

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)

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

For the Year Ended June 30, 2012

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
June 30, 2012

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INTRODUCTORY SECTION

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
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 Clark	Molalla	Councilor
George Pottle	Molalla	Councilor
Jimmy Thompson	Molalla	Councilor
Dennis Wolfe	Molalla	Councilor
James Needham	Molalla	Councilor
<u>OFFICIALS</u>		
Ellen Barnes	Molalla	City Manager
Heather Penni	Molalla	Finance Director

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Council
Molalla Urban Renewal Agency
Molalla, Oregon

We have audited the accompanying financial statements of the governmental activities and each major fund of the Molalla Urban Renewal Agency (*a component unit of the City of Molalla, Oregon*) as of and for the year ended June 30, 2012, which collectively comprise the agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Molalla Urban Renewal Agency'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. 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Molalla Urban Renewal Agency, as of June 30, 2012, and the respective changes in financial position 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 Molalla Urban Renewal Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 7 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. The budgetary information for these funds 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 Molalla Urban Renewal Agency's financial statements as a whole. 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. 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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

MOLALLA URBAN RENEWAL AGENCY

Management's Discussion and Analysis

June 30, 2012

Overview of the Financial Statements

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the agency'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 agency 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 agency is improving or deteriorating.

The Statement of Activities. The *statement of activities* presents information showing how net assets of the agency changed over the most recent fiscal year by tracking receipts, disbursements and other transactions that increase or decrease net assets.

The government-wide statements distinguish functions of the agency that are principally supported by taxes and intergovernmental revenues (referred to as governmental activities). The agency does not have other functions that are intended to recover all or a significant portion of their cost through user fees and charges (referred to as business activities).

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or functions. The agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The agency only has one fund and this fund is considered a governmental fund.

Governmental Funds are used to account for agency functions that are supported primarily by taxes and intergovernmental revenues. These are essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as the balances of available spendable resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements.

Because the focus of government funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and governmental activities. These reconciliations can be found on pages 11 and 13 of this report.

The agency adopts an annual budget. A budgetary comparison has been provided to demonstrate compliance with the adopted budget.

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. The notes to the financial statements can be found on pages 14 through 18 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information and other supplemental information*. These can be found on pages 19 through 21 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets:

The following table reflects a summary of net assets compared to the prior fiscal year.

	Governmental Activities		Total Change
	6/30/2012	6/30/2011	+(-)
Current assets	\$ 380,960	\$ 158,560	\$ 222,400
Liabilities	-	-	-
Net assets			
Unrestricted	380,960	158,560	222,400
Total net assets	<u>\$ 380,960</u>	<u>\$ 158,560</u>	<u>\$ 222,400</u>

Statement of Activities:

The following table compares revenues and expenses for the government activities.

	Governmental Activities		Total Change
	6/30/2012	6/30/2011	+(-)
Revenues			
Program revenues			
Charges for services	\$ -	\$ -	\$ -
General receipts			
Property taxes	212,363	134,092	78,271
Interest	37	57	(20)
Total revenues	212,400	134,149	78,251
Expenses			
Community development	10,000	10,000	-
Total expenses	10,000	10,000	-
Change in net assets	202,400	124,149	78,251
Net assets - July 1			
as previously reported	158,560	34,411	124,149
Restatement	20,000	-	20,000
Net assets - as restated	178,560	34,411	144,149
Net assets - June 30	\$ 380,960	\$ 158,560	\$ 222,400

Fund-Based Financial Analysis

As noted earlier, the agency uses fund account to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the agency's financing requirements. In particular spendable fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the agency's governmental fund reported an ending fund balances of \$372,447. An increase of \$213,887 from the prior year after a restatement of \$20,000 is due mainly to the current year property taxes received.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund received \$10,422 more than what was budgeted due to mainly more property taxes than what was anticipated.

The General Fund spent \$215,000 less than what was budgeted due to the city not doing in capital projects and not using contingency.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

Molalla Urban Renewal Board has the agency on a holding pattern for spending until a consultant comes in to do a revenue project analysis. The original analysis was done prior to 2008 and the data table does not reflect current market conditions. The board is collecting revenues in an effort to prepare the agency to be bond ready to be able to handle a large scale project.

REQUESTS FOR INFORMATION

This financial report is designed to present the user (citizens, taxpayers, investors and creditors) with a general overview of the agency's finances and to demonstrate the agency's accountability. 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
P.O. Box 248
Molalla, Oregon 97038

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 371,030
Receivables	
Property tax	9,930
Total assets	380,960
LIABILITIES	
Accounts payable	-
Total liabilities	-
Net Assets	
Restricted for community development	380,960
Total net assets	\$ 380,960

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
STATEMENT OF ACTIVITIES
For the Year Ended
June 30, 2012

Functions/ Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Governmental activities					
Materials and services	\$ 10,000	\$ -	\$ -	\$ -	\$ (10,000)
Total governmental activities	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>
General Revenues					
Property taxes					212,363
Interest					<u>37</u>
Total general revenues					<u>212,400</u>
Change in net assets					202,400
Net assets July 1, 2011, before restatement					158,560
Restatement, see note 4					<u>20,000</u>
Net assets July 1, 2011, after restatement					178,560
Net assets June 30, 2012					<u>\$ 380,960</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2012

	<u>General Fund</u>	<u>Total June 30, 2012</u>
ASSETS		
Cash and investments	\$ 371,030	\$ 371,030
Receivables		
Property taxes	<u>9,930</u>	<u>9,930</u>
Total assets	<u>\$ 380,960</u>	<u>\$ 380,960</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Deferred revenues	<u>\$ 8,513</u>	<u>\$ 8,513</u>
Total liabilities	<u>8,513</u>	<u>8,513</u>
Fund balance		
Restricted for		
Community development	<u>372,447</u>	<u>372,447</u>
Total fund balance	<u>372,447</u>	<u>372,447</u>
Total liabilities and fund balance	<u>\$ 380,960</u>	<u>\$ 380,960</u>

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
**RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS**
June 30, 2012

TOTAL FUND BALANCES \$ 372,447

Amounts reported for governmental activities in the Statement of Net
Assets are different because:

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.

8,513

TOTAL NET ASSETS

\$ 380,960

MOLALLA URBAN RENEWAL AGENCY
 (A Component Unit of the City of Molalla, Oregon)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
 For the Year Ended
 June 30, 2012

	General Fund	Total June 30, 2012
Revenues		
Property taxes	\$ 203,850	\$ 203,850
Interest	37	37
Total revenues	203,887	203,887
Expenditures		
Current		
Materials and services	10,000	10,000
Total expenditures	10,000	10,000
Net change in fund balance	193,887	193,887
Fund balance, July 1, before restatement	158,560	158,560
Restatement, see note 4	20,000	20,000
Fund balance, July 1, after restatement	178,560	178,560
Fund balance, June 30	\$ 372,447	\$ 372,447

MOLALLA URBAN RENEWAL AGENCY
 (A Component Unit of the City of Molalla, Oregon)
RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended
 June 30, 2012

NET CHANGE IN FUND BALANCE	\$	193,887
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<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>		
		8,513
CHANGE IN NET ASSETS	<u>\$</u>	<u>202,400</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Note 1. Significant Accounting Policies

Organizational Authority

The Molalla Urban Renewal Agency, a component unit of the City of Molalla, Oregon, is the urban renewal agency of, and controlled by, the City of Molalla. It was established August 24, 2008 to assist in the redevelopment of blighted and deteriorated areas within the city through tax increment financing. The governing board consists of a 7 member advisory committee, which makes its recommendations to the council. The council is composed of the mayor and the city council of the City of Molalla.

A. Inclusion of the Agency in City of Molalla Audited Financial Statements

All significant activities and organizations for which the city exercises oversight responsibility have been included in the city's financial statements. The following criteria from Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No.39, "Determining Whether Certain Organizations are Component Units", regarding manifestation of oversight were considered by the city in its evaluation of city organizations and activities:

- Financial interdependency – the city receives financial support for providing financial benefit to the agency.
- Authoritative appointment of governing authority – Molalla city council is the agency's governing authority.

City management has determined that the agency meets the criteria set forth above, and therefore is a component unit of the city. This report is issued solely to meet a State of Oregon, Department of Revenue interpretation of Oregon Revised Statutes that requires a separate audit report.

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information on all activities of the agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are financed through property taxes.

The Statement of Net Assets presents the agency's 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.

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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 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

Separate financial statements are provided for governmental funds. The agency uses only one fund to account for the operations of the urban renewal agency.

C. Measurement Focus and Basis of Accounting

The government-wide 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.

The government-wide financial statements have applied 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.

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.

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

D. Budgets and Budgetary Accounting

A budget is prepared for the agency 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 and services, 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.

E. 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 Harney 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 district.

F. 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 property tax receivable not collected within sixty days after year end.

G. Cash and Investments

The agency'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.

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. The agency has no investments at June 30, 2012.

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

H. Encumbrances

The city does not use encumbrance accounting

I. 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.

J. 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 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 council, by formal council action.
- *Assigned*—Includes items assigned for specific uses, authorized by the person approved by the council.
- *Unassigned*—This is the residual classification used for those balances not assigned to another category.

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 has not adopted GASB Statement No. 54.

Note 2. Receivables

At June 30, 2012 the agency's accounts receivable were as follows:

Property tax receivable	\$ 9,930
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Note 3. Deposits and Investments

The agency maintains its cash in a separate bank account from the city.

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Cash and investments are comprised of the following at June 30, 2012:

Deposits with banks	\$ 371,030
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Cash and investments are shown on the basic financial statements as:

Statement of Net Assets	
Cash and investments	\$ 371,030

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 agency or by its agent in the agency's name, the agency 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 \$371,030 and the bank balance was \$371,030. 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 agency 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 agency 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.

Investments

At June 30, 2012, the agency did not have any investments.

Note 4. Accounting Changes and Restatements

Agency Activities: Fund balance and net assets was restated to record correct cash and property tax balances for \$20,000.

REQUIRED SUPPLEMENTARY INFORMATION

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the 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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	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 4	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>20,000</u>
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><u>\$ 82,048</u></u>	<u><u>\$ 82,048</u></u>	<u><u>\$ 371,030</u></u>	<u><u>\$ 288,982</u></u>

MOLALLA URBAN RENEWAL AGENCY
 (A Component Unit of the City of Molalla, Oregon)
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION
GOVERNMENTAL FUNDS

For the Year Ended
 June 30, 2012

	Budget Basis		Accrual Adjustments	Modified Accrual Basis
	General Fund Agency	Total Governmental Funds		
Receipts				
Property taxes	\$ 202,433	\$ 202,433	\$ 1,417	\$ 203,850
Interest	37	37	-	37
Total receipts	<u>202,470</u>	<u>202,470</u>	<u>1,417</u>	<u>203,887</u>
Disbursements				
Materials and services	10,000	10,000	-	10,000
Total disbursements	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Net change in fund balance	192,470	192,470	1,417	193,887
Fund balance July 1, before restatement	158,560	158,560	-	158,560
Restatement see note 4	20,000	20,000	-	20,000
Fund balance July 1, after restatement	<u>178,560</u>	<u>178,560</u>	<u>-</u>	<u>178,560</u>
Balances at end of year	<u>\$ 371,030</u>	<u>\$ 371,030</u>	<u>\$ 1,417</u>	<u>\$ 372,447</u>
Record current year change in property taxes receivable			\$ 1,417	

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
June 30, 2012

A budget is prepared for each agency 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 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 council. Budget appropriations lapse at June 30. Encumbrance accounting is not utilized in the preparation of budgeted funds.

During the year ended June 30, 2012 the agency had no overexpenditures of budgeted amounts although, there were a procedural violations resulting in the agency not substantially complying with Oregon Budget Law.

OTHER FINANCIAL SCHEDULES

MOLALLA URBAN RENEWAL AGENCY
 (A Component Unit of the City of Molalla, Oregon)
SCHEDULE OF PROPERTY TAX TRANSACTIONS
 For the Year Ended
 June 30, 2012

Tax Year Special Levy	Uncollected Taxes June 30, 2011	2011-12 Assessment	(Abatement) and Adjustments	Rebates Allowed	Interest Collected	Taxes Collected	Total Amount Collected	Uncollected Taxes 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	2,427
2009-10	700	-	(16)	5	35	139	174	550
Total	\$ 5,280	\$ 212,648	\$ (812)	\$ (5,194)	\$ 212	\$ 201,992	\$ 202,204	\$ 9,930

COMMENTS AND DISCLOSURES REQUIRED BY THE STATE OF OREGON

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the 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 agency 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 agency 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 agency clerk performs certain functions incompatible with preferred internal control procedures, such as recording revenues and expenditures and performing account reconciliations. The agency 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 since there were no amounts outstanding the agency appears 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 agency did not substantially comply with the local budget law in the preparation, adoption, and execution of the 2011-2012 budget, but did substantially comply with the preparation and adoption of the 2012-2013 budgets.

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 agency operates under the city's insurance policies. 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 agency's agent of record and such reviews have been made recently.

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the City of Molalla, Oregon)
COMMENTS AND DISCLOSURES REQUIRED BY THE STATE OF OREGON
June 30, 2012

Programs Funded From Outside Sources

The agency does not have any programs funded from outside sources.

Public Contracts and Purchasing

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

Investments

The agency does not have any investments.

Collateral

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

Highway Funds

The agency does not receive revenue from taxes on motor vehicle fuel.

Accountability for Independently Elected Officials

The agency does not have elected officials collecting or receiving money.

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Council
Molalla Urban Renewal Agency
A Component Unit of the City of Molalla, Oregon

We have audited the basic financial statements of Molalla Urban Renewal Agency (A Component Unit of the City of Molalla, Oregon) 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 Molalla Urban Renewal Agency'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)

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 Molalla Urban Renewal Agency 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 Molalla Urban Renewal Agency'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 Molalla Urban Renewal Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Molalla Urban Renewal Agency'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 agency'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 that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of the 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

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

Name of Municipal Corporation Molalla Urban Renewal Agency (A Component Unit of the City of Molalla, Oregon)

Address Molalla, Clackamas County, Oregon

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

Total Revenues and/or Receipts -(Government-wide+Fiduciary Funds)		\$ 212,400
Less:		
Revenues of Component Units included in report	-	
Taxes, assessments and other collections to be distributed to other governmental units	-	-
Net Revenues and/or Receipts		<u>212,400</u>
Total Expenditures and/or Disbursements -(Government-wide+Fiduciary Funds)		<u>10,000</u>
Less:		
Expenditures of Component Units included in report	-	
Turnovers to other municipal corporations		
Taxes and Assessments	-	
Other Distributions	-	
Net Expenditures and/or Disbursements		<u>\$ 10,000</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	\$ 50,000	\$ 20	
150,000	150,000	40	...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.
500,000	500,000	150	
1,000,000	1,000,000	200	
5,000,000	5,000,000	250	
10,000,000	10,000,000	300	
50,000,000	50,000,000	350	
		400	

(Net Expenditures and/or Disbursements)

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 _____

1 1 5 2 17 5 10 4 1 10 1 1 10 1 1

REPORT REQUIRED BY *GOVERNMENTAL 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*

Council
Molalla Urban Renewal Agency
A Component Unit of the City of Molalla, Oregon

We have audited the financial statements of the governmental activities and each major fund of Molalla Urban Renewal Agency (A Component Unit of the City of Molalla, Oregon) as of and for the year ended June 30, 2012, which collectively comprise the Molalla Urban Renewal Agency's basic financial statements 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 Molalla Urban Renewal Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Molalla Urban Renewal Agency'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 Molalla Urban Renewal Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Molalla Urban Renewal Agency'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 district'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 Molalla Urban Renewal Agency'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 management of Molalla Urban Renewal Agency in a separate letter dated June 5, 2013.

This report is intended solely for the information and use of the council, 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

MOLALLA URBAN RENEWAL AGENCY
(A Component Unit of the 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 agency's internal control disclosed that the agency 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 agency 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.