

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

- 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
- Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133
- Schedule of Findings and Questioned Costs
- Audit Comments and Disclosures Required by State Regulations





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**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**

November 21, 2005

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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 21, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the 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 over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we have reported to management in a separate letter dated November 21, 2005.

**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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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*.

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This report is intended solely for the information and use of the City Council, 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.

Talbot, Kendra & Wawile, LLP

Certified Public Accountants



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

November 21, 2005

Honorable Mayor and City Council
City of McMinnville
McMinnville, Oregon

COMPLIANCE

We have audited the compliance of the City of McMinnville, Oregon (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance, based on our audit.

We conducted our audit of compliance 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 General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 over compliance and its operation that we consider to be material weaknesses.

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This report is intended solely for the information and use of the City Council, 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.

Talbot, Kordak & Worwile, LLP

Certified Public Accountants

CITY OF McMinnville, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes _____ No

Reportable condition(s) identified that are not considered to be material weakness(es)? Yes _____ None reported

Noncompliance material to financial statements noted? Yes _____ No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? Yes _____ No

Reportable condition(s) identified not considered to be material weakness(es)? Yes _____ None reported

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of *Circular A-133* Yes _____ No

CITY OF McMinnville, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS (Continued)

Federal Awards (Continued):

Identification of major programs:

<u>CFDA NUMBER</u>	<u>NAME OF PROGRAM OR CLUSTER</u>
14.228	Community Development Block Grant
20.106	Airport Improvement Program

Dollar threshold used to distinguish
between type A and B programs \$300,000

Auditee qualified as low-risk auditee? Yes _____ No ✓

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

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

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**

November 21, 2005

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, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 21, 2005. 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

Our reports relating to compliance and internal control over financial reporting are contained elsewhere in this Reports of Independent Certified Public Accountants Section 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 collateral securing depository balances indicated the collateral was sufficient during the year ended June 30, 2005.

AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

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INVESTMENTS

Our review of deposit and investment balances indicated that, during the year ended June 30, 2005, the City was in compliance with ORS 294 as it pertains to investment of public funds.

LEGAL REQUIREMENTS RELATING TO DEBT

The general obligation bonded debt of the City is in compliance with the limitation imposed by state statute. We noted no defaults in principal, interest, sinking fund, or redemption provisions with respect to any of this bonded debt at June 30, 2005.

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 for the year ended June 30, 2005, and the preparation and adoption of its budget for the year ending June 30, 2006.

INSURANCE POLICIES AND FIDELITY BONDS

We have reviewed the City's insurance and fidelity bond coverage at June 30, 2005. 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-owned property at June 30, 2005.

PUBLIC CONTRACTS

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

PROGRAMS FUNDED FROM OUTSIDE SOURCES

Our reports 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* and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 are contained elsewhere in this Reports of Independent Certified Public Accountants Section of this Comprehensive Annual Financial Report.

FINANCIAL REPORTING REQUIREMENTS

We have reviewed financial reports and other data relating to programs funded wholly or partially by other governmental agencies. This data, filed with other governmental agencies, is in agreement with and supported by the accounting records.

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

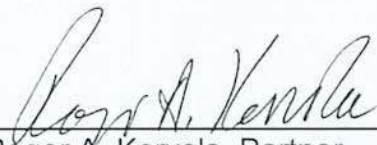
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HIGHWAY FUNDS

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

This report is intended solely for the information of the City Council, management, the Oregon 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 
Roger A. Korvola, Partner