taxes collected was \$2,637,020 (+4.9%). Approximately half of the increase is new construction and the other half is from existing properties.

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 fiscal years 2005-2006, 2006-2007 and 2007-2008 were as follows:

	05/06	06/07	Change	07/08	Change
Assets					
Current and other assets	\$ 1,529,855	\$ 2,958,569	93%	\$ 4,224,634	43%
Capital assets	90,417	142,761	58%	227,404	60%
Total assets	1,620,272	3,101,330	91%	4,452,038	44%
Liabilities					
Current liabilities	216,815	296,419	37%	428,715	45%
Total liabilities	216,815	296,419	37%	428,715	45%
Net Assets					
Invested in capital assets: net of related debt	90,417	142,761	58%	227,404	60%
Net assets: unrestricted	1,313,040	2,662,150	103%	3,795,919	43%
Total net assets	1,403,457	2,804,911	100%	4,023,323	44%

The City's revenue and expenses for fiscal years 2005-2006, 2006-2007 and 2007-2008 were as follows:

	05/06	06/07	Change	07/08	Change
Revenues					
General Revenues:					
Property Taxes	\$ 2,406,496	\$ 2,542,271	6%	\$ 2,672,405	5%
Other	977,057	1,235,817	26%	1,452,030	18%
Program Revenues:					
Grant Revenue	-	-	-	55,000	-
Total Revenues	3,383,553	3,778,088	12%	4,179,435	11%
Expenses					
General Government	1,397,755	1,450,897	4%	1,820,424	26%
Community Development	351,804	863,934	146%	1,075,111	24%
Highways and Streets	-	23,851	-	38,914	63%
Public Safety (9-1-1)	30,304	37,952	25%	26,574	-28%
Interest	27,642	-	-	-	-
Total Expenses	1,807,505	2,376,634	32%	2,961,023	25%
Change in Net Assets	1,576,048	1,401,454	-11%	1,218,412	-13%
Beginning Net Assets	(172,591)	1,403,457	-	2,804,911	100%
Ending Net Assets	1,403,457	2,804,911	100%	4,023,323	44%

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, 2008, total fund balance of the governmental funds was \$3,689,177. 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 - \$2,445,069 of the total 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. This amount is predicted to be adequate for the 2008-09 fiscal year, thus eliminating the need to borrow funds.

Road Fund – The ending balance of the road fund is \$1,244,108. 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 2007-08 fiscal year budget was established with limited history and with limited time to fully develop goals. To the credit of the budget committee there are only minor differences in budget versus actual expenditures for 2007-2008. In the General Fund, significant variations between original and final budget amounts include one transfer dealing with the establishment of the Municipal Court that was required to ensure the city was in compliance with Oregon budget law. No significant variations between final budget amounts and actual budget results were noted in the General Fund for the fiscal year 2007-2008.

CAPITAL ASSETS

The City had \$227,404 invested in a broad range of capital assets at June 30, 2008. The Anderson Road project will be the first significant capital improvement project for the City. Planning and engineering expenses of Anderson Road occurred in 2007-08 and show up as construction in progress. See note 3 to the basic financial statements for further information.

DEBT ADMINISTRATION

The City did not have any long-term debt at June 30, 2008.

ECONOMIC FACTORS AND THE 2008-2009 BUDGET

The budget for 2008-2009 has total appropriations of \$10,383,444 and total unappropriated amounts of \$250,000.

- Second half inflationary trends in the Portland area for 2007 averaged 3.8%, up 1.1% from the previous year.
- 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 \$125,000 per year more in property taxes. New construction accounts for approximately half of the increase. This trend is expected to continue until the City completes its comprehensive plan and re-zoning. Then, depending on the overall economy, the 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 2008-09 and all previous budgets were established based on levying a rate of \$3.30/\$1,000.

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

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, 2008

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 3,953,730
Property taxes receivable	128,155
Due from other governments	17,352
Accounts receivable	<u>125,397</u>
Total current assets	<u>4,224,634</u>
Noncurrent assets:	
Capital assets:	
Nondepreciable	62,816
Depreciable, net	<u>164,588</u>
Total noncurrent assets	<u>227,404</u>
Total assets	<u><u>\$ 4,452,038</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	\$ 356,313
Compensated absences	32,675
Payroll liabilities	<u>39,727</u>
Total current liabilities	<u>428,715</u>
NET ASSETS	
Invested in capital assets, net of related debt	227,404
Unrestricted	<u>3,795,919</u>
Total net assets	<u>4,023,323</u>
Total liabilities and net assets	<u><u>\$ 4,452,038</u></u>

CITY OF DAMASCUS, OREGON
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

<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	\$ 1,820,424	\$ -	\$ (1,820,424)
Community development	1,075,111	55,000	(1,020,111)
Highways and streets	38,914	-	(38,914)
Public safety	26,574	-	(26,574)
	<hr/>	<hr/>	<hr/>
Total governmental activities	\$ 2,961,023	\$ 55,000	(2,906,023)
	<hr/>	<hr/>	<hr/>
General revenues:			
Taxes:			
Property taxes			2,672,405
Franchise fees			528,704
Intergovernmental revenue			652,915
Interest income			150,639
Fines and penalties			113,259
Miscellaneous revenue			6,513
			<hr/>
Total general revenues			4,124,435
			<hr/>
Change in net assets			1,218,412
			<hr/>
Net assets - beginning			2,804,911
			<hr/>
Net assets - ending			\$ 4,023,323
			<hr/>

FUND FINANCIAL STATEMENTS

Major Governmental Funds

General Fund

The general fund accounts for City Council, Administration and Finance Department financial resources and expenditures. Primary source of revenues are property taxes, 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.

911 Fund

The 9-1-1 Tax Fund is used as a pass-through fund. 9-1-1 emergency telephone tax revenues are collected then paid to Clackamas County. The County provides 9-1-1 services for the City. On October 1, 2007, the City Council authorized the direct payment of 9-1-1 revenues to Clackamas County and approved the closing of the City's 9-1-1 Fund.

CITY OF DAMASCUS, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

	General Fund	Community Development Fund	Road Fund	911 Fund	Total Governmental
ASSETS					
Cash and investments	\$ 2,742,980	\$ -	\$ 1,210,750	\$ -	\$ 3,953,730
Accounts receivable	92,039	-	33,358	-	125,397
Property taxes receivable	128,155	-	-	-	128,155
Due from other governments	17,352	-	-	-	17,352
Total assets	\$ 2,980,526	\$ -	\$ 1,244,108	\$ -	\$ 4,224,634

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable	\$ 356,313	\$ -	\$ -	\$ -	\$ 356,313
Payroll liabilities	39,727	-	-	-	39,727
Deferred revenue	139,417	-	-	-	139,417
Total liabilities	535,457	-	-	-	535,457

FUND BALANCES:

Reserved for:					
Roads	-	-	1,244,108	-	1,244,108
Unreserved	2,445,069	-	-	-	2,445,069
Total fund balance	2,445,069	-	1,244,108	-	3,689,177
Total liabilities and fund balance	\$ 2,980,526	\$ -	\$ 1,244,108	\$ -	

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. 227,404

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 139,417

Compensated absences are not due and payable in the current period and therefore are not reported in the funds. (32,675)

\$ 4,023,323

CITY OF DAMASCUS, OREGON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008

	General Fund	Community Development Fund	Road Fund	911 Fund	Total Governmental
REVENUES:					
Property taxes	\$ 2,637,020	\$ -	\$ -	\$ -	\$ 2,637,020
Licenses, franchises, permits	528,704	-	-	-	528,704
Intergovernmental	204,168	-	422,173	26,574	652,915
Fines & penalties	92,127	-	-	-	92,127
Grants	-	55,000	-	-	55,000
Miscellaneous	6,513	-	-	-	6,513
Interest	105,636	-	45,003	-	150,639
Total revenues	3,574,168	55,000	467,176	26,574	4,122,918
EXPENDITURES:					
Current:					
General government	1,761,937	-	-	-	1,761,937
Community development	-	1,079,184	-	-	1,079,184
Highways and streets	-	-	101,730	-	101,730
Public safety	-	-	-	26,574	26,574
Capital outlay	48,202	2,096	-	-	50,298
Total Expenditures	1,810,139	1,081,280	101,730	26,574	3,019,723
Revenues over (under) expenditures	1,764,029	(1,026,280)	365,446	-	1,103,195
OTHER FINANCING SOURCES (USES):					
Transfers in	-	1,026,280	-	-	1,026,280
Transfers out	(1,026,280)	-	-	-	(1,026,280)
Total other financing sources (uses)	(1,026,280)	1,026,280	-	-	-
Net changes in fund balances	737,749	-	365,446	-	1,103,195
FUND BALANCES, BEGINNING	1,707,320	-	878,662	-	2,585,982
FUND BALANCES, ENDING	\$ 2,445,069	\$ -	\$ 1,244,108	\$ -	\$ 3,689,177

**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, 2008**

Amounts reported in the statement of activities are different because:

Net change in fund balances \$ 1,103,195

The statement of revenues, expenditures, and changes if 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	(37,833)	
Capital assets additions, net	<u>122,476</u>	84,643

Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds. 56,517

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. (25,943)

Change in net assets of governmental activities \$ 1,218,412

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

(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, 2008

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 bases of accounting, such as when the City receives resources

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

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, 2008

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.

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

In the fund financial statements, governmental funds report reservations of fund balance for amount that are not available for appropriations or are legally restricted by outside parties for use for a 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, 2008, 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>\$ 3,589,463</u>
Total cash equivalent	<u>0.00</u>	<u>\$ 3,589,463</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.

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

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 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 City's investment in the Local Government Investment Pool is considered unclassified as to credit risk because it is not evidenced by securities that exist in physical or book entry form.

The City has a concentration in the Local Government Investment Pool representing 91% of cash and cash equivalents at June 30, 2007.

D. Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of bank failure, the government's deposit may not be returned. Oregon Revised Statutes requires the depository institution to maintain on deposit, with a collateral pool manager, security having a value of not less than 25% of the outstanding certificates of participation issued by the pool manager. However, in accordance with State statutes, the State Treasurer allows certain depository banks to be the custodian with respect to their own pledged collateral securities. For these institutions, the State Treasurer is the collateral pool manager. The total bank balance, at June 30, 2008, shown on the bank statements was \$293,162. Of these deposits, \$100,000 was covered by federal depository insurance and the remaining balance of \$193,162 was covered by the certificate of collateral. There were no balances in excess of the \$2,500,000 in collateral certificates held by the pledging financial institutions' trust department or agent, but not in the government's name.

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

(3) Capital Assets

For the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Construction in progress	\$ 7,338	\$ 62,816	\$ (7,338)	\$ 62,816
Total capital assets, not being depreciated	7,388	62,816	(7,338)	62,816
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	161,344	66,998	-	228,342
Total capital assets, being depreciated	161,344	66,998	-	228,342
<i>Less accumulated depreciation for:</i>				
Furniture and equipment	(25,921)	(37,833)	-	(63,754)
Total accumulated depreciation	(25,921)	(37,833)	-	(63,754)
Total capital assets, being depreciated, net	135,423	29,165	-	164,588
Governmental activities capital assets, net	<u>\$ 142,761</u>	<u>\$ 91,981</u>	<u>\$ (7,338)</u>	<u>\$ 227,404</u>

Depreciation expense was allocated to the functions as follows:

General Government	\$ 32,544
Community Development	5,289
Total Depreciation Expense	<u>\$ 37,833</u>

CITY OF DAMASCUS, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

(4) Interfund Transfers

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 1,026,280
Community Development Fund	<u>1,026,280</u>	<u>-</u>
Total Transfers	<u>\$ 1,026,280</u>	<u>\$ 1,026,280</u>

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

(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 \$73,864, and the amount contributed by the participating employees was \$9,736.

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 2007 to 2008. Settled claims have not exceeded this commercial coverage for any of the past three years.

(7) Subsequent Events

The City received \$131,181 of grant income on August 11, 2008. This receipt was for the Metro Construction Excise Tax Grant which is budgeted for the 2008/2009 fiscal year.

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
 - 911 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, 2008

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 2,604,592	\$ 2,604,592	\$ 2,637,020	\$ 32,428
Licenses, franchises, permits	498,568	498,568	528,704	30,136
Intergovernmental	194,333	194,333	204,168	9,835
Fines & penalties	95,500	95,500	92,127	(3,373)
Miscellaneous	3,000	3,000	6,513	3,513
Interest	35,000	35,000	105,636	70,636
Total revenues	3,430,993	3,430,993	3,574,168	143,175
EXPENDITURES:				
Current:				
General government	2,066,220	2,150,227	1,761,937	388,290
Capital outlay	480,849	480,849	48,202	432,647
Contingency	200,000	115,993	-	115,993
Total expenditures	2,747,069	2,747,069	1,810,139	936,930
Revenues over (under) expenditures	683,924	683,924	1,764,029	1,080,105
OTHER FINANCING SOURCES (USES):				
Transfers out	(1,576,692)	(1,576,692)	(1,026,280)	550,412
Total other financing sources (uses)	(1,576,692)	(1,576,692)	(1,026,280)	550,412
Net changes in fund balances	(892,768)	(892,768)	737,749	1,630,517
FUND BALANCE, BEGINNING	1,142,768	1,142,768	1,707,320	564,552
FUND BALANCE, ENDING	\$ 250,000	\$ 250,000	\$ 2,445,069	\$ 2,195,069

**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, 2008**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Grants	\$ 1,814,724	\$ 1,814,724	\$ 55,000	\$ (1,759,724)
Miscellaneous	50	50	-	(50)
Total Revenues	<u>1,814,774</u>	<u>1,814,774</u>	<u>55,000</u>	<u>(1,759,774)</u>
EXPENDITURES:				
Current:				
Community development	3,236,466	3,236,466	1,079,184	2,157,282
Capital outlay	5,000	5,000	2,096	2,904
Contingency	<u>125,000</u>	<u>125,000</u>	-	<u>125,000</u>
Total Expenditures	<u>3,366,466</u>	<u>3,366,466</u>	<u>1,081,280</u>	<u>2,285,186</u>
Revenues over (under) expenditures	(1,551,692)	(1,551,692)	(1,026,280)	525,412
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>1,551,692</u>	<u>1,551,692</u>	<u>1,026,280</u>	<u>(525,412)</u>
Total other financing sources (uses)	<u>1,551,692</u>	<u>1,551,692</u>	<u>1,026,280</u>	<u>(525,412)</u>
Net changes in fund balances	-	-	-	-
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2008

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 453,811	\$ 453,811	\$ 422,173	\$ (31,638)
Interest	20,000	20,000	45,003	25,003
Total revenues	473,811	473,811	467,176	(6,635)
EXPENDITURES:				
Materials and service	198,000	198,000	101,730	96,270
Capital outlay	955,085	955,085	-	955,085
Total expenditures	1,153,085	1,153,085	101,730	1,051,355
Revenues over (under) expenditures	(679,274)	(679,274)	365,446	1,044,720
Net changes in fund balances	(679,274)	(679,274)	365,446	1,044,720
FUND BALANCES, BEGINNING	679,274	679,274	878,662	199,388
FUND BALANCES, ENDING	\$ -	\$ -	\$ 1,244,108	\$ 1,244,108

CITY OF DAMASCUS, OREGON
911 FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 55,000	\$ 55,000	\$ 26,574	\$ (28,426)
Total revenues	55,000	55,000	26,574	(28,426)
EXPENDITURES:				
Capital outlay	55,000	55,000	26,574	28,426
Total expenditures	55,000	55,000	26,574	28,426
Revenues over (under) expenditures	-	-	-	-
Net changes in fund balances	-	-	-	-
FUND BALANCES, BEGINNING	-	-	-	-
FUND BALANCES, ENDING	\$ -	\$ -	\$ -	\$ -

CITY OF DAMASCUS, OREGON
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2008

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, 2008. Appropriations lapse as of year-end.

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
 - Street Fund - Revenues, Expenditures, and Changes in Fund Balance
 - TAN Fund - Revenues, Expenditures, and Changes in Fund Balance
- **Other Financial Schedules**

CITY OF DAMASCUS, OREGON
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
EXPENDITURES:				
City council				
Materials and services	\$ 35,100	\$ 35,100	\$ 22,600	\$ 12,500
Total city council	<u>35,100</u>	<u>35,100</u>	<u>22,600</u>	<u>12,500</u>
Administration				
Personal service	422,306	422,306	316,838	105,468
Materials and services	168,750	252,757	218,582	34,175
Capital outlay	<u>10,000</u>	<u>10,000</u>	<u>10,965</u>	<u>(965)</u>
Total administration	<u>601,056</u>	<u>685,063</u>	<u>546,385</u>	<u>138,678</u>
Finance				
Personal service	222,313	222,313	152,889	69,424
Materials and services	60,015	60,015	10,358	49,657
Capital outlay	<u>5,000</u>	<u>5,000</u>	<u>3,375</u>	<u>1,625</u>
Total finance	<u>287,328</u>	<u>287,328</u>	<u>166,622</u>	<u>120,706</u>
Non-departmental				
Materials and services	1,157,736	1,157,736	1,040,670	117,066
Capital outlay	<u>465,849</u>	<u>465,849</u>	<u>33,862</u>	<u>431,987</u>
Total non-departmental	<u>1,623,585</u>	<u>1,623,585</u>	<u>1,074,532</u>	<u>549,053</u>
Total expenditures	<u>\$ 2,547,069</u>	<u>\$ 2,631,076</u>	<u>\$ 1,810,139</u>	<u>\$ 820,937</u>

**CITY OF DAMASCUS, OREGON
COMMUNITY DEVELOPMENT FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
EXPENDITURES:				
Planning				
Personal service	\$ 405,787	\$ 405,787	\$ 367,938	\$ 37,849
Materials and services	2,530,604	2,530,604	537,280	1,993,324
Capital outlay	5,000	5,000	2,096	2,904
Total planning department	<u>2,941,391</u>	<u>2,941,391</u>	<u>907,314</u>	<u>2,034,077</u>
Engineering				
Materials and services	<u>206,175</u>	<u>206,175</u>	<u>90,516</u>	<u>115,659</u>
Total engineering	<u>206,175</u>	<u>206,175</u>	<u>90,516</u>	<u>115,659</u>
Non-departmental				
Materials and services	<u>93,900</u>	<u>93,900</u>	<u>83,450</u>	<u>10,450</u>
Total expenditures	<u>\$ 3,241,466</u>	<u>\$ 3,241,466</u>	<u>\$ 1,081,280</u>	<u>\$ 2,160,186</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, 2008**

	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
STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Licenses, franchises, permits	\$ 10,000	\$ 10,000	\$ -	\$ (10,000)
Total revenues	10,000	10,000	-	(10,000)
EXPENDITURES:				
Materials and services	5,000	5,000	-	5,000
Capital outlay	5,000	5,000	-	5,000
Total expenditures	10,000	10,000	-	10,000
Revenues over (under) expenditures	-	-	-	-
Net changes in fund balances	-	-	-	-
FUND BALANCES, BEGINNING	-	-	-	-
FUND BALANCES, 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, 2008**

	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, 2008

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2007</u>	<u>2007-08 Levy</u>	<u>Discount</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Uncollected Balance June 30, 2008</u>
2007-08	\$ -	\$ 2,745,067	\$ (65,940)	\$ (4,363)	\$ (2,580,294)	\$ 94,470
2006-07	71,025	-	6	(796)	(46,314)	23,921
2007-06	19,309	-	2	(1,349)	(8,198)	9,764
Totals	<u>\$ 90,334</u>	<u>\$ 2,745,067</u>	<u>\$ (65,932)</u>	<u>\$ (6,508)</u>	<u>\$ (2,634,806)</u>	<u>\$ 128,155</u>

Taxes receivable classified by fund:
 General Fund

\$ 128,155

**CITY OF DAMASCUS, OREGON
AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

Introduction

Oregon Administrative Rules 162-10-000 through 162-10-320 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 basic financial statements of the City of Damascus (the City), for the year ended June 30, 2008 and have issued our report thereon dated October 1, 2008.

The management of the 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 basic financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may never the less 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses

**CITY OF DAMASCUS, OREGON
AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Damascus, Oregon's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Damascus, Oregon's financial statements that is more than inconsequential will not be prevented or detected by the City of Damascus, Oregon's internal control. We consider the deficiencies, described in a separately issued letter to management dated October 1, 2008, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Damascus, Oregon's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

This report is intended solely for the information and use of the management, the City council, and the State of Oregon, Secretary of State, Audits Division.

Other Comments and Disclosures

We have audited the basic financial statements for the City of Damascus as of and for the year ended June 30, 2008, and our report thereon is included on Page 1 of this report. Our audit was made in accordance with auditing standards generally accepted in the United States of America.

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, 2008.

**CITY OF DAMASCUS, OREGON
AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

Indebtedness

The City had no debt as of the fiscal year ended June 30, 2008. Therefore, bonded debt was within the legal limitations of 3% the real market value of the taxable property within the City, established by ORS 287.

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.

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, 2008 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 appropriated procedures for making expenditures on behalf of, and reporting for, such programs.

Highway Funds

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

Investments

The City investments for the year ended June 30, 2008 were tested and are in compliance with Oregon Revised Statutes with regard to legal restrictions pertaining to the investment of public funds.

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
October 1, 2008