

AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS



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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.

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

December 14, 2007

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, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

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 opinion 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.

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.

AUDIT COMMENTS AND DISCLOSURES
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INTERNAL CONTROL OVER FINANCIAL REPORTING (Continued)

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.

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 Depository Insurance Corporation. Our review of adequacy of collateral securing depository balances indicated the collateral was sufficient during the year ended June 30, 2007.

INVESTMENTS

Our review of deposit and investment balances indicated that, during the year ended June 30, 2007, the City was not in compliance with ORS 294 as it pertains to investment of public funds. In November 2006 the City exceeded the limitation on funds in the Local Government Investment Pool for more than ten (10) consecutive days.

LEGAL REQUIREMENTS RELATING TO DEBT

The general obligation bonded debt of the City is in compliance with the limitation imposed by ORS 341.675 of 3% of real market value. During the performance of our audit procedures, we noted no defaults in principal, interest, sinking fund, or redemption provisions with respect to any of this bonded debt, and no breach of the bond agreements, at June 30, 2007.

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, 2007 and the preparation and adoption of its budget for the year ending June 30, 2008.

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INSURANCE POLICIES AND FIDELITY BONDS

We have reviewed the City's insurance and fidelity bond coverage at June 30, 2007. 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 the City-owned property at June 30, 2007.

PUBLIC CONTRACTS

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

HIGHWAY FUNDS

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

OTHER

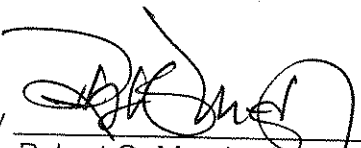
The following comments required by *Minimum Standards for Audits of Oregon Municipal Corporations* are not applicable to the City:

- Programs funded from outside sources
- Financial reporting requirements

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This report is intended solely for the information of the City Council, management, the Oregon State Secretary of State Audits Division and pass-through entities 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