

CITY OF MOLALLA, OREGON

**INDEPENDENT AUDITOR'S REPORT,
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2012

CITY OF MOLALLA, OREGON
June 30, 2012

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INTRODUCTORY SECTION

CITY OF MOLALLA, OREGON
CITY COUNCIL AND OFFICIALS
June 30, 2012

<u>NAME</u>	<u>ADDRESS</u>	<u>POSITION</u>
Mike Clarke	Molalla	Mayor
Debbie Rogge	Molalla	Council President
Stephen Clarke	Molalla	Councilor
George Pottle	Molalla	Councilor
Jimmy Thompson	Molalla	Councilor
Dennis Wolfe	Molalla	Councilor
James Needham	Molalla	Councilor

OFFICIALS

Ellen Barnes	Molalla	City Manager
Heather Penni	Molalla	Finance Director

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

City Council
City of Molalla
Molalla, Clackamas County, Oregon

We have audited the accompanying 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, 2012, which collectively comprise the city's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Molalla's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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.

In our opinion, 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 remaining fund information of the City of Molalla, as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2013, on our consideration of City of Molalla's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 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 this required supplementary information 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 for the General Fund and major special revenue funds on pages 38 through 40 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This budgetary information is the responsibility of management and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Molalla's financial statements as a whole. Combining and individual nonmajor fund schedules, other supplementary information and other financial schedules as listed in the financial section on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Combining and individual nonmajor fund schedules, other supplementary information and other financial 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. This 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 taken as a whole.

The introductory section, as listed in the table of contents, has 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 it.

Oster Professional Group, CPA's, PC

By 

June 5, 2013
Burns, Oregon

CITY OF MOLALLA, OREGON

Management's Discussion and Analysis

JUNE 30, 2012

As management of the City of Molalla, we offer readers of the financial statements this narrative overview and analysis of the financial activities for fiscal year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

	June 30,		
	2012	2011	Change
Net Assets	\$ 26,924,153	\$ 5,592,088	\$ 21,332,065
Change in Net Assets	\$ (149,300)	\$ 230,313	\$ (379,613)
Governmental Net Assets	\$ 16,072,276	\$ 1,346,932	\$ 14,725,344
Change in Governmental Net Assets	\$ (403,255)	\$ 69,293	\$ (472,548)
Proprietary Net Assets	\$ 10,851,877	\$ 4,245,156	\$ 6,606,721
Change in Proprietary Net Assets	\$ 253,955	\$ 161,020	\$ 7,065

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
3. Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves. Included in the basic financial statements is a blended component unit that has separately issued financial statements. This blended component unit (Urban Renewal Agency) is reported as a special revenue fund.

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. This presents information on the accrual 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. The statement of activities present information showing how 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 government-wide financial statements, the City's activities are shown as governmental activities. All basic City government functions are shown 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 (water, sewer, storm), these activities are shown as business-type activities.

Fund financial statements. The fund financial statements provide more detailed information about the City's funds. These statements focus 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 requirements. 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. Due to the focus of governmental funds being 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, the report also presents certain required supplementary information and other supplemental information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets. The statement of Net Assets below 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 exceed liabilities by \$26,924,153 as of June 30, 2012.

Restricted net assets represent sources that are subject to external restrictions on their use, such as debt service payments, system development charges, and capital projects. Unrestricted net assets are available for general operations of the City.

Statement of Net Assets at June 30,

	2012			2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current assets	\$ 1,999,264	\$ 4,548,254	\$ 6,547,518	\$ 1,541,691	\$ 4,245,156	\$ 5,786,847
Capital assets	14,558,746	13,724,746	28,283,492	-	-	-
Total assets	16,558,010	18,273,000	34,831,010	1,541,691	4,245,156	5,786,847
Liabilities						
Current liabilities	96,240	635,092	731,332	194,759	-	194,759
Long-term liabilities	389,494	6,786,031	7,175,525	-	-	-
Total liabilities	485,734	7,421,123	7,906,857	194,759	-	194,759
Net Assets:						
Invested in Capital Assets	14,219,155	6,383,973	20,603,128	--	--	--
Restricted	1,123,016	2,888,883	4,011,899	302,899	3,302,428	3,605,327
Unrestricted	<u>730,105</u>	<u>1,579,021</u>	<u>2,309,126</u>	<u>1,044,033</u>	<u>942,728</u>	<u>1,986,761</u>
Total Net Assets	<u>\$ 16,072,276</u>	<u>\$ 10,851,877</u>	<u>\$ 26,924,153</u>	<u>\$ 1,346,932</u>	<u>\$ 4,245,156</u>	<u>\$ 5,592,088</u>

The total net assets increased over fiscal year 2011 by \$21,322,065. The change is reflective of the City of Molalla completing and fiscally implementing a capital asset evaluation to bring us into compliance with GASB 34.

Statement of Activities for the Years Ended June 30,

	2012			2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues						
Program Revenues:						
Charges for service	\$ 1,748,163	\$ 3,056,284	\$ 4,804,447	\$ 1,217,718	\$ 2,912,417	\$ 4,130,135
Operating grants	1,677,461	---	1,677,461	1,731,853	---	1,731,853
Capital grants	10,300	---	10,300	34,487	43,378	77,865
General Revenues:						
Property taxes	2,768,775	---	2,768,775	2,488,050	---	2,488,050
Interest and Investment earnings	14,141	13,712	27,853	---	---	---
Miscellaneous	<u>108,178</u>	<u>13,260</u>	<u>121,438</u>	<u>177,786</u>	<u>30,591</u>	<u>208,377</u>
Total Revenues	6,327,018	3,083,256	9,410,274	5,649,894	\$ 2,986,386	8,636,280
Expenses						
Governmental						
General government	1,956,069	---	1,956,909	912,395	---	912,395
Public safety	2,186,773	---	2,186,773	2,598,947	---	2,598,947
Community	1,703,136	---	1,703,136	1,636,911	---	1,636,911
Public works	902,547	---	902,547	542,614	---	542,614
Interest long-term debt	11,748	---	10,908	12,063	---	12,063
Business-Type						
Water	---	1,229,123	1,229,123	---	1,216,462	1,216,462
Sewer	---	1,626,293	1,626,293	---	1,349,734	1,349,734
Storm water	---	<u>101,098</u>	<u>101,098</u>	---	<u>136,841</u>	<u>136,841</u>
Total expenses	6,760,273	2,799,301	9,559,574	5,702,930	2,703,037	8,405,967
Transfers	30,000	(30,000)	---	122,329	(122,329)	---
Change in Net Assets	(403,255)	253,955	(149,300)	69,293	161,020	230,313
Net Assets – July 1 as previously reported	1,346,932	4,245,156	5,592,088	1,382,777	3,978,998	5,361,775
Restatements	<u>15,128,599</u>	<u>6,352,766</u>	<u>21,481,365</u>	<u>105,138</u>	<u>(105,138)</u>	<u>---</u>
Net Assets - As Restated	<u>16,475,531</u>	<u>10,597,922</u>	<u>27,073,453</u>	<u>1,277,639</u>	<u>4,084,136</u>	<u>5,361,775</u>
Net Assets – June 30	<u>\$16,072,276</u>	<u>\$ 10,851,877</u>	<u>\$ 26,924,153</u>	<u>\$ 1,346,932</u>	<u>\$ 4,245,156</u>	<u>\$ 5,592,088</u>

Statement of Activities. During the current fiscal year, the City's net assets from governmental activities increased \$14,725,344, business-type activities increased \$6,606,721. The key element of the increase is the completion of the capital asset valuation to bring the City into compliance with GASB 34. Other factors affecting this change as of June 30, 2012 are as follows:

- Property tax revenue increased \$280,725 (11.3%), primarily due to changing the accounting basis to full accrual.
- The overall total revenues increased by \$773,994, due to reclassifying the cost allocation plan as revenue rather than a transfer transaction, reallocation of miscellaneous receipts into specific charges for service, and change in property tax.
- In General Government expenses an increase of \$1,044,514 is recognized with the primary factors being the cost allocation plan and depreciation expense.
- In Public Works expenses experienced an increase of \$359,933 caused by the Sunrise Acres overlay project.

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. Overall the City improved our financial position by conforming to the standards GASB 34 and corrections from the SDC misappropriations.

Governmental Funds. The focus on 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, 2012, the City's governmental funds reported \$1,816,455 combined ending fund balances, a increase of \$334,620 from the prior year before a restatement of \$134,903 primarily due to the conservative spending throughout the year.

General Fund. The General Fund is the primary operating fund of the City of Molalla. As of June 30, 2012 the fund balance was (\$320,485), which was an increase of \$313,478 from the prior year after a restatement of the cost allocation plan and the reporting of an inter-fund loan between the planning department and the water capital fund. The city plans to increase their fund balance by conservative spending.

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

Business-Type Funds. AS of June 30, 2012, the City's proprietary funds reported \$10,851,877 of combined ending net assets, an increase of \$6,606,721 from the prior year after a restatement of \$6,352,766 primarily due to the compliance with GASB34 and the associated depreciation.

General Fund Budgetary Highlights

The city council approved several changes to the adopted budget for the fiscal year ended June 30, 2012 including a supplemental budget. The supplemental budget was to recognize several unexpected grants the city received in the middle of the year, to establish cost allocation plan between funds, to distribute contingencies to specific appropriations, and to create new funds.

The General Fund received \$186,233 less than what was budgeted due to mainly receiving less taxes and assessments that were originally anticipated.

The General Fund spent \$169,037 less than what was budgeted due to the city trying to improve the General Fund ending balance and conservative spending.

Capital Assets and Debt Administration

In the past the city had not recorded or tracked any capital assets. However in the current year, to be in full compliance with GASB34, the city was required to give fiscal analysis and management to the capital assets controlled by the city. The city had a valuation of all capital assets prepared and this valuation resulted in significant year end restatements resulting in significant increases in the overall net assets.

In the governmental funds the valuation of the capital asset, net of accumulated depreciation was \$15,528,887. During the current year the city purchased equipment, patrol cars, and built park shelters for a total of \$98,600. This is the first year that the city has recorded depreciation expense which is \$1,068,741.

The business-type activities valuation of the capital assets, net of accumulated depreciation was \$14,051,474. During the current year the city purchased a pickup and a pump for a total of \$56,630. Current year depreciation on all business –type assets was \$383,356.

The city had total debt outstanding June 30, 2012 of \$7,680,364. The debt decreased during the fiscal year by \$671,505 due to principal payments made. No new debt was incurred during the fiscal year.

Currently Known Facts, Decisions, or Conditions

Fiscal year 2011/2012 presented numerous fiscal obstacles, in an effort to remedy a long-term problem of negative ending fund balances the City of Molalla introduced a cost allocation plan to distribute indirect costs incurred by the administration to assignable to a specific cost objective without an effort disproportionate to the benefit received. The City elected to use the full-time employee allocation approach although this approach may evolve into a cost based allocation or a combination of both methods.

The System Development Charges caused some fiscal friction in FY 2011/2012. The City was able to resolve the fiscal issue through detailed analysis presented from an independent forensic auditor and year end restatements in the financial statements.

Economic Factors and the Next Year's Budget

The City of Molalla budget committee considered all the following factors while preparing the City budget for the 2012-2013 fiscal year.

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

Requests for Information

The 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. The City of Molalla Urban Renewal Agency has issued a separate report, which is available to those who are interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Heather Penni, Finance Director
City of Molalla
PO Box 248
Molalla, Oregon 97038

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MOLALLA, OREGON
STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 2,018,741	\$ 3,965,688	\$ 5,984,429
Receivables			
Property tax	170,523	-	170,523
Customer accounts receivable, net allowance of \$5,045	-	392,566	392,566
Interfund loans	(190,000)	190,000	-
Capital assets not being depreciated	1,489,291	727,511	2,216,802
Capital assets being depreciated (net of accumulated depreciation)	13,069,455	12,997,235	26,066,690
Total assets	<u>16,558,010</u>	<u>18,273,000</u>	<u>34,831,010</u>
LIABILITIES			
Accounts payable	5,580	9,819	15,399
Accrued liabilities	31,004	-	31,004
Long-term liabilities			
Portion due or payable within one year			
Current portion of note payable	59,656	625,273	684,929
Portion due or payable after one year			
Compensated absences	109,559	70,531	180,090
Notes payable	279,935	6,715,500	6,995,435
Total liabilities	<u>485,734</u>	<u>7,421,123</u>	<u>7,906,857</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,219,155	6,383,973	20,603,128
Restricted for			
Public Works (expendable)	687,776	-	687,776
Community development (expendable)	394,404	-	394,404
Debt service (expendable)	40,836	1,511,111	1,551,947
System development (expendable)	-	1,377,772	1,377,772
Endowments (nonexpendable)	96,303	-	96,303
Unrestricted	633,802	1,579,021	2,212,823
Total net assets	<u>\$ 16,072,276</u>	<u>\$ 10,851,877</u>	<u>\$ 26,924,153</u>

CITY OF MOLALLA, OREGON
STATEMENT OF ACTIVITIES
For the Year Ended
June 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/ Programs							
Governmental activities							
Public safety	\$ 2,186,773	\$ 304,267	\$ 277,647	\$ -	\$ (1,604,859)	\$ -	\$ (1,604,859)
Public works	902,547	222,683	507,473	-	(172,391)	-	(172,391)
Community development	1,703,136	392,414	892,341	10,300	(408,081)	-	(408,081)
General government	1,956,069	828,799	-	-	(1,127,270)	-	(1,127,270)
Interest on long term debt	11,748	-	-	-	(11,748)	-	(11,748)
Total governmental activities	<u>6,760,273</u>	<u>1,748,163</u>	<u>1,677,461</u>	<u>10,300</u>	<u>(3,324,349)</u>	<u>-</u>	<u>(3,324,349)</u>
Business type activities							
Sewer	1,245,463	1,626,293	-	-	-	380,830	380,830
Water	1,229,123	1,328,893	-	-	-	99,770	99,770
Storm water	324,715	101,098	-	-	-	(223,617)	(223,617)
Total business type activities	<u>2,799,301</u>	<u>3,056,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>256,983</u>	<u>256,983</u>
Total primary government	<u>\$ 9,559,574</u>	<u>\$ 4,804,447</u>	<u>\$ 1,677,461</u>	<u>\$ 10,300</u>	<u>(3,324,349)</u>	<u>256,983</u>	<u>(3,067,366)</u>
General revenues							
Property taxes levied for:							
General purposes					2,485,224	-	2,485,224
Urban renewal agency					212,363		212,363
Debt service					71,188	-	71,188
Unrestricted investment earnings					14,141	13,712	27,853
Miscellaneous					108,178	13,260	121,438
Total general revenues					<u>2,891,094</u>	<u>26,972</u>	<u>2,918,066</u>
Transfers					30,000	(30,000)	-
Change in net assets					(403,255)	253,955	(149,300)
Net assets July 1, 2011, before restatement					1,346,932	4,245,156	5,592,088
Restatement, see note 12					15,128,599	6,352,766	21,481,365
Net assets July 1, 2011, after restatement					<u>16,475,531</u>	<u>10,597,922</u>	<u>27,073,453</u>
Net assets June 30, 2012					<u>\$ 16,072,276</u>	<u>\$ 10,851,877</u>	<u>\$ 26,924,153</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF MOLALLA, OREGON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Library Fund	Street Fund	Nonmajor Governmental Funds	Total June 30, 2012
ASSETS					
Cash and investments	\$ 38,406	\$ 711,420	\$ 164,744	\$ 1,104,171	\$ 2,018,741
Receivables					
Property taxes	160,593	-	-	9,930	170,523
Due from other funds	-	-	-	155,188	155,188
Total assets	<u>\$ 198,999</u>	<u>\$ 711,420</u>	<u>\$ 164,744</u>	<u>\$ 1,269,289</u>	<u>\$ 2,344,452</u>
LIABILITIES AND FUND BALANCES					
Current liabilities					
Accounts payable	\$ 5,580	\$ -	\$ -	\$ -	\$ 5,580
Payroll liabilities	31,004	-	-	-	31,004
Deferred revenues	137,712	-	-	8,513	146,225
Due to other funds	345,188	-	-	-	345,188
Total current liabilities	<u>519,484</u>	<u>-</u>	<u>-</u>	<u>8,513</u>	<u>527,997</u>
Total liabilities	<u>519,484</u>	<u>-</u>	<u>-</u>	<u>8,513</u>	<u>527,997</u>
Fund balances					
Nonspendable	-	-	-	251,491	251,491
Spendable					
Restricted					
Public works	-	-	164,744	523,032	687,776
Community development	-	-	-	394,404	394,404
Debt service	-	-	-	40,836	40,836
Assigned					
Community development	-	711,420	-	51,013	762,433
Unassigned	<u>(320,485)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(320,485)</u>
Total fund balances	<u>(320,485)</u>	<u>711,420</u>	<u>164,744</u>	<u>1,260,776</u>	<u>1,816,455</u>
Total liabilities and fund balances	<u>\$ 198,999</u>	<u>\$ 711,420</u>	<u>\$ 164,744</u>	<u>\$ 1,269,289</u>	<u>\$ 2,344,452</u>

CITY OF MOLALLA, OREGON
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2012

TOTAL FUND BALANCES		\$ 1,816,455
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets are not financial resources and therefore are not reported in the governmental funds</p>		
Cost	\$ 26,171,231	
Accumulated depreciation	<u>(11,612,485)</u>	14,558,746
<p>Long-term liabilities including compensated absences are not due in the current period and, therefore, are not reported as liabilities in the fund financial statements.</p>		
		(449,150)
<p>Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.</p>		
		146,225
TOTAL NET ASSETS		<u><u>\$ 16,072,276</u></u>

CITY OF MOLALLA, OREGON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended
June 30, 2012

	General Fund	Library Fund	Street Fund	Nonmajor Governmental Funds	Total June 30, 2012
Revenues					
Property taxes	\$ 2,347,515	\$ -	\$ -	\$ 275,038	\$ 2,622,553
Other taxes and assessments	318,913	-	589,399	-	908,312
System development charges	-	-	-	97,423	97,423
Intergovernmental revenues	120,229	620,343	-	107,932	848,504
Licenses and permits	251,514	-	-	-	251,514
Fines and forfeits	261,366	28,668	-	340,429	630,463
Grants	276,019	3,186	-	-	279,205
Donations	-	2,257	-	77,458	79,715
Interest	13,110	204	-	827	14,141
Miscellaneous revenues	406,204	4,077	4,731	33,948	448,960
Total revenues	<u>3,994,870</u>	<u>658,735</u>	<u>594,130</u>	<u>933,055</u>	<u>6,180,790</u>
Expenditures					
Current					
Personal services	2,163,631	325,229	336,935	442,871	3,268,666
Materials and services	1,109,124	135,170	209,298	521,022	1,974,614
Capital outlay	72,010	63,351	356,313	70,076	561,750
Debt service - interest	983	-	-	10,765	11,748
Debt service - principal	4,392	-	-	55,000	59,392
Total expenditures	<u>3,350,140</u>	<u>523,750</u>	<u>902,546</u>	<u>1,099,734</u>	<u>5,876,170</u>
Excess of revenues over (under) expenditures	<u>644,730</u>	<u>134,985</u>	<u>(308,416)</u>	<u>(166,679)</u>	<u>304,620</u>
Other financing sources (uses)					
Operating transfers in	30,000	-	27,000	350,892	407,892
Operating transfers out	(361,252)	-	-	(16,640)	(377,892)
Total other sources (uses)	<u>(331,252)</u>	<u>-</u>	<u>27,000</u>	<u>334,252</u>	<u>30,000</u>
Net change in fund balances	313,478	134,985	(281,416)	167,573	334,620
Fund balances, July 1 before restatement	(321,757)	576,435	446,160	646,094	1,346,932
Restatements see note 12	(312,206)	-	-	447,109	134,903
Fund balances, July 1 after restatement	<u>(633,963)</u>	<u>576,435</u>	<u>446,160</u>	<u>1,093,203</u>	<u>1,481,835</u>
Fund balances, June 30	<u>\$ (320,485)</u>	<u>\$ 711,420</u>	<u>\$ 164,744</u>	<u>\$ 1,260,776</u>	<u>\$ 1,816,455</u>

CITY OF MOLALLA, OREGON
**RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended
June 30, 2012

NET CHANGE IN FUND BALANCES	\$	334,620
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Expenditures for capital assets	\$ 98,600	
Less current year depreciation	<u>(1,068,741)</u>	(970,141)
<p>Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.</p>		
Debt principal repaid		59,392
<p>Certain delinquent property tax not collected for several months after year end is not considered available revenue and is deferred in the governmental funds. The change in deferred revenue is not reflected in the governmental funds, but is in the Statement of Activities as a change in revenues.</p>		
		146,224
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:</p>		
Compensated absences		26,650
CHANGE IN NET ASSETS	<u>\$</u>	<u>(403,255)</u>

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF MOLALLA, OREGON
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Sewer Fund	Water Fund	Sewer Debt Retirement Fund	Water Debt Retirement Fund	Water SDC Fund	Nonmajor Proprietary Funds	Total June 30, 2012
ASSETS							
Cash and investments	\$ 460,964	\$ 606,893	\$ 621,321	\$ 703,526	\$ 1,229,175	\$ 343,809	\$ 3,965,688
Receivables							
Customer accounts receivable, net of allowance of \$5,045	215,911	176,655	-	-	-	-	392,566
Due from other funds	-	190,000	-	-	-	-	190,000
Land	494,445	227,825	-	-	-	5,241	727,511
Capital assets, net of accumulated depreciation	2,597,823	2,434,638	2,815,083	2,767,801	-	2,381,890	12,997,235
Total assets	3,769,143	3,636,011	3,436,404	3,471,327	1,229,175	2,730,940	18,273,000
LIABILITIES							
Current liabilities							
Accounts payable	-	9,819	-	-	-	-	9,819
Current portion of non-current liabilities	-	-	200,000	310,000	-	115,273	625,273
Total current liabilities	-	9,819	200,000	310,000	-	115,273	635,092
Non-current liabilities							
Accrued compensated absences	-	70,531	-	-	-	-	70,531
Notes payable	-	-	2,975,000	1,565,000	-	2,175,500	6,715,500
Total liabilities	-	80,350	3,175,000	1,875,000	-	2,290,773	7,350,592
NET ASSETS							
Invested in capital assets, net of related debt	3,092,268	2,662,463	(359,917)	892,801	-	96,358	6,383,973
Restricted net assets							
Debt service	-	-	621,321	703,526	-	186,264	1,511,111
System development	-	-	-	-	1,229,175	148,597	1,377,772
Unrestricted net assets	676,875	893,198	-	-	-	8,948	1,579,021
Total net assets	\$ 3,769,143	\$ 3,555,661	\$ 261,404	\$ 1,596,327	\$ 1,229,175	\$ 440,167	\$ 10,851,877

CITY OF MOLALLA, OREGON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended
June 30, 2012

	Sewer Fund	Water Fund	Sewer Debt Retirement Fund	Water Debt Retirement Fund	Water SDC Fund	Nonmajor Proprietary Funds	Totals June 30, 2012
Operating revenues							
System development charges	\$ -	\$ -	\$ -	\$ -	\$ 54,318	\$ 107,985	\$ 162,303
Consumer receipts	1,525,752	1,274,575	-	-	-	93,654	2,893,981
Miscellaneous	6,356	6,904	-	-	-	-	13,260
Total operating revenues	<u>1,532,108</u>	<u>1,281,479</u>	<u>-</u>	<u>-</u>	<u>54,318</u>	<u>201,639</u>	<u>3,069,544</u>
Operating expenses							
Personal services	328,521	521,491	-	-	-	93,471	943,483
Materials and services	569,570	349,059	-	-	-	72,012	990,641
Capital outlay	70,938	122,201	-	-	-	38,276	231,415
Depreciation expense	89,106	114,467	64,525	60,803	-	54,455	383,356
Total operating expenses	<u>1,058,135</u>	<u>1,107,218</u>	<u>64,525</u>	<u>60,803</u>	<u>-</u>	<u>258,214</u>	<u>2,548,895</u>
Operating income (loss)	<u>473,973</u>	<u>174,261</u>	<u>(64,525)</u>	<u>(60,803)</u>	<u>54,318</u>	<u>(56,575)</u>	<u>520,649</u>
Non operating revenue (expenses)							
Interest earned on investments	1,147	4,414	3,029	3,340	844	938	13,712
Interest expense	-	-	(122,803)	(61,102)	-	(66,501)	(250,406)
Total non operating income (expenses)	<u>1,147</u>	<u>4,414</u>	<u>(119,774)</u>	<u>(57,762)</u>	<u>844</u>	<u>(65,563)</u>	<u>(236,694)</u>
Net income	<u>475,120</u>	<u>178,675</u>	<u>(184,299)</u>	<u>(118,565)</u>	<u>55,162</u>	<u>(122,138)</u>	<u>283,955</u>
Other financing sources (uses)							
Transfers in	-	-	215,000	240,000	-	319,157	774,157
Transfers out	(339,157)	(255,000)	-	-	-	(210,000)	(804,157)
Total other financing sources (uses)	<u>(339,157)</u>	<u>(255,000)</u>	<u>215,000</u>	<u>240,000</u>	<u>-</u>	<u>109,157</u>	<u>(30,000)</u>
Change in net assets	135,963	(76,325)	30,701	121,435	55,162	(12,981)	253,955
Net assets beginning of year, before restatement	244,189	593,202	726,095	855,725	1,033,978	791,967	4,245,156
Restatement, see note 12	3,388,991	3,038,784	(495,392)	619,167	140,035	(338,819)	6,352,766
Net assets beginning of year, after restatement	<u>3,633,180</u>	<u>3,631,986</u>	<u>230,703</u>	<u>1,474,892</u>	<u>1,174,013</u>	<u>453,148</u>	<u>10,597,922</u>
Net assets end of year	<u>\$ 3,769,143</u>	<u>\$ 3,555,661</u>	<u>\$ 261,404</u>	<u>\$ 1,596,327</u>	<u>\$ 1,229,175</u>	<u>\$ 440,167</u>	<u>\$ 10,851,877</u>

CITY OF MOLALLA, OREGON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended
June 30, 2012

	Sewer Fund	Water Fund	Sewer Debt Retirement Fund	Water Debt Retirement Fund	Water SDC Fund	Nonmajor Proprietary Funds	Total
Cash flows from operating activities							
Cash received from customers	\$ 1,542,088	\$ 1,287,940	\$ -	\$ -	\$ 54,318	\$ 201,639	\$ 3,085,985
Cash payment to employees for services	(328,521)	(522,127)	-	-	-	(93,471)	(944,119)
Cash payment to suppliers for goods and services	(640,508)	(461,441)	-	-	-	(110,288)	(1,212,237)
Other operating revenues	6,356	6,904	-	-	-	-	13,260
Net cash provided by operating activities	<u>579,415</u>	<u>311,277</u>	<u>-</u>	<u>-</u>	<u>54,318</u>	<u>(2,120)</u>	<u>942,890</u>
Cash flows from noncapital financing activities							
Operating transfers-out to other funds	(339,157)	(255,000)	-	-	-	(210,000)	(804,157)
Operating transfers-in from funds	-	-	215,000	240,000	-	319,157	774,157
Net cash provided by noncapital financing activities	<u>(339,157)</u>	<u>(255,000)</u>	<u>215,000</u>	<u>240,000</u>	<u>-</u>	<u>109,157</u>	<u>(30,000)</u>
Cash flows from capital and related financing activities							
Acquisition and construction of capital assets	(24,630)	(32,000)	-	-	-	-	(56,630)
Interest paid on notes payable	-	-	(122,803)	(61,102)	-	(66,501)	(250,406)
Payment from interfund receivables	-	35,000	-	-	-	-	35,000
Operations loan to General Fund	-	(50,000)	-	-	-	-	(50,000)
Payment on notes	-	-	(200,000)	(300,000)	-	(112,113)	(612,113)
Net cash used for capital and related financing activities	<u>(24,630)</u>	<u>(47,000)</u>	<u>(322,803)</u>	<u>(361,102)</u>	<u>-</u>	<u>(178,614)</u>	<u>(934,149)</u>
Cash flows from investing activities							
Interest and dividends on investments	1,147	4,414	3,029	3,340	844	938	13,712
Net cash provided (used) in investing activities	<u>1,147</u>	<u>4,414</u>	<u>3,029</u>	<u>3,340</u>	<u>844</u>	<u>938</u>	<u>13,712</u>
Net increase (decrease) in cash and cash equivalents	216,775	13,691	(104,774)	(117,762)	55,162	(70,639)	(7,547)
Cash and cash equivalents at beginning of year	244,189	593,202	726,095	821,288	1,174,013	414,448	3,973,235
Cash and cash equivalents at end of year	<u>\$ 460,964</u>	<u>\$ 606,893</u>	<u>\$ 621,321</u>	<u>\$ 703,526</u>	<u>\$ 1,229,175</u>	<u>\$ 343,809</u>	<u>\$ 3,965,688</u>
Reconciliation of operating income to net cash provided by operating activities							
Operating income (loss)	\$ 473,973	\$ 174,261	\$ (64,525)	\$ (60,803)	\$ 54,318	\$ (56,575)	\$ 520,649
Adjustments to reconcile net income to net cash provided (used) by operating activities:							
Depreciation expense	89,106	114,467	64,525	60,803	-	54,455	383,356
(Increase) decrease in accounts receivable, net of allowance	16,336	13,365	-	-	-	-	29,701
Increase (decrease) in accounts payable	-	9,819	-	-	-	-	9,819
Increase (decrease) in accrued compensated absences	-	(636)	-	-	-	-	(636)
Total adjustments	<u>105,442</u>	<u>137,016</u>	<u>64,525</u>	<u>60,803</u>	<u>-</u>	<u>54,455</u>	<u>422,241</u>
Net cash provided (used) by operating activities	<u>\$ 579,415</u>	<u>\$ 311,277</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,318</u>	<u>\$ (2,120)</u>	<u>\$ 942,890</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Note 1. Significant Accounting Policies

Organizational Authority

The City of Molalla operates under an amended charter adopted November 2011, with a council/manager form of government. The mayor is elected to serve a four-year term and the common council consists of six members. The City of Molalla provides numerous services to citizens, including public safety, public works and general government services.

A. The Reporting Entity

The City Council exercises governance responsibilities over all entities related to city activity. The city receives funding from local, state, and federal sources. However, the City of Molalla is not included in any other governmental reporting entity as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Council members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

In evaluating how to define the city for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the primary government's financial accountability. The criteria used to determine financial accountability include whether the primary government appoints a voting majority, the primary government can impose its will on the component unit, whether there is financial benefit or burden on the primary government, and if the component unit has a fiscal dependency on the primary government. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the city is financially accountable.

The governing board of the Urban Renewal Agency of the City of Molalla consists of all members of the Molalla City Council. The Urban Renewal Agency is reported as blended component of the city and the financial statements can be obtained by contacting the finance director 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.

B. Fund Accounting

The accounts of the city are organized based on funds and account groups, each of which is considered a separate accounting entity. The operations of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures, or expenses as appropriate. City resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The funds are grouped, in the financial statements in this report, into two broad fund categories: governmental funds and proprietary funds.

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

GOVERNMENTAL FUNDS

General Fund—The General Fund is the general operating fund of the city. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds—Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund—Debt service funds are used to account for interest and principal payments for debt.

Capital Project Fund—Capital project funds are generally used to account for financial resources to be used for the acquisitions or construction of major capital facilities.

Permanent Fund—Permanent funds are used to account for financial resources that are legally restricted to the extent that only the earnings, and not the principal, may be use for purposes that support the government entity.

PROPRIETARY FUNDS

Enterprise Funds—Enterprise funds are used to account for water, sewer, and storm water services and provided to the community. Principal revenue sources are fees charged to consumers for services.

C. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information on all the nonfiduciary activities of the city. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are financed primarily through property taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the city's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities presents a comparison between direct expenses and program revenues for each of its functions/programs. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to that function. Eliminations have been made to minimize the double counting of internal activities in the Statement of Activities. Program revenues include: (1) charges to

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The fund financial statements provide information about the city's funds. Separate financial statements are provided for each fund category (governmental and proprietary). The emphasis of fund financial statements is on major funds, each displayed in a separate column. The nonmajor funds are shown in the aggregate.

The city reports the following major governmental funds:

General Fund—The General Fund is the general operating fund of the city. It is used to account for all financial resources except those required to be accounted for in another fund.

Library Fund—The Library Fund is a special revenue fund used to account for financial activities related to the city's library. The major source of revenue for the Library Fund comes from intergovernmental revenue from Clackamas County.

Street Fund— The Street Fund is a special revenue fund used to account for maintenance of the city's streets and street lighting. The major sources of revenue for the Street Fund come from the state of Oregon with tax on motor vehicle fuel and the Surface Transportation Program funds.

The city reports on the following major proprietary funds:

Water Fund – The Water Fund is an enterprise fund used to account for the operation of the city's water system.

Sewer Fund – The Sewer Fund is an enterprise fund used to account for the operation of the city's sewer system.

Sewer Debt Retirement Fund – The Sewer Debt Retirement Fund is an enterprise debt service fund used to account for the debt incurred during the construction of major sewer utility projects.

Water Debt Retirement Fund – The Water Debt Retirement Fund is an enterprise debt service fund used to account for the debt incurred during the construction of major water utility projects.

Water SDC Fund – The Water SDC Fund is used to account for the collection and spending of Water System Development Charges.

D. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless when related cash flows take place. Property tax is recognized as revenue in the year for which the taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available to finance expenditures of the fiscal period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the city.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the city funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the city's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the city apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the city's proprietary funds are charges to customers for services and products. Operating expenses for the city's proprietary funds include the cost of services, administrative expenses, capital outlay and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Budgets and Budgetary Accounting

A budget is prepared for each city fund in accordance with the modified cash basis of accounting and legal requirements set forth in the Oregon local budget law. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Total personal services, materials & services, debt service, capital outlay, special payments, transfers and contingencies by fund are the levels of control. The detail budget document, however, is required to contain more specific detailed information for the above mentioned expenditure categories. All appropriations lapse at June 30.

Unexpected additional resources may be added to the budget by a supplemental budget and appropriations resolution. A supplemental budget may require hearings before the public, publications in newspapers, and approval by the council. Original and supplemental budgets may be modified by using appropriations transfers between the levels of control. Such transfers require approval by the council. The budget for the

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General Fund, special revenue funds, and proprietary funds includes capital outlay expenditures in each program for capital outlay applicable to that program.

F. Capital Assets

Capital assets, which include property, equipment, vehicles, and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at original or estimated original cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The city defines capital assets as assets with an initial cost of more than \$5,000 and an estimated life in excess of one reporting period. Interest incurred during construction is not capitalized. The cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives.

Land improvements	20 years
Buildings	25 to 50 years
Machinery and equipment	10 to 30 years
Vehicles	8 years
Infrastructure	20 to 65 years

G. Property Taxes Receivable

Property taxes assessed but not yet collected are reported on the balance sheet, but are offset by deferred revenue accounts. The city levies taxes on a fiscal year from July 1 to June 30. The current levy becomes a lien on July 1. Taxes are due November 15 and become delinquent May 15. Foreclosure is started three years after taxes become delinquent. The city turns all tax collection duties over to Clackamas County, Oregon.

Uncollected property taxes are recorded on the statement of net assets. Uncollected taxes are deemed to be substantially collected or recoverable through liens; therefore, no allowance for uncollectible taxes has been established. All property taxes receivable are due from property owners within the city.

H. Deferred Revenues

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental funds financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

I. Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts

The city maintains a policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for non-vested unpaid accumulated sick pay benefits. All vacation pay and vested sick pay benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Benefits are normally paid from the

CITY OF MOLALLA, OREGON
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General, and Water Fund. The compensated absences liability was \$109,559 and \$70,531 at June 30, 2012.

J. Cash and Investments

The city's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. All short-term cash surpluses are maintained in savings accounts and the state of Oregon Local Government Investment Pool and allocated to each fund based on the amount of excess cash each fund has deposited.

Oregon statutes and local ordinances authorize the city to invest (short-term and long-term) in certificates of deposit (considered deposits for risk categorization purposes), certain bond obligations of civil subdivisions, general obligations of the states of Oregon, Washington, Idaho, and California, certain interest bearing bonds of a county, port, or school district, certain interest bearing bonds of any city in the state of Oregon, life insurance and annuity contracts, pooled deferred compensation trusts, banker's acceptances, and certain corporate bonds. All investments are stated at cost.

K. Encumbrances

The city does not use encumbrance accounting

L. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds are eliminated in the statement of net assets.

M. Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

N. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the city considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the proprietary fund types are pooled with the city's pooled cash and investments.

O. Use of Estimates

The preparation of basic financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses/expenditures during the reporting period.

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P. Fund Balances

GASB Statement No. 54 requires analysis and presentation of fund balances in five categories; the fund balance categories are:

- *Nonspendable*—Includes items not immediately converted to cash, such as prepaid items, interfund receivables, endowments and inventory.
- *Restricted*—Includes items that are restricted by external creditors, grantors or contributors, or restricted by legal constitutional provisions.
- *Committed*—Includes items committed by the city council, by formal council action.
- *Assigned*—Includes items assigned for specific uses, authorized by the city council or their designee.
- *Unassigned*—This is the residual classification used for those balances not assigned to another category.

The city council authorized the council or a designee to make assignments of ending fund balance. Assignments of fund balances can be done at any time, including after fiscal year end date.

Finally, GASB 54 requires a spending policy, as it relates to ending fund balance. The spending policy states in what order fund balance categories are spent. The council approved the following fund balance order of spending policy:

1. Restricted Fund Balance
2. Committed Fund Balance
3. Assigned Fund Balance
4. Unassigned Fund Balance

Note 2. Retirement Plan

Oregon Public Employees Retirement System

Plan Description - The city contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the city's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying city employees hired after August 29, 2003. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member IAP, not the member's PERS account.

Both PERS plans provide retirement and disability benefits, post employment health care benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute (ORS) Chapter 238, which establishes the Public Employees Retirement Board as the

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governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report can be obtained by writing PERS, P.O. Box 23700, Tigard, OR 97281-3700 or by calling 1-503-598-7377.

Funding Policy - Members of PERS are required to contribute 6% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The city is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPSRP plan. The OPERF and the OPSRP rates in effect for the year ended June 30, 2012 were 9.38% and 5.54% for general service employees and 8.25% for police and fire employees. The contribution requirements for plan members are established by the ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual Pension Costs – The city’s contributions to PERS for the years ending June 30, 2012, 2011, and 2010 were \$382,043, \$268,155, and \$264,032, respectively, which equaled the required contributions for the year.

Note 3. Other Post Employment Benefits—GASB 45

For the fiscal year ended June 30, 2009, the city implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. This statement addresses how state and local governments should account for and report their costs and obligations related to Other Postemployment Benefits (OPEB). The statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. For the fiscal year ended June 30, 2012, the city’s participation in the City County Insurance Services (CCIS) health plans have been determined to constitute community-rated coverage, as allowed by GASB 45, therefore, there is no implicit subsidy to value and no liability accrued in the financial statements.

Note 4. Accounts Receivable

The enterprise funds of the city have service billing revenues receivable as follows:

Sewer Fund accounts receivable	\$ 218,686
Less allowance for uncollectible accounts	(2,775)
Sewer Fund net accounts receivable	<u>\$ 215,911</u>
Water Fund accounts receivable	\$ 178,925
Less allowance for uncollectible accounts	(2,270)
Water Fund net accounts receivable	<u>\$ 176,655</u>

An allowance for uncollectible accounts was estimated based on the age of the receivable balance on June 30, 2012.

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Note 5. Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

Description	Balance 6/30/2011	Increases	Decreases	Balance 6/30/2012	Due within one year
GOVERNMENTAL ACTIVITIES					
OEDD Loan	\$ 13,983	\$ -	\$ 4,392	\$ 9,591	\$ 4,656
2010 GO Water Refunding bonds	385,000	-	55,000	330,000	55,000
BUSINESS-TYPE ACTIVITIES					
State Revolving Loan	2,402,886	-	112,113	2,290,773	115,273
2010 Water Revenue Refunding Bonds	2,175,000	-	300,000	1,875,000	310,000
2010 Sewer Revenue Refunding Bonds	3,375,000	-	200,000	3,175,000	200,000
Total Long-term Debt	<u>\$ 8,351,869</u>	<u>\$ -</u>	<u>\$ 671,505</u>	<u>\$ 7,680,364</u>	<u>\$ 684,929</u>

Governmental Activities

Oregon Economic Development Department

In 1993, the City of Molalla entered into an agreement with Oregon Economic Development Department for \$60,000. The payments are due December 1 with an annual interest rate of 6%. The loan balance at June 30, 2012 was \$9,591. Future payments consist of the following:

Fiscal Year Ending June 30,	Principal	Interest	Remaining Balance
			\$ 9,591
2013	\$ 4,656	\$ 575	4,935
2014	4,935	296	-
	<u>\$ 9,591</u>	<u>\$ 871</u>	

General Obligation Water Refunding Bonds, Series 2010

In 2010, the City of Molalla refunded General Obligation Installment Water Bond No. 1 and No. 2. The bonds were for capital improvements. Interest is a variable rate that ranges from 2.5% to 3.5% per annum. Repayment is on semi-annual payments beginning with an interest only payments every December 1 and interest and principal payments every June 1. The outstanding loan balance at June 30, 2012 is \$330,000. Future payments consist of the following:

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Fiscal Year Ending June 30,	Principal	Interest	Remaining Balance
			\$ 330,000
2013	\$ 55,000	\$ 6,600	275,000
2014	60,000	5,500	215,000
2015	60,000	5,375	155,000
2016	60,000	4,650	95,000
2017	65,000	3,088	30,000
2018	30,000	750	-
	<u>\$ 330,000</u>	<u>\$ 25,963</u>	

Business-Type Activities

Clean Water State Revolving Fund Loan

In December 2005 the city of Molalla signed an agreement to borrow \$2,670,000 for the purpose of improving the wastewater treatment plant. The funds were issued in 2007 and repayment of the loan began on August 1, 2008. The repayment schedule is semi-annual with payments on August 1 and February 1 through 2028, including interest at the rate of 2.8% per annum. The outstanding loan balance at June 30, 2012 is \$2,290,773. Future payments consist of the following:

Fiscal Year Ending June 30	Principal	Interest	Total	Remaining Balance
				\$ 2,290,773
2013	\$ 115,273	\$ 63,341	\$ 178,614	2,175,500
2014	118,524	60,090	178,614	2,056,976
2015	121,865	56,749	178,614	1,935,111
2016	125,301	53,313	178,614	1,809,810
2017	128,835	49,779	178,614	1,680,975
2018-2022	700,755	192,315	893,070	980,220
2023-2027	805,279	87,791	893,070	174,941
2028	174,941	3,682	178,623	-
Total	<u>\$ 2,290,773</u>	<u>\$ 567,060</u>	<u>\$ 2,857,833</u>	

Water Revenue Refunding Bonds, Series 2010

In August 2010, the city entered refunded series 1997 and 1992 bonds that were for major water system improvements. The interest is at 3% per annum. Interest payments are due each February 1 and principal and interest payments are due each August 1. The city was in compliance with required loan reserve for the year ended June 30, 2012 was \$609,100. The outstanding loan balance at June 30, 2012 is \$1,875,000. Future payments consist of the following:

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Fiscal Year Ending June 30	Principal	Interest	Remaining Balance
			\$ 1,875,000
2013	\$ 310,000	\$ 51,600	1,565,000
2014	290,000	42,600	1,275,000
2015	300,000	33,750	975,000
2016	310,000	24,600	665,000
2017	325,000	15,075	340,000
2018	340,000	5,100	-
	<u>\$ 1,875,000</u>	<u>\$ 172,725</u>	

Sewer Revenue Refunding Bonds, Series 2010

In March 2010, the city entered refunded series 2000 bonds that were for improvements to the sewer system. The interest is at a variable rate that ranges from 3% to 4% per annum. Interest payments are due each September 1 and principal and interest payments are due each March 1. The city was not in compliance with the required loan reserve for the year ended June 30, 2012 of \$636,300. The outstanding loan balance at June 30, 2012 is \$3,175,000. Future payments consist of the following:

Fiscal Year Ending June 30	Principal	Interest	Remaining Balance
			\$ 3,175,000
2013	\$ 200,000	\$ 116,450	2,975,000
2014	200,000	110,450	2,775,000
2015	210,000	104,450	2,565,000
2016	220,000	98,150	2,345,000
2017	225,000	91,550	2,120,000
2018-2022	1,250,000	328,000	870,000
2023-2025	870,000	70,400	-
	<u>\$ 3,175,000</u>	<u>\$ 919,450</u>	

Note 6. Risk Management

The city is exposed to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; and natural disasters for which the city carries commercial insurance. The city does not engage in risk financing activities where the risk is retained (self-insurance).

The City of Molalla is a member of the City County Insurance Services (CCIS) trust. This trust was established in 1981, by the League of Oregon Cities (LOC) and the Association of Oregon Counties (AOC) to provide risk management services including insurance and loss control to member entities. The city participates for property and liability insurance coverage.

Note 7. Deposits and Investments

The city maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and investments.

CITY OF MOLALLA, OREGON
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Cash and investments are comprised of the following at June 30, 2012:

Deposits with banks	\$	397,812
Investments		5,586,213
Cash on hand		404
		\$ 5,984,429

Cash and investments are shown on the basic financial statements as:

Statement of Net Assets		
Cash and investments	\$	5,984,429

As of June 30, 2012, the city held the following investments and maturities:

Investment type	Fair Value	% of investment portfolio
Local Government Investment Pool	\$ 5,582,132	99.9%
Certificates of Deposit	4,081	0.1%
	\$ 5,586,213	100%

Deposits

The Governmental Accounting Standards Board has adopted accounting principles generally accepted in the United States of America (GAAP), which include standards to categorize deposits to give an indication of the level of custodial risk assumed by the city at June 30, 2012. If bank deposits at year end are not entirely insured or collateralized with securities held by the city or by its agent in the city's name, the city must disclose the custodial credit risk (below) that exists. Deposits with financial institutions are comprised of bank demand deposits. For deposits in excess of federal depository insurance, Oregon Revised Statutes require depository institutions to be in compliance with ORS 295.

At June 30, 2012, the carrying amount of the city's deposits was \$397,812 and the bank balance was \$439,434. Of these deposits, all were covered by federal depository insurance or were in qualified depositories. The insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Federal depository insurance (FDIC) of \$250,000 applies to the deposits in each depository. Where balances continually exceed \$250,000, ORS 295.018 requires the depositor to verify that deposit accounts are only maintained at financial institutions on the list of qualified depositories found on the Oregon state treasurer's website. Qualifying depository banks must pledge securities with a particular value based on the banks level of capitalization. The city deposits were in compliance with requirements of ORS 295.018.

Custodial credit risk—Custodial credit risk for deposits is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The city does not have a policy for custodial credit risk for deposits.

Effective July 1, 2008, House Bill 2901 created a shared liability structure for participating bank depositories in Oregon. Barring any exceptions, a qualifying bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public bank depositories is available to repay the deposits of public funds of government entities.

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Investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
<i>Cash and cash equivalents</i>			
Local Government Investment Pool (LGIP)	\$ 5,582,132	50% less than 90-days, no more than 25% over one year, and no investment over three years	Unrated
Certificates of Deposit	4,081	7/14/2012	Unrated
<i>Total cash and cash equivalents</i>	100.00% 5,586,213		
	100.00% \$ 5,586,213		

At June 30, 2012, the city held \$5,586,213 of investments, which are all classified as cash and investments on the Statement of Net Assets. The city has no policy for managing interest rate risk or credit risk.

The city has invested funds in the Oregon Short-term Fund Local Government Investment Pool (LGIP) during fiscal year 2012. The Local Government Investment Pool 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). The Local Government Investment Pool is an external investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. The amounts invested in the pool are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 40.

In addition, the Oregon LGIP distributed investment income on an amortized cost basis and participant's equity in the pool is determined by the amount of participant deposits, adjusted for withdrawals and distributed income. Accordingly, the adjustment to fair value would not represent an expendable increase in the city's cash position.

Investments in the Oregon LGIP are made under the provisions of ORS 194.180. These funds are held in the city's name and are not subject to collateralization requirements of ORS 295.018. Investments are stated at cost, which approximated fair value.

A separate financial report for the Oregon Short-term Fund Local Government Investment Pool is prepared by the Secretary of State Audits Division in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investment Pools*. Copies of the report can be obtained from the Oregon Audits Division 255 Capitol Street NE, Suite 500, Salem, OR 97310 or online at <http://www.sos.state.or.us/audits/index.html>.

Oregon statutes restrict the types of investments in which the city may invest. Authorized investments included obligations of the United States Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, time certificates of deposit, certain commercial paper, and the Oregon Local Government Investment Pool. As of June 30, 2012 and for the year then ended, the city was in compliance with the aforementioned Oregon statutes.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes authorize the city to invest primarily in general obligations of the United States Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial paper, and the Oregon Local Government Investment Pool, among others. The city has no formal investment policy that further restricts its investment choices.

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Concentration of Credit Risk—Concentration of credit risk is the risk of a loss attributed to the magnitude of a government’s investment in a single issuer. The city is required to provide information about the concentration of credit risk associated with its investments in one issuer that represents 5 percent or more of the total investments, excluding investments in external investment pools or those issued and explicitly guaranteed by the United States Government. The city has no such investments.

Interest Rate Risk—The city’s investment policy limits long-term investments to 25% of the investment portfolio using specific identification. The city defines long-term as having a maturity of greater than 18 months to a maximum of 36 months. As of June 30, 2012, all of the city’s investments were classified as short-term.

Foreign Currency Risk—The city is prohibited from investments that are not US dollar-denominated; therefore, the city is not exposed to this risk.

Note 8. Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by these agencies, principally the federal government and the state of Oregon. Any disallowed claims, including amount already collected, may constitute a liability to the city. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although city management expects such amounts, if any, to be immaterial.

Note 9. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Governmental Funds			Proprietary Funds		
<u>Transfers in</u>	<u>Transfer from</u>	<u>Amount</u>	<u>Transfers in</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Water Fund	\$ 15,000	Sewer Debt Retirement Fund	Sewer Fund	\$ 215,000
	Sewer Fund	15,000	Water Debt Retirement Fund	Water Fund	240,000
Street Fund	General Fund	27,000	Nonmajor funds	Nonmajor funds	210,000
Nonmajor Funds	General Fund	334,252	Nonmajor funds	Sewer Fund	109,157
Nonmajor Funds	Nonmajor Funds	16,640			
Total transfers in for governmental funds		<u>\$ 407,892</u>	Total transfers in for proprietary funds		<u>\$ 774,157</u>
<u>Transfers out</u>	<u>Transfer to</u>		<u>Transfers out</u>	<u>Transfer to</u>	
General Fund	Street Fund	(27,000)	Sewer Fund	General Fund	\$ (15,000)
General Fund	Nonmajor funds	(334,252)		Sewer Debt Retirement Fund	(215,000)
Nonmajor funds	Nonmajor funds	(16,640)		Nonmajor funds	(109,157)
			Water Fund	General Fund	(15,000)
				Water Debt Retirement Fund	(240,000)
			Nonmajor funds	Nonmajor funds	(210,000)
Total transfers out for governmental funds		<u>(377,892)</u>	Total transfers out for proprietary funds		<u>(804,157)</u>
Total transfers for governmental funds		<u>\$ 30,000</u>	Total transfers for proprietary funds		<u>\$ (30,000)</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. These transfers represent budgeted expectations.

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June 30, 2012

Note 10. Schedule of Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Restatements	Additions	Deletions	Balance June 30, 2012
Governmental activities					
Capital assets not being depreciated					
Land	\$ -	\$ 1,489,291	\$ -	\$ -	\$ 1,489,291
Total capital assets not being depreciated	-	1,489,291	-	-	1,489,291
Capital assets being depreciated					
Land Improvements	-	622,376	-	-	622,376
Buildings	-	3,215,658	50,000	-	3,265,658
Machinery and equipment	-	370,784	9,600	-	380,384
Vehicles	-	595,676	39,000	-	634,676
Infrastructure	-	19,778,846	-	-	19,778,846
Total capital assets being depreciated	-	24,583,340	98,600	-	24,681,940
Less accumulated depreciation for					
Land Improvements	-	418,990	22,124	-	441,113
Buildings	-	927,355	65,090	-	992,446
Equipment	-	267,922	17,347	-	285,269
Vehicles	-	423,506	56,675	-	480,181
Infrastructure	-	8,505,971	907,505	-	9,413,476
Total accumulated depreciation	-	10,543,744	1,068,741	-	11,612,485
Total capital assets being depreciated, net	-	14,039,596	(970,141)	-	13,069,455
Governmental activities capital assets, net	\$ -	\$ 15,528,887	\$ (970,141)	\$ -	\$ 14,558,746
Business type activities					
Capital assets not being depreciated					
Land	\$ -	\$ 727,511	\$ -	\$ -	\$ 727,511
Total capital assets not being depreciated	-	727,511	-	-	727,511
Capital assets being depreciated					
Land Improvements	-	159,202	-	-	159,202
Buildings	-	3,651,205	-	-	3,651,205
Equipment	-	1,835,551	32,000	-	1,867,551
Vehicles	-	101,061	24,630	-	125,691
Infrastructure	-	14,470,734	-	-	14,470,734
Total capital assets being depreciated	-	20,217,753	56,630	-	20,274,383
Less accumulated depreciation for					
Land Improvements	-	142,823	1,310	-	144,134
Buildings	-	1,463,906	77,291	-	1,541,196
Equipment	-	898,383	80,717	-	979,099
Vehicles	-	101,061	1,411	-	102,472
Infrastructure	-	4,287,618	222,627	-	4,510,244
Total accumulated depreciation	-	6,893,790	383,356	-	7,277,146
Total capital assets being depreciated, net	-	13,323,963	(326,726)	-	12,997,235
Business type activities capital assets, net	\$ -	\$ 14,051,474	\$ (326,726)	\$ -	\$ 13,724,746

Depreciation expense for the year was charged to the following programs:

Governmental Activities	
General government	\$ 1,068,741
Business Activities	
Sewer	153,631
Water	175,270
Storm Water	54,455

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Note 11. Interfund Receivables and Payables

The interfund receivable and payable at June 30, 2012 consist of the following:

Receivable Fund	Payable Fund	Amount
Park SDC Fund	General Fund	\$ 155,188
Water Fund	General Fund	190,000

The interfund receivable and payable between the Park SDC Fund and the General fund originated in the current fiscal as a result of the forensic audit of the system development charges. The balance is scheduled to be paid back in 2012-2013.

The interfund receivable and payable between the Water Fund and the General Fund consists of two different interfund loans. The first loan originated in 2010 for capital improvements. The balance of this loan on June 30, 2012 is \$140,000 and is scheduled to be paid off in 2012-2013. The second interfund loan originated in the current fiscal year for operations. The balance of this loan on June 30, 2012 us \$50,000 and is scheduled to be paid off in 2012-2013.

Note 12. Accounting Changes and Restatements

City of Molalla has chosen to restate beginning fund balances and net assets as follows:

Governmental fund balances restatements:

	General Fund	Urban Renewal Agency Fund	Street SDC Fund	Park SDC Fund
GOVERNMENTAL FUNDS				
Fund balance - July 1 as previously reported	\$ (321,757)	\$ 158,560	\$ 167,546	\$ 32,219
Restate for:				
Record newly discovered CD	4,081	-	-	-
Correct payroll liabilities	13,901	-	-	-
Correct cash allocated to fund	-	20,000	-	-
Record interfund loan	(175,000)	-	-	-
Correct SDC transactions due to forensic audit	(155,188)	-	(67,198)	459,870
Total restatements	(312,206)	20,000	(67,198)	459,870
Fund balance - July 1 as restated	\$ (633,963)	\$ 178,560	\$ 100,348	\$ 492,089

	Debt Service Fund
GOVERNMENTAL FUNDS	
Fund balance - July 1 as previously reported	\$ 976
Restate for:	
Record newly discovered CD	-
Correct payroll liabilities	-
Correct cash allocated to fund	34,437
Correct SDC transactions due to forensic audit	-
Total restatements	34,437
Fund balance - July 1 as restated	\$ 35,413

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2012

Proprietary fund net asset restatements:

	Water Debt Retirement Fund	Water SDC Fund	Storm Water Fund	Storm Water Capital Improvement Fund
PROPRIETARY FUNDS				
Fund net asset - July 1 as previously reported	\$ 855,725	\$ 1,033,978	\$ 105,337	\$ 1,344
Restate for:				
Correct cash allocated to fund	(34,437)	-	1,344	(1,344)
Correct SDC transactions due to forensic audit	-	140,035	-	-
Total restatements	<u>(34,437)</u>	<u>140,035</u>	<u>1,344</u>	<u>(1,344)</u>
Fund net asset - July 1 as restated	<u>\$ 821,288</u>	<u>\$ 1,174,013</u>	<u>\$ 106,681</u>	<u>\$ -</u>
		Storm		
	Sewer SDC	Water SDC	Water	
	Fund	Fund	Fund	
Fund net asset - July 1 as previously reported	\$ 379,008	\$ 139,664	\$ 593,202	
Restate for:				
Record interfund loan			175,000	
Correct SDC transactions due to forensic audit	(379,008)	1,489		
Total restatements	<u>(379,008)</u>	<u>1,489</u>	<u>175,000</u>	
Fund net asset - July 1 as restated	<u>\$ -</u>	<u>\$ 141,153</u>	<u>\$ 768,202</u>	

Government-Wide Net Asset Restatements:

Governmental Activities: In addition to the governmental fund balance restatements of \$134,903, the government-wide statements, had an valuation of capital assets and accumulated depreciation as required by provision of Governmental Standards Board Statement No. 34, net capital assets were increased by \$15,528,887. Net assets were also restated to record long-term debt balances including compensated absences, which decreased net assets by \$535,191. As a result, the beginning net assets of \$1,346,932, as originally reported, have been increased to \$16,475,531.

Business-Type Activities: In addition to the fund net asset restatement of \$(96,921), the proprietary fund statements had a valuation of capital assets and accumulated depreciation as required by a provision of Governmental Standards Board Statement No. 34, capital assets were increased by \$14,051,474. Net assets were also restated to record long-term debt balances including compensated absences, decreasing net assets by \$8,024,053 and restated to record accounts receivable, increasing net assets by \$422,266. As a result, the beginning net assets of \$4,245,156 were increased by \$6,352,766 to \$10,597,922.

Note 13. Deficit Balances

<u>Fund</u>	<u>Amount</u>	<u>Corrective Action in 2012-2013</u>
General Fund	\$ (337,787)	The city will continue to have a conservative spending policy to reduce this deficit balance again and regain a positive ending balance.
CWRSF Debt Retirement Fund	(288,191)	The city will transfer money in from Sewer Proprietary Fund due to lack of money Sewer SDC fund.

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Note 14. Permanenet Fund

The Sally Fox Park Fund, a permanent fund, was established to account for a nonexpendable trust for Sally Fox Memorial donations. Only interest earned may be expended for park improvements. The principal balance must remain unexpended. At June 30, 2012 the principal balance was \$96,303.

Note 15. Fund Balance Classifications

Below is a schedule of ending fund balances, based on GASB Statement No. 54 requirements:

Fund Balances	General Fund	Library Fund	Street Fund	Nonmajor Funds	Total
<u>Nonspendable</u>					
Interfund receivables	\$ -	\$ -	\$ -	\$ 155,188	\$ 155,188
Endowments	-	-	-	96,303	96,303
	-	-	-	251,491	251,491
<u>Restricted</u>					
Public works	-	-	164,744	523,032	687,776
Community development	-	-	-	394,404	394,404
Debt Service	-	-	-	40,836	40,836
	-	-	164,744	958,272	1,123,016
<u>Assigned</u>					
Community development	-	711,420	-	51,013	762,433
<u>Unassigned</u>					
	(320,485)	-	-	-	(320,485)
TOTAL FUND BALANCES	\$ (320,485)	\$ 711,420	\$ 164,744	\$ 1,260,776	\$ 1,816,455

GASB 54 requires city council approved action to authorize commitments of fund balances. There were no commitments of fund balances made in the current fiscal year. Commitments of fund balances must be made prior to the end of the fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Property tax	\$ 2,610,538	\$ 2,270,845	\$ 2,324,634	\$ 53,789
Other taxes and assessments	488,396	456,396	318,913	(137,483)
Intergovernmental revenues	100,072	100,072	120,229	20,157
Licenses and permits	304,200	304,200	251,514	(52,686)
Fines and forfeits	289,500	289,500	261,366	(28,134)
Grants	82,000	307,063	276,019	(31,044)
Interest	553	553	13,110	12,557
Miscellaneous	115,244	89,900	66,511	(23,389)
Total revenues	<u>3,990,503</u>	<u>3,818,529</u>	<u>3,632,296</u>	<u>(186,233)</u>
Expenditures				
City hall				
Personal services	367,795	395,795	396,473	(678)
Materials and services	429,375	588,194	497,852	90,342
Capital outlay	36,028	6,028	5,585	443
Total City hall	<u>833,198</u>	<u>990,017</u>	<u>899,910</u>	<u>90,107</u>
Police department				
Personal services	1,606,821	1,606,821	1,616,870	(10,049)
Materials and services	371,284	369,284	344,663	24,621
Capital outlay	64,325	81,725	66,425	15,300
Total police department	<u>2,042,430</u>	<u>2,057,830</u>	<u>2,027,958</u>	<u>29,872</u>
Municipal court and legal				
Personal services	113,703	101,203	100,591	612
Materials and services	124,325	124,325	92,190	32,135
Total municipal court and legal	<u>238,028</u>	<u>225,528</u>	<u>192,781</u>	<u>32,747</u>
Planning				
Personal services	-	44,840	49,697	(4,857)
Materials and services	118,347	194,847	174,071	20,776
Debt service	-	-	144	(144)
Total planning	<u>118,347</u>	<u>239,687</u>	<u>223,912</u>	<u>15,775</u>
Contingency	113,876	536	-	536
Total expenditures	<u>3,345,879</u>	<u>3,513,598</u>	<u>3,344,561</u>	<u>169,037</u>
Excess of revenues over (under) expenditures	<u>644,624</u>	<u>304,931</u>	<u>287,735</u>	<u>(17,196)</u>
Other financing sources (uses)				
Transfers in	30,000	30,000	30,000	-
Transfers out	(396,396)	(396,396)	(361,252)	35,144
Administrative services	-	339,693	339,693	-
Total other sources (uses)	<u>(366,396)</u>	<u>(26,703)</u>	<u>8,441</u>	<u>35,144</u>
Net change in fund balance	278,228	278,228	296,176	17,948
Fund balance, July 1 before restatement	(278,228)	(278,228)	(321,757)	(43,529)
Restatement, see note 12	-	-	(312,206)	(312,206)
Fund balances July 1, after restatement	<u>(278,228)</u>	<u>(278,228)</u>	<u>(633,963)</u>	<u>(355,735)</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (337,787)</u>	<u>\$ (337,787)</u>

See accompanying independent auditor's report.

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - LIBRARY FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Intergovernmental revenues	\$ 668,101	\$ 668,101	\$ 620,343	\$ (47,758)
Fines	20,000	20,000	28,668	8,668
Grants	3,000	3,000	3,186	186
Donations	3,000	3,000	2,257	(743)
Interest	1,000	1,000	204	(796)
Miscellaneous	3,500	3,500	4,077	577
Total revenues	698,601	698,601	658,735	(39,866)
Expenditures				
Personal services	414,109	414,109	325,229	88,880
Materials and services	191,500	191,500	65,170	126,330
Capital outlay	210,992	210,992	63,351	147,641
Contingency	82,000	82,000	-	82,000
Total expenditures	898,601	898,601	453,750	444,851
Excess of revenues over (under) expenditures	(200,000)	(200,000)	204,985	404,985
Other financing sources (uses)				
Administrative services	-	(70,000)	(70,000)	-
Total other financing sources (uses)	-	(70,000)	(70,000)	-
Net change in fund balance	(200,000)	(270,000)	134,985	404,985
Fund balance, July 1	200,000	270,000	576,435	306,435
Fund balance, June 30	\$ -	\$ -	\$ 711,420	\$ 711,420

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - STREET FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
Taxes and assessments	\$ 526,500	\$ 579,000	\$ 589,399	\$ 10,399
Grants	153,000	153,000	-	(153,000)
Licenses and permits	5,000	5,000	-	(5,000)
Miscellaneous	35,000	35,000	4,731	(30,269)
Total revenues	<u>719,500</u>	<u>772,000</u>	<u>594,130</u>	<u>(177,870)</u>
Expenditures				
Personal services	306,466	339,384	336,935	-
Materials and services	214,500	214,500	169,716	44,784
Capital outlay	916,569	896,569	356,313	540,256
Total expenditures	<u>1,437,535</u>	<u>1,450,453</u>	<u>862,964</u>	<u>585,040</u>
Excess of revenues over (under) expenditures	<u>(718,035)</u>	<u>(678,453)</u>	<u>(268,834)</u>	<u>407,170</u>
Other financing sources (uses)				
Transfers in	27,000	27,000	27,000	-
Transfers out	(160,282)	(160,282)	-	160,282
Administrative services	-	(39,582)	(39,582)	-
Total other sources (uses)	<u>(133,282)</u>	<u>(172,864)</u>	<u>(12,582)</u>	<u>160,282</u>
Net change in fund balance	(851,317)	(851,317)	(281,416)	569,901
Fund balance, July 1	<u>851,317</u>	<u>851,317</u>	<u>446,160</u>	<u>(405,157)</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,744</u>	<u>\$ 164,744</u>

CITY OF MOLALLA, OREGON
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION
GOVERNMENTAL FUNDS

For the Year Ended
June 30, 2012

Budget Basis							
	General Fund	Library Fund	Street Fund	Nonmajor Governmental Funds	Total Governmental Funds	Accrual Adjustments	Modified Accrual Basis
Receipts							
Property taxes	\$ 2,324,634	\$ -	\$ -	\$ 273,621	\$ 2,598,255	\$ 24,298	\$ 2,622,553
Other taxes and assessments	318,913	-	589,399	-	908,312	-	908,312
System development charges	-	-	-	97,423	97,423	-	97,423
Intergovernmental revenues	120,229	620,343	-	107,932	848,504	-	848,504
Licenses and permits	251,514	-	-	-	251,514	-	251,514
Fines and forfeits	261,366	28,668	-	340,429	630,463	-	630,463
Grants	276,019	3,186	-	-	279,205	-	279,205
Donations	-	2,257	-	77,458	79,715	-	79,715
Interest	13,110	204	-	827	14,141	-	14,141
Miscellaneous	66,511	4,077	4,731	33,948	109,267	339,693	448,960
Total receipts	<u>3,632,296</u>	<u>658,735</u>	<u>594,130</u>	<u>931,638</u>	<u>5,816,799</u>	<u>363,991</u>	<u>6,180,790</u>
Disbursements							
Personal services	2,163,631	325,229	336,935	442,871	3,268,666		3,268,666
Materials and services	1,108,776	65,170	169,716	399,450	1,743,112	231,502	1,974,614
Capital outlay	72,010	63,351	356,313	70,076	561,750	-	561,750
Debt service	144	-	-	65,765	65,909	5,231	71,140
Total disbursements	<u>3,344,561</u>	<u>453,750</u>	<u>862,964</u>	<u>978,162</u>	<u>5,639,437</u>	<u>236,733</u>	<u>5,876,170</u>
Excess of receipts over disbursements	287,735	204,985	(268,834)	(46,524)	177,362	127,257	304,619
Other financing sources, net	8,441	(70,000)	(12,582)	212,680	138,539	(108,539)	30,000
Net change in fund balances	296,176	134,985	(281,416)	166,156	315,901	18,718	334,619
Fund balances July 1, before restatement	(321,757)	576,435	446,160	646,094	1,346,932	-	1,346,932
Restatement, see note 12	(312,206)	-	-	447,109	134,903	-	134,903
Fund balances July 1, after restatement	<u>(633,963)</u>	<u>576,435</u>	<u>446,160</u>	<u>1,093,203</u>	<u>1,481,835</u>	<u>-</u>	<u>1,481,835</u>
Balances at end of year	<u>\$ (337,787)</u>	<u>\$ 711,420</u>	<u>\$ 164,744</u>	<u>\$ 1,259,359</u>	<u>\$ 1,797,736</u>	<u>\$ 18,718</u>	<u>\$ 1,816,455</u>
Record property tax receivable - General Fund						\$ 22,881	
Record property tax receivable - URA						1,417	
Reclass administrative services - General fund						339,693	
Record accounts payable - General Fund						5,580	
Reclass administrative services - Library Fund					(70,000)		
Reclass administrative services - Street Fund					(39,582)		
Reclass administrative services - Park and Recreation Fund					(65,971)		
Reclass administrative services - Adult Center Fund					(55,601)		
Total administrative services funds						<u>(231,154)</u>	
						<u>\$ 18,718</u>	

CITY OF MOLALLA, OREGON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
June 30, 2012

A budget is prepared for each city fund in accordance with the modified cash basis of accounting and legal requirements set forth in the state of Oregon's local budget law. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Total personal services, material and services, capital outlay, special payments, transfers and contingencies are the levels of control for all funds except the general fund. Total expenditures by department are the levels of control in the general fund. The detail budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories.

Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriations resolution. A supplemental budget requires a hearing before the public, publications in newspapers, and approval by the city council. Original and supplemental budgets may be modified by the use of appropriations transfers between the levels of control. Such transfers require approval by the city council. Budget appropriations lapse at June 30. Encumbrance accounting is not utilized in the preparation of budgeted funds.

The budgets include capital outlay expenditures in each program for capital outlay applicable to that program.

During the year ended June 30, 2012 the city had the following overexpenditures:

General Fund	
City Hall	
Personal services	\$678
Police department	
Personal services	10,049
Planning	
Personal services	4,857
Debt service	144
Park and Recreation Fund	
Materials and services	6,507
Capital outlay	10,076
Adult Center Fund	
Materials and services	4,908
Recorder's Trust Fund	
Materials and services	74,159
Sewer Fund	
Transfers	109,157

There were also a couple of procedural violations noted in adopting the 2012-2013 budget.

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR FUNDS

MODIFIED ACCRUAL BASIS

CITY OF MOLALLA, OREGON
COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2012

	Special Revenue Funds		
	Parks and Recreation Fund	Adult Center Fund	Police Department Restricted Revenue Fund
ASSETS			
Cash and investments	\$ 19,049	\$ 31,964	\$ 10,743
Property tax receivable	-	-	-
Due from other funds	-	-	-
Total assets	\$ 19,049	\$ 31,964	\$ 10,743
LIABILITIES AND FUND BALANCES			
Liabilities			
Deferred revenue	\$ -	\$ -	\$ -
Total liabilities	-	-	-
Fund balances			
Nonspendable	-	-	-
Spendable			
Restricted			
Public works	-	-	-
Community development	-	-	10,743
Debt service	-	-	-
Assigned			
Community development	19,049	31,964	-
Total fund balances	19,049	31,964	10,743
Total liabilities and fund balances	\$ 19,049	\$ 31,964	\$ 10,743

See accompanying independent auditor's report.

Special Revenue Funds

<u>Molalla Mural Commission Fund</u>	<u>Fox Park Pavillion Fund</u>	<u>Molalla Arts Commission Fund</u>
\$ 5,518	\$ 3,676	\$ 1,935
-	-	-
-	-	-
<u>\$ 5,518</u>	<u>\$ 3,676</u>	<u>\$ 1,935</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
-	-	-
-	-	-
-	-	-
5,518	3,676	1,935
-	-	-
-	-	-
<u>5,518</u>	<u>3,676</u>	<u>1,935</u>
<u>\$ 5,518</u>	<u>\$ 3,676</u>	<u>\$ 1,935</u>

Special Revenue Funds		Capital Project Funds		Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
Recorder's Trust Fund	Urban Renewal Agency	Street SDC Fund	Park SDC Fund	Bonded Debt Fund	Sally Fox Park Fund	
\$ -	\$ 371,030	\$ 175,412	\$ 347,620	\$ 40,836	\$ 96,388	\$ 1,104,171
-	9,930	-	-	-	-	9,930
-	-	-	155,188	-	-	155,188
<u>\$ -</u>	<u>\$ 380,960</u>	<u>\$ 175,412</u>	<u>\$ 502,808</u>	<u>\$ 40,836</u>	<u>\$ 96,388</u>	<u>\$ 1,269,289</u>
\$ -	\$ 8,513	\$ -	\$ -	\$ -	\$ -	\$ 8,513
-	8,513	-	-	-	-	8,513
-	-	-	155,188	-	96,303	251,491
-	-	175,412	347,620	-	-	523,032
-	372,447	-	-	-	85	394,404
-	-	-	-	40,836	-	40,836
-	-	-	-	-	-	51,013
-	372,447	175,412	502,808	40,836	96,388	1,260,776
<u>\$ -</u>	<u>\$ 380,960</u>	<u>\$ 175,412</u>	<u>\$ 502,808</u>	<u>\$ 40,836</u>	<u>\$ 96,388</u>	<u>\$ 1,269,289</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
For the Year Ended
June 30, 2012

	Special Revenue Funds		
	Parks and Recreation Fund	Adult Center Fund	Police Department Restricted Revenue Fund
Revenues			
Property taxes	\$ -	\$ -	\$ -
System development charges	-	-	-
Intergovernmental revenues	-	107,932	-
Fines and assessments	267,918	-	-
Donations	-	38,427	1,492
Interest	-	-	-
Miscellaneous revenue	-	19,496	9,251
Total revenues	<u>267,918</u>	<u>165,855</u>	<u>10,743</u>
Expenditures			
Current			
Personal services	205,597	237,274	-
Materials and services	229,953	157,099	-
Capital outlay	70,076	-	-
Debt service - interest	-	-	-
Debt service - principal	-	-	-
Total expenditures	<u>505,626</u>	<u>394,373</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>(237,708)</u>	<u>(228,518)</u>	<u>10,743</u>
Other financing sources (uses)			
Operating transfers in	139,000	195,252	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>139,000</u>	<u>195,252</u>	<u>-</u>
Net change in fund balances	(98,708)	(33,266)	10,743
Fund balances, July 1 before restatement	117,757	65,230	-
Restatement, see note 12	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, July 1 after restatement	<u>117,757</u>	<u>65,230</u>	<u>-</u>
Fund balances, June 30	<u>\$ 19,049</u>	<u>\$ 31,964</u>	<u>\$ 10,743</u>

See accompanying independent auditor's report.

Special Revenue Funds

Molalla Mural Commission Fund	Fox Park Pavillion Fund	Molalla Arts Commission Fund
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
26,330	10,300	909
-	-	-
93	-	5,108
<u>26,423</u>	<u>10,300</u>	<u>6,017</u>
-	-	-
20,905	23,264	4,082
-	-	-
-	-	-
-	-	-
<u>20,905</u>	<u>23,264</u>	<u>4,082</u>
<u>5,518</u>	<u>(12,964)</u>	<u>1,935</u>
-	16,640	-
-	-	-
-	16,640	-
<u>5,518</u>	<u>3,676</u>	<u>1,935</u>
-	-	-
-	-	-
-	-	-
<u>\$ 5,518</u>	<u>\$ 3,676</u>	<u>\$ 1,935</u>

Special Revenue Funds		Capital Project Funds		Debt Service	Permanent	Total June 30, 2012
Recorder's Trust Fund	Urban Renewal Agency	Street SDC Fund	Park SDC Fund	Fund Bonded Debt Fund	Fund Sally Fox Park Fund	
\$ -	\$ 203,850	\$ -	\$ -	\$ 71,188	\$ -	\$ 275,038
-	-	75,064	22,359	-	-	97,423
-	-	-	-	-	-	107,932
72,511	-	-	-	-	-	340,429
-	-	-	-	-	-	77,458
-	37	-	-	-	790	827
-	-	-	-	-	-	33,948
<u>72,511</u>	<u>203,887</u>	<u>75,064</u>	<u>22,359</u>	<u>71,188</u>	<u>790</u>	<u>933,055</u>
-	-	-	-	-	-	442,871
74,159	10,000	-	-	-	1,560	521,022
-	-	-	-	-	-	70,076
-	-	-	-	10,765	-	10,765
-	-	-	-	55,000	-	55,000
<u>74,159</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>65,765</u>	<u>1,560</u>	<u>1,099,734</u>
<u>(1,648)</u>	<u>193,887</u>	<u>75,064</u>	<u>22,359</u>	<u>5,423</u>	<u>(770)</u>	<u>(166,679)</u>
-	-	-	-	-	-	350,892
-	-	-	(11,640)	-	(5,000)	(16,640)
-	-	-	(11,640)	-	(5,000)	334,252
<u>(1,648)</u>	<u>193,887</u>	<u>75,064</u>	<u>10,719</u>	<u>5,423</u>	<u>(5,770)</u>	<u>167,573</u>
1,648	158,560	167,546	32,219	976	102,158	646,094
-	20,000	(67,198)	459,870	34,437	-	447,109
<u>1,648</u>	<u>178,560</u>	<u>100,348</u>	<u>492,089</u>	<u>35,413</u>	<u>102,158</u>	<u>1,093,203</u>
<u>\$ -</u>	<u>\$ 372,447</u>	<u>\$ 175,412</u>	<u>\$ 502,808</u>	<u>\$ 40,836</u>	<u>\$ 96,388</u>	<u>\$ 1,260,776</u>

BUDGET BASIS

CITY OF MOLALLA, OREGON
COMBINING BALANCE SHEET
NONMAJOR FUNDS
(Budget Basis)
June 30, 2012

	Special Revenue Funds		
	Parks and Recreation Fund	Adult Center Fund	Police Department Restricted Revenue Fund
ASSETS			
Cash and investments	\$ 19,049	\$ 31,964	\$ 10,743
Due from other funds	-	-	-
Total assets	<u>\$ 19,049</u>	<u>\$ 31,964</u>	<u>\$ 10,743</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances			
Nonspendable	-	-	-
Spendable			
Restricted			
Public works	-	-	-
Community development	-	-	10,743
Debt service	-	-	-
Assigned			
Community development	19,049	31,964	-
Total fund balances	<u>19,049</u>	<u>31,964</u>	<u>10,743</u>
Total liabilities and fund balances	<u>\$ 19,049</u>	<u>\$ 31,964</u>	<u>\$ 10,743</u>

See accompanying independent auditor's report.

Special Revenue Funds

<u>Molalla Mural Commission Fund</u>	<u>Fox Park Pavillion Fund</u>	<u>Molalla Arts Commission Fund</u>
\$ 5,518	\$ 3,676	\$ 1,935
-	-	-
<u>\$ 5,518</u>	<u>\$ 3,676</u>	<u>\$ 1,935</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
5,518	3,676	1,935
-	-	-
-	-	-
<u>5,518</u>	<u>3,676</u>	<u>1,935</u>
<u>\$ 5,518</u>	<u>\$ 3,676</u>	<u>\$ 1,935</u>

Special Revenue Funds		Capital Project Funds		Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
Recorder's Trust Fund	URA Fund	Street SDC Fund	Park SDC Fund	Bonded Debt Fund	Sally Fox Park Fund	
\$ -	\$ 371,030	\$ 175,412	\$ 347,620	\$ 40,836	\$ 96,388	\$ 1,104,171
-	-	-	155,188	-	-	155,188
<u>\$ -</u>	<u>\$ 371,030</u>	<u>\$ 175,412</u>	<u>\$ 502,808</u>	<u>\$ 40,836</u>	<u>\$ 96,388</u>	<u>\$ 1,259,359</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	155,188	-	96,303	251,491
-	-	175,412	347,620	-	-	523,032
-	371,030	-	-	-	85	392,987
-	-	-	-	40,836	-	40,836
-	-	-	-	-	-	51,013
-	371,030	175,412	502,808	40,836	96,388	1,259,359
<u>\$ -</u>	<u>\$ 371,030</u>	<u>\$ 175,412</u>	<u>\$ 502,808</u>	<u>\$ 40,836</u>	<u>\$ 96,388</u>	<u>\$ 1,259,359</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
(Budget Basis)
For the Year Ended
June 30, 2012

	Special Revenue Funds		
	Parks and Recreation Fund	Adult Center Fund	Police Department Restricted Revenue Fund
Revenues			
Property taxes	\$ -	\$ -	\$ -
System development charges	-	-	-
Intergovernmental revenues	-	107,932	-
Fines and assessments	267,918	-	-
Donations	-	38,427	1,492
Interest	-	-	-
Miscellaneous revenue	-	19,496	9,251
Total revenues	<u>267,918</u>	<u>165,855</u>	<u>10,743</u>
Expenditures			
Current			
Personal services	205,597	237,274	-
Materials and services	163,982	101,498	-
Capital outlay	70,076	-	-
Debt Service	-	-	-
Total expenditures	<u>439,655</u>	<u>338,772</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>(171,737)</u>	<u>(172,917)</u>	<u>10,743</u>
Other financing sources (uses)			
Operating transfers in	139,000	195,252	-
Operating transfers out	-	-	-
Administrative services	(65,971)	(55,601)	-
Total other financing sources (uses)	<u>73,029</u>	<u>139,651</u>	<u>-</u>
Net change in fund balance	(98,708)	(33,266)	10,743
Fund balance, July 1 before restatement	117,757	65,230	-
Restatement, see note 12	-	-	-
Fund balance, July 1 after restatement	<u>117,757</u>	<u>65,230</u>	<u>-</u>
Fund balance, June 30	<u>\$ 19,049</u>	<u>\$ 31,964</u>	<u>\$ 10,743</u>

See accompanying independent auditor's report.

Special Revenue Funds

Molalla Mural Commission Fund	Fox Park Pavillion Fund	Molalla Arts Commission Fund
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
26,330	10,300	909
-	-	-
93	-	5,108
<u>26,423</u>	<u>10,300</u>	<u>6,017</u>
-	-	-
20,905	23,264	4,082
-	-	-
-	-	-
<u>20,905</u>	<u>23,264</u>	<u>4,082</u>
<u>5,518</u>	<u>(12,964)</u>	<u>1,935</u>
-	16,640	-
-	-	-
-	-	-
<u>-</u>	<u>16,640</u>	<u>-</u>
5,518	3,676	1,935
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 5,518</u>	<u>\$ 3,676</u>	<u>\$ 1,935</u>

Special Revenue Funds		Capital Project Funds		Debt Service Fund	Permanent Fund	Total
Recorder's Trust Fund	Urban Renewal Agency	Street SDC Fund	Park SDC Fund	Bonded Debt Fund	Sally Fox Park Fund	June 30, 2012
\$ -	\$ 202,433	\$ -	\$ -	\$ 71,188	\$ -	\$ 273,621
-	-	75,064	22,359	-	-	97,423
-	-	-	-	-	-	107,932
72,511	-	-	-	-	-	340,429
-	-	-	-	-	-	77,458
-	37	-	-	-	790	827
-	-	-	-	-	-	33,948
<u>72,511</u>	<u>202,470</u>	<u>75,064</u>	<u>22,359</u>	<u>71,188</u>	<u>790</u>	<u>931,638</u>
-	-	-	-	-	-	442,871
74,159	10,000	-	-	-	1,560	399,450
-	-	-	-	-	-	70,076
-	-	-	-	65,765	-	65,765
<u>74,159</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>65,765</u>	<u>1,560</u>	<u>978,162</u>
<u>(1,648)</u>	<u>192,470</u>	<u>75,064</u>	<u>22,359</u>	<u>5,423</u>	<u>(770)</u>	<u>(46,524)</u>
-	-	-	-	-	-	350,892
-	-	-	(11,640)	-	(5,000)	(16,640)
-	-	-	-	-	-	(121,572)
-	-	-	(11,640)	-	(5,000)	212,680
<u>(1,648)</u>	<u>192,470</u>	<u>75,064</u>	<u>10,719</u>	<u>5,423</u>	<u>(5,770)</u>	<u>166,156</u>
1,648	158,560	167,546	32,219	976	102,158	646,094
-	20,000	(67,198)	459,870	34,437	-	447,109
<u>1,648</u>	<u>178,560</u>	<u>100,348</u>	<u>492,089</u>	<u>35,413</u>	<u>102,158</u>	<u>1,093,203</u>
<u>\$ -</u>	<u>\$ 371,030</u>	<u>\$ 175,412</u>	<u>\$ 502,808</u>	<u>\$ 40,836</u>	<u>\$ 96,388</u>	<u>\$ 1,259,359</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - PARKS AND RECREATION FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Fees	\$ 275,000	\$ 275,000	\$ 267,918	\$ (7,082)
Total revenues	<u>275,000</u>	<u>275,000</u>	<u>267,918</u>	<u>(7,082)</u>
Expenditures				
Personal services	244,575	244,575	205,597	38,978
Material and services	186,925	157,475	163,982	(6,507)
Capital outlay	15,000	60,000	70,076	(10,076)
Contingency	12,500	3,735	-	3,735
Total expenditures	<u>459,000</u>	<u>465,785</u>	<u>439,655</u>	<u>26,130</u>
Excess of revenues over (under) expenditures	<u>(184,000)</u>	<u>(190,785)</u>	<u>(171,737)</u>	<u>19,048</u>
Other financing sources (uses)				
Transfers in	139,000	139,000	139,000	-
Administrative services	-	(65,971)	(65,971)	-
Total other sources (uses)	<u>139,000</u>	<u>73,029</u>	<u>73,029</u>	<u>-</u>
Net change in fund balance	(45,000)	(117,756)	(98,708)	19,048
Fund balance, July 1	<u>45,000</u>	<u>117,756</u>	<u>117,757</u>	<u>1</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,049</u>	<u>\$ 19,049</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ADULT CENTER FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Intergovernmental revenues	\$ 91,400	\$ 91,400	\$ 107,932	\$ 16,532
Donations	39,000	39,000	38,427	(573)
Miscellaneous	26,000	26,000	19,496	(6,504)
Total revenues	<u>156,400</u>	<u>156,400</u>	<u>165,855</u>	<u>9,455</u>
Expenditures				
Personal services	249,462	249,462	237,274	12,188
Material and services	96,590	96,590	101,498	(4,908)
Contingency	5,600	5,600	-	5,600
Total expenditures	<u>351,652</u>	<u>351,652</u>	<u>338,772</u>	<u>12,880</u>
Excess of revenues over (under) expenditures	(195,252)	(195,252)	(172,917)	22,335
Other financing sources (uses)				
Transfers in	195,252	195,252	195,252	-
Administrative services	-	(55,601)	(55,601)	-
Total other financing sources (uses)	<u>195,252</u>	<u>139,651</u>	<u>139,651</u>	<u>-</u>
Net change in fund balance	-	(55,601)	(33,266)	22,335
Fund balance, July 1	<u>-</u>	<u>55,601</u>	<u>65,230</u>	<u>9,629</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,964</u>	<u>\$ 31,964</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - POLICE DEPARTMENT RESTRICTED REVENUE FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
Donations	\$ -	\$ 1,500	\$ 1,492	\$ (8)
Miscellaneous	-	500	9,251	8,751
Total revenues	<u>-</u>	<u>2,000</u>	<u>10,743</u>	<u>8,743</u>
Expenditures				
Materials and services	-	2,000	-	2,000
Total expenditures	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Net change in fund balance	-	-	10,743	10,743
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,743</u>	<u>\$ 10,743</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - MOLALLA MURAL COMMISSION FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
Donations	\$ -	\$ 21,000	\$ 26,330	\$ 5,330
Miscellaneous	-	-	93	93
Total revenues	<u>-</u>	<u>21,000</u>	<u>26,423</u>	<u>5,423</u>
Expenditures				
Materials and services	-	21,000	20,905	95
Total expenditures	<u>-</u>	<u>21,000</u>	<u>20,905</u>	<u>95</u>
Net change in fund balance	-	-	5,518	5,518
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,518</u></u>	<u><u>\$ 5,518</u></u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - FOX PARK PAVILLION
(Budget Basis)
For the Year Ended
June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
Donations	\$ -	\$ 11,000	\$ 10,300	\$ (700)
Grants	-	5,000	-	(5,000)
Total revenues	<u>-</u>	<u>16,000</u>	<u>10,300</u>	<u>(5,700)</u>
Expenditures				
Materials and services	-	32,640	23,264	9,376
Total expenditures	<u>-</u>	<u>32,640</u>	<u>23,264</u>	<u>9,376</u>
Excess of revenues over (under) expenditures	-	(16,640)	(12,964)	(15,076)
Other financing sources (uses)				
Transfers in	-	16,640	16,640	-
Total other financing sources (uses)	<u>-</u>	<u>16,640</u>	<u>16,640</u>	<u>-</u>
Net change in fund balance	-	-	3,676	3,676
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,676</u>	<u>\$ 3,676</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - MOLALLA ARTS COMMISSION FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Donations	\$ -	\$ 18,344	\$ 909	\$ (17,435)
Miscellaneous	-	5,000	5,108	108
Total revenues	<u>-</u>	<u>23,344</u>	<u>6,017</u>	<u>(17,327)</u>
Expenditures				
Materials and services	-	23,344	4,082	19,262
Total expenditures	<u>-</u>	<u>23,344</u>	<u>4,082</u>	<u>19,262</u>
Net change in fund balance	-	-	1,935	1,935
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,935</u></u>	<u><u>\$ 1,935</u></u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - RECORDER'S TRUST FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Fines and assessments	\$ -	\$ -	\$ 72,511	\$ 72,511
Total revenues	-	-	72,511	72,511
Expenditures				
Materials and services	-	-	74,159	(74,159)
Total expenditures	-	-	74,159	(74,159)
Net change in fund balance	-	-	(1,648)	(1,648)
Fund balance, July 1	-	-	1,648	1,648
Fund balance, June 30	\$ -	\$ -	\$ -	\$ -

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL -URBAN RENEWAL AGENCY
(Budget Basis)
For the Year Ended
June 30, 2012

	Adopted Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Property taxes	\$ 191,828	\$ 191,828	\$ 202,433	\$ 10,605
Interest	220	220	37	(183)
Total revenues	<u>192,048</u>	<u>192,048</u>	<u>202,470</u>	<u>10,422</u>
Expenditures				
Materials and services	35,000	35,000	10,000	25,000
Capital outlay	100,000	100,000	-	100,000
Contingency	90,000	90,000	-	90,000
Total expenditures	<u>225,000</u>	<u>225,000</u>	<u>10,000</u>	<u>215,000</u>
Net change in fund balance	(32,952)	(32,952)	192,470	225,422
Fund balance, July 1 before restatement	115,000	115,000	158,560	43,560
Restatement see note 12	-	-	20,000	20,000
Fund balance, July 1 after restatement	<u>115,000</u>	<u>115,000</u>	<u>178,560</u>	<u>63,560</u>
Fund balance, June 30	<u>\$ 82,048</u>	<u>\$ 82,048</u>	<u>\$ 371,030</u>	<u>\$ 288,982</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - STREET SDC FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
System development charges	\$ 14,000	\$ 14,000	\$ 75,064	\$ 61,064
Total revenues	<u>14,000</u>	<u>14,000</u>	<u>75,064</u>	<u>61,064</u>
Expenditures				
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	14,000	14,000	75,064	61,064
Other financing sources (uses)				
Transfers in	116,282	116,282	-	(116,282)
Total other financing sources (uses)	<u>116,282</u>	<u>116,282</u>	<u>-</u>	<u>(116,282)</u>
Net change in fund balance	130,282	130,282	75,064	(55,218)
Fund balance July 1, before restatement	154,000	154,000	167,546	13,546
Restatement, see note 12	-	-	(67,198)	(67,198)
Fund balance July 1, after restatement	<u>154,000</u>	<u>154,000</u>	<u>100,348</u>	<u>(53,652)</u>
Fund balance June 30	<u>\$ 284,282</u>	<u>\$ 284,282</u>	<u>\$ 175,412</u>	<u>\$ (108,870)</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL -PARK SDC FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
System development charges	\$ 4,500	\$ 4,500	\$ 22,359	\$ 17,859
Total revenues	<u>4,500</u>	<u>4,500</u>	<u>22,359</u>	<u>17,859</u>
Expenditures				
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	4,500	4,500	22,359	17,859
Other financing sources (uses)				
Transfers in	44,000	44,000	-	(44,000)
Transfers out	-	(11,640)	(11,640)	-
Total other financing sources (uses)	<u>44,000</u>	<u>32,360</u>	<u>(11,640)</u>	<u>(44,000)</u>
Net change in fund balance	48,500	36,860	10,719	(26,141)
Fund balance July 1, before restatement	30,000	30,000	32,219	2,219
Restatements see note 12	-	-	459,870	459,870
Fund balance July 1, after restatement	<u>30,000</u>	<u>30,000</u>	<u>492,089</u>	<u>462,089</u>
Fund balance, June 30	<u>\$ 78,500</u>	<u>\$ 66,860</u>	<u>\$ 502,808</u>	<u>\$ 435,948</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BONDED DEBT FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	Adopted Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Property taxes	\$ 66,613	\$ 66,613	\$ 71,188	\$ (4,575)
Total revenues	<u>66,613</u>	<u>66,613</u>	<u>71,188</u>	<u>(4,575)</u>
Expenditures				
Debt service	134,126	134,126	65,765	68,361
Total expenditures	<u>134,126</u>	<u>134,126</u>	<u>65,765</u>	<u>68,361</u>
Net change in fund balance	(67,513)	(67,513)	5,423	72,936
Fund balance, July 1 before restatement	67,513	67,513	976	(66,537)
Restatement, see note 12	-	-	34,437	34,437
Fund balance, July 1 after restatement	<u>67,513</u>	<u>67,513</u>	<u>35,413</u>	<u>(32,100)</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,836</u>	<u>\$ 40,836</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SALLY FOX PARK FUND
(Budget Basis)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Interest	\$ 450	\$ 450	\$ 790	\$ 340
Total revenues	<u>450</u>	<u>450</u>	<u>790</u>	<u>340</u>
Expenditures				
Materials and services	<u>13,450</u>	<u>8,450</u>	<u>1,560</u>	<u>6,890</u>
Total expenditures	<u>13,450</u>	<u>8,450</u>	<u>1,560</u>	<u>6,890</u>
Excess of revenues over (under) expenditures	<u>(13,000)</u>	<u>(8,000)</u>	<u>(770)</u>	<u>(6,550)</u>
Other financing sources (uses)				
Transfers out	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>-</u>
Total other sources (uses)	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>-</u>
Net change in fund balance	(13,000)	(13,000)	(5,770)	7,230
Fund balance, July 1	<u>103,000</u>	<u>103,000</u>	<u>102,158</u>	<u>(842)</u>
Fund balance, June 30	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$ 96,388</u>	<u>\$ 6,388</u>

ACCRUAL BASIS

CITY OF MOLALLA, OREGON
COMBINING SCHEDULE OF FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
June 30, 2012

	Storm Water Fund	Storm Water Capital Improvement Fund	CWSR Debt Retirement Fund	Sewer SDC Fund	Storm Water SDC Fund	Total Nonmajor Governmental Funds
ASSETS						
Cash and investments	\$ 8,948	\$ -	\$ 186,264	\$ -	\$ 148,597	\$ 343,809
Land	5,241	-	-	-	-	5,241
Capital assets, net of accumulated depreciation	565,572	-	1,816,318	-	-	2,381,890
Total assets	<u>\$ 579,761</u>	<u>\$ -</u>	<u>\$ 2,002,582</u>	<u>\$ -</u>	<u>\$ 148,597</u>	<u>\$ 2,730,940</u>
LIABILITIES AND NET ASSETS						
Current liabilities						
Current portion of non-current liabilities	\$ -	\$ -	\$ 115,273	\$ -	\$ -	\$ 115,273
Total current liabilities	<u>-</u>	<u>-</u>	<u>115,273</u>	<u>-</u>	<u>-</u>	<u>115,273</u>
Non-current liabilities						
Notes payable	-	-	2,175,500	-	-	2,175,500
Total liabilities	<u>-</u>	<u>-</u>	<u>2,290,773</u>	<u>-</u>	<u>-</u>	<u>2,290,773</u>
Net assets						
Invested in capital assets, net of related debt	570,813	-	(474,455)	-	-	96,358
Restricted for debt service	-	-	186,264	-	-	186,264
Restricted for system development	-	-	-	-	148,597	148,597
Unrestricted	8,948	-	-	-	-	8,948
Total net assets	<u>579,761</u>	<u>-</u>	<u>(288,191)</u>	<u>-</u>	<u>148,597</u>	<u>440,167</u>
Total liabilities and net assets	<u>\$ 579,761</u>	<u>\$ -</u>	<u>\$ 2,002,582</u>	<u>\$ -</u>	<u>\$ 148,597</u>	<u>\$ 2,730,940</u>

CITY OF MOLALLA, OREGON
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended
June 30, 2012

	Storm Water Fund	Storm Water Capital Improvement Fund	CWSR Debt Retirement Fund	Sewer SDC Fund	Storm Water SDC Fund	Total June 30, 2012
Operating revenues						
Charges for services	\$ 93,654	\$ -	\$ -	\$ -	\$ -	\$ 93,654
System development charges	-	-	-	100,541	7,444	107,985
Total operating revenues	<u>93,654</u>	<u>-</u>	<u>-</u>	<u>100,541</u>	<u>7,444</u>	<u>201,639</u>
Operating expenses						
Personal services	93,471	-	-	-	-	93,471
Materials and services	60,276	-	11,736	-	-	72,012
Capital outlay	38,276	-	-	-	-	38,276
Depreciation	13,776	-	40,679	-	-	54,455
Total operating expenses	<u>205,799</u>	<u>-</u>	<u>52,415</u>	<u>-</u>	<u>-</u>	<u>258,214</u>
Operating income (loss)	<u>(112,145)</u>	<u>-</u>	<u>(52,415)</u>	<u>100,541</u>	<u>7,444</u>	<u>(56,575)</u>
Nonoperating income (expenses)						
Interest income	636	-	-	302	-	938
Interest expense	-	-	(66,501)	-	-	(66,501)
Total nonoperating income (expenses)	<u>636</u>	<u>-</u>	<u>(66,501)</u>	<u>302</u>	<u>-</u>	<u>(65,563)</u>
Net income	<u>(111,509)</u>	<u>-</u>	<u>(118,916)</u>	<u>100,843</u>	<u>7,444</u>	<u>(122,138)</u>
Other financing sources (uses)						
Operating transfers in	-	-	210,000	109,157	-	319,157
Operating transfers out	-	-	-	(210,000)	-	(210,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>210,000</u>	<u>(100,843)</u>	<u>-</u>	<u>109,157</u>
Change in fund net assets	(111,509)	-	91,084	-	7,444	(12,981)
Net assets, July 1 before restatement	105,337	1,344	166,614	379,008	139,664	791,967
Restatement see note 12	<u>585,933</u>	<u>(1,344)</u>	<u>(545,889)</u>	<u>(379,008)</u>	<u>1,489</u>	<u>(338,819)</u>
Net assets, July 1 after restatement	<u>691,270</u>	<u>-</u>	<u>(379,275)</u>	<u>-</u>	<u>141,153</u>	<u>453,148</u>
Net assets, June 30	<u>\$ 579,761</u>	<u>\$ -</u>	<u>\$ (288,191)</u>	<u>\$ -</u>	<u>\$ 148,597</u>	<u>\$ 440,167</u>

BUDGET BASIS

CITY OF MOLALLA, OREGON
COMBINING SCHEDULE OF FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
(Budget Basis)
June 30, 2012

	Storm Water Fund	Storm Water Capital Improvement Fund	CWSR Debt Retirement Fund	Sewer SDC Fund	Storm Water SDC Fund	Total Nonmajor Governmental Funds
ASSETS						
Cash and investments	\$ 8,948	\$ -	\$ 186,264	\$ -	\$ 148,597	\$ 343,809
Total assets	<u>\$ 8,948</u>	<u>\$ -</u>	<u>\$ 186,264</u>	<u>\$ -</u>	<u>\$ 148,597</u>	<u>\$ 343,809</u>
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets						
Restricted for debt retirement (expendable)	-	-	186,264	-	-	186,264
Restricted for system development	-	-	-	-	148,597	148,597
Unrestricted	8,948	-	-	-	-	8,948
Total net assets	<u>8,948</u>	<u>-</u>	<u>186,264</u>	<u>-</u>	<u>148,597</u>	<u>343,809</u>
Total liabilities and net assets	<u>\$ 8,948</u>	<u>\$ -</u>	<u>\$ 186,264</u>	<u>\$ -</u>	<u>\$ 148,597</u>	<u>\$ 343,809</u>

CITY OF MOLALLA, OREGON
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
(Budget Basis)
For the Year Ended
June 30, 2012

	Storm Water Fund	Storm Water Capital Improvement Fund	CWSR Debt Retirement Fund	Sewer SDC Fund	Storm Water SDC Fund	Total June 30, 2012
Revenues						
Charges for services	\$ 93,654	\$ -	\$ -	\$ -	\$ -	\$ 93,654
System development charges	-	-	-	100,541	7,444	107,985
Interest	636	-	-	302	-	938
Total revenues	<u>94,290</u>	<u>-</u>	<u>-</u>	<u>100,843</u>	<u>7,444</u>	<u>202,577</u>
Expenses						
Personal services	93,471	-	-	-	-	93,471
Materials and services	60,276	-	11,736	-	-	72,012
Capital outlay	38,276	-	-	-	-	38,276
Debt service	-	-	178,614	-	-	178,614
Total expenses	<u>192,023</u>	<u>-</u>	<u>190,350</u>	<u>-</u>	<u>-</u>	<u>382,373</u>
Excess of revenues over (under) expenses	<u>(97,733)</u>	<u>-</u>	<u>(190,350)</u>	<u>100,843</u>	<u>7,444</u>	<u>(179,796)</u>
Other financing sources (uses)						
Operating transfers in	-	-	210,000	109,157	-	319,157
Operating transfers out	-	-	-	(210,000)	-	(210,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>210,000</u>	<u>(100,843)</u>	<u>-</u>	<u>109,157</u>
Change in fund net assets	(97,733)	-	19,650	-	7,444	(70,639)
Net assets, July 1 before restatement	105,337	1,344	166,614	379,008	139,664	791,967
Restatement see note 12	1,344	(1,344)	-	(379,008)	1,489	(377,519)
Net assets, July 1 after restatement	<u>106,681</u>	<u>-</u>	<u>166,614</u>	<u>-</u>	<u>141,153</u>	<u>414,448</u>
Net assets, June 30	<u>\$ 8,948</u>	<u>\$ -</u>	<u>\$ 186,264</u>	<u>\$ -</u>	<u>\$ 148,597</u>	<u>\$ 343,809</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - STORM WATER FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Consumer receipts	\$ 91,994	\$ 91,994	\$ 93,654	\$ 1,660
Interest	5,000	5,000	636	(4,364)
Miscellaneous revenue	100	100	-	(100)
Total revenues	<u>97,094</u>	<u>97,094</u>	<u>94,290</u>	<u>(2,804)</u>
Expenses				
Personal services	103,282	103,282	93,471	9,811
Materials and services	51,700	69,894	60,276	9,618
Capital outlay	56,189	56,189	38,276	17,913
Contingency	28,268	10,074	-	10,074
Total expenses	<u>239,439</u>	<u>239,439</u>	<u>192,023</u>	<u>47,416</u>
Excess of revenues over (under) expenses	(142,345)	(142,345)	(97,733)	44,612
Change in fund net assets	(142,345)	(142,345)	(97,733)	44,612
Net assets, July 1 before restatement	142,345	142,345	105,337	(37,008)
Restatement, see note 12	<u>-</u>	<u>-</u>	<u>1,344</u>	<u>1,344</u>
Net assets, July 1 after restatement	<u>142,345</u>	<u>142,345</u>	<u>106,681</u>	<u>(35,664)</u>
Net assets, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,948</u></u>	<u><u>\$ 8,948</u></u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - STORM WATER CAPITAL IMPROVEMENT FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Interest	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses				
Materials and services	-	-	-	-
Total expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund net assets	-	-	-	-
Net assets, July 1 before restatement	-	-	1,344	1,344
Restatement, see note 12	<u>-</u>	<u>-</u>	<u>(1,344)</u>	<u>(1,344)</u>
Net assets, July 1 after restatement	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - CWSRF DEBT RETIREMENT FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Interest	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses				
Materials and services	12,772	12,772	11,736	1,036
Debt service	357,228	357,228	178,614	178,614
Total expenses	<u>370,000</u>	<u>370,000</u>	<u>190,350</u>	<u>179,650</u>
Excess of revenues over (under) expenses	<u>(370,000)</u>	<u>(370,000)</u>	<u>(190,350)</u>	<u>179,650</u>
Other financing sources (uses)				
Transfers in	210,000	210,000	210,000	-
Total other financing sources (uses)	<u>210,000</u>	<u>210,000</u>	<u>210,000</u>	<u>-</u>
Change in fund net assets	(160,000)	(160,000)	19,650	179,650
Net assets, July 1	<u>160,000</u>	<u>160,000</u>	<u>166,614</u>	<u>6,614</u>
Net assets, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 186,264</u>	<u>\$ 186,264</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - SEWER SDC FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
System development charges	\$ 20,000	\$ 20,000	\$ 100,541	\$ 80,541
Interest	-	-	302	302
Total revenues	<u>20,000</u>	<u>20,000</u>	<u>100,843</u>	<u>80,843</u>
Expenses				
Materials and services	-	-	-	-
Total expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenses	20,000	20,000	100,843	80,843
Other financing sources (uses)				
Transfers in	-	-	109,157	109,157
Transfers out	(210,000)	(210,000)	(210,000)	-
Total other financing sources (uses)	<u>(210,000)</u>	<u>(210,000)</u>	<u>(100,843)</u>	<u>109,157</u>
Change in fund net assets	(190,000)	(190,000)	-	190,000
Net assets, July 1 before restatement	400,000	400,000	379,008	(20,992)
Restatement, see note 12	-	-	(379,008)	(379,008)
Net assets, July 1 after restatement	<u>400,000</u>	<u>400,000</u>	<u>-</u>	<u>(400,000)</u>
Net assets, June 30	<u>\$ 210,000</u>	<u>\$ 210,000</u>	<u>\$ -</u>	<u>\$ (210,000)</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - STORM WATER SDC FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
System development charges	\$ 1,200	\$ 1,200	\$ 7,444	\$ 6,244
Total revenues	<u>1,200</u>	<u>1,200</u>	<u>7,444</u>	<u>6,244</u>
Expenses				
Materials and services	-	-	-	-
Total expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund net assets	1,200	1,200	7,444	6,244
Net assets, July 1 before restatement	139,000	139,000	139,664	664
Restatement, see note 12	<u>-</u>	<u>-</u>	<u>1,489</u>	<u>1,489</u>
Net assets, July 1 after restatement	<u>139,000</u>	<u>139,000</u>	<u>141,153</u>	<u>2,153</u>
Net assets, June 30	<u><u>\$ 140,200</u></u>	<u><u>\$ 140,200</u></u>	<u><u>\$ 148,597</u></u>	<u><u>\$ 8,397</u></u>

MAJOR PROPRIETARY FUNDS

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - SEWER FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Consumer receipts	\$ 1,502,065	\$ 1,502,065	\$ 1,542,088	\$ 40,023
Interest	1,500	1,500	1,147	(353)
Miscellaneous revenue	1,000	1,000	6,356	5,356
Total revenues	<u>1,504,565</u>	<u>1,504,565</u>	<u>1,549,591</u>	<u>45,026</u>
Expenses				
Personal services	354,342	354,342	328,521	25,821
Materials and services	597,850	597,850	531,793	66,057
Capital outlay	706,678	668,901	95,568	573,333
Contingency	123,095	123,095	-	123,095
Total expenses	<u>1,781,965</u>	<u>1,744,188</u>	<u>955,882</u>	<u>788,306</u>
Excess of revenues over (under) expenses	<u>(277,400)</u>	<u>(239,623)</u>	<u>593,709</u>	<u>833,332</u>
Other financing sources (uses)				
Transfers out	(230,000)	(230,000)	(339,157)	(109,157)
Administrative services	-	(37,777)	(37,777)	-
Total other financing sources (uses)	<u>(230,000)</u>	<u>(267,777)</u>	<u>(376,934)</u>	<u>(109,157)</u>
Change in fund net assets	(507,400)	(507,400)	216,775	724,175
Net assets, July 1	<u>507,400</u>	<u>507,400</u>	<u>244,189</u>	<u>(263,211)</u>
Net assets, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 460,964</u>	<u>\$ 460,964</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - WATER FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Consumer receipts	\$ 1,347,506	\$ 1,347,506	\$ 1,287,941	\$ (59,565)
Interest	6,000	6,000	4,414	(1,586)
Miscellaneous revenue	100	100	6,904	6,804
Total revenues	<u>1,353,606</u>	<u>1,353,606</u>	<u>1,299,259</u>	<u>(54,347)</u>
Expenses				
Personal services	525,629	525,629	522,127	3,502
Materials and services	323,200	323,200	281,672	41,528
Capital outlay	785,000	727,432	154,201	573,231
Contingency	411,777	411,777	-	411,777
Total expenses	<u>2,045,606</u>	<u>1,988,038</u>	<u>958,000</u>	<u>1,030,038</u>
Excess of revenues over (under) expenses	<u>(692,000)</u>	<u>(634,432)</u>	<u>341,259</u>	<u>(1,084,385)</u>
Other financing sources (uses)				
Transfers out	(255,000)	(255,000)	(255,000)	-
Administrative services	-	(57,568)	(57,568)	-
Total other financing sources (uses)	<u>(255,000)</u>	<u>(312,568)</u>	<u>(312,568)</u>	<u>-</u>
Change in fund net assets	(947,000)	(947,000)	28,691	975,691
Net assets, July 1 before restatement	1,082,000	1,082,000	593,202	(488,798)
Restatement see note 12	-	-	175,000	175,000
Net assets, July 1 after restatement	<u>1,082,000</u>	<u>1,082,000</u>	<u>768,202</u>	<u>(313,798)</u>
Net assets, June 30	<u>\$ 135,000</u>	<u>\$ 135,000</u>	<u>\$ 796,893</u>	<u>\$ 661,893</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - SEWER DEBT RETIREMENT FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Interest	\$ 3,400	\$ 3,400	\$ 3,029	\$ (371)
Total revenues	<u>3,400</u>	<u>3,400</u>	<u>3,029</u>	<u>(371)</u>
Expenses				
Capital outlay	133,510	133,510	-	133,510
Debt service	644,900	644,900	322,802	322,098
Total expenses	<u>778,410</u>	<u>778,410</u>	<u>322,802</u>	<u>455,608</u>
Excess of revenues over (under) expenses	<u>(775,010)</u>	<u>(775,010)</u>	<u>(319,773)</u>	<u>455,237</u>
Other financing sources (uses)				
Transfers in	<u>215,000</u>	<u>215,000</u>	<u>215,000</u>	<u>-</u>
Total other financing sources (uses)	<u>215,000</u>	<u>215,000</u>	<u>215,000</u>	<u>-</u>
Change in fund net assets	(560,010)	(560,010)	(104,773)	455,237
Net assets, July 1	<u>560,010</u>	<u>560,010</u>	<u>726,095</u>	<u>166,085</u>
Net assets, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 621,322</u>	<u>\$ 621,322</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - WATER DEBT RETIREMENT FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Interest	\$ 3,250	\$ 3,250	\$ 3,340	\$ 90
Total revenues	<u>3,250</u>	<u>3,250</u>	<u>3,340</u>	<u>90</u>
Expenses				
Debt service	721,500	721,500	361,102	360,398
Total expenses	<u>721,500</u>	<u>721,500</u>	<u>361,102</u>	<u>360,398</u>
Excess of revenues over (under) expenses	<u>(718,250)</u>	<u>(718,250)</u>	<u>(357,762)</u>	<u>360,488</u>
Other financing sources (uses)				
Transfers in	240,000	240,000	240,000	-
Total other financing sources (uses)	<u>240,000</u>	<u>240,000</u>	<u>240,000</u>	<u>-</u>
Change in fund net assets	(478,250)	(478,250)	(117,762)	360,488
Net assets, July 1 before restatement	583,746	583,746	855,725	271,979
Restatement , see note 12	-	-	(34,437)	(34,437)
Net assets, July 1 after restatement	<u>583,746</u>	<u>583,746</u>	<u>821,288</u>	<u>237,542</u>
Net assets, June 30	<u>\$ 105,496</u>	<u>\$ 105,496</u>	<u>\$ 703,526</u>	<u>\$ 598,030</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - WATER SDC FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
System development charges	\$ 10,000	\$ 10,000	\$ 54,318	\$ 44,318
Interest	-	-	844	844
Total revenues	<u>10,000</u>	<u>10,000</u>	<u>55,162</u>	<u>45,162</u>
Expenditures				
Materials and services	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund net assets	10,000	10,000	55,162	45,162
Net assets, July 1 before restatement	1,030,000	1,030,000	1,033,978	3,978
Restatement, see note 12	<u>-</u>	<u>-</u>	<u>140,035</u>	<u>140,035</u>
Net assets, July 1 after restatement	<u>1,030,000</u>	<u>1,030,000</u>	<u>1,174,013</u>	<u>144,013</u>
Net assets, June 30	<u><u>\$ 1,040,000</u></u>	<u><u>\$ 1,040,000</u></u>	<u><u>\$ 1,229,175</u></u>	<u><u>\$ 189,175</u></u>

CITY OF MOLALLA, OREGON
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION
PROPRIETARY FUNDS
June 30, 2012

	Budget Basis							Accrual Adjustments	Accrual Basis
	Sewer Fund	Water Fund	Sewer Debt Retirement Fund	Water Debt Retirement Fund	Water SDC Fund	Nonmajor Proprietary Funds	Total Proprietary Funds		
Receipts									
Consumer receipts	\$ 1,542,088	\$ 1,287,941	\$ -	\$ -	\$ -	\$ 93,654	\$ 2,923,683	\$ (29,702)	\$ 2,893,981
System development charges	-	-	-	-	54,318	107,985	162,303	-	162,303
Interest	1,147	4,414	3,029	3,340	844	938	13,712	-	13,712
Miscellaneous	6,356	6,904	-	-	-	-	13,260	-	13,260
Total receipts	<u>1,549,591</u>	<u>1,299,259</u>	<u>3,029</u>	<u>3,340</u>	<u>55,162</u>	<u>202,577</u>	<u>3,112,958</u>	<u>(29,702)</u>	<u>3,083,256</u>
Disbursements									
Personal services	328,521	522,127	-	-	-	93,471	944,119	(636)	943,483
Materials and services	531,793	281,672	-	-	-	72,012	885,477	105,164	990,641
Capital outlay	95,568	154,201	-	-	-	38,276	288,045	(56,630)	231,415
Debt service	-	-	322,802	361,102	-	178,614	862,518	(612,112)	250,406
Depreciation expense	-	-	-	-	-	-	-	383,356	383,356
Total disbursements	<u>955,882</u>	<u>958,000</u>	<u>322,802</u>	<u>361,102</u>	<u>-</u>	<u>382,373</u>	<u>2,980,159</u>	<u>(180,858)</u>	<u>2,799,301</u>
Excess of receipts over disbursements	593,709	341,259	(319,773)	(357,762)	55,162	(179,796)	132,799	151,156	283,955
Other financing sources, net	(376,934)	(312,568)	215,000	240,000	-	109,157	(125,345)	95,345	(30,000)
Change in fund net assets	216,775	28,691	(104,773)	(117,762)	55,162	(70,639)	7,454	246,501	253,955
Balances at beginning of year, before restatement	244,189	593,202	726,095	855,725	1,033,978	791,967	4,245,156	-	4,245,156
Restatement, see note 12	-	175,000	-	(34,437)	140,035	(377,519)	(96,921)	6,449,687	6,352,766
Balances at beginning of year, after restatement	<u>244,189</u>	<u>768,202</u>	<u>726,095</u>	<u>821,288</u>	<u>1,174,013</u>	<u>414,448</u>	<u>4,148,235</u>	<u>6,449,687</u>	<u>10,597,922</u>
Balances at end of year	<u>\$ 460,964</u>	<u>\$ 796,893</u>	<u>\$ 621,322</u>	<u>\$ 703,526</u>	<u>\$ 1,229,175</u>	<u>\$ 343,809</u>	<u>\$ 4,155,689</u>	<u>\$ 6,696,188</u>	<u>\$ 10,851,877</u>
Record current year accounts receivable - Water Fund							\$ (16,336)		
Record current year accounts receivable - Sewer Fund							(13,366)		
Total account receivable								\$ (29,702)	
Record current year change in compensated absences - Sewer Fund								(636)	
Record current year accounts payable - Sewer Fund								9,819	
Reclassify cost allocation plan - Water Fund							37,777		
Reclassify cost allocation plan - Sewer Fund							57,568		
Total cost allocation plan								95,345	
Record current year capital asset addition - Water Fund							(24,630)		
Record current year capital asset addition - Sewer Fund							(32,000)		
Total capital asset additions								(56,630)	
Depreciation expense - Sewer Fund							89,106		
Depreciation expense - Water Fund							114,467		
Depreciation expense - Sewer Debt Retirement Fund							64,525		
Depreciation expense - Water Debt Retirement Fund							60,803		
Depreciation expense - CSWRF Debt Retirement Fund							40,679		
Depreciation expense - Storm Water Fund							13,776		
Total depreciation expense								383,356	
Reclass current year principal payments - CWSRF Debt Retirement Fund							(112,112)		
Reclass current year principal payments - Sewer Debt Retirement Fund							(200,000)		
Reclass current year principal payments - Water Debt Retirement Fund							(300,000)		
Total principal payments								(612,112)	
Restatements see note								6,449,687	
								<u>\$ 6,696,188</u>	

OTHER FINANCIAL SCHEDULES

CITY OF MOLALLA, OREGON
SCHEDULE OF CASH, CASH ITEMS AND COLLATERAL SECURITY
June 30, 2012

Cash in governmental funds	\$ 2,018,741
Cash in proprietary funds	<u>3,965,688</u>
Total all cash and cash items	<u><u>\$ 5,984,429</u></u>

COLLATERAL SECURITY

West Coast Bank *	
Insurance under FDIC	<u>\$ 250,000</u>
Total West Coast Bank, FSB	<u>250,000</u>
Total collateral security	<u><u>\$ 250,000</u></u>

	Balance per Bank	Reconciling Amounts	Carrying Value
CASH AND CASH ITEMS			
West Coast Bank*			
General checking	\$ 68,404	\$ (41,622)	\$ 26,783
Urban Renewal Agency	371,030	-	371,030
Certificate of Deposit	<u>4,081</u>	<u>-</u>	<u>4,081</u>
Total West Coast Bank	<u>443,515</u>	<u>(41,622)</u>	<u>401,894</u>
Cash on hand	<u>404</u>	<u>-</u>	<u>404</u>
Total cash	<u>443,919</u>	<u>(41,622)</u>	<u>402,297</u>
Local Government Investment Pool**			
Operating	5,632,132	(50,000)	5,582,132
Total cash and cash items	<u><u>\$ 6,076,051</u></u>	<u><u>\$ (91,622)</u></u>	<u><u>\$ 5,984,429</u></u>

* Qualified Depository

** Local Government Investment Pool is fully collateralized by the state of Oregon

CITY OF MOLALLA, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS

For the Year Ended
June 30, 2012

GENERAL FUND

Tax Year	Uncollected Taxes	2011-12 Assessment	(Abatement) and Adjustments	Rebates Allowed	Interest Collected	Taxes Collected	Total Amount Collected	Uncollected Taxes
Special Levy	June 30, 2011						June 30, 2012	June 30, 2012
2011-12		\$ 2,470,239	\$ (8,051)	\$ (60,587)	\$ 662	\$ 2,320,834	\$ 2,321,496	\$ 80,767
2010-11	\$ 77,333	-	(1,731)	294	2,032	34,891	36,922	41,006
2009-10	34,137	-	(765)	266	1,723	6,901	8,624	26,737
2008-09	18,088	-	(324)	1	1,884	9,596	11,480	8,169
2007-08	5,054	-	(130)	-	808	3,442	4,251	1,482
2006-07	1,389	-	(64)	-	165	539	705	785
2005-06	596	-	(47)	-	61	167	228	383
Prior years	1,532		(53)	-	126	216	342	1,264
Total	\$ 138,129	\$ 2,470,239	\$ (11,165)	\$ (60,026)	\$ 7,461	\$ 2,376,586	\$ 2,384,048	\$ 160,593

URBAN RENEWAL AGENCY

Tax Year	Uncollected Taxes	2011-12 Assessment	(Abatement) and Adjustments	Rebates Allowed	Interest Collected	Taxes Collected	Total Amount Collected	Uncollected Taxes
Special Levy	June 30, 2011						June 30, 2012	June 30, 2012
2011-12		\$ 212,648	\$ (693)	\$ (5,216)	\$ 57	\$ 199,786	\$ 199,843	\$ 6,953
2010-11	\$ 4,580	-	(103)	17	120	2,067	2,187	2,429
2009-10	700	-	(16)	5	35	142	177	549
Total	\$ 5,280	\$ 212,648	\$ (812)	\$ (5,194)	\$ 212	\$ 201,994	\$ 202,207	\$ 9,931

Total Property tax receivable \$ 170,523

COMMENTS AND DISCLOSURES REQUIRED BY THE STATE OF OREGON

CITY OF MOLALLA, OREGON
COMMENTS AND DISCLOSURES REQUIRED BY THE STATE OF OREGON
June 30, 2012

Oregon Administration Rules 162-10-200 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the secretary of state in cooperation with the Oregon State Board of Accountancy, require certain comments and disclosures relating to the review of fiscal affairs and compliance with legal requirements. Comments relating to significant accounting policies, organization and fund structure, cash, and investments are included in the notes to financial statements. Other required comments and disclosures relating to this audit are set forth below.

Accounting Systems and Control Structure

The organizational structure of the city provides adequate accounting policies for maintaining an effective system of accountability and responsibility of funds. The accounting records are being maintained in a satisfactory manner and an adequate system of reporting revenues and expenditures to interested parties is in effect.

Where possible, the city has maintained a plan of organization encompassing methods and measures on internal control to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and carry out council policies. We believe a satisfactory control structure is maintained within the limits afforded by a small office staff. We note however, that the city clerk performs certain functions incompatible with preferred internal control procedures, such as recording revenues and expenditures and performing account reconciliations. The city accepts the risk of loss due to misappropriation when incompatible functions of financial management are not appropriately segregated.

As we have stated in the following report on compliance and on internal control over financial reporting in accordance with *Government Auditing Standards*, we do not express an opinion on the city's effectiveness in those areas. However, there were deficiencies reported in accordance with *Government Auditing Standards*.

Indebtedness

It is noted that no new bonded indebtedness was incurred during the year and that amounts outstanding appear to be within the legal debt limitations as set forth in the statutes.

Budgets

Our review of the 2011-2012 and 2012-2013 budgets indicates the city did not substantially comply with the local budget law in the preparation, adoption, and execution of the 2011-2012 budget however, they did substantially comply with the preparation and adoption of the 2012-2013 budgets. We noted nine expenditures that exceeded appropriations as listed in the Notes to the Required Supplementary Information on page 43. The city also had a couple of procedural violations.

Insurance and Fidelity Bond Coverage

We examined policies relating to insurance and fidelity bond coverage and ascertained that such policies appeared to be in force and that they appeared to satisfy bond ordinances and other provisions. The city of Molalla has complied with the provisions of the statutes with respect to bonding of council members and employees. We are not competent by training to state whether the insurance policies in force at June 30, 2012, provide adequate coverage. We understand coverage is reviewed periodically with the city's agent of record and such reviews have been made recently.

CITY OF MOLALLA, OREGON
COMMENTS AND DISCLOSURES REQUIRED BY THE STATE OF OREGON
June 30, 2012

Programs Funded From Outside Sources

We have audited the records and grant financial reports and made such tests, to the extent deemed appropriate for the programs in which the City of Molalla participates. Based on our audit, we found that for the items tested, the City of Molalla was in compliance with the material terms and conditions of the federal and state grant contracts and agreements. Further, based on our audit, nothing came to our attention to indicate that the city of Molalla had not complied with the material terms and conditions of federal and state grant contracts and agreements, which were not specifically tested. Each grant is subject to audit by the grantor agency and any adjustments may become a liability of the appropriate fund.

Public Contracts and Purchasing

Our review of city operations indicates the city is in compliance with the statutes relating to public contracting.

Investments

Our review of the city's investments indicates the city is in compliance with the statutes regarding the investments of surplus public funds.

Collateral

The city's bank balances of deposit at June 30, 2012, were either entirely insured or collateralized with the Federal Deposit Insurance Corporation, or the city deposit accounts were only maintained at financial institutions on the list of qualified depositors compiled by the Oregon state treasurer.

Highway Funds

We have reviewed the city's compliance with Article IX, section 3a of the Oregon Constitution, and compliance with the statutes regarding the use of revenue from taxes on motor vehicle use fuel and road funds. Our review disclosed no conditions that we considered to be matters of noncompliance.

Accountability for Independently Elected Officials

The City of Molalla, Oregon does not have elected officials collecting or receiving money.

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

City Council
City of Molalla
Molalla, Clackamas County, Oregon

We have audited the basic financial statements of City of Molalla as of and for the year ended June 30, 2012 and have issued our report thereon dated June 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Molalla'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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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
- Authorized investment of surplus funds (ORS Chapter 294)
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C)
- Highway Funds
- Accountability for Independently Elected Officials

In connection with our testing nothing came to our attention, except for the budget violations described in the notes to the required supplementary information, that caused us to believe City of Molalla 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.

OAR 162-10-230 Internal Control

In planning and performing our audit, we considered City of Molalla's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Molalla's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Molalla's internal control over financial reporting.

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 city's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However we noted certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. 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 noted certain matters that we reported to management of City of Molalla in a separate letter dated June 5, 2013.

This report is intended solely for the information and use of the city council, management, others within the district, the Oregon Secretary of State, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Oster Professional Group, CPA's, PC

By 

Burns, Oregon
June 5, 2013

CITY OF MOLALLA, OREGON
CONTINUING DISCLOSURE REQUIREMENTS FOR BONDED DEBT
For the Year Ended
June 30, 2012

2011-12 Assessed valuation of taxable property \$452,996,521

Tax rate (Dollars per \$1,000 assessed value) \$5.4528

Ratio of annual debt service requirements for bonded debt to total General Fund expenditures and transfers:

	Principal	Interest	Total Bonded Debt Service	General Fund Expenditures and Transfers	Ratio of Debt Service to General Fund Expenditures and Transfers
2011-12	\$ 555,000	\$ 193,613	\$ 748,613	\$ 3,705,813	20.20%

Ratio of net bonded debt to assessed value:

	Assessed Valuation	Net Bonded Debt (1)	Ratio of Net Bonded Debt to Assessed Value
2011-12	\$452,996,521	\$5,380,000	1.19%

(1) Computed as gross bonded debt less amount available for retirement of debt in Debt Service Fund

Principal taxpayers for City of Molalla

	Assessed Valuation	Percent of Total County Value
<u>Private Enterprises</u>		
Shorenstein Properties LLC	\$ 260,620,401	0.57%
General Growth Properties Inc	205,653,826	0.45%
Clackamas Baking Plant	181,846,215	0.40%
Xerox Corporation	85,169,272	0.19%
PCC Structurals Inc	81,109,421	0.18%
Blount Inc	68,429,283	0.15%
Thomson Reuters Pts Inc	65,753,150	0.14%
Mentor Graphics Corp	57,772,384	0.13%
Safeway Stores	52,113,250	0.11%
Marvin F Poer & Company	49,942,070	0.11%
<u>Public Utilities</u>		
Portland Gen Elec Co	555,237,000	1.21%
Northwest Natural Gas Co	194,463,600	0.43%
Comcast Corporation	149,777,000	0.33%
Qwest Corporation	55,707,700	0.12%
Frontier Communication	50,890,000	0.11%
Beavercreek Coop Tel Co	27,390,000	0.06%
Molalla Telephone Co	24,790,000	0.05%
Canby Telephone Assn	23,909,000	0.05%
Verizon Communications	21,236,900	0.05%
Northwest Pipeline	21,120,000	0.05%
<u>All other taxpayers</u>	\$ 43,516,283,318	95.12%
Total	\$ 45,749,213,790	100.00%

CITY OF MOLALLA, OREGON
CONTINUING DISCLOSURE REQUIREMENTS FOR BONDED DEBT
 For the Year Ended
 June 30, 2012

Summary of General Fund state revenue:

	State Sources	State Sources as % of Total Revenues	Total Revenues
2011-12	\$ 693,080	7.64%	\$ 9,066,983

Computation of Legal Debt Margin:

Real market value	\$ 561,028,629
Allowable proportion	0.0300
Debt limit: 3% of real market value (1)	16,830,859
Amount of debt applicable to debt limit:	
Bonded debt	\$5,380,000
Less: amount available in debt service funds	(1,367,690)
Amount of debt applicable to debt limit	4,012,310
Legal debt margin	\$ 12,818,549

(1) ORS 287.004(2) states: "...no city shall issue or have outstanding at any one time bonds in excess of three percent of the real market value of all taxable property within its boundaries, computed in accordance with ORS 308.207, after deducting from outstanding bonds such cash funds and sinking funds as are applicable to the payment of principal thereof."

Allowable percentage of real market value:

	3.00%
Allowable percentage	3.00%

**OREGON AUDITS DIVISION
SUMMARY OF REVENUES AND EXPENDITURES**

Name of Municipal Corporation City of Molalla

Address Molalla, Oregon

Period Covered by Audit Report: From July 1, 2011 to June 30, 2012

Total Revenues and/or Receipts - All Funds		<u>\$ 9,410,274</u>
Less:		
Revenues of Component Units included in report of primary government	<u>\$ 203,887</u>	
Taxes, assessments and other collections to be distributed to other governmental units	<u>-</u>	<u>203,887</u>
Net Revenues and/or Receipts		<u>\$ 9,206,387</u>
Total Expenditures and/or Disbursements - All Funds		<u>\$ 9,559,574</u>
Less:		
Expenditures of Component Units included in report of primary government	<u>\$ 10,000</u>	
Turnovers to other municipal corporations	<u>-</u>	
Taxes and Assessments	<u>-</u>	
Other Distributions	<u>-</u>	
Net Expenditures and/or Disbursements		<u>\$ 9,549,574</u>

The above information is based upon the revenues and expenditures/expenses for all funds of the municipal corporation on the basis of accounting used in the audited or reviewed financial statements.

Auditor/Firm Signature 

PLEASE ENCLOSE PAYMENT WITH SUMMARY

Over	Not Over	Fee	ORS 297.485 (1)
	\$ 50,000	\$ 20	
\$ 50,000	150,000	40	
150,000	500,000	150	
500,000	1,000,000	200	...The filing fee shall be determined by the total expenditures made by the municipal corporation for any and all purposes during the calendar or fiscal year audited, <u>except</u> that expenditures for principal of bonded debt, principal of short-term loans, principal of warrants redeemed which were issued during prior audit periods, transfers or loans between funds and turnovers of taxes or other trust moneys to other municipal corporations shall not be included in the total expenditures upon which the amount of the fee is based.
1,000,000	5,000,000	250	
5,000,000	10,000,000	300	
10,000,000	50,000,000	350	
50,000,000		400	
			<i>(Net Expenditures and/or Disbursements)</i>

Within 30 days after submitting the audit report to the municipal corporation, one copy of this summary must be filed with the Secretary of State, Division of Audits, Salem, Oregon 97310, and one copy must be delivered to the municipal corporation.

For Use by Division of Audits

Account Code _____ Firm Code _____ Filing Fee _____

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

City Council
City of Molalla
Molalla, Clackamas County, Oregon

We have audited the financial statements of the governmental activities, 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, 2012, and have issued our report thereon dated June 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Molalla is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Molalla's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Molalla's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Molalla's internal control over financial reporting.

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 misstatements 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 city's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Molalla's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We noted certain matters that we reported to the management of City of Molalla in a separate letter dated June 5, 2013.

The City of Molalla's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Molalla's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board directors, management, others within the district, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Oster Professional Group, CPA's, PC

By 

Burns, Oregon
June 5, 2013

CITY OF MOLALLA, OREGON
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

Finding 2012-1

Significant Deficiency in Internal Control over Financial Reporting – Segregation of Duties

Criteria: Custody, recording and authorization should be segregated among different personnel within financial management over each transaction cycle to provide adequate internal control for the prevention, detection and correction of an error or fraud.

Condition: Our evaluation of the city’s internal control disclosed that the city does not have adequate segregation of duties. Accounting duties are concentrated on one or two individuals which is resulting in approval and authorization procedures not to be completed on a consistent basis.

Cause: The number of city employees is limited due to funding available to the city.

Effect or Potential Effect: Without segregation of critical duties and proper authorizations, accounting errors or fraud may not be prevented, detected or corrected in a timely manner.

Recommendation: We acknowledge that a complete segregation of duties may not be possible due to staffing limitations and funding availability. However, we recommend that management review accounting positions and related functions to identify specific duties that could be segregated to achieve the strongest control possible. This would include all available employees and council members.

Management Response: We will create a finance advisory committee made up of councilors as well as the finance director with the specific intent of evaluating internal control procedures. We will also hire a part-time employee in the finance department in order to segregate some specific duties.