

## **COMPLIANCE SECTION**

- **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***
- **Audit Comments and Disclosures Required by State Regulations**



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

Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in 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, and comments and disclosures required in audit reports. The required statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth in the following pages.





*Talbot, Korvola & Warwick* LLP  
*Certified Public Accountants & Consultants*

4800 S.W. Macadam, Suite 400 • Portland, Oregon 97239-3973  
503.274.2849 • Fax 503.274.2853  
www.tkw.com

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

December 19, 2008

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of McMinnville, Oregon (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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**Internal Control Over Financial Reporting (Continued)**

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 entity'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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated December 19, 2008.

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This report is intended solely for the information and use of the City Council, Audit Committee, management and others within the City and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants



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

December 19, 2008

Honorable Mayor and City Council  
City of McMinnville  
McMinnville, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of McMinnville, Oregon (the City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States, and *Minimum Standards for Audits of Oregon Municipal Corporations*.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

We considered the City's internal control over financial reporting as necessary to plan and perform our audit of the basic financial statements. We have issued our report on internal control over financial reporting and on compliance and other matters dated December 19, 2008. That report can be found on page 187 of this Comprehensive Annual Financial Report.

### **ACCOUNTING RECORDS**

We found the City's accounting records to be adequate for audit purposes.

### **ADEQUACY OF COLLATERAL SECURING DEPOSITORY BALANCES**

Oregon Revised Statutes Chapter 295 requires that each depository throughout the period of its possession of public fund deposits shall maintain on deposit with its custodians, at its own expense, securities having a value not less than 25% of the certificates of participation issued by the pool manager for funds in excess of those insured by the Federal Deposit Insurance Corporation. Our review of adequacy of

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

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**ADEQUACY OF COLLATERAL SECURING DEPOSITORY BALANCES (Continued)**

collateral securing depository balances indicated the collateral was sufficient during the year ended June 30, 2008.

**INVESTMENTS**

Our review of deposit and investment balances indicated that, during the year ended June 30, 2008, the City was in compliance with ORS 294 as it pertains to investment of public funds.

**LEGAL REQUIREMENTS RELATING TO DEBT**

We noted the indebtedness of the City was in compliance with ORS 287.004 during the year ended June 30, 2008. We noted no defaults in principal, interest, sinking fund or redemption provisions with respect to any of the City's bonded debt, and no breach of the bond agreements, at June 30, 2008.

**BUDGET COMPLIANCE**

The City appears to have complied with Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption and execution of its budget and tax levy for the year ended June 30, 2008, and the preparation and adoption of its budget for the year ending June 30, 2009. A description of the budgeting process is included in the Notes to Basic Financial Statements.

**INSURANCE POLICIES AND FIDELITY BONDS**

We have reviewed the City's insurance and fidelity bond coverage at June 30, 2008. We ascertained that such policies appeared to be in force and in compliance with legal requirements relating to insurance and fidelity bond coverage. We are not competent by training to comment on the adequacy of the insurance policies covering City property at June 30, 2008.

**PUBLIC CONTRACTS**

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

**HIGHWAY FUNDS**

The City's procedures for utilizing gas tax funds were reviewed and found to be in accordance with ORS Chapter 294.



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

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**PROGRAMS FUNDED FROM OUTSIDE SOURCES**

We have reviewed the City's compliance with appropriate laws, rules and regulations that could have a material impact on the basic financial statements for programs funded wholly or partially by other government agencies. The City is in compliance with such requirements in all material respects.

**OTHER**

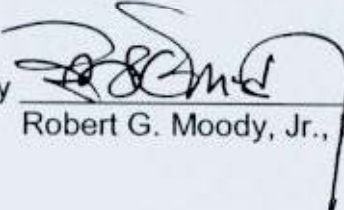
The following comments required by *Minimum Standards for Audits of Oregon Municipal Corporations* are not applicable to the City:

- Financial reporting requirements

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

**TALBOT, KORVOLA & WARWICK, LLP**  
Certified Public Accountants

By  \_\_\_\_\_  
Robert G. Moody, Jr., Partner