



# Molalla City Council

Meeting located at:  
Molalla City Hall  
117 N. Molalla Ave  
Molalla, OR 97038

## **December 21, 2011**

### **Council Workshop Agenda**

**Work session:** 6:00 p.m. The Council will review and discuss topics for upcoming City Council meetings.

The City will endeavor to provide a qualified bilingual interpreter, at no cost, if requested at least 48 hours prior to the meeting. To obtain services call the City Manager at 829-6855.

---

**1. CALL TO ORDER**

- A. Flag Salute.
- B. Roll Call.

**2. COMMUNICATIONS**

**3. AWARDS & RECOGNITIONS**

**4. PUBLIC HEARINGS**

**5. CONTINUING BUSINESS**

6. **NEW BUSINESS**

- A. Update on Cable Franchise Renewal
- B. Review Draft FY2011 City Audit and Mid-year City Financials

7. **ORDINANCES**

8. **RESOLUTIONS**

9. **PROCLAMATIONS**

10. **REPORTS AND ANNOUNCEMENTS**

11. **EXECUTIVE SESSION**

12. **ADJOURNMENT**

# City Of Molalla

## City Council Meeting

### Agenda Category: New Business

**Subject:** Update on Cable Franchise Renewal

**Recommendation:** Discussion Item

**Date of Meeting to be Presented:** December 21, 2011

**Fiscal Impact:** The City budgeted \$25,000 in revenue from the cable franchise for FY 2011-12. Last year (FY 2010-11), the City received \$32,691 in cable franchise fees.

**Background:**

The City currently is in the process of renewing a cable franchise agreement with WaveDivision VII, LLC (Wave). The current franchise agreement with Wave expired on December 11, 2011. On November 9, 2011, Council approved Resolution 2011-16, which authorized a sixty (60) day extension of the cable franchise agreement with Wave.

SUBMITTED BY: Ellen Barnes, City Manager

ALL AGENDA ITEMS MUST BE SUBMITTED BY NOON THE THURSDAY BEFORE THE SCHEDULED COUNCIL MEETING. LATE ITEMS WILL BE SUBMITTED TO THE CITY MANAGER FOR CONSIDERATION.

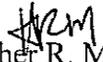
**Agenda Item**

**6.A**

City Recorder Use Only

**MEMORANDUM**

TO: Mayor and Honorable Molalla City Council

FROM:  Heather R. Martin, Office of the City Attorney

SUBJECT: Wave Franchise Agreement

DATE: December 15, 2011

---

The City's current franchise with WaveDivision VII, LLC (Wave) to construct, operate and maintain a cable television system in Molalla is set to expire on February 9, 2012. Over the past six months, the City has been in negotiations with Wave to revise the current franchise and to include additional provisions for cable television services in the City.

This memo is a summary of the major differences between the current franchise and the franchise proposed for adoption by the Council at its January 11, 2012 meeting.

- 1) **Franchise Fee** (Section 13) – The franchise fee remains the same - 5% of the total gross revenues derived from the operation of the cable system. This is the maximum allowed by state law.
- 2) **Term** (Section 3) – The franchise will expire in 12 years, which is a longer term than the current 7 year term. A 12 year term will lock in the franchise fee at the current rate under the same terms, and it will ensure the City does not incur additional franchise negotiation fees before the 12 year term is up. Wave also agreed to provide free cable service to two additional public facilities – the Aquatic Center and the Library – in exchange for a longer term.
- 3) **Definitions** (Section 2) – Many of the definitions were revised to track those found in the Cable Act or to clarify terms that were not defined in the current franchise. The definition of “Gross Revenues” is also similar to that used in other Wave franchises throughout the county.
- 4) **Conditions on Street Occupancy** (Section 7) – The proposed franchise contains detailed standards Wave must meet when using the public right-of-ways; including provisions on tree trimming, repair and restoration of a public way, reserving the City's right to require removal or relocation of Wave facilities, requiring equipment to be underground to the extent possible and allowing for emergency removal of facilities.

- 5) **Connection to Public Facilities** (Section 8) – Wave will provide Local Broadcast Service programming to City Hall, the Community Center, Library and Aquatic Center at no cost to the City. Currently, City Hall and the Community Center receive this service, but the two additional sites will be added under the proposed franchise.
- 6) **Access Channel** (Section 12) – Currently, the City does not have a public, educational, government (PEG) access channel; in effect a station that broadcasts the City’s council meetings or other community events, etc. The City does have access to several PEG channels though through the cable system – Channel 5 – OCTS public access, Channel 15 – City of Canby government channel and Channel 18 – the Clackamas Community College channel. In the event that City decides it might want a PEG access channel in the future, there is a provision in the proposed franchise whereby Wave agrees it will enter into negotiations with the City to establish a PEG access fee. A PEG access fee is a charge that is passed through to subscribers but which is remitted back to the City for capital costs associated with PEG access programming. Typically, this is either a lump sum amount or per subscriber (i.e. \$1 per month per subscriber). There is no mention of a PEG fee in the current franchise - this provision keeps this option available for the City.
- 7) **Bundling** (Section 13(5)) – Because the Cable Act restricts the City’s ability to collect a franchise fee on revenue not generated by the Cable System, a provision was added to prevent Wave from bundling its services to show a lower gross revenue stream for the cable system. For example, Wave cannot offer customers a promotional deal where they pay \$40 for internet services and \$0 for cable service through a “bundled package”. If Wave was allowed to do this, there would be no reported gross revenue for the cable system from this customer (i.e. which affects the franchise fee Wave pays).
- 8) **Consumer Protection Standards** (Section 15) – The proposed franchise contains more comprehensive consumer protection standards including the requirement to maintain an office in Clackamas County, 24/7 telephone assistance, call-time and customer responsiveness deadlines, additional protection for mobility-limited individuals and credits upon outages.

Please note that the attached franchise is still in draft form as Wave has not yet agreed to the terms that are tracked in the document. The franchise will also need a final review for typos/spelling/grammar before it is finalized. However, this version is in substantially the same form it will be in when the Council considers it at the January 11 meeting.

I look forward to answering any questions you might have about the proposed franchise and to discussing the changes with you at the Council’s December 21, 2011 Work Session.

ORDINANCE NO. 2011-\_\_

AN ORDINANCE GRANTING A NONEXCLUSIVE FRANCHISE TO WAVEDIVISION VII, LLC TO CONSTRUCT, OPERATE AND MAINTAIN A CABLETELEVISION SYSTEM IN THE CITY OF MOLALLA

THE CITY OF MOLALLA ORDAINS AS FOLLOWS:

**Section 1. Short Title.** This Ordinance shall be known as the "Cable Television Franchise Ordinance."

**Section 2. Definitions.** For the purpose of this Ordinance, the following terms shall have the respective meanings assigned to them herein. When not inconsistent with the context, words used in the present tense include the future, words in the plural include the singular, and words in the singular include the plural. The word "shall" is always mandatory and not merely directory; the word "may" is permissive.

- (1) "Access" or "Community Access" or " Public Educational and Government (PEG) Access means the availability for non-commercial use by various agencies, institutions, organizations, groups and individuals in the community, including the City and its designees, of the Cable System to acquire, create and distribute non-commercial programming not under Grantee's control.
- (2) "Access Channel" or " Public, Educational or Government Access (PEG) Channel" means any channel or portion of a channel utilized for non-commercial programming, where any member of the general public or any organization may be a programmer, without charge by the Grantee.
- (3) "Affiliate" when used in connection with Grantee means any corporation, Person or entity that owns or controls, is owned or controlled by, or is under common ownership or control with, Grantee.
- (4) "Basic Cable Service" means any service tier which includes the retransmission of local television broadcast signals.
- (5) "Cable Act" means collectively the federal Cable Communications Policy Act of 1984, the Cable Television Consumer Protection and Competition Act of 1992, and the Telecommunications Act of 1966, as may be amended from time to time.
- (6) "Cable Service" means a) one-way transmission to subscribers of video programming or other programming service; and b) subscriber interaction, if any, which is required for the selection of use of such video programming or other programming service [as defined by the Cable Act](#)
- (7) "Cable System" shall have the meaning specified in the definition of "Cable System" in the Cable Act. In every case of its use in this Franchise, unless

otherwise specified, the term shall refer to the Cable System constructed and operated by the Grantee in the City under this Franchise.

- (8) "City" is the City of Molalla, Oregon.
- (9) "City Council" is the City Council of the City of Molalla, Oregon.
- (10) "Franchise" or "Franchise Agreement" means the authorization granted by this document, or renewal thereof (including renewal of an authorization which has been granted subject to Section 626 of the Cable Act), issued by a franchising authority, whether such authorization is designated as a franchise, permit, license, resolution, contract, certificate, agreement, or otherwise, which authorizes the construction or operation of a cable system. Unless otherwise specified, "Franchise" shall designate this agreement, including all referenced material, adopted in the appropriate manner by the Grantor.
- (11) "Franchise Area" means the area within the jurisdictional boundaries of the City of Molalla, Oregon.
- (12) "Grantee" is WaveDivision VII, LLC, including its lawful successors or assigns.
- (13) "Gross Revenues" means all amounts received by the Grantee, or any Affiliate in whatever form and from all sources, derived from the operation of Grantee's Cable System to provide Cable Services within the Franchise Area in accordance with Generally Accepted Accounting Principles. Gross Revenues shall include all Cable Services, premium services, receipts obtained from advertising, commissions on sales of goods or services by third parties utilizing the Cable System (e.g., home shopping networks), installations, leasing, renting or selling of system capacity, and all other revenues derived from the operation of Grantee's Cable System to provide Cable Services, regardless of whether initially recorded to another entity and however characterized".

Formatted: Not Highlight

Revenues of both Grantee and an Affiliate that represent a transfer of funds between the Grantee and the Affiliate, and that would otherwise constitute Gross Revenues of both the Grantee and the Affiliate, shall be counted only once for purposes of determining Gross Revenues.

"Gross Revenues" shall not include: (1) revenues received from Grantee or by any Affiliate or other Person in exchange for supplying goods or services used by Grantee to provide Cable Service over the Cable System; (2) any tax of general applicability imposed upon the Grantee or upon Subscribers by a city, state, federal or other governmental entity and required to be collected by Grantee and remitted to the taxing entity; (3) bad debt written off by Grantee in the normal course of its business, provided however, that bad debt recoveries shall be included in Gross Revenue during the period collected;(4) refunds, rebates or credits to Subscribers; (5) reimbursement by programmers of marketing costs

incurred by Grantee for the introduction of new programming pursuant to a written marketing agreement; (6) Directory or Internet advertising revenue including, but not limited to, yellow page, white page, banner advertisement and electronic publishing; (7) any revenue of Grantee or any other Person which is received directly from the sale of merchandise through any Cable Service distributed over the Cable System, notwithstanding that portion of such revenue that represents or can be attributed to a Subscriber fee or a payment for the use of the Cable System for the sale of such merchandise, which portion shall be included in Gross Revenue; or (8) any sales or capital assets or sales of surplus equipment .

- (14) "Head-end" means a facility for signal reception and dissemination on a Cable System, including cables, antennas, wires, satellite dishes, monitors, switches, modulators, processors and all other related equipment and facilities.
- (15) "Person" is any corporation, partnership, proprietorship, individual, firm, Grantee or organization of any kind.
- (16) "Residential Network" means a cable communications network designed principally for the delivery of entertainment, community access and/or interactive services to individual dwelling units.
- (17) "School" means any accredited public educational institution, including but not limited to, primary and secondary schools, community colleges, colleges, universities and extension centers, and all similarly situated private and parochial educational institutions, with 25 students or more.
- (18) "System Services" or "Services" shall mean all of the services provided by Grantee or available to Grantee to provide through its Technical Facilities by the grant of this franchise, and shall include, but not be limited to, the distribution of cable television and radio signals.
- (19) "Streets and Public Ways" the surface of and the space above and below any public street, sidewalk, alley, or other public way of any type whatsoever, now or hereafter existing as such within the Franchise Area, and any easements, rights of way or other similar means of access to the extent Grantor has the right to allow Grantee to use them.
- (20) "Subscriber" means any Person who elects to subscribe to, for any purpose, Cable Service provided by Grantee by means of, or in connection with, the Cable System, and whose premises are physically wired and lawfully activated to receive Cable Service from Grantee's Cable System.

(a) "Commercial Subscriber" means any Subscriber other than a Residential Subscriber.

(b) "Residential Subscriber" means any Person who contracts individually for Cable Service to a residence, whether that residence is a single-family unit or located in a multiple dwelling unit.

(21) "Technical Facilities" or "Facilities" shall mean all real property, equipment, and fixtures used by Grantee in the distribution of its services through its system, whether located in City or out, and includes, but is not limited to, poles, cables, wires, microwave transmitters, antennas, and amplifiers.

**Section 3. Grant of Authority.** City grants to Grantee a non-exclusive, revocable franchise for an Initial Term of ~~twelve~~ ~~(12)~~ ~~12~~ years from and after the effective date hereof the right and privilege to construct, erect, operate, and maintain, in, upon, along, across, above, over, and under the streets, alleys, and public ways now laid out or dedicated, and all extensions thereof, and additions thereto, in the City, poles, wires, cables, conduits, and other Technical Facilities necessary for the construction, maintenance, and operation in the City of Molalla of a Cable System for the purpose of providing Cable Services. This franchise constitutes the authority, right, privilege and obligation to provide cable services over the cable system as required by the provisions of this Franchise Agreement and nothing herein shall be deemed to prohibit Grantee from providing other lawful services. This franchise is not exclusive, and the City reserves the right to grant a similar use of streets, alleys, public ways, and places to any other person at any time during the period of this franchise; provided, however, that any such grant to a cable operator shall not be on terms or conditions materially less burdensome or restrictive than those contained in this Ordinance to the extent required by law.

Formatted: Not Highlight

**Section 4. Laws, Rules and Regulations.**

The Grantee shall comply with all applicable and lawful federal and state laws and published regulations, including regulations of any administrative agency thereof, as well as all lawful, published, general ordinances, resolutions, rules and regulations of the Grantor heretofore or hereafter adopted or established during the term of this franchise, provided that any such lawful, published, ordinances, resolutions, rules and regulations of the Grantor hereafter adopted or established shall not conflict or interfere with the existing rights of the Grantee hereunder.”

**Section 5. Grantee Liability, Indemnification of City, and Insurance.**

(1) Grantee shall, at all times, conduct its operations under this franchise, including installation, construction, or maintenance of its facilities, in a safe and competent manner, so as not to present a danger to the public or City.

(2) Grantee shall pay, save harmless, and indemnify City from any loss or claim against City on account of or in connection with any activity, of Grantee, in the construction, operation, or maintenance of its Technical Facilities and System Services unless such loss or claim was caused by the negligence or willful misconduct of the City.

(3) This franchise shall be conditioned upon Grantee maintaining a comprehensive liability insurance policy, which shall contain the following provisions:

(a) Combined bodily injury and property damage policy limits of \$1,000,000 for each person and \$1,000,000 for each occurrence. The insurance shall be equal to or better than commercial general liability insurance.

Formatted: Not Highlight

(b) A designation of City, its officers, agents, and employees, as additional insureds for liability arising from or in connection with this franchise.

(4) Evidence of Workers' Compensation insurance that includes State of Oregon Statutory Limits, and Employer's Liability under the Oregon Tort Claims Act.

(5) Upon filing the acceptance required, the Grantee shall, at its sole expense, obtain and file with the City, a corporate surety bond or other adequate surety agreement, certifying that Grantee will observe, fulfill, and perform each term and condition of the franchise in the amount of \$10,000. The bond required herein shall be maintained during the full term of the franchise, or any renewal.

(6) Certificates evidencing insurance as described in this franchise shall be deposited with City upon acceptance of this franchise. If the insurance is canceled or materially altered so as to be out of compliance with the requirements of this Section within the terms of this Franchise, Grantee shall provide an equivalent or better replacement policy as soon as a reasonably practicable. Grantee agrees to maintain continuous, uninterrupted insurance coverage in the amounts required for the duration of this Franchise.

Formatted: Not Highlight

Formatted: Not Highlight

**Section 6. System Design and Performance Requirements.** For the term of this franchise, Grantee shall construct, operate, and maintain its Technical Facilities and provide System Services and performance as follows:

(1) The Cable System shall include consist, a Residential Network. The System shall have bi-directional communications capability and addressability, be capable of passing a minimum of 750 MHz in all portions of the system, and be designed in a hybrid fiber coaxial configuration with no more than 500 homes served from any fiber node, at the time of the initial completion of the upgrade and commencement of service. Such upgrade to these identified performance standards shall be completed throughout the City so that full service is available to all customers no later than December 31, 2012.

Comment [HRM1]: The Cable System includes a Residential Network.

Formatted: Not Highlight

Formatted: Not Highlight

Formatted: Not Highlight

(2) The residential Cable System shall have the capability of delivering a minimum of one hundred and twenty(120) activated Channels in the Franchise Area currently served as well as those areas newly activated during the term of this Agreement.

(3) Grantee shall provide the system capability to provide video interrupt and audio alert on all System channels for emergency purposes, and allow transmission of an emergency

alert message to all subscribers. This capability shall be consistent with the requirements of Part 11 of the regulations of the Federal Communications Commission ("FCC"). Emergency alert capability as required in this Section shall be operational throughout the term of the Franchise.

(4) Grantee shall provide standby power generating capacity at the Cable System Headend and hubs capable of providing emergency operation for at least eight (8), and shall maintain standby power system supplies, rated at least at two (2) hours duration, throughout the trunk and distribution networks.

(5) Grantee shall provide Subscribers (by sale or lease or otherwise), upon request, with a manual or electronic parental control locking device that permits inhibiting the viewing of any channel, consistent with 47 U.S.C. § 544(d)(2). Subscribers shall be notified by Grantee of the availability of the locking device no less frequently than annually.

(6) The Grantee shall meet the requirements of the FCC Rules and Regulations, Part 76, Subpart K (Technical Standards), as now or hereafter constituted.

(7) Performance Testing.

(a) Upon request, Grantee shall advise City of schedules and methods for testing the Cable System to determine compliance with the provisions of applicable FCC technical standards. Representatives of City may witness tests, and copies of written test reports shall be made available to City upon request.

(b) As required by FCC Rules, Grantee shall conduct proof of performance tests and cumulative leakage index tests designed to demonstrate compliance with FCC requirements. Grantee shall also conduct all other tests ~~reasonably~~ necessary to determine compliance with technical standards required by this Franchise. Grantee shall provide City a written copy of the results of such tests upon request.

(c) The City shall have the right to inspect any and all work performed in the Streets and Public Rights of Way. In addition, for initial and semi-annual FCC proof of performance tests, the City shall be given the opportunity by Grantee to review test sites. Upon City's request, Grantee shall notify the City of the time and place of the next scheduled test and shall cooperate in facilitating the City's witnessing at the time of the tests. The City may, at its own expense and upon thirty (30) days written notice to Grantee, conduct independent tests of the System, for which Grantee shall give its fullest cooperation.

(d) It shall be the responsibility of the Grantee to document that the System and its operation are in compliance with FCC technical specifications and performance requirements. The responsibility includes tests in response to subscriber complaints, which test results shall be provided to Grantor upon request. The FCC's technical standards shall govern the protocols for all such testing. Written records of all system test results performed by or for the Grantee shall be maintained for a period of two (2) years and shall be available for City inspection upon request.

Formatted: Font: 12 pt

Comment [dh2]: The key is that the complaints are satisfactorily resolved.

(e) In any case where System testing reveals non-compliance with FCC standards, the Grantee shall repair the System or make whatever modifications are necessary to bring the System performance into compliance with FCC standards within a reasonable period of time to be determined by the City.

**Section 7. Conditions on Street Occupancy.**

(1) Erection of Poles. If additional poles in an existing aerial utility system are required, the Grantee shall negotiate with the utility company or provider for the installation of needed poles. Grantee shall not erect, for any reason, any pole on or along any street or public way in an existing aerial utility system unless approved by the City. The Grantee shall negotiate the lease of pole space and facilities from the existing pole owners for all aerial construction, under mutually acceptable terms and conditions, and shall comply with all applicable, lawful ordinances, resolutions, rules and regulations of the City.

(2) Repair and Restoration. Whenever the Grantee shall disturb the surface or otherwise damage any street, alley, public highway, other public way or ground for any purpose mentioned herein, it shall repair and restore the same to the condition in which it was prior to the opening or other damage thereof. And when any opening is made by the Grantee in any hard surface pavement, in any street, alley, public highway or other way, the Grantee shall promptly refill the opening and restore the pavement to its original condition. The City may refill and/or repave in case of neglect of the Grantee, provided that City first notifies and provides Grantee fifteen (15) days to cure unless additional time is granted by the City. The cost thereof, including the cost of inspection, supervision and administration shall be paid by the Grantee. All excavations made by the Grantee in the streets, alleys, public highways or other ways shall be properly safeguarded for the prevention of accidents. The work hereby required shall be done in strict compliance with the rules, regulations and codes of City as now or hereafter in effect.

(3) Temporary Relocation of Facilities. Grantee shall, upon receipt of seven (7) days written notice from anyone desiring to move a building or other object according to City ordinances regulating the moving of buildings, arrange to temporarily raise, lower, or otherwise move its facilities to permit the moving of buildings or other objects, if the person wishing to move the building or other object makes a reasonable arrangement to reimburse Grantee for its expenses in rearranging its facilities; provided that, if the City is the party requesting the temporary relocation, the relocation shall be done at the expense of the Grantee.

(4) Standards. Grantee shall comply with all federal, State and local safety requirements, laws, rules and regulations and deploy all necessary devices as required by applicable law during construction, operation and repair of its System. The Grantee shall arrange its lines, cables and appurtenances on both public and private property in such a manner as not to cause unreasonable interference, as determined by the City, with the use of said public or private property by any person.

Formatted: Not Highlight

(5) Tree Trimming. In the conduct of its business, it may be necessary for Grantee, at its own expense, to trim trees or other vegetation in order to provide space for its facilities. Tree or vegetation trimming shall be done only in accordance with the codes and other rules and regulations of the City and if the tree or vegetation is located on private property, with the permission of the owner of the property on which the tree or vegetation stands. Nothing contained in this franchise agreement shall be deemed to empower or authorize Grantee to cut, trim or otherwise disturb any trees or other vegetation whether ornamental or otherwise.

(6) Reservation of Street Rights. Nothing in this franchise agreement shall be construed to prevent any public work of the City, including without limitation constructing sewers, grading, paving, repairing and/or altering any street, alley, or public highway, or laying down, repairing or removing water mains or maintaining, repairing, constructing or establishing any other public property. If any property of the Grantee shall interfere with the construction or repair of any street or public improvement, whether it be construction, repair or removal of a sewer or water main, the improvement of a street or any other public improvement, then on reasonable notice from the City all such property including poles, wires, conduits or other appliances and facilities shall be removed, replaced or relocated in a timely manner as shall be directed by the City, so that the same shall not interfere with the said public work of the City, and such removal, replacement or relocation shall be at the expense of the Grantee. Grantor will not charge Grantee for any permits required for such removal, replacement or relocation and Grantor will treat all similarly situated providers in a comparable manner. In the event of failure, neglect or refusal of the Grantee, to relocate its facilities or to repair, restore, or reconstruct such street, the City may do such work or cause it to be done, and the cost thereof to the City shall be paid by the Grantee.

(7) Street Vacation and Abandonment. In the event any street, alley, public highway or portion thereof used by the Grantee shall be vacated by the City, or the use thereof discontinued by the Grantee, during the term of this franchise, the Grantee shall forthwith remove its facilities therefrom unless specifically permitted in writing to continue the same by the new controlling jurisdiction or property owner, as appropriate. At the time of removal thereof the Grantee shall restore, repair or reconstruct the street area where such removal has occurred, and place the street area where such removal has occurred in such condition as may be reasonably required by City. In the event of failure, neglect or refusal of the Grantee, to remove its facilities or to repair, restore, or reconstruct such street, damage, following thirty (30) days notification the City may do such work or cause it to be done, and the cost thereof to the City shall be paid by the Grantee.

(8) Undergrounding.

(a) Cable must be installed underground where:

- i. all existing utilities are placed underground,
- ii. required by statute or an ordinance, or other regulation lawfully imposed by the City,
- iii. overhead utility lines are moved underground (Grantee shall bear the cost of such movement of its facilities unless specific

Formatted: Justified, Indent: Left: 0", First line: 0.5"

Formatted: Font: 12 pt, Underline

Formatted: Font: 12 pt

Formatted: Font: 12 pt, Underline

Formatted: List Paragraph, Justified, Numbered + Level: 1 + Numbering Style: i, ii, iii, ... + Start at: 1 + Alignment: Left + Aligned at: 1.5" + Indent at: 2", Tab stops: 0", Left + 0.13", Left + 2", Left + Not at 0.25" + 1.75" + 1.94"

exemption is given by City in any individual case or unless preemptive state or federal law or regulation provides otherwise),

- iv. Grantee is unable to get or maintain proper clearances,
- v. underground easements are obtained from developers of new residential areas, or;
- vi. utilities are overhead but residents prefer underground (undergrounding is to be paid by the residents, which shall be provided by the Grantee to the residents at cost),

Formatted: List Paragraph, Numbered + Level: 1 + Numbering Style: i, ii, iii, ... + Start at: 1 + Alignment: Left + Aligned at: 1.5" + Indent at: 2", Tab stops: 0", Left + 0.13", Left + 2", Left

Formatted: Font color: Auto

(b) Grantee shall use conduit or its functional equivalent on 100% of undergrounding, except for drops from pedestals to subscribers' homes and for cable on other private property where the owner requests that conduit not be used. Cable and conduit shall be utilized which meets the industry standards for electronic performance and resistance to interference or damage from environmental factors. Grantee shall use, in conjunction with other utility companies or providers, common trenches for underground construction wherever available.

Formatted: Indent: Left: 0", First line: 0.63"

(9) Emergency. In the event of an emergency, or when the cable equipment creates or is contributing to an imminent danger to health, safety or property, the City may remove or relocate Grantee's cable system without prior notice. Subject to the limits of the Oregon Torts Claims Act and the Oregon Constitution, City will defend, indemnify and hold Grantee harmless for any negligent actions or gross negligence by City's employees or agents pursuant to this Subsection (9).

Formatted: Not Highlight

**Section 8.** Cable Service to Public Facilities. The services Grantee shall provide to public facilities are identified in Exhibit B.

**Section 9.** Discriminatory Practices Prohibited. Grantee shall make its System Services available to all citizens of City without discrimination and shall not give any preference or advantage not available to all persons similarly situated.

**Section 10.** Extension of System Services. Grantee shall extend the services of its system to all citizens of City within the limits of the system's Technical Facilities.

**Section 11.** Transfer of Franchise. Subject to Section 617 of the Cable Act (47 U.S.C Section 537) no transfer of the Franchise or change in control of Grantee shall occur without the prior written consent of Grantor, provided that such consent shall not be unreasonably withheld, delayed or conditioned.

If the Grantee wishes to transfer this franchise, the Grantee and Grantor shall proceed pursuant to Section 617 of the Cable Act and related rulemakings of the FCC. In any event, Grantee shall give Grantor written notice of the proposed transfer, and shall request consent of the transfer by the Grantor. Grantee shall furnish all information required by law and/or reasonably requested by Grantor with respect to the consideration of the franchise. For the purpose of determining whether it will consent to such transfer, Grantor may inquire into the legal, financial and technical qualifications of the prospective transferee to perform the obligations of the Grantee under this franchise agreement. The Grantee shall assist Grantor in

{00123184; 5 } \\Molalla-srv01\city admin folder\Council Agenda Packets\122111 Council Packet\Wave Franchise (Draft) (00123184-5).DOCX

any such inquiry by providing all information reasonably requested in writing by the Grantor that is reasonably necessary to determine the legal, financial and technical qualifications of the proposed transferee in order to determine whether it will consent to the proposed transfer.

In cases where the Grantor finds it inappropriate to give unconditional consent to the proposed transfer, the Grantor may offer its consent upon such terms and conditions as it deems appropriate, related to the qualifications of the prospective transferee to perform the obligations of the Grantee under this franchise; provided however, any such terms and conditions so attached shall be related to the legal, financial and technical qualifications of the proposed transferee and to the resolution of outstanding and unresolved issues of Grantee's noncompliance with the terms and conditions of the Franchise. Any transfer of ownership affected without the written consent of the Grantor shall render this franchise subject to revocation. The Grantor shall have one hundred and twenty (120) days to act upon any request for approval of a transfer that contains or is accompanied by such information as is required in accordance with FCC regulations and by the Grantor. If the Grantor fails to render a final decision on the request within said one hundred and twenty (120) days, the request shall be deemed granted unless the Grantee and the Grantor agree to an extension of time.

The Grantee, upon the execution of the transfer documents, shall within thirty (30) days thereafter file with the Grantor a copy of the deed, agreement, mortgage, lease, or other written instrument evidencing such sale, lease, mortgage, assignment or transfer, certified and sworn to as correct by the Grantee.

Every such transfer as heretofore described, whether voluntary or involuntary, shall be deemed void and of no effect unless Grantee shall within thirty (30) days after the execution of the transfer documents, file such certified copy as is required.

The Grantee may, without obtaining prior consent of the Grantor, from time to time (a) assign or transfer its assets, including the Franchise to a parent or affiliate of Grantee; (b) restructure its debt or change the ownership interests among its affiliates (c) pledge or grant a security interest in its assets, including but not limited to the Franchise, or of interests in the Grantee to any lenders(s) for purposes of securing indebtedness. However, the cable communications system franchised hereunder, including portions thereof used as collateral, shall at all times continue to be subject to the provisions of this franchise.

The requirements of this Section shall not be deemed to prohibit the sale of tangible assets of the cable system in the ordinary conduct of the Grantee's business without consent of the Grantor.

**Section 12. City Rights in Franchise.**

(1) Public, Educational and Governmental Access. During the term of the franchise, Grantee shall allow the City and all subscribers in the franchise area to access Grantee's public, educational and governmental ("PEG") access channels, and the studio and equipment associated therewith. The channels on which PEG programming currently is carried are, CH-5 OCTS Public Access, CH-15 City of Canby Government Channel and CH-18- Clackamas Community College.

Formatted: Not Highlight

(2) At any time during the term of this Franchise, Grantor may determine it is in the community's interest to originate a digital PEG Access Channel. If the City desires to establish a a digital Access Channel and can demonstrate that it has at least 48 hours of per week programming on the Access Channel ( including the first repeat programming) then upon one hundred twenty days written notice from the City, Grantee shall make available one digital Access Channel. Within 30 days of a written request by the City and no sooner than thirty days after the City has demonstrated that it has at least 48 hours of programming per week, , Grantee agrees to enter into good faith negotiations to reach an agreement whereby the Grantee will pay a PEG Access fee to the City to be determined on a per subscriber or lump sum basis. Prior to entering into good faith negotiations, the City agrees to identify costs associated with the origination of a PEG Access Channel including but not limited to equipment, facility and operating costs and to provide such costs to Grantee for its review. Both parties agree that a separate agreement will be reached regarding the amount of PEG Access fees that may be passed through to subscribers to support the PEG Access Channel. Any agreement reached between the parties shall be memorialized in writing as an amendment to this Franchise.

(3) City Inspection. The City shall have the right to inspect all construction or installation work performed within the Franchise Area and to make such inspections and tests as it shall find necessary to ensure compliance with the technical standards required by this franchise.. City shall notify Grantee on times and location of inspection and Grantee representative shall have the opportunity to accompany City during any inspection.

Formatted: Not Highlight

(4) City Acquisition of the Cable System. The parties shall be subject to the provisions of 47 U.S.C. 547 (Section 627 of the Cable Act) as amended from time to time. It is not intended that this Franchise diminish the rights of either City or Grantee under Section 627 of the Act, and any provision of this Franchise that purports to diminish such right shall be deemed superseded by the Act.

### **Section 13. Franchise Fee.**

(1) As compensation for the Franchise granted by this Ordinance, and in consideration of permission to use the streets and public ways of the City for the construction, operation and maintenance of a Cable System and to defray the costs of franchise regulation, Grantee shall pay to City an amount equal to five percent (5%) of the Gross Revenues, as defined in this franchise, collected by Grantee for its System Services to customers in the City served by this franchise. Payment of the franchise fee under this Franchise shall not exempt Grantee from the payment of any tax, fee or assessment of general applicability that may be imposed by City.

(2) The fee required by this Section shall be due and payable quarterly, in arrears, not later than forty-five (45) days following the end of each fiscal quarter. Any payment not made when due shall bear interest at a rate equal to the legal interest rate in the State of Oregon.

(3) With each payment, Grantee shall furnish the City Recorder with a written statement executed by an officer of Grantee, or designee, verifying the amount of Gross Revenues of Grantee within the Franchise Area for the period covered by payment, computed on

{00123184; 5 }\\Molalla-srv01\city admin folder\Council Agenda Packets\122111 Council Packet\Wave Franchise (Draft) (00123184-5).DOCX

the basis set out in subsection (1) of this Section. The City shall have the right to audit the amount of any payment made pursuant to this franchise consistent with Subsection (7) herein.

(4) City's acceptance of any payments due under this Section shall not be considered a waiver by City of any breach of this franchise.

(5) Bundling. If Cable Service subject to the franchise fee required under this Franchise are sold to Subscribers in conjunction with non-Cable Services, the franchise fee shall be applied only to the value of the Cable Services, as reflected on the books and records of Grantee in accordance with applicable FCC or state rules, regulations, standards or orders. Grantee shall not allocate revenue between Cable Services and non-Cable Services for the purpose or with the intent of evading or substantially reducing Grantee's franchise fee obligations to City.

(6) The Grantee shall at all times during the term of this Franchise maintain on file , an up-to-date list of all affiliated entities receiving Gross Revenues as such revenues are defined in this Franchise.

(7) The City shall have the right to perform, or cause to have performed, a formal audit or a professional review of the Grantee's books and records, and, for the specific purposes of an enforcement effort, the books and records of any parent or affiliate company, for the purpose of determining the gross receipts of the Grantee generated in any manner through the operation of the Cable System under this Ordinance and the accuracy of amounts paid as franchise fees to the City by the Grantee, provided that any audit or review must be commenced not later than three (3) years after the date on which franchise fees for any period being audited or reviewed were due. As part of any such audit, Grantee shall, upon request, identify for the City the amount collected by the Grantee or any parent or affiliate of the Grantee from the use of Grantee's Cable System under this Ordinance to provide Cable Services. The cost of any such audit or review shall be borne by the City, except that if it is established that the Grantee has made underpayment of 5% or more in franchise fees for any period required by this Ordinance, then the Grantee shall, within 30 days of being requested to do so by the City, reimburse the City for the cost of the audit up to \$7000.

Formatted: Not Highlight

**Section 14. Rates.** The City reserves its rights to regulate the Grantee's rates charged to its subscribers to the fullest extent permitted under federal and state law. Throughout the term of this Franchise, Grantee shall give all subscribers at least thirty (30) days' notice of proposed rate changes, as required by FCC. Nothing in this subsection shall be construed to prohibit the reduction or waiving on rates or charges in conjunction with promotional campaigns. Grantee shall apply non-discriminatory rates and charges to all subscribers purchasing similar services, regardless of race, color, creed, sex, marital or economic status, age, national origin, sexual preference, or neighborhood of residence, except as otherwise provided herein and to the extent permitted by law; provided that nothing in this Franchise shall prevent the Grantee from establishing discounted rates and charges for low-income or elderly subscribers, or from temporarily reducing or waiving rates and charges in connection with promotional campaigns.

**Section 15. Consumer Protection Standards.** The Grantee shall meet minimum Federal Consumer Protection Standards.

(1) The Grantee shall maintain an office or customer service location within Clackamas County that is capable of accepting payments and accepting customer equipment. The office/customer service location must be adequately staffed for subscribers to make payments and drop off equipment not less than forty (40) hours per week, -and until at least 7:00pm at least one night per week.

(2) Toll-free telephone lines, either staffed or with answering capability, providing at least emergency referral information, must be operational twenty-four (24) hours a day, including weekends and holidays.

(3) The Grantee shall maintain, on average as verifiable by statistical data:

(a) Sufficient customer service staff and telephone line capacity to handle normal call volume with a minimum of delay to customers. Under normal operating conditions, the customer will receive a busy signal less than 3% of the time.

(b) Under normal operating conditions, telephone answer time by a customer representative, including wait time, shall not exceed thirty (30) seconds. Grantee may use an Automated Response Unit (“ARU”) or Voice Response Unit (“VRU”) in answering and distributing calls from customers. If a call needs to be transferred, transfer time shall not exceed thirty (30) seconds. These standards shall be met no less than ninety (90) percent of the time under normal operating conditions, measured on a quarterly basis.

(4) Service and Repair Calls.

(a) Under normal operating conditions, at least 95% of the time measured on a quarterly basis, requests from subscribers for repair and maintenance service must be responded to, and repairs must commence within twenty-four (24) hours or prior to the end of the next business day, whichever is earlier. Repair and maintenance for service interruptions or other repairs not requiring on-premises work must be completed within twenty-four (24) hours under normal circumstances. All other repairs should be completed within seventy-two (72) hours under normal circumstances.

(b) Under normal operating conditions, at least 95% of the time measured on a quarterly basis, as a normal operating procedure, upon subscriber request the Grantee shall offer either a specific appointment time or a pre-designated block of time (not to exceed four hours) for subscriber service appointments to be scheduled Monday through Saturday in the morning, the afternoon, and after 5:00 p.m. The Grantee shall not cancel an appointment with a customer after the close of business on the business day prior to the scheduled appointment. If a Grantee representative is running late for an appointment with a customer and will not be able to keep the appointment as scheduled, the customer will be contacted. The appointment will be rescheduled, as necessary, at a time which is convenient for the customer.

Formatted: List Paragraph, Justified, Indent: Left: 0", Tab stops: 0", Left + Not at 0.7" + 1.63"

Formatted: Justified

Formatted: Justified, Indent: Left: 0", First line: 0.5", Tab stops: 0.2", Left + 0.5", Left + 1", Left + 1.2", Left + 2.2", Left + Not at 0.7" + 1.1" + 1.3" + 1.5" + 2.38"

(c) With regard to the needs of mobility-limited customers, upon subscriber request, the Grantee shall arrange for pickup and/or replacement of converters or other company equipment at the subscriber's address, or else a satisfactory equivalent (such as the provision of a postage-prepaid mailer). It is further the intent of Grantee to accommodate customer's working schedules by arranging, upon customer request, for pickup and/or replacement of converters or other company equipment at the customer's address.

(d) Under normal operating conditions, at least 95% of the time measured on a quarterly basis, where the service requested is installation of service, standard installations shall be performed by the Grantee within seven (7) business days after an order has been placed. "Standard" installations, for the purposes of this section, shall mean those installations that are located up to one hundred and twenty-five (125) feet from the existing distribution system.

(5) Credits Upon Outage. Except for planned outages where subscribers are provided reasonable notification in advance, upon a subscriber's request the Grantee shall provide a pro-rated 24-hour credit to the subscriber's account for any period of four hours or more during which that subscriber experienced the effective loss or substantial impairment of video or audio service on the system.

**Section 16. Grantee Records and Reports.** Grantee shall keep accurate books of accounts at an office within the State of Oregon throughout the term of this franchise. Grantee shall produce its books of account for inspection by City at any time during normal business hours and City may audit Grantee's books from time to time. City may require periodic reports from Grantee relating to its operation and revenue within the City.

**Section 17. System Data.** Grantee shall maintain, at an office located in Woodburn, all current maps and other operational data relating to its system operations in the City of Molalla. The City may inspect these maps and data at any time during normal business hours.

**Section 18. Termination of Franchise.** Upon the failure of Grantee, after sixty days' notice and demand in writing to perform promptly and fully each and every term, condition, or obligation imposed upon it, according to this Ordinance, the City Council may, at its option and in its sole discretion, which discretion shall be reasonably applied, terminate this franchise.

**Section 19. Remedies Not Exclusive; Waiver.** All remedies under this franchise, including termination of franchise, are cumulative, and recovery or enforcement of one is not a bar to the recovery or enforcement of any other remedy. Remedies contained in this franchise, including termination of the franchise, are not exclusive and the City reserves the right to enforce penal provision of any Ordinance and also use any remedy available at law or in equity. Failure to enforce any provision of this franchise shall not be construed as a waiver or a breach of any other term, condition, or obligation of this franchise.

**Section 20. Duration.** The term of this franchise and all rights, privileges, obligations, and restrictions pertaining thereto shall be for a period of twelve (12) from the effective date through January \_\_\_\_, 2022, unless extended or terminated sooner as hereinafter provided.

{00123184; 5 }\\Molalla-srv01\city admin folder\Council Agenda Packets\122111 Council Packet\Wave Franchise (Draft) (00123184-5).DOCX

**Section 21. Effective Date.** The effective date of this franchise shall be January 11, 2012 unless Grantee fails to file an unconditional written acceptance of this franchise and post the security required hereunder within thirty days of approval of this franchise by the Molalla City Council. In either event, this franchise shall be null and void and any and all rights of

Grantee to own or operate a Cable System within the Franchise Area under this Ordinance shall be of no force or effect.

Formatted: Justified, Indent: First line: 0.5"

**Section 22. Constitutionality.** If any Section, subsection, sentence, clause or portion of this Ordinance is, for any reason, held invalid or rendered unconstitutional by any court of competent jurisdiction, such portion shall be deemed a separate, distinct, and independent provision, and such holding shall not affect the constitutionality of the remaining portion hereof. If, for any reason, the franchise fee is invalidated or amended by the act of any court or governmental agency, then the highest reasonable franchise fee allowed by such court or other governmental agency shall be the franchise fee payable under this franchise.

**Section 23. Emergency Clause.** This Ordinance, being necessary for the immediate preservation of the public peace, health, and safety, in that the City needs to have in place a continuous regulation of its rights of way and cable franchise granted to Grantee, as extended, expired on December 11, 2004. Therefore, an emergency is declared to exist, and this Ordinance shall take effect retroactively to that date.

The foregoing Ordinance was passed by the City Council of the City of Molalla this \_\_\_\_ day of \_\_\_\_\_, 2011, by the following vote.

Ayes: \_\_\_\_

Nays: \_\_\_\_

Absent: \_\_\_\_

WHERE UPON, the Mayor declared the Motion to be carried and the Ordinance adopted.

Passed and approved by the City Council of the City of Molalla this \_\_\_\_ day of \_\_\_\_\_, 2011.

CITY OF MOLALLA, OREGON

By: \_\_\_\_\_  
Mike Clarke, Mayor

ATTEST:

By: \_\_\_\_\_

Melanie Maben  
City Recorder

{00123184; 5 } \\Molalla-srv01\city admin folder\Council Agenda Packets\122111 Council Packet\Wave Franchise (Draft) (00123184-5).DOCX

APPROVAL OF FORM:

By: \_\_\_\_\_  
Heather R. Martin

**EXHIBIT A: ACCEPTANCE AND PROMISE**

City of Molalla  
117 N. Molalla Ave.  
PO Box 248  
Molalla, OR 97038  
Attn: Finance Director

To: City of Molalla

1. Grantee, through its authorized representative below signed does hereby submit this Letter of Acceptance and Promise.
2. The signatory to this letter has full authority to make the statements and representations in this letter on behalf of the Grantee.
3. The Grantee, by and through the below signed representative hereby unconditionally accepts and promises to comply with all terms, provisions and conditions of the Cable Television Franchise granted by the City of Molalla, in accordance with federal, state, and local laws.
4. This Letter of Acceptance and Promise is binding upon the Grantee as of the Effective Date of the Franchise Agreement and throughout its term.

WaveDivision VII, LLC

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Exhibit B: Service to Public Buildings**

As a voluntary initiative, upon request the Grantee shall provide, without charge, a standard installation and one (1) outlet of Local Broadcast Service to those buildings set forth below. Such installations shall be provided to the facilities within sixty (60) days of Grantor's request. The Local Broadcast Service provided shall not be distributed by Grantor beyond the originally installed outlet without written authorization from the Grantee. In the alternative, Grantor may distribute the Local Broadcast Service throughout the building for City purposes at Grantor's cost including necessary equipment to maintain signal quality so long as Grantor's use does not adversely affect Grantee's signals outside of any such building, and provided that any deterioration of the signal caused by Grantor's distribution of the signal throughout the building will be the responsibility of the Grantor. The Local Broadcast Service provided shall not be used for commercial or public viewing purposes. The City shall take reasonable precautions to prevent any use of the Grantee's Cable System in any manner that results in the inappropriate use thereof or any loss or damage to the Cable System.

Formatted: Font: Not Bold  
Formatted: Left

<b>NAME</b>	<b>STREET ADDRESS</b>	<b>ZIP CODE</b>
Molalla City Hall	117 N. Molalla Ave.	97038
Molalla Community Adult Center	315 Kennel Ave.	97038
Molalla Public Library	201 E 5 <sup>th</sup> Street	97038
Mollala Aquatic Center	432 Frances St.	97038

**Exhibit C: WILLAMETTE BROADBAND TOTAL GROSS REVENUES  
REPORTING FORM**

**CITY OF MOLALLA**

For the quarter ending: \_\_\_\_

Category	Revenues	Avg. Number of Subscribers/Service Units
A. Basic Service		X
B. Expanded Basic Service (cable programming service tiers)		X
C. Premium channels		X
D. Audio Services		X
E. Equipment rental		X
F. Subscriber installation and transactions		X
G. Home shopping commission revenue		X
H. Lease of channel space		X
I. Advertising revenue (explain method of calculating on separate sheet)		X
J. Other operations revenue (specify; use separate sheet if needed)		X
	Total	XXX

If any category of revenue, or any part of any category, has been excluded from the amount on which franchise fees were paid for the year, please identify the categories and the amounts excluded, and explain why they have been excluded.

# City Of Molalla

## City Council Meeting

### Agenda Category: New Business

**Subject:** Review Draft FY2011 City Audit and Mid-year City Financials

**Recommendation:** Discussion Item

**Date of Meeting to be Presented:** December 21, 2011

**Fiscal Impact:** NA

**Background:**

This is a review the draft financial audit and management letters for fiscal year ending June 30, 2011 and of the City's current financial status and projections for year end.

SUBMITTED BY: Ellen Barnes, City Manager

ALL AGENDA ITEMS MUST BE SUBMITTED BY NOON THE THURSDAY BEFORE THE SCHEDULED COUNCIL MEETING. LATE ITEMS WILL BE SUBMITTED TO THE CITY MANAGER FOR CONSIDERATION.

**Agenda Item**

**6.B**

City Recorder Use Only



## GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
475 Cottage Street NE, Suite 200, Salem, Oregon 97301  
(503) 581-7788

\*\*\*\*\*, 2011

DRAFT

City Council and Management  
City of Molalla  
P.O. Box 248  
Molalla, Oregon 97038

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Molalla as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the City of Molalla's internal control to be material weaknesses:

### **PRIOR YEAR**

#### **Failure to Perform Appropriate and Timely Account Reconciliations**

##### *Criteria*

Differences between account reconciliations and GL account balances should be identified and investigated on a regular basis.

##### *Condition*

Account reconciliations contain differences that were not investigated thoroughly or adjusted to show correct GL balances. Accordingly, the Council is not receiving accurate financial data on a current basis.

DRAFT

*Cause*

Differences on reconciliations were not investigated, and GL balances were not adjusted as necessary.

*Recommendations*

1. We recommend that reconciliation differences be investigated and documented to the extent possible on a monthly basis, and that GL balances be adjusted as necessary. This may require additional training of City personnel in the proper use of City software.
2. Monthly transaction processing is still not being done properly, despite the finance director's best efforts. This has caused the finance director extra work and untold frustration. We recommend that the City obtain the necessary assistance to evaluate the default settings in the software, especially the PERS payroll transaction processing and the utility customer receipts processing, so that transactions are properly recorded in the GL. This assistance could be in the form of an on-site visit from Caselle technical support personnel, or an independent consultant.

*Management Response*

Management will investigate all such differences on a monthly basis and adjust GL balances accordingly. If additional training of City personnel is deemed to be necessary, management will acquire this training for employees.

*Current Year Update*

The recommendations have not yet been implemented. The condition continues.

**CURRENT YEAR**

**Failure to Perform Proper Bank Reconciliation Procedures**

*Criteria*

Differences identified during bank reconciliation procedures should be investigated and resolved in a timely manner.

*Condition*

Bank reconciliations contain differences that were not investigated thoroughly or adjusted to show correct GL balances. Accordingly, the Council is not receiving accurate financial data on a current basis.

*Cause*

Differences on reconciliations were not investigated; miscellaneous adjustments were posted to various revenue and expense accounts.

*Recommendation*

We recommend that reconciliation differences be investigated and documented to the extent possible on a monthly basis, and that GL balances be adjusted as necessary. This may require additional training of City personnel in the proper use of City software. It will also require the City to record the Xpress BillPay account in the GL.

*Management Response*

Management will investigate all such differences on a monthly basis and adjust GL balances accordingly. If additional training of City personnel is deemed to be necessary, management will acquire this training for employees.

DRAFT

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City of Molalla's internal control to be significant deficiencies:

**PRIOR YEAR**

**Failure to verify the validity of outstanding items**

*Criteria*

Outstanding items should be examined for validity during bank reconciliation procedures.

*Condition*

Bank reconciliations include invalid outstanding checks and deposits.

*Cause*

Outstanding items are not examined for validity during bank reconciliation procedures.

*Recommendation*

We recommend that all outstanding items be examined for validity during bank account reconciliation.

*Management Response*

Management concurs with the recommendation and it will be implemented immediately.

*Current Year Update*

This recommendation has not yet been implemented. The condition continues.

**Noncompliance with Local Budget Law**

*Criteria*

The City is required to comply with local budget law in budget preparation.

*Condition*

The excess of actual revenues over actual expenditures in the second preceding year do not equal the beginning balance in the first preceding year, for several funds in the adopted 2011-2012 budget.

*Cause*

The budget was not prepared in accordance with local budget law.

*Recommendation*

We recommend that the budget be thoroughly reviewed for compliance with local budget law prior to issuance.

*Management Response*

Management concurs and will implement additional budget review procedures to verify compliance with local budget law prior to budget issuance.

*Current Year Update*

This recommendation has not yet been implemented. The condition continues.

**CURRENT YEAR**

**Lack of Review of Bank Reconciliations**

*Criteria*

Bank reconciliations should be reviewed by a second employee.

*Condition*

Bank reconciliations are prepared monthly but are not reviewed.

*Cause*

Management has not implemented procedures to ensure review of bank reconciliations.

*Recommendation*

We recommend that bank reconciliations be reviewed by a second employee.

*Management Response*

Management concurs with the recommendation and it will be implemented immediately.

**Lack of Review of Journal Entries**

*Criteria*

Journal entries should be reviewed by a second employee.

*Condition*

Journal entries are prepared and posted as necessary but are not reviewed.

*Cause*

Management has not implemented procedures to ensure review of journal entries.

*Recommendation*

We recommend that all posted journal entries be reviewed by a second employee on a timely basis.

*Management Response*

Management concurs with the recommendation and it will be implemented immediately.

**Lack of Review of Customer Utility Account Adjustments**

*Criteria*

Adjustments made to customer utility accounts should be reviewed by a second employee.

*Condition*

Adjustments are prepared and posted to customer utility accounts as necessary but are not reviewed.

*Cause*

Management has not implemented procedures to ensure review of utility account adjustments.

*Recommendation*

We recommend that all utility account adjustments be reviewed by a second employee.

DRAFT

*Management Response*

Management concurs with the recommendation and it will be implemented immediately.

**Failure to Document Review of Expenditure Coding**

*Criteria*

The account coding for all expenditures should be reviewed by an appropriate employee.

*Condition*

Certain vendor invoices do not contain evidence that coding was reviewed.

*Cause*

Review of account coding is not being documented.

*Recommendation*

We recommend that all invoices be reviewed and coded. We further recommend that these procedures be documented.

*Management Response*

Management concurs with the recommendation and it will be implemented immediately.

**Failure to Maintain Proper Supporting Documentation**

*Criteria*

Supporting documentation should be maintained for future reference.

*Condition*

Certain receipt documentation could not be located.

*Cause*

City personnel disposed of certain documentation.

*Recommendation*

We recommend that all supporting documentation be maintained in accordance with document retention policies.

*Management Response*

Management concurs with the recommendation and it will be implemented immediately.

**Failure to prepare the required annual accounting for SDC collections**

*Criteria*

ORS 223.311 requires an annual accounting for SDC collections and expenditures.

*Condition*

The City has established separate funds for SDC's. However, the fund financial statements do not contain all of the required information.

*Cause*

The City was unaware that the fund financial statements were insufficient.

DRAFT

*Recommendation*

The City should prepare the required reports.

*Management response*

Management concurs with the recommendation and it will be implemented immediately.

This communication is intended solely for the information and use of management the City Council, 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



## GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
475 Cottage Street NE, Suite 200, Salem, Oregon 97301  
(503) 581-7788

[Date]

DRAFT

City Council  
City of Molalla

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Molalla for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 29, 2011. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Molalla are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. However, because the City prepares its financial statements on a cash basis, there is little risk involved with accounting estimates.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure in the financial statements is the City's noncompliance with local budget law.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached listing of adjusting journal entries, which include material misstatements detected as a result of audit procedures, were corrected by management.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated [Date of Management Representation Letter] .

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We issued a letter on significant deficiencies, some of which are material weaknesses, in internal control.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the modified cash basis, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the City Council and management of the City of Molalla and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

DRAFT

CERTIFIED PUBLIC ACCOUNTANTS

**Adjusting Journal Entries JE # 1**

To post PY entries not posted by client and adjust beginning fund balance to agree

		Dr	Cr
101-100-1-10-1500	FUND CASH	110,536.79	
101-100-1-10-5600	UNSEGREGATED PROPERTY TAX	246.00	
101-100-1-10-5600	UNSEGREGATED PROPERTY TAX	8,984.00	
101-102-3-01-0101	BEGINNING FUND BALANCE	41,486.75	
103-301-3-01-0101	BEGINNING FUND BALANCE	6,472.71	
104-401-3-01-0101	BEGINNING FUND BALANCE	5,631.76	
105-501-3-01-0101	BEGINNING FUND BALANCE	44,154.95	
106-601-3-01-0101	BEGINNING FUND BALANCE	47,814.47	
108-801-3-01-0101	BEGINNING FUND BALANCE	1,724.47	
109-901-3-01-0101	BEGINNING FUND BALANCE	4,168.15	
110-111-3-01-0101	BEGINNING FUND BALANCE	3,931.10	
410-100-6-10-1000	DEFERRED REVENUE	153,628.54	
430-100-1-10-1500	FUND CASH	176,895.51	
830-100-1-10-5500	PROPERTY TAX RECEIVABLE	3,042.00	
101-100-6-10-1000	DEFERRED REVENUE		161,253.54
103-100-1-10-1500	FUND CASH		6,472.71
104-100-1-10-1500	FUND CASH		5,631.76
105-100-1-10-1500	FUND CASH		44,154.95
106-100-1-10-1500	FUND CASH		47,814.47
108-100-1-10-1500	FUND CASH		1,724.47
109-100-1-10-1500	FUND CASH		4,168.15
110-100-1-10-1500	FUND CASH		3,931.10
410-100-1-10-1500	FUND CASH		152,023.54
410-100-1-10-5500	PROPERTY TAX RECEIVABLE		1,371.00
410-100-1-10-5600	UNSEGREGATED PROPERTY TAX		234.00
430-100-6-10-1000	DEFERRED REVENUE		176,895.51
830-100-6-10-1000	DEFERRED REVENUE		3,042.00
<b>Total</b>		<b><u>608,717.20</u></b>	<b><u>608,717.20</u></b>

**Adjusting Journal Entries JE # 2**

To adjust property tax receivable and deferred revenue to actual at June 30, 2011.

101-100-6-10-1000	DEFERRED REVENUE	11,984.00	
410-100-6-10-1000	DEFERRED REVENUE	242.00	
830-100-1-10-5500	PROPERTY TAX RECEIVABLE	5,207.00	
101-100-1-10-5500	PROPERTY TAX RECEIVABLE		375.00
101-100-1-10-5600	UNSEGREGATED PROPERTY TAX		11,609.00
410-100-1-10-5500	PROPERTY TAX RECEIVABLE		209.00
410-100-1-10-5600	UNSEGREGATED PROPERTY TAX		33.00
830-100-6-10-1000	DEFERRED REVENUE		5,207.00
<b>Total</b>		<b><u>17,433.00</u></b>	<b><u>17,433.00</u></b>

DRAFT

**Adjusting Journal Entries JE # 3**

To remove an incorrect outstanding deposit shown on the URA bank reconciliation.

		Dr	Cr
830-831-3-50-2200	PROPERTY TAX	1,220.52	
830-100-1-10-1510	URBAN RENEWAL AGENCY (#3)		1,220.52
<b>Total</b>		<b><u>1,220.52</u></b>	<b><u>1,220.52</u></b>

**Adjusting Journal Entries JE # 4**

To record transfer of funds from the URA to the general bank account for salary

		Dr	Cr
001-100-1-10-1000	CHECKING-WEST COAST BANK (#1)	20,000.00	
830-831-5-20-1000	PERSONAL SERVICES	10,000.00	
001-100-1-10-1500	CASH ALLOCATED TO OTHER FUNDS		20,000.00
830-100-1-10-1510	URBAN RENEWAL AGENCY (#3)		10,000.00
<b>Total</b>		<b><u>30,000.00</u></b>	<b><u>30,000.00</u></b>

**Adjusting Journal Entries JE # 5**

To remove invalid outstanding items from the general checking reconciliation.

		Dr	Cr
001-100-1-10-1000	CHECKING-WEST COAST BANK (#1)	5,142.50	
104-100-1-10-1500	FUND CASH	1,256.96	
104-401-5-10-2800	CREW	189.97	
105-100-1-10-1500	FUND CASH	2,362.61	
105-501-5-10-2800	CREW	51.35	
106-100-1-10-1500	FUND CASH	1,226.16	
106-601-5-10-2800	CREW	220.77	
108-801-5-10-2800	CREW	51.34	
108-801-5-10-2800	CREW	310.40	
109-901-5-20-0400	OPERATION & MAINTENANC	13.63	
001-100-1-10-1500	CASH ALLOCATED TO OTHER FUNDS		5,142.50
104-401-5-10-2200	PW DIRECTOR		1,446.93
105-501-5-10-2200	PW DIRECTOR		361.73
105-501-5-10-2300	PLANT OPERATOR		2,052.23
106-601-5-10-2200	PW DIRECTOR		1,446.93
108-801-5-10-2200	PW DIRECTOR		361.74
109-100-1-10-1500	FUND CASH		13.63
<b>Total</b>		<b><u>10,825.69</u></b>	<b><u>10,825.69</u></b>

DRAFT

# DRAFT

## Adjusting Journal Entries JE # 6

To record the balance of the Xpress bill pay account at June 30, 2011.

		Dr	Cr
001-100-1-10-1200	Xpress Bill Pay account	44,464.02	
105-100-1-10-1500	FUND CASH	22,232.01	
106-100-1-10-1500	FUND CASH	22,232.01	
001-100-1-10-1500	CASH ALLOCATED TO OTHER FUNDS		44,464.02
105-501-3-60-1100	MONTHLY USER FEE		22,232.01
106-601-3-60-1100	MONTHLY USER FEE		22,232.01
<b>Total</b>		<b>88,928.04</b>	<b>88,928.04</b>

## Adjusting Journal Entries JE # 7

To remove improper postings to the sewer and water user fee revenue accounts.

101-100-1-10-1500	FUND CASH	31,906.32	
105-501-3-60-1100	MONTHLY USER FEE	15,953.16	
106-601-3-60-1100	MONTHLY USER FEE	15,953.16	
100-100-1-50-1100	DUE TO/FROM OTHER FUND		31,906.32
105-100-1-10-1500	FUND CASH		15,953.16
106-100-1-10-1500	FUND CASH		15,953.16
<b>Total</b>		<b>63,812.64</b>	<b>63,812.64</b>

## Adjusting Journal Entries JE # 8

To adjust for unlocated difference.

101-102-5-20-0400	OPERATIONS & MAINTENANCE	1,200.45	
101-100-1-10-1500	FUND CASH		1,200.45
<b>Total</b>		<b>1,200.45</b>	<b>1,200.45</b>

# DRAFT

## Adjusting Journal Entries JE # 9

To allocate unlocated difference to various departments.

		Dr	Cr
100-100-1-50-1100	DUE TO/FROM OTHER FUND	31,906.32	
101-100-1-10-1500	FUND CASH	17,414.47	
103-100-1-10-1500	FUND CASH	2,459.98	
104-100-1-10-1500	FUND CASH	2,300.45	
105-100-1-10-1500	FUND CASH	2,083.48	
106-100-1-10-1500	FUND CASH	3,640.51	
108-100-1-10-1500	FUND CASH	701.94	
109-100-1-10-1500	FUND CASH	1,719.45	
110-100-1-10-1500	FUND CASH	1,585.74	
101-100-1-10-1500	FUND CASH		31,906.32
101-102-5-20-0400	OPERATIONS & MAINTENANCE		3,098.11
101-103-5-20-0400	OPERATIONS & MAINTENANCE		12,287.12
101-104-5-20-0400	OPERATIONS & MAINTENANCE		906.14
101-107-5-20-0400	OPERATIONS & MAINTENANCE		1,123.10
103-301-5-20-0400	OPERATIONS & MAINTENANCE		2,459.98
104-401-5-20-0400	OPERATIONS & MAINTENANCE		2,300.45
105-501-5-20-0400	OPERATIONS & MAINTENANCE		2,083.48
106-601-5-20-0400	OPERATIONS & MAINTENANCE		3,640.51
108-801-5-20-0400	OPERATIONS & MAINTENANCE		701.94
109-901-5-20-0400	OPERATION & MAINTENANC		1,719.75
110-111-5-20-0400	OPERATIONS & MAINTENANCE		1,585.44
<b>Total</b>		<b>63,812.34</b>	<b>63,812.34</b>

DRAFT

Adjusting Journal Entries JE # 10

To book fund closures as transfers in/out instead of direct charges to equity.

		Dr	Cr
101-102-3-90-4400	TRANSFER FROM PLANNING	69,111.00	
104-401-3-01-0101	BEGINNING FUND BALANCE	349,539.00	
105-501-3-01-0101	BEGINNING FUND BALANCE	691,874.00	
106-601-3-01-0101	BEGINNING FUND BALANCE	1,140,285.00	
107-701-3-01-0101	BEGINNING FUND BALANCE	69,111.00	
108-801-3-01-0101	BEGINNING FUND BALANCE	139,862.00	
210-211-5-60-5100	TRANSFER TO GENERAL	84.00	
220-221-5-60-5100	TRANSFER TO GENERAL	3,043.00	
230-231-5-60-5100	TRANSFER TO GENERAL	660.00	
240-241-5-60-5100	TRANSFER TO GENERAL	9,687.00	
310-311-5-60-5100	TRANSFER TO GENERAL FUND	10,197.00	
330-331-5-60-5100	TRANSFER TO GENERAL	11,015.00	
440-441-5-60-5600	TRANSFER TO SEWER	691,874.00	
450-451-5-60-5700	TRANSFER TO WATER	1,140,285.00	
460-461-5-60-5400	TRANSFER TO STREET	284,643.00	
470-471-5-60-5400	TRANSFER TO STREET	64,896.00	
490-491-5-60-5100	TRANSFER TO GENERAL	972.00	
510-511-5-60-5400	TRANSFER TO STORM	139,862.00	
101-102-3-01-0101	BEGINNING FUND BALANCE		33,453.00
101-102-3-90-4500	TRANSFER FROM STATE REVEN		10,197.00
101-102-3-90-4700	TRANSFER FROM 911 EMERGENCY		84.00
101-102-3-90-4750	TRANSFER FROM DRUG INVESTIGATION		3,043.00
101-102-3-90-4800	TRANSFER FROM DARE FUND		660.00
101-102-3-90-4850	TRANSFER FROM EMERGENCY VEHICLES		9,687.00
101-102-3-90-4900	TRANSFER FROM CAPITAL IMPROVEMENT		11,015.00
101-102-3-90-4950	TRANSFER FROM EMERGENCY MANAGEMENT		972.00
104-401-3-90-4700	TRANSFER FROM STREET IMPROVEMENT		284,643.00
104-401-3-90-4800	TRANSFER FROM PARK EXPANSION		64,896.00
105-501-3-60-1251	TRANSFER FROM SEWER CAPITAL IMPROVEMENT		691,874.00
106-601-3-60-1204	TRANSFER FROM WATER CAPITAL IMPROVEMENT		1,140,285.00
107-701-5-60-5100	TRANSFER TO GENERAL FUND		69,111.00
108-801-3-60-4500	TRANSFER FROM STORM WATER CAPITAL		139,862.00
210-211-3-01-0101	BEGINNING FUND BALANCE		84.00
220-221-3-01-0101	BEGINNING FUND BALANCE		3,043.00
230-231-3-01-0101	BEGINNING FUND BALANCE		660.00
240-241-3-01-0101	BEGINNING FUND BALANCE		9,687.00
310-311-3-01-0101	BEGINNING FUND BALANCE		10,197.00
330-331-3-01-0101	BEGINNING FUND BALANCE		11,015.00
440-441-3-01-0101	BEGINNING FUND BALANCE		691,874.00
450-451-3-01-0101	BEGINNING FUND BALANCE		1,140,285.00
460-461-3-01-0101	BEGINNING FUND BALANCE		284,643.00
470-471-3-01-0101	BEGINNING FUND BALANCE		64,896.00
490-491-3-01-0101	BEGINNING FUND BALANCE		972.00
510-102-3-01-0101	BEGINNING FUND BALANCE		139,862.00
<b>Total</b>		<b><u>4,817,000.00</u></b>	<b><u>4,817,000.00</u></b>

Adjusting Journal Entries JE # 11

To reverse client entry creating credit balance capital outlay accounts.

		Dr	Cr
104-401-5-40-1050	STREET EQUIPMENT (RESO2011-05)	58,207.00	
104-401-5-40-1055	PARK EQUIPMENT (RESO2011-05)	18,189.00	
105-501-5-40-1050	SEWER EQUIPMENT (RESO2011-05)	26,678.00	
106-601-5-40-1050	WATER EQUIPMENT (RESO2011-05)	119,984.54	
108-801-5-40-1050	STORM EQUIPMENT (RESO2011-05)	18,189.00	
340-341-5-40-3200	EQUIPMENT PURCHASE		241,247.54
<b>Total</b>		<b>241,247.54</b>	<b>241,247.54</b>

DRAFT

Client: 56080 - City of Molalla  
Engagement: 6/30/11 - City of Molalla  
Period Ending: 6/30/2011  
Trial Balance: TB  
Workpaper: 1402 - journal entry report

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>		<b>6102</b>		
To post PY entries not posted by client				
101-100-1-10-1500	FUND CASH		110,536.79	
101-100-1-10-5600	UNSEGREGATED PROPERTY TAX		246.00	
101-100-1-10-5600	UNSEGREGATED PROPERTY TAX		8,984.00	
101-102-3-01-0101	BEGINNING FUND BALANCE		41,486.75	
103-301-3-01-0101	BEGINNING FUND BALANCE		6,472.71	
104-401-3-01-0101	BEGINNING FUND BALANCE		5,631.76	
105-501-3-01-0101	BEGINNING FUND BALANCE		44,154.95	
106-601-3-01-0101	BEGINNING FUND BALANCE		47,814.47	
108-801-3-01-0101	BEGINNING FUND BALANCE		1,724.47	
109-901-3-01-0101	BEGINNING FUND BALANCE		4,168.15	
110-111-3-01-0101	BEGINNING FUND BALANCE		3,931.10	
410-100-6-10-1000	DEFERRED REVENUE		153,628.54	
430-100-1-10-1500	FUND CASH		176,895.51	
830-100-1-10-5500	PROPERTY TAX RECEIVABLE		3,042.00	
101-100-6-10-1000	DEFERRED REVENUE			161,253.54
103-100-1-10-1500	FUND CASH			6,472.71
104-100-1-10-1500	FUND CASH			5,631.76
105-100-1-10-1500	FUND CASH			44,154.95
106-100-1-10-1500	FUND CASH			47,814.47
108-100-1-10-1500	FUND CASH			1,724.47
109-100-1-10-1500	FUND CASH			4,168.15
110-100-1-10-1500	FUND CASH			3,931.10
410-100-1-10-1500	FUND CASH			152,023.54
410-100-1-10-5500	PROPERTY TAX RECEIVABLE			1,371.00
410-100-1-10-5600	UNSEGREGATED PROPERTY TAX			234.00
430-100-6-10-1000	DEFERRED REVENUE			176,895.51
830-100-6-10-1000	DEFERRED REVENUE			3,042.00
<b>Total</b>			<b>608,717.20</b>	<b>608,717.20</b>
<b>Adjusting Journal Entries JE # 3</b>		<b>4201</b>		
To adjust property tax receivable and				
101-100-6-10-1000	DEFERRED REVENUE		11,984.00	
410-100-6-10-1000	DEFERRED REVENUE		242.00	
830-100-1-10-5500	PROPERTY TAX RECEIVABLE		5,207.00	
101-100-1-10-5500	PROPERTY TAX RECEIVABLE			375.00
101-100-1-10-5600	UNSEGREGATED PROPERTY TAX			11,609.00
410-100-1-10-5500	PROPERTY TAX RECEIVABLE			209.00
410-100-1-10-5600	UNSEGREGATED PROPERTY TAX			33.00
830-100-6-10-1000	DEFERRED REVENUE			5,207.00
<b>Total</b>			<b>17,433.00</b>	<b>17,433.00</b>
<b>Adjusting Journal Entries JE # 4</b>		<b>4104</b>		
To remove an incorrect outstanding				
830-831-3-50-2200	PROPERTY TAX		1,220.52	
830-100-1-10-1510	URBAN RENEWAL AGENCY (#3)			1,220.52
<b>Total</b>			<b>1,220.52</b>	<b>1,220.52</b>
<b>Adjusting Journal Entries JE # 5</b>		<b>4104</b>		
To record transfer of funds from the URA				
001-100-1-10-1000	CHECKING-WEST COAST BANK (#1)		20,000.00	
830-831-5-20-1000	PERSONAL SERVICES		10,000.00	

DW 11

Client: 56080 - City of Molalla  
 Engagement: 6/30/11 - City of Molalla  
 Period Ending: 6/30/2011  
 Trial Balance: TB  
 Workpaper: 1402 - journal entry report

Account	Description	W/P Ref	Debit	Credit
001-100-1-10-1500	CASH ALLOCATED TO OTHER FUNDS			20,000.00
830-100-1-10-1510	URBAN RENEWAL AGENCY (#3)			10,000.00
<b>Total</b>			<u>30,000.00</u>	<u>30,000.00</u>
<b>Adjusting Journal Entries JE # 6</b>		<b>4102</b>		
To remove invalid outstanding items				
001-100-1-10-1000	CHECKING-WEST COAST BANK (#1)		5,142.50	
104-100-1-10-1500	FUND CASH		1,256.96	
104-401-5-10-2800	CREW		189.97	
105-100-1-10-1500	FUND CASH		2,362.61	
105-501-5-10-2800	CREW		51.35	
106-100-1-10-1500	FUND CASH		1,226.16	
106-601-5-10-2800	CREW		220.77	
108-801-5-10-2800	CREW		51.34	
108-801-5-10-2800	CREW		310.40	
109-901-5-20-0400	OPERATION & MAINTENANCE		13.63	
001-100-1-10-1500	CASH ALLOCATED TO OTHER FUNDS			5,142.50
104-401-5-10-2200	PW DIRECTOR			1,446.93
105-501-5-10-2200	PW DIRECTOR			361.73
105-501-5-10-2300	PLANT OPERATOR			2,052.23
106-601-5-10-2200	PW DIRECTOR			1,446.93
108-801-5-10-2200	PW DIRECTOR			361.74
109-100-1-10-1500	FUND CASH			13.63
<b>Total</b>			<u>10,825.69</u>	<u>10,825.69</u>
<b>Adjusting Journal Entries JE # 8</b>		<b>7104</b>		
To record the balance of the				
001-100-1-10-1200	Xpress Bill Pay account		44,464.02	
105-100-1-10-1500	FUND CASH		22,232.01	
106-100-1-10-1500	FUND CASH		22,232.01	
001-100-1-10-1500	CASH ALLOCATED TO OTHER FUNDS			44,464.02
105-501-3-60-1100	MONTHLY USER FEE			22,232.01
106-601-3-60-1100	MONTHLY USER FEE			22,232.01
<b>Total</b>			<u>88,928.04</u>	<u>88,928.04</u>
<b>Adjusting Journal Entries JE # 9</b>		<b>7104</b>		
To remove improper postings to the				
101-100-1-10-1500	FUND CASH		31,906.32	
105-501-3-60-1100	MONTHLY USER FEE		15,953.16	
106-601-3-60-1100	MONTHLY USER FEE		15,953.16	
100-100-1-50-1100	DUE TO/FROM OTHER FUND			31,906.32
105-100-1-10-1500	FUND CASH			15,953.16
106-100-1-10-1500	FUND CASH			15,953.16
<b>Total</b>			<u>63,812.64</u>	<u>63,812.64</u>
<b>Adjusting Journal Entries JE # 10</b>				
To adjust for unlocated difference.				
101-102-5-20-0400	OPERATIONS & MAINTENANCE		1,200.45	
101-100-1-10-1500	FUND CASH			1,200.45
<b>Total</b>			<u>1,200.45</u>	<u>1,200.45</u>
<b>Adjusting Journal Entries JE # 11</b>		<b>5200</b>		
To adjust payroll liabilities to actual at				
100-100-1-50-1100	DUE TO/FROM OTHER FUND		34,268.61	

DRAFT

Client: 56080 - City of Molalla  
Engagement: 6/30/11 - City of Molalla  
Period Ending: 6/30/2011  
Trial Balance: TB  
Workpaper: 1402 - journal entry report

Account	Description	W/P Ref	Debit	Credit
101-100-6-20-2101	FEDERAL TAX PAYABLE			13,581.75
101-100-6-20-2107	FICA PAYABLE			15,912.38
101-100-6-20-2401	UNION DUES PAYABLE			628.08
101-100-6-20-2501	DEFERRED COMP PAYABLE			3,431.24
101-100-6-20-2600	DEFERRED COMP PAYABLE			490.16
101-100-6-20-2701	CREDIT UNION PAYABLE			225.00
<b>Total</b>			<b>34,268.61</b>	<b>34,268.61</b>

Adjusting Journal Entries JE # 12

6101

To book fund closures as transfers

101-102-3-90-4400	TRANSFER FROM PLANNING		69,111.00	
104-401-3-01-0101	BEGINNING FUND BALANCE		349,539.00	
105-501-3-01-0101	BEGINNING FUND BALANCE		691,874.00	
106-601-3-01-0101	BEGINNING FUND BALANCE		1,140,285.00	
107-701-3-01-0101	BEGINNING FUND BALANCE		69,111.00	
108-801-3-01-0101	BEGINNING FUND BALANCE		139,862.00	
210-211-5-60-5100	TRANSFER TO GENERAL		84.00	
220-221-5-60-5100	TRANSFER TO GENERAL		3,043.00	
230-231-5-60-5100	TRANSFER TO GENERAL		660.00	
240-241-5-60-5100	TRANSFER TO GENERAL		9,687.00	
310-311-5-60-5100	TRANSFER TO GENERAL FUND		10,197.00	
330-331-5-60-5100	TRANSFER TO GENERAL		11,015.00	
440-441-5-60-5600	TRANSFER TO SEWER		691,874.00	
450-451-5-60-5700	TRANSFER TO WATER		1,140,285.00	
460-461-5-60-5400	TRANSFER TO STREET		284,643.00	
470-471-5-60-5400	TRANSFER TO STREET		64,896.00	
490-491-5-60-5100	TRANSFER TO GENERAL		972.00	
510-511-5-60-5400	TRANSFER TO STORM		139,862.00	
101-102-3-01-0101	BEGINNING FUND BALANCE			33,453.00
101-102-3-90-4500	TRANSFER STATE REVENUE			10,197.00
101-102-3-90-4700	TRANSFER FROM 911 EMERGENCY			84.00
101-102-3-90-4750	TRANSFER FROM DRUG INVESTIGATION			3,043.00
101-102-3-90-4800	TRANSFER FROM DARE FUND			660.00
101-102-3-90-4850	TRANSFER FROM EMERGENCY VEHICLES			9,687.00
101-102-3-90-4900	TRANSFER FROM CAPITAL IMPROVEMENT			11,015.00
101-102-3-90-4950	TRANSFER FROM EMERGENCY MANAGEMENT			972.00
104-401-3-90-4700	TRANSFER FROM STREET IMPROVEMENT			284,643.00
104-401-3-90-4800	TRANSFER FROM PARK EXPANSION			64,896.00
105-501-3-60-1251	TRANSFER FROM SEWER CAPITAL IMPROVEMENT			691,874.00
106-601-3-60-1204	TRANSFER FROM WATER CAPITAL IMPROVEMENT			1,140,285.00
107-701-5-60-5100	TRANSFER TO GENERAL FUND			69,111.00
108-801-3-60-4500	TRANSFER FROM STORM WATER CAPITAL			139,862.00
210-211-3-01-0101	BEGINNING FUND BALANCE			84.00
220-221-3-01-0101	BEGINNING FUND BALANCE			3,043.00
230-231-3-01-0101	BEGINNING FUND BALANCE			660.00
240-241-3-01-0101	BEGINNING FUND BALANCE			9,687.00
310-311-3-01-0101	BEGINNING FUND BALANCE			10,197.00
330-331-3-01-0101	BEGINNING FUND BALANCE			11,015.00
440-441-3-01-0101	BEGINNING FUND BALANCE			691,874.00
450-451-3-01-0101	BEGINNING FUND BALANCE			1,140,285.00
460-461-3-01-0101	BEGINNING FUND BALANCE			284,643.00
470-471-3-01-0101	BEGINNING FUND BALANCE			64,896.00
490-491-3-01-0101	BEGINNING FUND BALANCE			972.00
510-102-3-01-0101	BEGINNING FUND BALANCE			139,862.00
<b>Total</b>			<b>4,817,080.00</b>	<b>4,817,080.00</b>

Not done

Adjusting Journal Entries JE # 14

7207

To reverse client entry creating credit

DRAFT

Client: 56080 - City of Molalla  
Engagement: 6/30/11 - City of Molalla  
Period Ending: 6/30/2011  
Trial Balance: TB  
Workpaper: 1402 - journal entry report

Not done

Account	Description	W/P Ref	Debit	Credit
104-401-5-40-1050	STREET EQUIPMENT (Resolution Transfer)		58,207.00	
104-401-5-40-1055	PARK EQUIPMENT (Resolution Transfer)		18,189.00	
105-501-5-40-1050	SEWER EQUIPMENT (Resolution Transfer)		26,678.00	
106-601-5-40-1050	WATER EQUIPMENT (Resolution Transfer)		119,984.54	
108-801-5-40-1050	STORM WATER EQUIPMENT (Resolution Transfer)		18,189.00	
340-100-1-10-1500	FUND CASH		241,247.54	
104-100-1-10-1500	FUND CASH			18,189.00
104-100-1-10-1500	FUND CASH			58,207.00
105-100-1-10-1500	FUND CASH			26,678.00
106-100-1-10-1500	FUND CASH			119,984.54
108-100-1-10-1500	FUND CASH			18,189.00
340-341-5-40-3200	EQUIPMENT PURCHASE			241,247.54
<b>Total</b>			<b>482,495.08</b>	<b>482,495.08</b>
<b>Adjusting Journal Entries JE # 15</b>		<b>7299</b>		
To zero out unlocated difference				
101-102-5-20-0400	OPERATIONS & MAINTENANCE		2,362.29	
100-100-1-50-1100	DUE TO/FROM OTHER FUND			2,362.29
<b>Total</b>			<b>2,362.29</b>	<b>2,362.29</b>
<b>Adjusting Journal Entries JE # 16</b>		<b>5200</b>		
To correct for prior year unlocated				
101-100-1-10-1500	FUND CASH		59,714.00	
105-501-5-60-5100	TRANSFER TO GENERAL FUND		29,857.00	
106-601-5-60-5100	TRANSFER TO GENERAL FUND		29,857.00	
101-102-3-90-4200	TRANSFER FROM SEWER FUND			29,857.00
101-102-3-90-4300	TRANSFER FROM WATER FUND			29,857.00
105-100-1-10-1500	FUND CASH			29,857.00
106-100-1-10-1500	FUND CASH			29,857.00
<b>Total</b>			<b>119,428.00</b>	<b>119,428.00</b>

2x  
✓

DRAFT

***CITY OF MOLALLA, OREGON  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2011***

**CITY OF MOLALLA, OREGON**  
**CITY OFFICIALS**  
**JUNE 30, 2011**

---

**MAYOR**

Mike Clarke  
538 West Lane  
Molalla, Oregon 97038

DRAFT

**CITY COUNCIL**

George Pottle  
705 N. Molalla Avenue  
Molalla, Oregon 97038

Dennis Wolfe  
303 E. Park Place  
Molalla, Oregon 97038

Jimmy Thompson  
921 A Toliver Drive  
Molalla, Oregon 97038

Debbie Rogge  
712 Toliver Drive  
Molalla, Oregon 97038

Stephen Clark  
332 Steelhead Street  
Molalla, Oregon 97038

James Needham  
680 Mary Drive  
Molalla, Oregon 97038

**CITY OF MOLALLA, OREGON**  
**TABLE OF CONTENTS**  
**JUNE 30, 2011**

DRAFT

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets (Modified Cash Basis)	8
Statement of Activities (Modified Cash Basis)	9
Fund Financial Statements	
Statement of Assets and Liabilities (Modified Cash Basis) - Governmental Funds	10
Statement of Receipts, Disbursements and Changes in Fund Balances (Modified Cash Basis) - Governmental Funds	11
Statement of Net Assets (Modified Cash Basis) - Proprietary Funds	12
Statement of Receipts, Disbursements and Changes in Fund Net Assets (Modified Cash Basis) - Proprietary Funds	13
Notes to Basic Financial Statements	14-30
Required Supplementary Information	
Schedule of Funding Progress - Public Employees Retirement System	31
Schedule of Receipts, Disbursements and Changes in Fund Balance (Cash Basis) - Budget and Actual	
General Fund	32
Street Fund	33
Library Fund	34
Other Supplementary Information	
Nonmajor Governmental Funds - Statements and Schedules	
Combining Statement of Assets and Liabilities (Modified Cash Basis)	35
Combining Statement of Receipts, Disbursements and Changes in Fund Balances (Modified Cash Basis)	36-37
Schedules of Receipts, Disbursements and Changes in Fund Balances (Cash Basis) - Budget and Actual	
Adult Center Fund	38
Parks & Recreation Fund	39
Recorder's Trust Fund	40
URA Fund	41
Planning Fund	42
Street Capital Improvement Fund	43
State Revenue Sharing Fund	44
911 Emergency Fund	45
Drug Investigation Fund	46
Park Capital Fund	47
Emergency Management Fund	48
D.A.R.E. Fund	49
Emergency Vehicle Fund	50
Street SDC Fund	51
Park SDC Fund	52
Equipment Fund	53
Capital Improvement Fund	54
Bonded Debt Fund	55
Sally Foxx Park Fund	56

**CITY OF MOLALLA, OREGON**  
**TABLE OF CONTENTS (Continued)**  
**JUNE 30, 2011**

---

DRAFT

	<u>Page</u>
<i>FINANCIAL SECTION (Continued)</i>	
Other Supplementary Information (Continued)	
Combining Statement of Net Assets (Modified Cash Basis)	57
Combining Statement of Receipts, Disbursements and Changes in Fund Net Assets (Modified Cash Basis)	58
Schedules of Receipts, Disbursements and Changes in Fund Net Assets (Cash Basis) - Budget and Actual	
Water Fund	59
Water Debt Retirement Fund	60
Water Capital Improvement Fund	61
Sewer Fund	62
Sewer Debt Retirement Fund	63
Sewer Capital Improvement Fund	64
Storm Water Fund	65
Storm Water Capital Improvement Fund	66
Storm Water SDC Fund	67
Water SDC Fund	68
Sewer SDC Fund	69
CWSRF Debt Retirement Fund	70
Other Schedules	
Schedule of Property Tax Transactions	71
Schedule of Long-Term Debt Transactions	72
Future Bond and Interest Requirements	73-74
 <i>REGULATORY SECTION</i>	
Independent Auditor's Report Required By Oregon State Regulations	75-76

10/10/10

***FINANCIAL SECTION***



**GROVE, MUELLER & SWANK, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
475 Cottage Street NE, Suite 200, Salem, Oregon 97301  
(503) 581-7788

**INDEPENDENT AUDITOR'S REPORT**

DRAFT

Honorable Mayor and Members of the City Council  
City of Molalla  
P.O. Box 248  
Molalla, Oregon 97038

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Molalla, Oregon, as of June 30, 2011, and for the year then ended, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described below, 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 opinions.

As described in the summary of significant accounting policies of the notes to the financial statements, the City prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Oregon, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The City does not maintain adequate historical cost and depreciation records for capital assets including infrastructure, and therefore, no information for capital assets is presented in the financial statements.

In our opinion, except for the matter discussed above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate fund information of the City of Molalla, Oregon, as of June 30, 2011 and the respective changes in financial position thereof for the year then ended, in conformity with the basis of accounting described in the summary of significant accounting policies in the notes to the basic financial statements.

As described in the notes to the basic financial statements, during the year ended June 30, 2011 the City adopted the provisions of Governmental Accounting Standards Board Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) (pages 3 through 7), the schedule of funding progress – public employees retirement system (page 31), and budgetary comparison information (pages 32 through 34) be presented to supplement the basic

financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and schedule of funding progress – public employees retirement system in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information on pages 32 through 34 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual fund financial statements and schedules and other financial schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statements as a whole. The other financial schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*GROVE, MUELLER & SWANK, PC*  
*CERTIFIED PUBLIC ACCOUNTANTS*

DRAFT

By: \_\_\_\_\_  
Charles A. Swank, Shareholder  
November 8, 2011

DRAFT

## CITY OF MOLALLA, OREGON

### Management's Discussion and Analysis June 30, 2011

As management of the City of Molalla, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011.

#### Financial Highlights

	June 30,		change
	2011	2010	
Net assets	\$ 5,592,088	\$ 5,361,774	\$ 230,314
Change in net assets	230,314	444,312	(213,998)
Governmental net assets	1,346,932	1,382,776	(35,844)
Change in governmental net assets	(35,844)	461,098	(496,942)
Proprietary net assets	4,245,156	3,978,998	266,158
Change in proprietary net assets	266,158	(16,786)	282,944

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Molalla's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements include:

*The Statement of Net Assets (modified cash basis).* This presents information on the cash basis assets and liabilities of the City as of the date on the statement. Net assets are what remain after the cash basis liabilities have been paid off or otherwise satisfied. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

*The Statement of Activities (modified cash basis).* The *statement of activities* presents information showing how the net assets of the City changed over the most recent fiscal year by tracking receipts, disbursements and other transactions that increase or reduce net assets.

In the government-wide financial statements, the City's activities are shown as governmental activities. All basic City government functions are show here: such as, administration, city hall, legal, parks, library, streets and police. These activities are primarily financed through property taxes and other intergovernmental activities. Where the City provides services to the public for a fee, these activities are shown as business-type activities.

DRAFT

**Fund financial statements.** The *fund financial statements* provide more detailed information about the City’s funds, focusing on its most significant or “major” funds – not the City of Molalla as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Molalla, like state and other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** The *governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City’s near-term financing decisions.

**Proprietary funds.** The City of Molalla charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* and *other supplemental information*.

**Government-wide Financial Analysis**

**Statement of Net Assets.** The Statement of Net Assets (modified cash basis) is provided on a comparative basis. As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City of Molalla, assets exceeded liabilities by \$5,592,088 as of June 30, 2011.

Restricted net assets represents sources that are subject to external restrictions on their use, such as debt service payments or capital projects.

Unrestricted net assets are available for general operations of the City.

**Statements of Net Assets at June 30,**

	2011			2010		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Assets	\$ 1,541,691	\$ 4,245,156	\$ 5,786,847	\$ 1,550,287	\$ 3,978,998	\$ 5,529,285
Liabilities	194,759	-	194,759	167,510	-	167,510
Net assets:						
Restricted	302,899	3,302,428	3,605,327	352,257	3,074,561	3,426,818
Unrestricted	1,044,033	942,728	1,986,761	1,030,519	904,437	1,934,956
Total Net Assets	\$ 1,346,932	\$ 4,245,156	\$ 5,592,088	\$ 1,382,776	\$ 3,978,998	\$ 5,361,774

DRAFT

Statement of Activities (modified cash basis). During the current fiscal year, the City's net assets from governmental activities increased by \$(35,844), for business-type activities net assets increased \$101,306. The key elements of the change in the City's net assets for the year ended June 30, 2011 are as follows:

1. Property tax revenues increased by \$125,087 (5.29%) during the year.
2. Charges for services decreased by \$43,402 during the year.
3. There was no debt refinancing in the current year.
4. Operating grants increased by \$170,527 during the year.
5. Capital grants decreased by \$436,084 during the year.
6. Sewer disbursements increased by \$3,611,498 during the year. - why?

Statements of Activities  
For the years ended June 30,

	2011			2010		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
<b>Receipts</b>						
Program receipts:						
Charges for service	\$ 949,243	\$ 2,912,417	\$ 3,861,660	\$ 1,016,693	\$ 2,888,369	\$ 3,905,062
Operating grants	1,627,946	-	1,627,946	1,457,419	-	1,457,419
Capital grants	34,487	43,378	77,865	294,749	219,200	513,949
General receipts						
Property taxes	2,488,050	-	2,488,050	2,362,963	-	2,362,963
Intergovernmental	103,907	-	103,907	149,799	-	149,799
Licenses and permits	268,475	-	268,475	292,917	-	292,917
Miscellaneous	177,787	30,591	208,378	459,108	34,752	493,860
Loan proceeds	-	-	-	-	6,672,189	6,672,189
<b>Total Receipts</b>	<b>5,649,895</b>	<b>2,986,386</b>	<b>8,636,281</b>	<b>6,033,648</b>	<b>9,814,510</b>	<b>15,848,158</b>
<b>Disbursements</b>						
Governmental						
General government	912,395	-	912,395	831,924	-	831,924
Public safety	2,598,947	-	2,598,947	2,527,461	-	2,527,461
Community	1,636,911	-	1,636,911	1,659,655	-	1,659,655
Public works	542,614	-	542,614	853,522	-	853,522
Long-term debt	12,063	-	12,063	26,830	-	26,830
Business-type						
Water	-	1,216,462	1,216,462	-	4,418,262	4,418,262
Sewer	-	1,349,734	1,349,734	-	4,961,232	4,961,232
Storm water	-	136,841	136,841	-	124,960	124,960
<b>Total Disbursements</b>	<b>5,702,930</b>	<b>2,703,037</b>	<b>8,405,967</b>	<b>5,899,392</b>	<b>9,504,454</b>	<b>15,403,846</b>
Transfers	17,191	(17,191)	-	326,842	(326,842)	-
<b>Change in net assets</b>	<b>(35,844)</b>	<b>266,158</b>	<b>230,314</b>	<b>461,098</b>	<b>(16,786)</b>	<b>444,312</b>
Net assets - July 1	1,382,776	3,978,998	5,361,774	921,678	3,995,784	4,917,462
<b>Net assets - June 30</b>	<b>\$ 1,346,932</b>	<b>\$ 4,245,156</b>	<b>\$ 5,592,088</b>	<b>\$ 1,382,776</b>	<b>\$ 3,978,998</b>	<b>\$ 5,361,774</b>

DRAFT

## Financial Analysis of the City of Molalla's Government Funds

As noted earlier the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on relatively short-term cash flow and funding for future basic services. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

As of June 30, 2011 the City's governmental funds reported \$1,346,932 combined ending fund balances, an decrease of \$35,844 from the prior year.

*General Fund.* The General Fund is the primary operating fund of the City of Molalla. As of June 30, 2011, the fund balance was \$(321,757) which was a decrease of \$303,041 during the current fiscal year.

*Other Funds.* The primary activity of other governmental funds was providing street, library, adult center, and park related services.

As detailed in the notes to the financial statements, the City adopted the provisions of GASB Statement #54 *Fund Balance Reporting and Governmental Fund Types Definitions*. Among the changes required is that the Street SDC Fund, Park SDC Fund, and Equipment Fund previously reported as Special Revenue Funds are reported as Capital Projects Funds.

### Business-type funds.

As of June 30, 2011, the City's proprietary funds reported \$4,245,156 combined ending net assets, an increase of \$266,158 from the prior year. The various funds had operating receipts in excess of operating disbursements of approximately \$1,000,000 and debt service payments of approximately \$800,000, resulting in income before transfers of approximately \$200,000. Approximately \$17,000 was transferred to the governmental funds, resulting in the approximately \$17,000 increase in net assets.

### General Fund Budgetary Highlights

The City Council approved several changes to the adopted budget for the fiscal year ended June 30, 2011.

### Debt Administration

The City had total debt outstanding of \$8,351,868 at the end of the current fiscal year. The City's total debt decreased by \$638,181 during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 3 percent of its total assessed valuation. The assessed valuation of the City of Molalla \$414,281,852, therefore, the current debt limitation for the City of Molalla is \$12,428,456, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City of Molalla's long-term debt can be found in the notes to the basic financial statements of this report.

## **Economic Factors and the Next Year's Budget**

The City of Molalla's Budget Committee considered all the following factors while preparing the City budget for the 2011-12 fiscal year:

- a. Prior history of revenue and expenditures
- b. Capital projects in the water and sewer funds
- c. Expected property tax revenue

## **Requests for Information**

This financial report is designed to present the user (citizens, taxpayers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Mr. John Atkins, Jr.  
City Manager  
City of Molalla  
P.O. Box 248  
Molalla, Oregon 97038

**DRAFT**

***BASIC FINANCIAL STATEMENTS***

**DRAFT**

**CITY OF MOLALLA, OREGON**  
**STATEMENT OF NET ASSETS (MODIFIED CASH BASIS)**  
**JUNE 30, 2011**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and investments	\$ 1,381,200	\$ 4,245,156	\$ 5,626,356
Property taxes receivable	160,491	-	160,491
<i>Total Assets</i>	1,541,691	4,245,156	5,786,847
<b>LIABILITIES</b>			
Payroll withholdings	34,268	-	34,268
Deferred revenue	160,491	-	160,491
<i>Total Liabilities</i>	194,759	-	194,759
<b>NET ASSETS</b>			
Restricted for:			
Debt service	976	1,748,434	1,749,410
Construction	199,765	1,553,994	1,753,759
Nonexpendable permanent fund	102,158	-	102,158
Unrestricted	1,044,033	942,728	1,986,761
<i>Total Net Assets</i>	<u>\$ 1,346,932</u>	<u>\$ 4,245,156</u>	<u>\$ 5,592,088</u>

DRAFT

The accompanying notes are an integral part of the financial statements.

**CITY OF MOLALLA, OREGON**  
**STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)**  
**YEAR ENDED JUNE 30, 2011**

EXHIBIT

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>FUNCTIONS/PROGRAMS</b>				
<b>Governmental activities:</b>				
General government	\$ 912,395	\$ 325,210	\$ 58,692	\$ -
Public safety	2,598,947	515,935	93,180	-
Public works	542,614	37,169	953,158	34,487
Community development	1,636,911	70,929	522,916	-
Interest on long-term debt	12,063	-	-	-
<i>Total governmental activities</i>	<u>5,702,930</u>	<u>949,243</u>	<u>1,627,946</u>	<u>34,487</u>
<b>Business-type activities:</b>				
Water	1,216,462	1,267,714	-	14,537
Sewer	1,349,734	1,550,378	-	26,853
Storm water	136,841	94,325	-	1,988
<i>Total business-type activities</i>	<u>2,703,037</u>	<u>2,912,417</u>	<u>-</u>	<u>43,378</u>
<i>Total activities</i>	<u>\$ 8,405,967</u>	<u>\$ 3,861,660</u>	<u>\$ 1,627,946</u>	<u>\$ 77,865</u>
<b>General receipts:</b>				
Property taxes				
Franchise fees				
Intergovernmental				
Miscellaneous				
<i>Total general receipts</i>				
<b>Transfers</b>				
<b>Change in net assets</b>				
<b>Net assets, July 1, 2010</b>				
<b>Net assets, June 30, 2011</b>				

***Net (Disbursements) Receipts  
and Changes in Net Assets***

DRAFT

<b><i>Governmental Activities</i></b>	<b><i>Business-type Activities</i></b>	<b><i>Totals</i></b>
\$ (528,493)	\$ -	\$ (528,493)
(1,989,832)	-	(1,989,832)
482,200	-	482,200
(1,043,066)	-	(1,043,066)
(12,063)	-	(12,063)
(3,091,254)	-	(3,091,254)
-	65,789	65,789
-	227,497	227,497
-	(40,528)	(40,528)
-	252,758	252,758
(3,091,254)	252,758	(2,838,496)
2,488,050	-	2,488,050
268,475	-	268,475
103,907	-	103,907
177,787	30,591	208,378
3,038,219	30,591	3,068,810
17,191	(17,191)	-
(35,844)	266,158	230,314
1,382,776	3,978,998	5,361,774
\$ 1,346,932	\$ 4,245,156	\$ 5,592,088

*The accompanying notes are an integral part of the financial statements.*

**CITY OF MOLALLA, OREGON**

**STATEMENT OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS**

**JUNE 30, 2011**

	<u>General</u>	<u>Street</u>	<u>Library</u>
<b>ASSETS</b>			
Cash and investments	\$ -	\$ 369,764	\$ 288,946
Property taxes receivable	149,270	-	-
Due from other funds	-	-	287,489
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	<u>\$ 149,270</u>	<u>\$ 369,764</u>	<u>\$ 576,435</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Payroll withholdings	\$ 34,268	\$ -	\$ -
Due to other funds	287,489	-	-
Deferred revenue	149,270	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	471,027	-	-
<b>Fund Balances</b>			
Nonspendable	-	-	-
Restricted for:			
Public works	-	369,764	-
Community development	-	-	-
Debt service	-	-	-
Committed to:			
Capital outlay	-	-	-
Community development	-	-	576,435
Unassigned	(321,757)	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balances</i>	<u>(321,757)</u>	<u>369,764</u>	<u>576,435</u>
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 149,270</u>	<u>\$ 369,764</u>	<u>\$ 576,435</u>

DRAFT

<i>Other Governmental Funds</i>	<i>Totals</i>
\$ 646,094	\$ 1,381,200
11,221	160,491
-	287,489
<hr/>	<hr/>
\$ 657,315	\$ 1,829,180
<hr/> <hr/>	<hr/> <hr/>
\$ -	\$ 34,268
-	287,489
11,221	160,491
<hr/>	<hr/>
11,221	482,248
96,303	96,303
167,546	613,706
196,634	196,634
976	976
-	-
184,635	761,070
-	(321,757)
<hr/>	<hr/>
646,094	1,346,932
<hr/>	<hr/>
\$ 657,315	\$ 1,829,180
<hr/> <hr/>	<hr/> <hr/>

2024

*The accompanying notes are an integral part of the financial statements.*

**CITY OF MOLALLA, OREGON****STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES****(MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS****YEAR ENDED JUNE 30, 2011**

	<u>General</u>	<u>Street</u>	<u>Library</u>
<b>RECEIPTS</b>			
Taxes and assessments	\$ 2,299,790	\$ -	\$ -
Licenses and permits	267,605	77,631	-
Charges for services	-	-	-
Intergovernmental	384,859	529,338	669,420
Fines and forfeitures	234,396	-	28,375
Miscellaneous	180,441	8,376	4,482
<i>Total Receipts</i>	<u>3,367,091</u>	<u>615,345</u>	<u>702,277</u>
<b>DISBURSEMENTS</b>			
Current operating			
Personal services	2,320,016	310,754	323,916
Materials and services	1,037,552	220,382	66,400
Capital outlay	81,686	4,724	214,887
Debt service			
Principal	4,143	-	-
Interest	1,088	-	-
<i>Total Disbursements</i>	<u>3,444,485</u>	<u>535,860</u>	<u>605,203</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(77,394)	79,485	97,074
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	217,810	446,935	-
Transfers out	(443,457)	-	-
<i>Total Other Financing Sources (Uses)</i>	<u>(225,647)</u>	<u>446,935</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(303,041)	526,420	97,074
<b>FUND BALANCES (DEFICIT), Beginning of year</b>	(18,716)	(80,260)	479,361
<b>FUND BALANCES (DEFICIT), End of year</b>	<u>\$ (321,757)</u>	<u>\$ 446,160</u>	<u>\$ 576,435</u>

DRAFT

<i>Other Governmental Funds</i>	<i>Totals</i>
\$ 188,261	\$ 2,488,051
34,487	379,723
294,717	294,717
23,562	1,607,179
276,135	538,906
148,020	341,319
<hr/>	
965,182	5,649,895
434,265	3,388,951
571,476	1,895,810
44,578	345,875
55,000	59,143
12,063	13,151
<hr/>	
1,117,382	5,702,930
(152,200)	(53,035)
422,348	1,087,093
(626,445)	(1,069,902)
<hr/>	
(204,097)	17,191
(356,297)	(35,844)
1,002,391	1,382,776
<hr/>	
\$ 646,094	\$ 1,346,932
<hr/>	

*The accompanying notes are an integral part of the financial statements.*

**CITY OF MOLALLA, OREGON**

**STATEMENT OF NET ASSETS (MODIFIED CASH BASIS) - PROPRIETARY FUNDS**

**JUNE 30, 2011**

	<i>Business Activities - Enterprise</i>			
		<i>Water Debt</i>		<i>Sewer Debt</i>
	<i>Water</i>	<i>Retirement</i>	<i>Sewer</i>	<i>Retirement</i>
<b>ASSETS</b>				
Cash and investments	\$ 593,202	\$ 855,725	\$ 244,189	\$ 726,095
<b>LIABILITIES</b>	-	-	-	-
<b>NET ASSETS</b>				
Restricted for debt service	-	855,725	-	726,095
Restricted for construction	-	-	-	-
Unrestricted	593,202	-	244,189	-
<i>Total Net Assets</i>	<u>\$ 593,202</u>	<u>\$ 855,725</u>	<u>\$ 244,189</u>	<u>\$ 726,095</u>

DRAFT

DRAFT

---

<i>Funds</i>		
<i>Water SDC</i>	<i>Other Business-type Funds</i>	<i>Totals</i>
\$ 1,033,978	\$ 791,967	\$ 4,245,156
-	-	-
-	166,614	1,748,434
1,033,978	520,016	1,553,994
-	105,337	942,728
<u>\$ 1,033,978</u>	<u>\$ 791,967</u>	<u>\$ 4,245,156</u>

*The accompanying notes are an integral part of the financial statements.*

**CITY OF MOLALLA, OREGON**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS**

**(MODIFIED CASH BASIS) - PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2011**

DRAFT

	<i>Business Activities -</i>		
	<i>Water</i>	<i>Water Debt Retirement</i>	<i>Water Capital Improvement</i>
<b>OPERATING RECEIPTS</b>			
Charges for services	\$ 1,267,714	\$ -	\$ -
Miscellaneous	15,544	-	-
<i>Total Operating Receipts</i>	1,283,258	-	-
<b>OPERATING DISBURSEMENTS</b>			
Personal services	527,513	-	-
Materials and services	215,442	-	-
Capital outlay	113,243	-	-
<i>Total Operating Disbursements</i>	856,198	-	-
<b>OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS</b>	427,060	-	-
<b>NONOPERATING RECEIPTS (DISBURSEMENTS)</b>			
Interest earnings	1,637	5,599	-
Debt service			
Principal	-	(360,263)	-
Interest	-	-	-
<i>Total Nonoperating Receipts (Disbursements)</i>	1,637	(354,664)	-
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	428,697	(354,664)	-
<b>OTHER FINANCING SOURCES (USES)</b>			
Capital contributions	-	-	-
Transfers in	1,381,870	473,026	-
Transfers out	(1,546,776)	-	(1,140,285)
<b>CHANGE IN NET ASSETS</b>	263,791	118,362	(1,140,285)
<b>NET ASSETS, Beginning of year</b>	329,411	737,363	1,140,285
<b>NET ASSETS, End of year</b>	\$ 593,202	\$ 855,725	\$ -

DRAFT

<i>Enterprise Funds</i>					
<i>Sewer</i>	<i>Sewer Debt Retirement</i>	<i>Sewer Capital Improvement</i>	<i>Water SDC</i>	<i>Other Business-type Funds</i>	<i>Totals</i>
\$ 1,550,378	\$ -	\$ -	\$ -	\$ 94,325	\$ 2,912,417
5,271	-	-	-	1,076	21,891
1,555,649	-	-	-	95,401	2,934,308
277,943	-	-	-	89,507	894,963
461,065	-	-	-	54,184	730,691
152,035	-	-	-	5,440	270,718
891,043	-	-	-	149,131	1,896,372
664,606	-	-	-	(53,730)	1,037,936
604	300	-	-	560	8,700
-	(267,788)	-	-	(109,038)	(737,089)
-	-	-	-	(69,576)	(69,576)
604	(267,488)	-	-	(178,054)	(797,965)
665,210	(267,488)	-	-	(231,784)	239,971
-	-	-	14,537	28,841	43,378
913,552	697,509	-	950,000	1,404,598	5,820,555
(1,792,717)	(40,000)	(691,874)	-	(626,094)	(5,837,746)
(213,955)	390,021	(691,874)	964,537	575,561	266,158
458,144	336,074	691,874	69,441	216,406	3,978,998
\$ 244,189	\$ 726,095	\$ -	\$ 1,033,978	\$ 791,967	\$ 4,245,156

The accompanying notes are an integral part of the financial statements.

DRAFT

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Molalla, Oregon is governed by an elected mayor and six council members who comprise the City Council. The City Council exercises supervisory responsibilities over the City operations, but day-to-day management control is the responsibility of a city manager. All significant activities and organizations for which the City is financially accountable are included in the financial statements for the year ended June 30, 2011.

The governing board of the Urban Renewal Agency of the City of Molalla consists of all members of the Molalla City Council. The area served by the Agency is within City limits. The Urban Renewal Agency is reported as a blended component unit of the City. There are other governmental agencies and various service districts which provide services within the City. These agencies have independently elected governing boards and the City is not financially accountable for these organizations. Therefore, financial information for these agencies is not included in the accompanying basic financial statements.

*Basic Financial Statements*

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

*Government-wide financial statements* display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets (Modified Cash Basis) and the Statement of Activities (Modified Cash Basis).

*The Statement of Net Assets (Modified Cash Basis)* presents all the current assets and liabilities of the City. Net assets, representing assets less liabilities, is shown in two components: restricted for special purposes, amounts which must be spent in accordance with legal restrictions, and unrestricted, the amount available for ongoing City activities.

*The Statement of Activities (Modified Cash Basis)* demonstrates the degree to which the direct disbursements of a given function or segment are offset by program receipts. *Direct disbursements* are those that are clearly identifiable with a specific function or segment. *Program receipts* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general receipts*.

*Fund financial 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, or fiduciary. Currently, the City has governmental funds (general, special revenue, capital projects and debt service) and proprietary type funds (enterprise). Accounting principles generally accepted in the United States of America set forth minimum criteria (percentage of the assets liabilities, receipts or disbursements of either fund category or the government and enterprise combined) for the determination of major funds. The City electively added funds as major funds, which either had debt outstanding or specific community focus. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are combined into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of Presentation*

The financial transactions of the City are recorded in the individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, receipts and disbursements. The various funds are reported by generic classification within the financial statements.

The City reports the following major governmental funds:

*General*

The General Fund is the operating fund of the City, and is used to account for all financial resources except those required to be accounted for in another fund. Primary sources of revenue are ad valorem taxes, franchise fees, state shared receipts and fines. The major expenditures are for parks and recreation, police, municipal court and general city operations.

*Street*

This fund satisfies the requirements of ORS 366.815 to account for funds distributed by the State Highway Division. Expenditures are for road construction and maintenance.

*Library*

This fund was established to provide an accounting for the financial activities related to the City Library.

The City reports the following nonmajor governmental funds:

*Adult Center*

This fund was established to account for the receipts and disbursements related to the adult center.

*Parks & Recreation*

This fund was established to account for granting agency funds to expand city parks.

*Recorder's Trust*

This fund accounts for monies received from third parties which may be refunded to the payor or kept by the City. Such monies are kept in the Recorder's fund until final disposition is determined.

*URA*

This fund accounts for the activities of the Urban Renewal Agency

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***

*Planning*

This fund was established to provide an accounting for fees collected in the enforcement of the Oregon Building Code. The fund was closed during the current fiscal year.

*Street Capital Improvement*

This fund was established to begin needed street rehabilitation and repair projects. The fund was closed during the current fiscal year.

*State Revenue Sharing*

This fund was established to provide an accounting of monies received under the State Revenue Sharing Act. The fund was closed during the current fiscal year.

*911 Emergency*

This fund was established to account for grant monies received from the State for the purpose of establishing the 911 emergency phone system. The fund was closed during the current fiscal year.

*Drug Investigation*

This fund was established to account for amounts from the Municipal court to be used for drug investigation expenses. The fund was closed during the current fiscal year.

*Park Capital*

The fund was closed during the current fiscal year.

*Emergency Management*

This fund was established to account for purchasing capital improvements to operate the emergency management center. The fund was closed during the current fiscal year.

*D.A.R.E.*

This fund was established to account for donations received from the community for a drug abuse resistance education program. The fund was closed during the current fiscal year.

*Emergency Vehicle*

This fund was established to allow for purchase of emergency equipment. It is funded primarily by court assessments. The fund was closed during the current fiscal year.

 DRAFT

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Street SDC*

This fund was established to help to fund roadway improvements for city streets.

*Park SDC*

This fund was established to help fund park improvement projects within the City.

*Equipment*

This fund was established to allow for purchase of equipment. It is funded by transfers from the Water, Sewer and Street funds. The fund was closed during the current fiscal year.

*Capital Improvement*

This fund was established to account for capital improvement projects funded by collection of assessment principal payments and interest and a transfer from the General Fund. The fund was closed during the current fiscal year.

*Bonded Debt*

This fund accounts for payments on general obligation bonds. The primary source of revenue is property taxes.

*Sally Foxx Park*

This fund was established to account for a nonexpendable trust for Sally Foxx Memorial donations.

The city reports the following major enterprise funds:

*Water*

This fund was established to account for the provision of services to the general public where all or most of the costs involved are paid for in the form of charges to users of such services. Primary source of revenue is water sales.

*Water Debt Retirement*

This fund was established to account for major construction projects of the City's water utility. These projects are financed primarily by proceeds from revenue bond sales and federal grant monies.

*Water Capital Improvement*

This fund was established to account for the upgrading or development of water facilities. The primary source of revenue is system development charges.

 **DRAFT**

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Sewer*

This fund was established to account for the provision of services to the general public where all or most of the costs involved are paid for in the form of charges to users of such services. Primary source of revenue is sewer surcharges.

*Sewer Debt Retirement*

This fund was established to account for major construction projects of the City's sewer utility. These projects are financed primarily by proceeds from revenue bond sales and federal grant monies.

*Sewer Capital Improvement*

This fund was established to account for the upgrading or development of sewer facilities. The primary source of revenue is system development charges. This fund was closed during the current fiscal year.

The City reports the following nonmajor enterprise funds:

*Storm Water*

This fund was established to account for the provision of services to the general public where all or most of the costs involved are paid for in the form of charges to users of such services. Primary source of revenue is sewer surcharges.

*Storm Water Capital Improvement*

This fund was established to account for the upgrading or development of storm water facilities. The primary source of revenue is system development charges.

*Storm Water SDC*

This fund accounts for the collection and spending of Storm Water System Development Charges (SDC's).

*Water SDC*

This fund accounts for the collection and spending of Water System Development Charges (SDC's).

*Sewer SDC*

This fund accounts for the collection and spending of Sewer System Development Charges (SDC's).

*CWSRF Debt Retirement*

This fund accounts for payments to the Clean Water State Revolving Fund (CWSRF) loan through the Department of Environmental Quality.

 DRAFT

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Fund Balance*

In the year ended June 30, 2011, the City adopted GASB Statement #54 *Fund Balance Reporting and Governmental Fund Types Definitions*. In the fund financial statements, the fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Although not a major impact on the financial statements, Governmental Fund type fund balances are now reported in the following classifications.

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.

Fund balance is reported as restricted when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Fund balance is reported as committed when the City Council takes formal action that places specific constraints on how the resources may be used.

The City Council can modify or rescind the commitment at any time through taking a similar formal action.

Resources that are constrained by the City's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the City Council approves which resources should be "reserved" during the adoption of the annual budget. The City's Finance Director uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the City's Annual Financial Report.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds. In addition, certain Special Revenue Funds are reported as part of the General Fund because their source of funds is primarily transfers from the General Fund.

*Definitions of Governmental Fund Types*

The General Fund is used to account for all financial resources not accounted for in another fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term "proceeds of specific revenues sources" means that the revenue sources for the fund must be from restricted or committed sources, specifically that a substantial portion of the revenue must be from these sources and be expended in accordance with those requirements.

Capital Projects Funds are utilized to account for financial resources to be used for the acquisition or construction of capital equipment and facilities.

 **DRAFT**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Definitions of Governmental Fund Types (Continued)*

Debt Service Funds are utilized to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

The City adopted the provisions of GASB Statement #54 *Fund Balance Reporting and Governmental Fund Types Definitions*. Among the changes required is that the Street SDC Fund, Park SDC Fund, and Equipment Fund previously reported as Special Revenue Funds are reported as Capital Projects Funds.

*Measurement Focus and Basis of Accounting*

Accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standards Board, define principles that should be used to report financial transactions. The government-wide and proprietary fund financial statements are reported using the economic resources and accrual basis of accounting. Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded when the liability is incurred. The governmental fund financial statements are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when they become both measurable and available, while expenditures are recorded when the related liability is incurred.

The City's policy is to prepare its financial statements on the modified cash basis of accounting. Consequently, certain receipts and the related assets are recognized when received rather than when earned, and certain disbursements and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred. Also, assets that are measurable but not yet collected are recorded on the City's statement of assets and liabilities as an asset and deferred revenue. The City's policy, although not in accordance with accounting principles generally accepted in the United States of America, is acceptable under Oregon Law (ORS 294.445), which leaves the selection of the method of accounting to the discretion of the municipal corporation.

The City has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting." The City has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed under GASB No. 20, the City has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB.

Enterprise funds distinguish between operating receipts and disbursements and nonoperating items. Operating receipts and disbursements result from providing services to customers in connection with ongoing utility operations. The principal operating receipts are charges to customers for service. Operating disbursements include payroll and related costs, materials and supplies, and capital outlay. All receipts not considered operating are reported as nonoperating items.

 **DRAFT**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Use of Estimates*

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenses as of and for the year ended June 30, 2011. Actual results may differ from such estimates.

*Cash and Investments*

The City maintains cash and investments in a common pool that is available for use by all funds. Each fund type's portion of this pool is displayed as cash and investments.

Oregon Revised Statutes authorize the City to invest in certificates of deposit, savings accounts, bank repurchase agreements, bankers' acceptances, general obligations of U.S. Government and its agencies, certain bonded obligations of Oregon municipalities and the State Treasurer's Local Government Investment Pool, among others. Investments are stated at cost, which approximates fair value.

*Receivables and Deferred Revenues*

Property taxes are levied by the County Assessor and collected by the County Tax Collector. The taxes are levied and become a lien as of July 1. They may be paid in three installments payable in equal payments due November 15, February 15, and May 15. Uncollected property taxes levied for the current year are recorded as receivable at year-end. The City's property tax collection records show that most of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years. Property tax receivables are offset by deferred revenue and, accordingly, have not been recorded as revenues.

*Capital Assets*

Capital assets, including public domain capital assets, are not being recorded. There are no records to support the cost of assets acquired in prior years. Maintenance and repairs of capital assets are charged to expenditures as incurred.

*Long-Term Debt*

In the government-wide financial statements, long-term debt is not reported as a liability. Payment of principal and interest is recorded as a disbursement when paid.

*Budgets and Budgetary Accounting*

The City adopts the budget on a departmental basis (city hall, police, etc.) for the General Fund and an object basis (personal services, materials and services, capital outlay, debt service) for all other funds. Cash disbursements of a fund may not legally exceed that object's appropriations for cash disbursements. The City Council may amend the budget to expend unforeseen receipts by supplemental appropriations. All supplemental appropriations are included in the budget comparison statements. Appropriations lapse at year-end and may not be carried over. The City does not use encumbrance accounting.

 DRAFT

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Use of Restricted Assets*

When disbursements are paid for purposes in which both restricted and unrestricted net assets are available, the City deems restricted assets to be spent first.

**CASH AND INVESTMENTS**

Cash and investments are comprised of the following at June 30, 2011:

	<u>Carrying Value</u>	<u>Fair Value</u>
<i>Cash</i>		
Cash on hand	\$ 100	\$ 100
Deposits with financial institutions	590,764	590,764
<i>Investments</i>		
Local Government Investment Pool	5,035,492	5,035,492
 Total	 <u>\$ 5,626,356</u>	 <u>5,626,356</u>

*Deposits*

The book balance of the City’s bank deposits (checking accounts) was \$590,764 and the bank balance was \$769,338 at June 30, 2011. The difference is due to transactions in process. Bank deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

*Investments*

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2011, the fair value of the position in the Oregon State Treasurer’s Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

 **DRAFT**

**CASH AND INVESTMENTS (Continued)**

*Custodial Credit Risk - Deposits*

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides unlimited insurance for the City's deposits with financial institutions for the aggregate of all non-interest bearing accounts and up to \$250,000 for the aggregate of interest bearing accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public funds deposits if they are well capitalized, 25% of their quarter-end public funds deposits if they are adequately capitalized, and 110% of their quarter-end public funds deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of governmental entities.

*Interest Rate Risk*

In accordance with its investment policy, the City manages its exposure to declines in fair value of its investments by limiting the weighted average maturity of its investments through use of the Local Government Investment Pool.

*Custodial Risk - Investments*

For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The City's investment policy limits the types of investments that may be held and does not allow securities to be held by the counterparty.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-loan diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

**CITY OF MOLALLA, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

 **DRAFT**

**LONG-TERM DEBT**

Long-term debt transactions for the year were as follows:

	<u>Outstanding</u> <u>July 1,</u> <u>2010</u>	<u>Issued</u>	<u>Matured/</u> <u>Redeemed</u> <u>During Year</u>	<u>Refinanced</u> <u>During</u> <u>Year</u>	<u>Outstanding</u> <u>June 30,</u> <u>2011</u>	<u>Next Year</u> <u>Requirement</u>
<i>Governmental activities</i>						
EDD Loan, issued in 1993 at 6% interest.	\$ 18,125	\$ -	\$ (4,143)	\$ -	\$ 13,982	\$ 4,392
2010 GO Water Refunding Bonds, issued in 2010 with interest rates from 2 - 3.5%	440,000	-	(55,000)	-	385,000	55,000
	<u>\$ 458,125</u>	<u>\$ -</u>	<u>\$ (59,143)</u>	<u>\$ -</u>	<u>\$ 398,982</u>	<u>\$ 59,392</u>
	<u>Outstanding</u> <u>July 1,</u> <u>2010</u>	<u>Issued</u>	<u>Matured/</u> <u>Redeemed</u> <u>During Year</u>	<u>Refinanced</u> <u>During</u> <u>Year</u>	<u>Outstanding</u> <u>June 30,</u> <u>2011</u>	<u>Next Year</u> <u>Requirement</u>
<i>Business-type activities</i>						
State Revolving Loan, issued in 2007 with interest rate of 2.8%.	\$ 2,511,924	\$ -	\$ (109,038)	\$ -	\$ 2,402,886	\$ 112,113
2010 Water Revenue Refunding Bonds, issued in 2010 with interest rate of 3%	2,475,000	-	(300,000)	-	2,175,000	300,000
2010 Sewer Revenue Refunding Bonds, issued in 2010 with interest rates of 3 - 4%	3,545,000	-	(170,000)	-	3,375,000	200,000
	<u>\$ 8,531,924</u>	<u>\$ -</u>	<u>\$ (579,038)</u>	<u>\$ -</u>	<u>\$ 7,952,886</u>	<u>\$ 612,113</u>

The 2010 Water and Sewer Refunding bonds contain required reserve requirements. The City was in compliance with the reserve requirements for the water bonds, but not the sewer bonds, at June 30, 2011.

**CITY OF MOLALLA, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**



**LONG-TERM DEBT (Continued)**

Future debt service requirements are as follows:

*Governmental Activities*

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 59,392	\$ 12,902	\$ 72,294
2013	59,656	10,988	70,644
2014	64,934	5,602	70,536
2015	60,000	7,663	67,663
2016	60,000	6,463	66,463
2017-2019	95,000	5,031	100,031
	<b>\$ 398,982</b>	<b>\$ 48,649</b>	<b>\$ 447,631</b>

*Business-type Activities*

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 612,113	\$ 249,701	\$ 861,814
2013	625,273	231,391	856,664
2014	608,524	213,140	821,664
2015	631,865	194,949	826,814
2016	655,301	176,063	831,364
2017-2021	2,551,539	605,656	3,157,195
2022-2026	1,923,195	225,875	2,149,070
2027-2028	345,076	12,161	357,237
	<b>\$ 7,952,886</b>	<b>\$ 1,908,936</b>	<b>\$ 9,861,822</b>

**PENSION PLAN**

*Plan Description*

The City is a participating employer in the Oregon Public Employees Retirement System ("OPERS"), an agent multiple-employer defined benefit pension plan. The 2003 legislature adopted certain changes in the Oregon Public Employee Retirement System, and created a new system for all people hired after August 29, 2003. The Public Employee Retirement System (PERS), which was established under Oregon Revised Statute (ORS) 238.600, applies to all employees who had established membership prior to August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), which was established under ORS 238A and went into effect on January 1, 2004, applies to all people who are first employed with a public employer after August 29, 2003. The Public Employees Retirement Board (PERB) governs and acts as a common investment and administrative agent for both plans which are the retirement plans for most public employers in the State of Oregon. Benefits are established by state statute, and employer contributions are made at the actuarially determined rate for each system as adopted by the PERB. The Oregon Public Employees Retirement System, a component unit of the State of Oregon, issues a comprehensive annual financial report, which may be obtained by writing to Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

Both PERS and OPSRP plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

*Funding Policy*

Employer contributions are required by state statute and made at actuarially determined rates as adopted by the OPERB. Covered employees are required by state statute to contribute 6.0% of their annual salary to the system, but the employer is allowed to pay any or all of the employees' contribution in addition to the required employers' contribution. For the year ended June 30, 2011, the required employer's contribution was 5.92% of Tier 1/Tier 2 subject payroll, 0.19% of OPSRP general service subject payroll, and 2.09% of OPSRP police and fire subject payroll.

*Annual Pension Cost*

All participating employers are required by law to submit the contributions as adopted by OPERB. For the fiscal year ended June 30, 2011, the City's annual pension expenditures including the 6% employee contribution was \$268,155, based on subject salary of \$2,637,936 with total payroll of \$3,046,226.

The City's pension liability and the annual required contribution rate were determined using the entity age cost method. The assumptions utilized in the valuation include an investment return of 8.0%, an investment return of 8.5% on variable programs, projected salary increase of 4.0%, health cost inflation graded from 8.0% in 2005 to 5% in 2011, and a consumer price inflation component of 3.0%.

The unfunded actuarial liability ("UAL") created by this method is amortized as an increasing dollar amount over a period of twenty-four years. This is different from the prior method of amortization in that the liability was previously amortized as a level percentage of PERS covered payroll. The change in amortization method was in response to anticipated future declines in PERS covered payroll, since new hires will be participating in OPSRP.

 **DRAFT**

**PENSION PLAN (Continued)**

The OPERB utilizes a technique called asset smoothing to determine the actuarial value of assets. The actuarial value of assets are reported at fair market value, less a reserve equal to a pro-rata portion of the investment gains (losses) over the four-year period ending on the valuation date. Investment gains (losses), effective from January 1, 2000, are recognized at the rate of 25% per year. The actuarial value of assets is limited to a 10% corridor above and below the fair market value.

The Oregon Legislative Assembly created a second level or "Tier" of OPERS benefits that modified service and disability retirement allowances payable to persons who established PERS membership on or after January 1, 1996 ("Tier Two" members). Future interest credits on all member contributions in Tier One and Tier Two Regular Accounts are assumed to accrue at an annual rate of 8.0%, compounded annually.

The following table presents three-year trend information for the City's employee pension plan:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2009	\$ 307,376	100%	\$ -
2010	264,032	100%	-
2011	268,155	100%	-

**TRANSFERS**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

 **DRAFT**

**TRANSFERS (Continued)**

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 217,810	\$ 443,457
Street	446,935	-
Planning Department	69,111	-
Adult Center	186,337	-
911 Emergency	-	84
Drug Investigation	-	3,043
D.A.R.E.	-	660
State Revenue Sharing	-	10,197
Street Improvements	-	284,643
Park Development	139,000	-
Park Expansion	-	64,896
Emergency Management	-	972
Emergency Vehicle	-	9,687
Capital Improvement	-	11,015
Equipment	27,900	241,248
Urban Renewal Agency	-	-
Sewer	913,552	1,792,717
Water	1,381,870	1,546,776
Storm Water	158,051	128,715
Sewer Debt	357,517	-
Sewer System Expansion	697,509	40,000
Water System Expansion	473,026	-
Sewer Capital Improvement	-	691,874
Water Capital Improvement	-	1,140,285
Storm Water Capital Improvement	-	139,862
Sewer SDC	765,030	357,517
Water SDC	950,000	-
Storm Water SDC	124,000	-
	<u>\$ 6,907,648</u>	<u>\$ 6,907,648</u>

**DISBURSEMENTS IN EXCESS OF APPROPRIATIONS**

Oregon law prohibits disbursements of a fund in excess of Council approved appropriations. The City Council approves appropriations by department for the General Fund and by major object class (personal services, materials and services, capital outlay and debt service) for all other funds.

Disbursements in excess of appropriations in individual funds for the year ended June 30, 2011 occurred as follows:

**CITY OF MOLALLA, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

 **DRAFT**

**DISBURSEMENTS IN EXCESS OF APPROPRIATIONS (Continued)**

<u>Fund/Appropriation Category</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
<b>Governmental</b>			
<i>General</i>			
City Hall	\$ 804,566	\$ 844,344	\$ (39,778)
Police	1,979,887	2,102,477	(122,590)
Municipal court	174,219	184,804	(10,585)
<i>Street</i>			
Personal services	285,863	310,754	(24,891)
Materials and services	195,150	220,382	(25,232)
<i>Parks &amp; Recreation</i>			
Personal services	205,043	212,304	(7,261)
<i>911 Emergency</i>			
Transfers out	-	84	(84)
<i>Drug Investigation</i>			
Transfers out	-	3,043	(3,043)
<i>DARE</i>			
Transfers out	-	660	(660)
<i>Emergency Management</i>			
Transfers out	-	972	(972)
<i>Park Capital</i>			
Transfers out	-	64,896	(64,896)
<i>Recorder's Trust</i>			
Materials and services	240,000	311,666	(71,666)
<i>Capital Improvement</i>			
Transfers out	-	11,015	(11,015)
<i>Emergency Vehicle</i>			
Transfers out	-	9,687	(9,687)
<i>Water</i>			
Transfers out	1,515,105	1,546,776	(31,671)
<i>Water Capital Improvement</i>			
Transfers out	950,000	1,140,285	(190,285)
<i>Sewer</i>			
Transfers out	1,759,111	1,792,717	(33,606)
<i>Storm Water</i>			
Transfers out	128,510	128,715	(205)
<i>Storm Water Capital Improvement</i>			
Transfers out	124,000	139,862	(15,862)

Transfers out to close funds are not statutory violations of local budget law.

**CITY OF MOLALLA, OREGON**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2011*

---

***FUND ACCUMULATED DEFICITS***

At June 30, 2011, the General fund had negative fund balance of \$321,757. The deficit fund balance implies unauthorized interfund borrowings at June 30, 2011.

***RESERVATION OF FUND EQUITY***

The Sally Foxx Park Fund, a permanent fund, was established to account for a nonexpendable trust for Sally Foxx Memorial donations. Only interest earned may be expended for park improvements. The principal balance must remain unexpended. At June 30, 2011, the principal balance was \$96,303.

***CONTINGENCIES***

The City purchases commercial insurance to cover all commonly insurable risks, which includes property damage, liability and employee bonds. Most policies carry a small deductible amount. No insurance claims settled in each of the prior three years have exceeded policy coverage.

From time to time, the City is a defendant in various litigation proceedings. Management believes any losses arising from these actions will not materially affect the City's financial position.

***SUBSEQUENT EVENTS***

The City follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855). ASC 855 establishes accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through November 8, 2011, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

 **DRAFT**

***REQUIRED SUPPLEMENTARY INFORMATION***

 DRAFT

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF FUNDING PROGRESS - PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**JUNE 30, 2011**

The following table presents a schedule of funding progress for the City's defined benefit pension plan:

<i>Actuarial Valuation Ending December 31</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability</i>	<i>Unfunded Actuarial Liability (UAL)</i>	<i>Funded Percent</i>	<i>Covered Payroll</i>	<i>UAL as a Percentage of Covered Payroll</i>
12/31/06	\$ 10,652,928	\$ 8,092,951	\$ ( 2,559,977)	132%	\$ 2,497,077	( 103)%
12/31/07	11,550,923	8,667,355	( 2,883,568)	133	2,331,408	( 124)
12/31/08	8,945,436	9,554,948	609,512	94	2,305,653	26
12/31/09	10,301,439	10,259,527	( 41,912)	100	2,398,909	( 2)

More current information is not available.

DRAFT

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - GENERAL FUND  
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Taxes and assessments	\$ 2,570,578	\$ 2,570,578	\$ 2,299,790	\$ (270,788)
Licenses and permits	293,650	563,650	267,605	(296,045)
Intergovernmental	249,607	323,529	384,859	61,330
Fines and forfeitures	180,000	185,500	234,396	48,896
Miscellaneous	132,360	313,638	180,441	(133,197)
<i>Total Receipts</i>	<u>3,426,195</u>	<u>3,956,895</u>	<u>3,367,091</u>	<u>(589,804)</u>
<b>DISBURSEMENTS</b>				
City Hall	618,952	804,566	844,344	(39,778)
Planning	377,038	547,301	312,860	234,441
Police	1,883,479	1,979,887	2,102,477	(122,590)
Municipal court and legal	153,819	174,219	184,804	(10,585)
Contingency	164,711	163,511	-	163,511
<i>Total Disbursements</i>	<u>3,197,999</u>	<u>3,669,484</u>	<u>3,444,485</u>	<u>224,999</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	228,196	287,411	(77,394)	(364,805)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	180,261	185,781	217,810	32,029
Transfers out	(408,457)	(443,457)	(443,457)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(228,196)</u>	<u>(257,676)</u>	<u>(225,647)</u>	<u>32,029</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	29,735	(303,041)	(332,776)
<b>FUND BALANCE (Deficit), Beginning of year</b>				
	-	(29,735)	(18,716)	11,019
<b>FUND BALANCE (Deficit), End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (321,757)</u>	<u>\$ (321,757)</u>



**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -**

**BUDGET AND ACTUAL - STREET FUND**

**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Licenses and permits	\$ 90,000	\$ 95,000	\$ 77,631	\$ (17,369)
Intergovernmental	390,312	666,360	529,338	(137,022)
Miscellaneous	41,171	46,171	8,376	(37,795)
<i>Total Receipts</i>	521,483	807,531	615,345	(192,186)
<b>DISBURSEMENTS</b>				
Personal services	285,863	285,863	310,754	(24,891)
Materials and services	195,150	195,150	220,382	(25,232)
Capital outlay	61,470	912,518	4,724	907,794
<i>Total Disbursements</i>	542,483	1,393,531	535,860	857,671
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(21,000)	(586,000)	79,485	665,485
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	21,000	21,000	446,935	425,935
<b>NET CHANGE IN FUND BALANCE</b>	-	(565,000)	526,420	1,091,420
<b>FUND BALANCE (Deficit), Beginning of year</b>	-	565,000	(80,260)	(645,260)
<b>FUND BALANCE (Deficit), End of year</b>	\$ -	\$ -	\$ 446,160	\$ 446,160

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - LIBRARY FUND  
YEAR ENDED JUNE 30, 2011**

 **DRAFT**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 853,165	\$ 853,165	\$ 669,420	\$ (183,745)
Fines and forfeitures	21,500	21,500	28,375	6,875
Miscellaneous	4,400	4,400	4,482	82
<i>Total Receipts</i>	<u>879,065</u>	<u>879,065</u>	<u>702,277</u>	<u>(176,788)</u>
<b>DISBURSEMENTS</b>				
Personal services	401,792	401,792	323,916	77,876
Materials and services	202,500	202,500	66,400	136,100
Capital outlay	344,000	344,000	214,887	129,113
Contingency	80,773	80,773	-	80,773
<i>Total Disbursements</i>	<u>1,029,065</u>	<u>1,029,065</u>	<u>605,203</u>	<u>423,862</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(150,000)	(150,000)	97,074	-
<b>FUND BALANCE, Beginning of year</b>	<u>150,000</u>	<u>150,000</u>	<u>479,361</u>	<u>329,361</u>
<b>FUND BALANCE, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 576,435</u>	<u>\$ 576,435</u>

 DRAFT

***OTHER SUPPLEMENTARY INFORMATION***

**CITY OF MOLALLA, OREGON**

**COMBINING STATEMENT OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS) -**

**NONMAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2011**



**DRAFT**

	<i>Special Revenue Funds</i>			
	<i>Adult Center</i>	<i>Parks &amp; Recreation</i>	<i>Recorder's Trust</i>	<i>URA</i>
<b>ASSETS</b>				
Cash and investments	\$ 65,230	\$ 117,757	\$ 1,648	\$ 158,560
Property taxes receivable	-	-	-	8,249
<i>Total Assets</i>	<u>\$ 65,230</u>	<u>\$ 117,757</u>	<u>\$ 1,648</u>	<u>\$ 166,809</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Deferred revenue	\$ -	\$ -	\$ -	\$ 8,249
<b>Fund Balances</b>				
Nonspendable	-	-	-	-
Restricted for:				
Public works	-	-	-	-
Community development	-	-	-	158,560
Debt service	-	-	-	-
Committed to:				
Capital outlay	-	-	-	-
Community development	65,230	117,757	1,648	-
Unassigned	-	-	-	-
<i>Total Fund Balances</i>	<u>65,230</u>	<u>117,757</u>	<u>1,648</u>	<u>158,560</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 65,230</u>	<u>\$ 117,757</u>	<u>\$ 1,648</u>	<u>\$ 166,809</u>

<i>Capital Project Funds</i>		<i>Debt Service Fund</i>	<i>Permanent Funds</i>	
<i>Street SDC</i>	<i>Park SDC</i>	<i>Bonded Debt</i>	<i>Sally Foxx Park</i>	<i>Totals</i>
\$ 167,546	\$ 32,219	\$ 976	\$ 102,158	\$ 646,094
-	-	2,972	-	11,221
<u>\$ 167,546</u>	<u>\$ 32,219</u>	<u>\$ 3,948</u>	<u>\$ 102,158</u>	<u>\$ 657,315</u>
\$ -	\$ -	\$ 2,972	\$ -	\$ 11,221
-	-	-	96,303	96,303
167,546	-	-	-	167,546
-	32,219	-	5,855	196,634
-	-	976	-	976
-	-	-	-	-
-	-	-	-	184,635
-	-	-	-	-
<u>167,546</u>	<u>32,219</u>	<u>976</u>	<u>102,158</u>	<u>646,094</u>
<u>\$ 167,546</u>	<u>\$ 32,219</u>	<u>\$ 3,948</u>	<u>\$ 102,158</u>	<u>\$ 657,315</u>

**CITY OF MOLALLA, OREGON**

**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES  
(MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011**

**DRAFT**

	<i>Special Revenue Funds</i>		
	<i>Adult Center</i>	<i>Parks &amp; Recreation</i>	<i>Recorder's Trust</i>
<b>RECEIPTS</b>			
Taxes and assessments	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Charges for services	-	294,717	-
Intergovernmental	23,562	-	-
Fines and forfeitures	-	-	276,135
Miscellaneous	129,218	-	16,608
<i>Total Receipts</i>	152,780	294,717	292,743
<b>DISBURSEMENTS</b>			
Current operating			
Personal services	221,961	212,304	-
Materials and services	93,223	156,587	311,666
Capital outlay	10,118	12,174	-
Debt service			
Principal	-	-	-
Interest	-	-	-
<i>Total Disbursements</i>	325,302	381,065	311,666
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(172,522)	(86,348)	(18,923)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	186,337	139,000	-
Transfers out	-	-	-
<i>Total Other Financing Sources (Uses)</i>	186,337	139,000	-
<b>NET CHANGE IN FUND BALANCES</b>	13,815	52,652	(18,923)
<b>FUND BALANCES (Deficit), Beginning of year</b>	51,415	65,105	20,571
<b>FUND BALANCES, End of year</b>	\$ 65,230	\$ 117,757	\$ 1,648

*Special Revenue*

<i>URA</i>	<i>Planning</i>	<i>Street Capital Improvement</i>	<i>State Revenue Sharing</i>	<i>911 Emergency</i>	<i>Drug Investigation</i>	<i>Park Capital</i>
\$ 134,092	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
57	-	-	-	-	-	-
134,149	-	-	-	-	-	-
-	-	-	-	-	-	-
10,000	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
10,000	-	-	-	-	-	-
124,149	-	-	-	-	-	-
-	69,111	-	-	-	-	-
-	-	(284,643)	(10,197)	(84)	(3,043)	(64,896)
-	69,111	(284,643)	(10,197)	(84)	(3,043)	(64,896)
124,149	69,111	(284,643)	(10,197)	(84)	(3,043)	(64,896)
34,411	(69,111)	284,643	10,197	84	3,043	64,896
\$ 158,560	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**CITY OF MOLALLA, OREGON**

**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES**

**(MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS (Continued)**

**YEAR ENDED JUNE 30, 2011**

 **DRAFT**

	<i>Special Revenue Funds</i>		
	<i>Emergency Management</i>	<i>D.A.R.E.</i>	<i>Emergency Vehicle</i>
<b>RECEIPTS</b>			
Taxes and assessments	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Charges for services	-	-	-
Intergovernmental	-	-	-
Fines and forfeitures	-	-	-
Miscellaneous	-	-	-
<i>Total Receipts</i>	-	-	-
<b>DISBURSEMENTS</b>			
Current operating			
Personal services	-	-	-
Materials and services	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
<i>Total Disbursements</i>	-	-	-
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers out	(972)	(660)	(9,687)
<i>Total Other Financing Sources (Uses)</i>	(972)	(660)	(9,687)
<b>NET CHANGE IN FUND BALANCES</b>	(972)	(660)	(9,687)
<b>FUND BALANCES (Deficit), Beginning of year</b>	972	660	9,687
<b>FUND BALANCES, End of year</b>	\$ -	\$ -	\$ -

<i>Capital Projects Funds</i>				<i>Debt Service Fund</i>	<i>Permanent Funds</i>	
<i>Street SDC</i>	<i>Park SDC</i>	<i>Equipment</i>	<i>Capital Improvement</i>	<i>Bonded Debt</i>	<i>Sally Foxx Park</i>	<i>Totals</i>
\$ -	\$ -	\$ -	\$ -	\$ 54,169	\$ -	\$ 188,261
28,274	6,213	-	-	-	-	34,487
-	-	-	-	-	-	294,717
-	-	-	-	-	-	23,562
-	-	-	-	-	-	276,135
-	-	1,425	-	525	187	148,020
28,274	6,213	1,425	-	54,694	187	965,182
-	-	-	-	-	-	434,265
-	-	-	-	-	-	571,476
-	-	15,519	-	-	6,767	44,578
-	-	-	-	55,000	-	55,000
-	-	-	-	12,063	-	12,063
-	-	15,519	-	67,063	6,767	1,117,382
28,274	6,213	(14,094)	-	(12,369)	(6,580)	(152,200)
-	-	27,900	-	-	-	422,348
-	-	(241,248)	(11,015)	-	-	(626,445)
-	-	(213,348)	(11,015)	-	-	(204,097)
28,274	6,213	(227,442)	(11,015)	(12,369)	(6,580)	(356,297)
139,272	26,006	227,442	11,015	13,345	108,738	1,002,391
\$ 167,546	\$ 32,219	\$ -	\$ -	\$ 976	\$ 102,158	\$ 646,094

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - ADULT CENTER FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 23,000	\$ 23,000	\$ 23,562	\$ 562
Miscellaneous	138,400	138,400	129,218	(9,182)
<i>Total Receipts</i>	161,400	161,400	152,780	(8,620)
<b>DISBURSEMENTS</b>				
Personal services	228,749	228,749	221,961	6,788
Materials and services	108,488	108,488	93,223	15,265
Capital outlay	10,500	10,500	10,118	382
<i>Total Disbursements</i>	347,737	347,737	325,302	22,435
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(186,337)	(186,337)	(172,522)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	186,337	186,337	186,337	-
<b>NET CHANGE IN FUND BALANCE</b>	-	-	13,815	13,815
<b>FUND BALANCE, Beginning of year</b>	-	-	51,415	51,415
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ 65,230	\$ 65,230



**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -**

**BUDGET AND ACTUAL - PARKS & RECREATION FUND**

**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Charges for services	\$ 240,000	\$ 240,000	\$ 294,717	\$ 54,717
<b>DISBURSEMENTS</b>				
Personal services	205,043	205,043	212,304	(7,261)
Materials and services	193,100	193,100	156,587	36,513
Capital outlay	15,000	15,000	12,174	2,826
Contingency	10,857	10,857	-	10,857
<i>Total Disbursements</i>	<u>424,000</u>	<u>424,000</u>	<u>381,065</u>	<u>42,935</u>
<b>RECEIPTS OVER (UNDER)</b>				
<b>DISBURSEMENTS</b>	(184,000)	(184,000)	(86,348)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>139,000</u>	<u>139,000</u>	<u>139,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(45,000)	(45,000)	52,652	97,652
<b>FUND BALANCE, Beginning of year</b>	<u>45,000</u>	<u>45,000</u>	<u>65,105</u>	<u>20,105</u>
<b>FUND BALANCE, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,757</u>	<u>\$ 117,757</u>



**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -**

**BUDGET AND ACTUAL - RECORDER'S TRUST FUND**

**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Fines and forfeitures	\$ 180,000	\$ 180,000	\$ 276,135	\$ 96,135
Miscellaneous	25,000	25,000	16,608	(8,392)
<i>Total Receipts</i>	205,000	205,000	292,743	87,743
<b>DISBURSEMENTS</b>				
Materials and services	240,000	240,000	311,666	(71,666)
<b>RECEIPTS OVER (UNDER)</b>				
<b>DISBURSEMENTS</b>	(35,000)	(35,000)	(18,923)	16,077
<b>FUND BALANCE, Beginning of year</b>	35,000	35,000	20,571	(14,429)
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ 1,648	\$ 1,648

 **DRAFT**

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -**

**BUDGET AND ACTUAL – URA FUND**

**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Taxes and assessments	\$ 186,241	\$ 186,241	\$ 134,092	\$ (52,149)
Miscellaneous	-	-	57	57
<i>Total Receipts</i>	186,241	186,241	134,149	(52,092)
<b>DISBURSEMENTS</b>				
Personal services	10,000	10,000	-	10,000
Materials and services	15,000	15,000	10,000	5,000
Capital outlay	100,000	100,000	-	100,000
Contingency	85,241	85,241	-	85,241
<i>Total Disbursements</i>	210,241	210,241	10,000	200,241
<b>NET CHANGE IN FUND BALANCE</b>	(24,000)	(24,000)	124,149	148,149
<b>FUND BALANCE, Beginning of year</b>	35,000	35,000	34,411	(589)
<b>FUND BALANCE, End of year</b>	\$ 11,000	\$ 11,000	\$ 158,560	\$ 147,560



**DRAFT**

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -**

**BUDGET AND ACTUAL - PLANNING FUND**

**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Licenses and permits	\$ 330,000	\$ 330,000	\$ -	\$ (330,000)
Miscellaneous	120,000	120,000	-	(120,000)
<i>Total Receipts</i>	450,000	450,000	-	(450,000)
<b>DISBURSEMENTS</b>				
Materials and services	220,886	220,886	-	220,886
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	47,000	47,000	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	69,111	69,111
<b>NET CHANGE IN FUND BALANCE</b>	47,000	47,000	69,111	22,111
<b>FUND BALANCE (Deficit), Beginning of year</b>	(47,000)	(47,000)	(69,111)	(22,111)
<b>FUND BALANCE (Deficit), End of year</b>	\$ -	\$ -	\$ -	\$ -

DRAFT

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS)**

**BUDGET AND ACTUAL – STREET CAPITAL IMPROVEMENT FUND**

**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 200,000	\$ 200,000	\$ -	\$ (200,000)
Miscellaneous	10,000	10,000	-	(10,000)
<i>Total Receipts</i>	210,000	210,000	-	(210,000)
<b>DISBURSEMENTS</b>				
Materials and services	200,000	200,000	-	200,000
Capital outlay	510,000	510,000	-	510,000
<i>Total Disbursements</i>	710,000	710,000	-	710,000
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(500,000)	(500,000)	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(284,643)	(284,643)
<b>NET CHANGE IN FUND BALANCE</b>	(500,000)	(500,000)	(284,643)	215,357
<b>FUND BALANCE, Beginning of year</b>	500,000	500,000	284,643	(215,357)
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ -	\$ -

 **DRAFT**

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - STATE REVENUE SHARING FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 35,000	\$ 35,000	\$ -	\$ (35,000)
<b>DISBURSEMENTS</b>	-	-	-	-
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	35,000	35,000	-	(35,000)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(35,000)	(35,000)	(10,197)	24,803
<b>NET CHANGE IN FUND BALANCE</b>	-	-	(10,197)	(10,197)
<b>FUND BALANCE, Beginning of year</b>	-	-	10,197	10,197
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ -	\$ -

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - 911 EMERGENCY FUND  
YEAR ENDED JUNE 30, 2011**

DRAFT

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 38,922	\$ 38,922	\$ -	\$ (38,922)
<b>DISBURSEMENTS</b>				
Materials and services	38,922	38,922	-	38,922
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	-	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(84)	(84)
<b>NET CHANGE IN FUND BALANCE</b>	-	-	(84)	(84)
<b>FUND BALANCE, Beginning of year</b>	-	-	84	84
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ -	\$ -

DRAFT

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -**

**BUDGET AND ACTUAL - DRUG INVESTIGATION FUND**

**YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>	\$ -	\$ -	\$ -	\$ -
<b>DISBURSEMENTS</b>				
Materials and services	3,043	3,043	-	3,043
<b>RECEIPTS OVER (UNDER)</b>				
<b>DISBURSEMENTS</b>	(3,043)	(3,043)	-	3,043
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(3,043)	(3,043)
<b>NET CHANGE IN FUND BALANCE</b>	(3,043)	(3,043)	(3,043)	-
<b>FUND BALANCE, Beginning of year</b>	3,043	3,043	3,043	-
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ -	\$ -

DRAFT

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -**

**BUDGET AND ACTUAL - PARK CAPITAL FUND**

**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>	\$ -	\$ -	\$ -	\$ -
<b>DISBURSEMENTS</b>				
Capital outlay	65,000	65,000	-	65,000
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(65,000)	(65,000)	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(64,896)	(64,896)
<b>NET CHANGE IN FUND BALANCE</b>	(65,000)	(65,000)	(64,896)	104
<b>FUND BALANCE, Beginning of year</b>	65,000	65,000	64,896	(104)
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ -	\$ -

 **DRAFT**

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - EMERGENCY MANAGEMENT FUND  
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>	\$ -	\$ -	\$ -	\$ -
<b>DISBURSEMENTS</b>				
Capital outlay	972	972	-	972
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(972)	(972)	-	972
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(972)	(972)
<b>NET CHANGE IN FUND BALANCE</b>	(972)	(972)	(972)	-
<b>FUND BALANCE, Beginning of year</b>	972	972	972	-
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ -	\$ -

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS)**

**BUDGET AND ACTUAL - D.A.R.E. FUND**

**YEAR ENDED JUNE 30, 2011**

**DRAFT**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 250	\$ 250	\$ -	\$ (250)
<b>DISBURSEMENTS</b>				
Materials and services	500	500	-	500
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(250)	(250)	-	250
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(660)	(660)
<b>NET CHANGE IN FUND BALANCE</b>	(250)	(250)	(660)	(410)
<b>FUND BALANCE, Beginning of year</b>	250	250	660	410
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ -	\$ -

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - EMERGENCY VEHICLE FUND  
YEAR ENDED JUNE 30, 2011**

**DRAFT**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Fines and forfeitures	\$ 5,500	\$ 5,500	\$ -	\$ (5,500)
Miscellaneous	28	28	-	(28)
<i>Total Receipts</i>	5,528	5,528	-	(5,528)
<b>DISBURSEMENTS</b>				
Capital outlay	16,028	16,028	-	16,028
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>				
	(10,500)	(10,500)	-	10,500
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(9,687)	(9,687)
<b>NET CHANGE IN FUND BALANCE</b>	(10,500)	(10,500)	(9,687)	813
<b>FUND BALANCE, Beginning of year</b>	10,500	10,500	9,687	(813)
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ -	\$ -

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS)**

**BUDGET AND ACTUAL - STREET SDC FUND**

**YEAR ENDED JUNE 30, 2011**

**DRAFT**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Licenses and permits	\$ 58,780	\$ 58,780	\$ 28,274	\$ (30,506)
<b>DISBURSEMENTS</b>	-	-	-	-
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	58,780	58,780	28,274	(30,506)
<b>FUND BALANCE, Beginning of year</b>	103,465	103,465	139,272	35,807
<b>FUND BALANCE, End of year</b>	\$ 162,245	\$ 162,245	\$ 167,546	\$ 5,301

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - PARK SDC FUND  
YEAR ENDED JUNE 30, 2011**

**DRAFT**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Licenses and permits	\$ 35,000	\$ 35,000	\$ 6,213	\$ (28,787)
<b>DISBURSEMENTS</b>	-	-	-	-
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	35,000	35,000	6,213	(28,787)
<b>FUND BALANCE, Beginning of year</b>	13,545	13,545	26,006	12,461
<b>FUND BALANCE, End of year</b>	<u>\$ 48,545</u>	<u>\$ 48,545</u>	<u>\$ 32,219</u>	<u>\$ (16,326)</u>

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS)  
BUDGET AND ACTUAL - EQUIPMENT FUND  
YEAR ENDED JUNE 30, 2011**

**DRAFT**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 5,150	\$ 5,150	\$ 1,425	\$ (3,725)
<b>DISBURSEMENTS</b>				
Capital outlay	258,050	16,050	15,519	531
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>				
	(252,900)	(10,900)	(14,094)	(3,194)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	27,900	27,900	27,900	-
Transfers out	-	(242,000)	(241,248)	752
<b>NET CHANGE IN FUND BALANCE</b>				
	(225,000)	(225,000)	(227,442)	(2,442)
<b>FUND BALANCE, Beginning of year</b>				
	225,000	225,000	227,442	2,442
<b>FUND BALANCE, End of year</b>				
	\$ -	\$ -	\$ -	\$ -

 **DRAFT**

**CITY OF MOLALLA, OREGON**  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS)-**  
**BUDGET AND ACTUAL - CAPITAL IMPROVEMENT FUND**  
**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
<b>DISBURSEMENTS</b>				
Capital outlay	3,500	3,500	-	3,500
Debt service	5,520	5,520	-	5,520
<i>Total Disbursements</i>	<u>9,020</u>	<u>9,020</u>	<u>-</u>	<u>9,020</u>
<b>RECEIPTS OVER (UNDER)</b>				
<b>DISBURSEMENTS</b>	(8,020)	(8,020)	-	8,020
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	5,520	5,520	-	(5,520)
Transfers out	-	-	(11,015)	(11,015)
<i>Total Other Financing Sources (Uses)</i>	<u>5,520</u>	<u>5,520</u>	<u>(11,015)</u>	<u>(16,535)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(2,500)	(2,500)	(11,015)	(8,515)
<b>FUND BALANCE, Beginning of year</b>	2,500	2,500	11,015	8,515
<b>FUND BALANCE, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

 **DRAFT**

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - BONDED DEBT FUND  
YEAR ENDED JUNE 30, 2011**

---

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Taxes and assessments	\$ 52,026	\$ 52,026	\$ 54,169	\$ 2,143
<b>DISBURSEMENTS</b>				
Debt service	67,513	67,513	67,063	450
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(13,487)	(13,487)	(12,369)	1,118
<b>FUND BALANCE, Beginning of year</b>	81,000	81,000	13,345	(67,655)
<b>FUND BALANCE, End of year</b>	\$ 67,513	\$ 67,513	\$ 976	\$ (66,537)

 DRAFT

**CITY OF MOLALLA, OREGON**  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -**  
**BUDGET AND ACTUAL – SALLY FOXX PARK FUND**  
**YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 2,500	\$ 2,500	\$ 187	\$ (2,313)
<b>DISBURSEMENTS</b>				
Capital outlay	27,500	27,500	6,767	20,733
<b>RECEIPTS OVER (UNDER)</b>				
<b>DISBURSEMENTS</b>	(25,000)	(25,000)	(6,580)	18,420
<b>FUND BALANCE, Beginning of year</b>	115,000	115,000	108,738	(6,262)
<b>FUND BALANCE, End of year</b>	\$ 90,000	\$ 90,000	\$ 102,158	\$ 12,158

**CITY OF MOLALLA, OREGON**

**COMBINING STATEMENT OF NET ASSETS (MODIFIED CASH BASIS) - NONMAJOR PROPRIETARY FUNDS**  
**JUNE 30, 2011**

**DRAFT**

	<i>Business Activities -</i>		
	<i>Storm Water</i>	<i>Storm Water Capital Improvement</i>	<i>Storm Water SDC</i>
<b>ASSETS</b>			
Cash and investments	\$ 105,337	\$ 1,344	\$ 139,664
<b>LIABILITIES</b>	-	-	-
<b>NET ASSETS</b>			
Restricted for debt service	-	-	-
Restricted for construction	-	1,344	139,664
Unrestricted	105,337	-	-
<i>Total Net Assets</i>	<u>\$ 105,337</u>	<u>\$ 1,344</u>	<u>\$ 139,664</u>

---

***Enterprise Funds***

<b><i>Sewer SDC</i></b>	<b><i>CWSRF Debt Retirement</i></b>	<b><i>Totals</i></b>
\$ 379,008	\$ 166,614	\$ 791,967
-	-	-
-	166,614	166,614
379,008	-	520,016
-	-	105,337
<b>\$ 379,008</b>	<b>\$ 166,614</b>	<b>\$ 791,967</b>

**CITY OF MOLALLA, OREGON**



**DRAFT**

**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS  
(MODIFIED CASH BASIS) - NONMAJOR PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2011**

	<i>Business Activities -</i>		
	<i>Storm Water</i>	<i>Storm Water Capital Improvement</i>	<i>Storm Water SDC</i>
<b>OPERATING RECEIPTS</b>			
Charges for services	\$ 94,325	\$ -	\$ -
Miscellaneous	1,076	-	-
<i>Total Operating Receipts</i>	95,401	-	-
<b>OPERATING DISBURSEMENTS</b>			
Current Operating			
Personal services	89,507	-	-
Materials and services	41,895	-	-
Capital outlay	5,440	-	-
<i>Total Operating Disbursements</i>	136,842	-	-
<b>OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS</b>	(41,441)	-	-
<b>NONOPERATING RECEIPTS (DISBURSEMENTS)</b>			
Interest earnings	560	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
<i>Total Nonoperating Receipts (Disbursements)</i>	560	-	-
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	(40,881)	-	-
Capital contributions	-	-	1,989
Transfers in	158,051	-	124,000
Transfers out	(128,715)	(139,862)	-
<b>CHANGE IN RESTRICTED AND UNRESTRICTED NET ASSETS</b>	(11,545)	(139,862)	125,989
<b>NET ASSETS (Deficit), Beginning of year</b>	116,882	141,206	13,675
<b>NET ASSETS, End of year</b>	\$ 105,337	\$ 1,344	\$ 139,664

<i>Enterprise Funds</i>		
<i>Sewer SDC</i>	<i>CWSRF Debt Retirement</i>	<i>Totals</i>
\$ -	\$ -	\$ 94,325
-	-	1,076
-	-	95,401
-	-	89,507
-	12,289	54,184
-	-	5,440
-	12,289	149,131
-	(12,289)	(53,730)
-	-	560
-	(109,038)	(109,038)
-	(69,576)	(69,576)
-	(178,614)	(178,054)
-	(190,903)	(231,784)
26,852	-	28,841
765,030	357,517	1,404,598
(357,517)	-	(626,094)
434,365	166,614	575,561
(55,357)	-	216,406
\$ 379,008	\$ 166,614	\$ 791,967

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - WATER FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Charges for services	\$ 1,330,075	\$ 1,330,075	\$ 1,267,714	\$ (62,361)
Miscellaneous	6,900	20,900	17,181	(3,719)
<i>Total Receipts</i>	1,336,975	1,350,975	1,284,895	(66,080)
<b>DISBURSEMENTS</b>				
Personal services	529,891	529,891	527,513	2,378
Materials and services	255,600	255,600	215,442	40,158
Capital outlay	137,500	258,768	113,243	145,525
Contingency	400,879	400,879	-	400,879
<i>Total Disbursements</i>	1,323,870	1,445,138	856,198	588,940
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	13,105	(94,163)	428,697	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	121,600	1,381,870	1,260,270
Transfers out	(565,105)	(1,515,105)	(1,546,776)	(31,671)
<i>Total Other Financing Sources (Uses)</i>	(565,105)	(1,393,505)	(164,906)	1,228,599
<b>CHANGE IN FUND BALANCE</b>	(552,000)	(1,487,668)	263,791	1,751,459
<b>FUND BALANCE, Beginning of year</b>	552,000	1,498,809	329,411	(1,169,398)
<b>FUND BALANCE, End of year</b>	\$ -	\$ 11,141	\$ 593,202	\$ 582,061

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - WATER DEBT RETIREMENT FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 3,150	\$ 3,150	\$ 5,599	\$ 2,449
<b>DISBURSEMENTS</b>				
Capital outlay	80,000	80,000	-	80,000
Debt service	360,263	360,263	360,263	-
<i>Total Disbursements</i>	<u>440,263</u>	<u>440,263</u>	<u>360,263</u>	<u>80,000</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>				
	(437,113)	(437,113)	(354,664)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	473,026	473,026	473,026	-
<b>CHANGE IN FUND BALANCE</b>	<u>35,913</u>	<u>35,913</u>	<u>118,362</u>	<u>82,449</u>
<b>FUND BALANCE, Beginning of year</b>	<u>324,350</u>	<u>324,350</u>	<u>737,363</u>	<u>413,013</u>
<b>FUND BALANCE, End of year</b>	<u><u>\$ 360,263</u></u>	<u><u>\$ 360,263</u></u>	<u><u>\$ 855,725</u></u>	<u><u>\$ 495,462</u></u>

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - WATER CAPITAL IMPROVEMENT FUND  
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 14,000	\$ 14,000	\$ -	\$ (14,000)
<b>DISBURSEMENTS</b>	-	-	-	-
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	14,000	14,000	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	121,600	121,600	-	(121,600)
Transfers out	(950,000)	(950,000)	(1,140,285)	(190,285)
<i>Total Other Financing Sources (Uses)</i>	<u>(828,400)</u>	<u>(828,400)</u>	<u>(1,140,285)</u>	<u>(311,885)</u>
<b>CHANGE IN FUND BALANCE</b>	(814,400)	(814,400)	(1,140,285)	(325,885)
<b>FUND BALANCE, Beginning of year</b>	<u>946,809</u>	<u>946,809</u>	<u>1,140,285</u>	<u>193,476</u>
<b>FUND BALANCE, End of year</b>	<u>\$ 132,409</u>	<u>\$ 132,409</u>	<u>\$ -</u>	<u>\$ (132,409)</u>

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - SEWER FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Charges for services	\$ 1,487,432	\$ 1,487,432	\$ 1,550,378	\$ 62,946
Miscellaneous	3,200	15,700	5,875	(9,825)
<i>Total Receipts</i>	1,490,632	1,503,132	1,556,253	53,121
<b>DISBURSEMENTS</b>				
Personal services	326,401	326,401	277,943	48,458
Materials and services	544,450	544,450	461,065	83,385
Capital outlay	150,000	286,844	152,035	134,809
Contingency	10,700	10,700	-	10,700
<i>Total Disbursements</i>	1,031,551	1,168,395	891,043	277,352
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	459,081	334,737	665,210	330,473
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	195,000	913,552	718,552
Transfers out	(994,081)	(1,759,111)	(1,792,717)	(33,606)
<i>Total Other Financing Sources (Uses)</i>	(994,081)	(1,564,111)	(879,165)	684,946
<b>CHANGE IN FUND BALANCE</b>	(535,000)	(1,229,374)	(213,955)	1,015,419
<b>FUND BALANCE, Beginning of year</b>	535,000	1,229,374	458,144	(771,230)
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ 244,189	\$ 244,189

**CITY OF MOLALLA, OREGON****SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - SEWER DEBT RETIREMENT FUND  
YEAR ENDED JUNE 30, 2011**


	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 3,150	\$ 3,150	\$ 300	\$ (2,850)
<b>DISBURSEMENTS</b>				
Capital outlay	343,683	343,683	-	343,683
Debt service	626,976	626,976	267,788	359,188
<i>Total Disbursements</i>	<u>970,659</u>	<u>970,659</u>	<u>267,788</u>	<u>702,871</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(967,509)	(967,509)	(267,488)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	697,509	697,509	697,509	-
Transfers out	(40,000)	(40,000)	(40,000)	-
<i>Total Other Financing Sources (Uses)</i>	<u>657,509</u>	<u>657,509</u>	<u>657,509</u>	<u>-</u>
<b>CHANGE IN FUND BALANCE</b>	(310,000)	(310,000)	390,021	700,021
<b>FUND BALANCE, Beginning of year</b>	<u>310,000</u>	<u>310,000</u>	<u>336,074</u>	<u>26,074</u>
<b>FUND BALANCE, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 726,095</u>	<u>\$ 726,095</u>

 **DRAFT**

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - SEWER CAPITAL IMPROVEMENT FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 12,500	\$ 12,500	\$ -	\$ (12,500)
<b>DISBURSEMENTS</b>				
Capital outlay	136,844	136,844	-	136,844
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>				
	(124,344)	(124,344)	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	195,000	195,000	-	(195,000)
Transfers out	(765,030)	(765,030)	(691,874)	73,156
<i>Total Other Financing Sources (Uses)</i>	<i>(570,030)</i>	<i>(570,030)</i>	<i>(691,874)</i>	<i>(121,844)</i>
<b>CHANGE IN FUND BALANCE</b>	<b>(694,374)</b>	<b>(694,374)</b>	<b>(691,874)</b>	<b>2,500</b>
<b>FUND BALANCE, Beginning of year</b>	<b>694,374</b>	<b>694,374</b>	<b>691,874</b>	<b>(2,500)</b>
<b>FUND BALANCE, End of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - STORM WATER FUND  
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Charges for services	\$ 90,190	\$ 90,190	\$ 94,325	\$ 4,135
Miscellaneous	3,000	5,200	1,636	(3,564)
<i>Total Receipts</i>	<u>93,190</u>	<u>95,390</u>	<u>95,961</u>	<u>571</u>
<b>DISBURSEMENTS</b>				
Personal services	100,586	100,586	89,507	11,079
Materials and services	43,800	43,800	41,895	1,905
Capital outlay	30,000	48,200	5,440	42,760
Contingency	24,639	24,639	-	24,639
<i>Total Disbursements</i>	<u>199,025</u>	<u>217,225</u>	<u>136,842</u>	<u>80,383</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(105,835)	(121,835)	(40,881)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	158,051	158,051
Transfers out	(4,510)	(128,510)	(128,715)	(205)
<i>Total Other Financing Sources (Uses)</i>	<u>(4,510)</u>	<u>(128,510)</u>	<u>29,336</u>	<u>157,846</u>
<b>CHANGE IN FUND BALANCE</b>	(110,345)	(250,345)	(11,545)	238,800
<b>FUND BALANCE, Beginning of year</b>	<u>110,345</u>	<u>250,345</u>	<u>116,882</u>	<u>(133,463)</u>
<b>FUND BALANCE, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,337</u>	<u>\$ 105,337</u>

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
 BUDGET AND ACTUAL - STORM WATER CAPITAL IMPROVEMENT FUND  
 YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 2,200	\$ 2,200	\$ -	\$ (2,200)
<b>DISBURSEMENTS</b>				
Capital outlay	18,200	18,200	-	18,200
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>				
	(16,000)	(16,000)	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(124,000)	(124,000)	(139,862)	(15,862)
<b>CHANGE IN FUND BALANCE</b>				
	(140,000)	(140,000)	(139,862)	138
<b>FUND BALANCE, Beginning of year</b>				
	140,000	140,000	141,206	1,206
<b>FUND BALANCE, End of year</b>				
	\$ -	\$ -	\$ 1,344	\$ 1,344



DRAFT

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -**

**BUDGET AND ACTUAL – STORM WATER SDC FUND**

**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Licenses and permits	\$ 5,780	\$ 5,780	\$ 1,989	\$ (3,791)
<b>DISBURSEMENTS</b>	-	-	-	-
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	5,780	5,780	1,989	(3,791)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	124,000	124,000	124,000	-
<b>CHANGE IN FUND BALANCE</b>	129,780	129,780	125,989	(3,791)
<b>FUND BALANCE, Beginning of year</b>	10,000	10,000	13,675	3,675
<b>FUND BALANCE, End of year</b>	\$ 139,780	\$ 139,780	\$ 139,664	\$ (116)

 **DRAFT**

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -**

**BUDGET AND ACTUAL – WATER SDC FUND**

**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Licenses and permits	\$ 42,000	\$ 42,000	\$ 14,537	\$ (27,463)
<b>DISBURSEMENTS</b>	-	-	-	-
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	42,000	42,000	14,537	(27,463)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	950,000	950,000	950,000	-
<b>CHANGE IN FUND BALANCE</b>	992,000	992,000	964,537	(27,463)
<b>FUND BALANCE, Beginning of year</b>	38,731	38,731	69,441	30,710
<b>FUND BALANCE, End of year</b>	<u>\$ 1,030,731</u>	<u>\$ 1,030,731</u>	<u>\$ 1,033,978</u>	<u>\$ 3,247</u>

 **DRAFT**

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -**

**BUDGET AND ACTUAL – SEWER SDC FUND**

**YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Licenses and permits	\$ 85,620	\$ 85,620	\$ 26,852	\$ (58,768)
<b>DISBURSEMENTS</b>	-	-	-	-
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	85,620	85,620	26,852	(58,768)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	765,030	765,030	765,030	-
Transfers out	(357,517)	(357,517)	(357,517)	-
<b>CHANGE IN FUND BALANCE</b>	493,133	493,133	434,365	(58,768)
<b>FUND BALANCE (Deficit), Beginning of year</b>	-	-	(55,357)	(55,357)
<b>FUND BALANCE, End of year</b>	\$ 493,133	\$ 493,133	\$ 379,008	\$ (114,125)

DRAFT

**CITY OF MOLALLA, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL – CWSFR DEBT RETIREMENT FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>	\$ -	\$ -	\$ -	\$ -
<b>DISBURSEMENTS</b>				
Materials and services	12,289	12,289	12,289	-
Debt service	178,614	178,614	178,614	-
<i>Total Disbursements</i>	190,903	190,903	190,903	-
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(190,903)	(190,903)	(190,903)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	357,517	357,517	357,517	-
<b>CHANGE IN FUND BALANCE</b>	166,614	166,614	166,614	-
<b>FUND BALANCE, Beginning of year</b>	12,000	12,000	-	(12,000)
<b>FUND BALANCE, End of year</b>	\$ 178,614	\$ 178,614	\$ 166,614	\$ (12,000)



DRAFT

***OTHER SCHEDULES***

**CITY OF MOLALLA, OREGON**  
**SCHEDULE OF PROPERTY TAX TRANSACTIONS**  
**YEAR ENDED JUNE 30, 2011**

 **DRAFT**

	<i>Balances July 1, 2010</i>	<i>2010-2011 Levy</i>	<i>Interest, Discounts and Adjustments</i>	<i>Collections</i>	<i>Balances June 30, 2011</i>
2010-11	\$ -	\$ 2,551,591	\$ (81,937)	\$ (2,387,703)	\$ 81,951
2009-10	92,021	-	(5,825)	(50,020)	36,177
2008-09	40,756	-	(1,758)	(19,829)	19,168
2007-08	15,127	-	(622)	(9,150)	5,356
2006-07	4,808	-	(309)	(3,028)	1,471
2005-06	990	-	(116)	(242)	633
2004-05	645	-	(111)	(127)	407
Prior	2,168	-	(877)	(74)	1,217
	<u>\$ 156,516</u>	<u>\$ 2,551,591</u>	<u>\$ (91,556)</u>	<u>\$ (2,470,172)</u>	146,378
Cash with County					<u>14,113</u>
Total property tax receivable					<u>\$ 160,491</u>

**CITY OF MOLALLA, OREGON**  
**SCHEDULE OF LONG-TERM DEBT TRANSACTIONS**  
**YEAR ENDED JUNE 30, 2011**

 **DRAFT**

	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Fiscal Year of Maturity</u>
<b>PRINCIPAL TRANSACTIONS</b>			
<i>Governmental debt:</i>			
1993 EDD Loan	6.0%	1993	2012-13
2007 State Revolving Loan	2.80%	2007	2028
<i>Business-type debt</i>			
2010 Water Revenue Refunding Bonds	3.0%	2010	2017
2010 Sewer Revenue Refunding Bonds	3%-4%	2010	2025
2010 GO Water Refunding Bonds	2% - 3.5%	2010	2018
			<i>Unmatured Interest</i>
	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>July 1, 2010</u>
<b>INTEREST TRANSACTIONS</b>			
<i>Governmental debt:</i>			
1993 EDD Loan	6.0%	1993	\$ 4,341
2007 State Revolving Loan	2.80%	2007	703,137
<i>Business-type debt</i>			
2010 Water Revenue Refunding Bonds	3.0%	2010	293,738
2010 Sewer Revenue Refunding Bonds	3%-4%	2010	1,139,688
2010 GO Water Refunding Bonds	2% - 3.5%	2010	57,458
			<b>\$ 2,198,362</b>

<i>Outstanding July 1, 2010</i>	<i>New Issues</i>	<i>Principal Paid</i>	<i>Outstanding June 30, 2011</i>
\$ 18,125	\$ -	\$ (4,143)	\$ 13,982
2,511,924	-	(109,038)	2,402,886
2,475,000	-	(300,000)	2,175,000
3,545,000	-	(170,000)	3,375,000
440,000	-	(55,000)	385,000
<u>\$ 8,990,049</u>	<u>\$ -</u>	<u>\$ (638,181)</u>	<u>\$ 8,351,868</u>

<i>New Issues</i>	<i>Interest Paid</i>	<i>Unmatured Interest June 30, 2011</i>
\$ -	\$ (1,088)	\$ 3,253
-	(69,576)	633,561
-	(60,263)	233,475
-	(97,788)	1,041,900
-	(12,063)	45,395
<u>\$ -</u>	<u>\$ (240,778)</u>	<u>\$ 1,957,584</u>

**CITY OF MOLALLA, OREGON**  
**SCHEDULE OF FUTURE DEBT REQUIREMENTS BY ISSUE**  
**JUNE 30, 2011**

 **DRAFT**

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>1993 EDD Loan</i>			<i>2007 Clean Water State Revolving Loan</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2012	\$ 4,392	\$ 839	\$ 5,231	\$ 112,113	\$ 66,501	\$ 178,614
2013	4,656	575	5,231	115,273	63,341	178,614
2014	4,934	1,839	6,773	118,524	60,090	178,614
2015	-	-	-	121,865	56,749	178,614
2016	-	-	-	125,301	53,313	178,614
2017	-	-	-	128,835	49,779	178,614
2018	-	-	-	132,467	46,147	178,614
2019	-	-	-	136,203	42,411	178,614
2020	-	-	-	140,043	38,571	178,614
2021	-	-	-	143,991	34,623	178,614
2022	-	-	-	148,051	30,563	178,614
2023	-	-	-	152,226	26,388	178,614
2024	-	-	-	156,518	22,096	178,614
2025	-	-	-	160,931	17,683	178,614
2026	-	-	-	165,469	13,145	178,614
2027	-	-	-	170,135	8,479	178,614
2028	-	-	-	174,941	3,682	178,623
	<u>\$ 13,982</u>	<u>\$ 3,253</u>	<u>\$ 17,235</u>	<u>\$ 2,402,886</u>	<u>\$ 633,561</u>	<u>\$ 3,036,447</u>



**CITY OF MOLALLA, OREGON****SCHEDULE OF FUTURE DEBT REQUIREMENTS BY ISSUE (Continued)**

JUNE 30, 2011


 A rectangular stamp with the word "DRAFT" in large, bold, capital letters. To the left of the text is a small icon of a document with a checklist.
**Fiscal Year**

<b>Ending June 30,</b>	<b>2010 Sewer Revenue Refunding Bonds</b>			<b>Totals</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 200,000	\$ 122,450	\$ 322,450	\$ 671,505	\$ 262,603	\$ 934,108
2013	200,000	116,450	316,450	684,929	242,379	927,308
2014	200,000	110,450	310,450	673,458	218,742	892,200
2015	210,000	104,450	314,450	691,865	202,612	894,477
2016	220,000	98,150	318,150	715,301	182,526	897,827
2017	225,000	91,550	316,550	743,835	159,567	903,402
2018	230,000	84,800	314,800	732,467	137,915	870,382
2019	240,000	75,600	315,600	376,203	118,011	494,214
2020	250,000	66,000	316,000	390,043	104,571	494,614
2021	260,000	56,000	316,000	403,991	90,623	494,614
2022	270,000	45,600	315,600	418,051	76,163	494,214
2023	280,000	34,800	314,800	432,226	61,188	493,414
2024	290,000	23,600	313,600	446,518	45,696	492,214
2025	300,000	12,000	312,000	460,931	29,683	490,614
2026	-	-	-	165,469	13,145	178,614
2027	-	-	-	170,135	8,479	178,614
2028	-	-	-	174,941	3,682	178,623
	<b>\$ 3,375,000</b>	<b>\$ 1,041,900</b>	<b>\$ 4,416,900</b>	<b>\$ 8,351,868</b>	<b>\$ 1,957,585</b>	<b>\$ 10,309,453</b>

 DRAFT

***REGULATORY SECTION***



DRAFT

## GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
475 Cottage Street NE, Suite 200, Salem, Oregon 97301  
(503) 581-7788

### *INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS*

Board of Directors  
City of Molalla, Oregon  
Molalla, Oregon

We have audited the basic financial statements of the City of Molalla, Oregon as of and for the year ended June 30, 2011, and have issued our report thereon dated November 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

#### **Compliance**

As part of obtaining reasonable assurance about whether the City of Molalla, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Highway revenues used for public highways, roads, and streets.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials - no money was collected or received by elected officials.**

In connection with our testing nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations except as follows:

1. The City does not maintain historical cost and depreciation records for capital assets.
2. Overexpenditures as disclosed in the notes to the basic financial statements.
3. Excess of actual revenues over actual expenditures in second preceding year did not equal the beginning balance in first preceding year.
4. The City did not file the report required by ORS 297.435 for the Urban Renewal Agency.

**OAR 162-10-0230 Internal Control**

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control 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 and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We issued a separate letter dated November 8, 2011 on control deficiencies that we consider to be material weaknesses.

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

*GROVE, MUELLER & SWANK, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS*

By: \_\_\_\_\_  
Charles A. Swank, A Shareholder  
November 8, 2011

**Planning Revenue Analysis Year-to-Date**  
 FY 2012 (07/11-06/12)

	Budget	July-11	August-11	September-11	October-11	(Thru 11/29) November-11	YTD	% of Budget
<b>Miscellaneous 101-102-370-1000</b>								
Erosion Deposit		\$85.00	\$255.00	\$170.00	\$85.00	\$0.00	\$595.00	
JE - Planning Qrtly Transfers		\$3,192.87	\$0.00	\$0.00	\$0.00	\$0.00	\$3,192.87	
School Excise		\$0.00	\$1,458.00	\$1,458.00	\$5,178.00	\$1,458.00	\$9,552.00	
NSF Check Repayment		\$0.00	\$0.00	\$0.00	\$0.00	\$417.96	\$417.96	
	<b>\$42,000.00</b>	<b>\$3,277.87</b>	<b>\$1,713.00</b>	<b>\$1,628.00</b>	<b>\$5,263.00</b>	<b>\$1,875.96</b>	<b>\$13,757.83</b>	<b>32.76%</b>
<b>Planning Fees 101-102-370-1100</b>								
Planning Fees		\$3,352.37	\$3,180.40	\$2,603.35	\$1,433.91	\$300.00	\$10,870.03	
School Excise		\$1,419.00	\$3,630.00	\$0.00	\$0.00	\$0.00	\$5,049.00	
Plumbing Fees		\$0.00	\$0.00	\$0.00	\$102.39	\$0.00	\$102.39	
	<b>\$35,000.00</b>	<b>\$4,771.37</b>	<b>\$6,810.40</b>	<b>\$2,603.35</b>	<b>\$1,433.91</b>	<b>\$300.00</b>	<b>\$15,919.03</b>	<b>45.48%</b>
<b>Developmental Permits 101-102-370-1200</b>								
Developmental Permits		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
	<b>\$12,000.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>0.00%</b>
<b>Building Permits 101-102-370-1300</b>								
Building Permits		\$5,626.11	\$7,971.51	\$5,932.48	\$12,816.52	\$4,002.44	\$36,349.06	
Backflow		\$44.80	\$0.00	\$0.00	\$0.00	\$0.00	\$44.80	
Mechanical Permits		\$206.80	\$37.17	\$78.77	\$259.44	\$428.23	\$1,010.41	
Plan Review		\$0.00	\$0.00	\$0.00	\$2,232.46	\$966.09	\$3,198.55	
Plumbing Permit		\$0.00	\$0.00	\$422.33	\$268.80	\$0.00	\$691.13	
Sidewalk		\$0.00	\$0.00	\$50.00	\$0.00	\$0.00	\$50.00	
Sign Permit		\$1,154.81	\$0.00	\$0.00	\$0.00	\$0.00	\$1,154.81	
	<b>\$75,000.00</b>	<b>\$7,032.52</b>	<b>\$8,008.68</b>	<b>\$6,483.58</b>	<b>\$15,577.22</b>	<b>\$5,396.76</b>	<b>\$42,498.76</b>	<b>56.67%</b>
<b>Electrical Permits 101-102-370-1400</b>								
Electrical Permits		\$2,311.40	\$1,051.60	\$1,236.00	\$1,111.20	\$289.60	\$5,999.80	
	<b>\$10,000.00</b>	<b>\$2,311.40</b>	<b>\$1,051.60</b>	<b>\$1,236.00</b>	<b>\$1,111.20</b>	<b>\$289.60</b>	<b>\$5,999.80</b>	<b>60.00%</b>
<b>Engineering Review 101-102-370-1500</b>								
Engineering Review		\$1,142.68	\$0.00	\$0.00	\$0.00	\$0.00	\$1,142.68	
	<b>\$5,000.00</b>	<b>\$1,142.68</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$1,142.68</b>	<b>22.85%</b>
<b>School Excise Revenues Entered in General Miscellaneous 101-102-360-0300</b>								
School Excise	\$0.00	\$0.00	\$0.00	\$1,336.00	\$2,118.00	\$0.00	\$3,454.00	
		<b>\$0.00</b>	<b>\$0.00</b>	<b>\$1,336.00</b>	<b>\$2,118.00</b>	<b>\$0.00</b>	<b>\$3,454.00</b>	

Raasch \$1458.00 8/25 Qrt 1 Total  
 Raasch \$1458.00 9/08 **\$2,916.00**

Lot #2 \$1407.00 10/24  
 H&R \$3771.00 10/24 Qrt 2 Total  
 Raasch \$1458.00 11/03 **\$6,636.00**

Spanfellner \$1419.00 7/20 Qrt 1 Total  
 Sailsbury \$1615.00 8/17 **\$5,049.00**  
 Sailsbury \$2015.00 8/17

**School Excise Summary**

1st Qrt (Jul-Aug-Sept 2011)  
 Total \$ 9,301.00  
 1% City Retention (\$93.01)  
 Due MRSD \$ 9,207.99

Paid MRSD Ch#61988 \$11,303.00

Spanfellner \$1419.00  
 Salibury \$1613.00  
 Raasch \$1458.00  
 Raasch \$1458.00  
 Salibury \$2015.00  
 Raasch \$2118.00  
 Raasch \$1336.00  
 TOTAL \$11,417.00  
 1% \$ 114.17  
 Check \$11,302.83

Raasch \$1336.00 9/26 Qrt 1 Total  
**\$1336.00**

Raasch \$2118.00 10/5 Qrt 2 Total  
 (Included in Qrt 1 Pymt) **\$2118.00**