

CITY OF MOLALLA, OREGON

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

For the Year Ended June 30, 2013

CITY OF MOLALLA, OREGON
June 30, 2013

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INTRODUCTORY SECTION

CITY OF MOLALLA, OREGON
CITY COUNCIL AND OFFICIALS
June 30, 2013

<u>NAME</u>	<u>ADDRESS</u>	<u>POSITION</u>
Debbie Rogge	Molalla	Mayor
George Pottle	Molalla	Council President
Stephen Clarke	Molalla	Councilor
Dennis Wolfe	Molalla	Councilor
Jimmy Thompson	Molalla	Councilor
Dennis Wise	Molalla	Councilor
Jason Griswold	Molalla	Councilor

OFFICIALS

Mark Howatt	Molalla	Interim City Manager
Heather Penni	Molalla	Finance Director

FINANCIAL SECTION



Certified Public Accountants, LLP

George W. Wilber, CPA, CFF
Robert M. Armstrong, CPA
Jessica A. Knowles, CPA
Mitch T. Saul, CPA
Cara R. Wilber, CPA
Kari J. Ott, CPA

Arlie W. Oster, CPA (1931-1998)

Offices in:
Burns, Oregon
John Day, Oregon

INDEPENDENT AUDITOR'S REPORT

City Council
City of Molalla
Molalla, Clackamas County, Oregon

Report on the Financial Statements

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, 2013, and the related notes to the financial statements which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Molalla's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the district's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the district's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 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 each major special revenue fund on pages 40 through 42 are 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.

Other Information

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. The combining and individual nonmajor fund financial statements, other supplementary information, other financial schedules, and the introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other supplementary information and other financial schedules and are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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.

Reporting on Other Legal and Regulatory Requirements

Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated January 16, 2014 on our consideration of the City of Molalla's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Molalla's internal control over financial reporting and compliance.

Reporting Required by Oregon Revised Statutes

In accordance with 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, we have issued our report dated January 16, 2014 on our consideration of City of Molalla's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters 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. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations in considering City of Molalla's internal control over financial reporting and compliance.

Oster Professional Group, CPA's, LLP

By 

January 16, 2014
Burns, Oregon

CITY OF MOLALLA, OREGON

Management's Discussion and Analysis

JUNE 30, 2013

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, 2013.

FINANCIAL HIGHLIGHTS

	June 30,		Change
	2013	2012	
Net Position	\$ 28,046,605	\$ 26,924,153	\$ 1,122,452
Change in Net Position	\$ 1,051,801	\$ (149,300)	\$ 1,201,101
Governmental Net Position	\$ 16,513,072	\$ 16,072,276	\$ 440,796
Change in Governmental Net Position	\$ 370,145	\$ (403,255)	\$ 773,400
Business-Type Net Position	\$ 11,533,533	\$ 10,851,877	\$ 681,656
Change in Business-Type Net Position	\$ 681,656	\$ 253,955	\$ 427,701

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 basic 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 Position. This presents information on the accrual basis assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the City as of the date on the statement. Net position is the difference between assets, deferred

outflows of resources, liabilities, and deferred inflows of resources. Over time, increases or decreases in net position 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 position of the City changed over the most recent fiscal year by tracking receipts, disbursements and other transactions that increase or reduce net position.

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.

Internal Service Fund. The City of Molalla has a Public Works Personnel Fund that serves as an internal service fund. All personnel charges for the public works funds are expensed out of this fund and then this fund is reimbursed for those charges.

Notes to the basic 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 Position. The Statement of Net Position below is provided on a comparative basis. As noted earlier, net position 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 \$28,046,605 as of June 30, 2013.

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

Statement of Net Position at June 30,

	2012			2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current assets	\$ 1,999,264	\$ 4,548,254	\$ 6,547,518	\$ 3,158,269	\$ 4,834,443	\$ 7,992,712
Capital assets	14,558,746	13,724,746	28,283,492	13,762,794	13,484,389	27,247,183
Total assets	16,558,010	18,273,000	34,831,010	16,921,063	18,318,832	35,239,895
Liabilities						
Current liabilities	96,240	635,092	731,332	94,293	613,546	707,839
Long-term liabilities	389,494	6,786,031	7,175,525	313,698	6,171,753	6,485,451
Total liabilities	485,734	7,421,123	7,906,857	407,991	6,785,299	7,193,290
Net Position						
Net investment in capital assets	14,219,155	6,383,973	20,603,128	13,482,859	6,768,889	20,251,748
Restricted	1,123,016	2,888,883	4,011,899	1,753,988	2,796,017	4,550,005
Unrestricted	<u>730,105</u>	<u>1,579,021</u>	<u>2,309,126</u>	<u>1,276,225</u>	<u>1,968,627</u>	<u>3,244,852</u>
Total Net Position	<u>\$ 16,072,276</u>	<u>\$ 10,851,877</u>	<u>\$ 26,924,153</u>	<u>\$ 16,513,072</u>	<u>\$ 11,533,533</u>	<u>\$ 28,046,605</u>

The total net position increased over fiscal year 2012 by \$1,122,452, after the restatement. This increase is primarily due to a new conservative management approach in all fiscal areas.

Statement of Activities for the Years Ended June 30,

	2012			2013		
	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	\$ 1,649,659	\$ 3,051,253	\$ 4,700,912
Operating grants	1,677,461	---	1,677,461	1,432,767	84,000	1,516,767
Capital grants	10,300	---	10,300	43,020	---	43,020
General Revenues						
Property taxes	2,768,775	---	2,768,775	2,653,271	---	2,653,271
Interest and investment earnings	14,141	13,712	27,853	39,687	576	40,263
Miscellaneous	108,178	13,260	121,438	92,410	35,089	127,499
Total revenues	6,327,018	3,083,256	9,410,274	5,910,814	3,170,918	9,081,732
Expenses						
Governmental						
General government	1,956,069	---	1,956,909	1,670,994	---	1,670,994
Public safety	2,186,773	---	2,186,773	2,059,733	---	2,059,733
Community	1,703,136	---	1,703,136	1,253,662	---	1,253,662
Public works	902,547	---	902,547	546,591	---	546,591
Interest long-term debt	11,748	---	10,908	9,689	---	9,689
Business-Type						
Water	---	1,229,123	1,229,123	---	1,266,315	1,323,075
Sewer	---	1,626,293	1,626,293	---	1,069,640	1,117,584
Storm water	---	101,098	101,098	---	153,307	160,179
Total expenses	6,760,273	2,799,301	9,559,574	5,540,669	2,489,262	8,141,507
Transfers	30,000	(30,000)	---	---	---	---
Change in Net Position	(403,255)	253,955	(149,300)	370,145	681,656	940,225
Net Position – July 1 as previously reported	1,346,932	4,245,156	5,592,088	16,072,276	10,851,877	26,924,153
Restatements, see note 11	15,128,599	6,352,766	21,481,365	70,651	---	---
Net Position - As Restated	16,475,531	10,597,922	27,073,453	16,142,927	10,851,877	26,994,804
Net Position – June 30	16,475,531	10,597,922	27,073,453	16,142,927	10,851,877	26,994,804
	\$16,072,276	\$ 10,851,877	\$ 26,924,153	\$ 16,513,072	\$11,533,533	\$ 28,046,605

Statement of Activities. Fiscal year 2012-2013 showed a moderate increase in the overall net position of the city. In 2012 the net position at June 30 was \$26,924,153; in 2013 the net position at June 30 was \$28,046,605, this is an increase in overall net position of 3.75%. The primary reason is the change in management resulting in conservative spending, moratorium on large purchases, and capital projects at a minimum while core methodology structures are

repaired. As a result of the changes governmental activities increased \$370,145 and business-type activities increased \$681,656 in their respective net position. Other factors affecting this change as of June 30, 2013 are as follows:

- Property tax revenue decreased \$115,504 (4.7%), due to Molalla's slow to improve economy and real estate compression. Also contributing was the appropriate accounting of current year property taxes revenue versus prior year payments. A trend of flat growth in property taxes can be expected over future fiscal years but compression is not expected to be a future issue.
- The overall total revenues increased by \$328,542, due to the decrease in property taxes, completion of grants, and a moderate decline in charges for services.
- The conservative spending, moratorium on large purchases, and capital projects at a minimum while core methodology structure is repaired had a large effect on expenses. The governmental activities expenses decreased \$1,219,604 and the business-type activities expenses decreased \$310,039.

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 exercising conservative spending and focusing on reserves for future years.

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, 2013, the City's governmental funds reported \$2,977,512 combined ending fund balances, an increase of \$1,090,406 from the prior year before a restatement of \$70,651.

General Fund. The General Fund is the primary operating fund of the City of Molalla. As of June 30, 2013 the fund balance was \$209,181, which was an increase of \$511,102 from the prior year after a restatement of accounts receivable. The city plans to increase fund balances by conservative spending.

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

Business-Type Funds. AS of June 30, 2013, the City's proprietary funds reported \$11,533,533 of combined ending net position, an increase of \$681,656 from the prior year due to conservative spending.

General Fund Budgetary Highlights

The city council approved several changes to the adopted budget for the fiscal year ended June 30, 2013 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 \$24,037 more than what was budgeted due to an unbudgeted SAIF audit refund.

The General Fund spent \$266,990 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 prior fiscal year, to be in full compliance with GASB Statement No. 34, 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 activities the valuation of the capital assets, net of accumulated depreciation was \$13,762,794. This is the second year that the city has recorded depreciation expense which is \$1,054,204. During the current year the city completed two significant public works projects on Robbins and Kennel streets, increasing the value of those street assets in our capital asset system by \$258,252.

The business-type activities valuation of the capital assets, net of accumulated depreciation was \$13,484,389 with current year depreciation expense of \$380,721. The Robbins and Kennel projects added \$140,635 to the business-type capital assets.

The city had total debt outstanding June 30, 2013 of \$6,995,435. The debt decreased during the fiscal year by \$684,929 due to principal payments made. No new debt was incurred during the fiscal year.

Currently Known Facts, Decisions, or Conditions

Fiscal year 2012-2013 presented as a year of calming the water, performing core operational functions and gauging how to move forward and not repeat past practices. The city wide conservative approach to fiscal management had put the city in a positive ending fund balance in all funds for the first time in over a decade. The City of Molalla will continue the practice of utilizing a cost allocation plan for administrative costs that are indirect and unassignable to a specific cost objective. The method of cost allocation is based on budget percentage of the entire city-wide budget but imposed only on actual expenditures.

A city moratorium of spending of any system development charges is in place as the city moves to update all five SDC methodologies partnered with an updated capital improvement plan.

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 2013-2014 fiscal year.

- Prior history of revenue and expenditures
- Capital projects slated in the next fiscal year as directed from the Capital Improvement Plan
- 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 POSITION

June 30, 2013

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 2,963,633	\$ 1,880,816	\$ 4,844,449
Receivables			
Property tax	174,830	-	174,830
Accounts	19,806	-	19,806
Customer accounts receivable, net allowance of \$9,169	-	372,274	372,274
Restricted cash	-	2,581,353	2,581,353
Capital assets not being depreciated	1,489,291	727,511	2,216,802
Capital assets being depreciated (net of accumulated depreciation)	12,273,503	12,756,878	25,030,381
Total assets	<u>16,921,063</u>	<u>18,318,832</u>	<u>35,239,895</u>
 DEFERRED OUTFLOWS OF RESOURCES	 -	 -	 -
LIABILITIES			
Accounts payable	11,050	5,022	16,072
Accrued liabilities	18,308	-	18,308
Long-term liabilities			
Portion due or payable within one year			
Current portion of note payable	64,935	608,524	673,459
Portion due or payable after one year			
Compensated absences	98,698	64,777	163,475
Notes payable	215,000	6,106,976	6,321,976
Total liabilities	<u>407,991</u>	<u>6,785,299</u>	<u>7,193,290</u>
 DEFERRED INFLOWS OF RESOURCES	 -	 -	 -
NET POSITION			
Net investment in capital assets	13,482,859	6,768,889	20,251,748
Restricted			
Public Works (expendable)	969,218	-	969,218
Community development (expendable)	619,030	-	619,030
Debt service (expendable)	69,437	1,329,163	1,398,600
System development (expendable)	-	1,466,854	1,466,854
Endowments (nonexpendable)	96,303	-	96,303
Unrestricted	1,276,225	1,968,627	3,244,852
Total net position	<u>\$ 16,513,072</u>	<u>\$ 11,533,533</u>	<u>\$ 28,046,605</u>

CITY OF MOLALLA, OREGON
STATEMENT OF ACTIVITIES
For the Year Ended
June 30, 2013

Functions/ Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities							
Public safety	\$ 2,059,733	\$ 249,891	\$ 16,811	\$ -	\$ (1,793,031)	\$ -	\$ (1,793,031)
Public works	546,591	342,054	553,683	40,000	389,146	-	389,146
Community development	1,253,662	314,675	862,273	3,020	(73,694)	-	(73,694)
General government	1,670,994	743,039	-	-	(927,955)	-	(927,955)
Interest on long term debt	9,689	-	-	-	(9,689)	-	(9,689)
Total governmental activities	<u>5,540,669</u>	<u>1,649,659</u>	<u>1,432,767</u>	<u>43,020</u>	<u>(2,415,223)</u>	<u>-</u>	<u>(2,415,223)</u>
Business-type activities							
Sewer	1,149,515	1,610,659	-	-	-	461,144	461,144
Water	1,017,690	1,343,038	84,000	-	-	409,348	409,348
Storm water	89,966	97,556	-	-	-	7,590	7,590
Interest on long term debt	232,091	-	-	-	-	(232,091)	(232,091)
Total business-type activities	<u>2,489,262</u>	<u>3,051,253</u>	<u>84,000</u>	<u>-</u>	<u>-</u>	<u>645,991</u>	<u>645,991</u>
Total primary government	<u>\$ 8,029,931</u>	<u>\$ 4,700,912</u>	<u>\$ 1,516,767</u>	<u>\$ 43,020</u>	<u>(2,415,223)</u>	<u>645,991</u>	<u>(1,769,232)</u>
General revenues							
Property taxes levied for							
General purposes							
					2,317,894	-	2,317,894
Urban renewal agency							
					242,914	-	242,914
Debt service							
					92,463	-	92,463
Unrestricted investment earnings							
					39,687	576	40,263
Miscellaneous							
					92,410	35,089	127,499
Total general revenues					<u>2,785,368</u>	<u>35,665</u>	<u>2,821,033</u>
Change in net position							
					370,145	681,656	1,051,801
Net position, July 1, 2012, before restatement							
					16,072,276	10,851,877	26,924,153
Restatement, see note 11							
					70,651	-	70,651
Net position, July 1, 2012, after restatement							
					<u>16,142,927</u>	<u>10,851,877</u>	<u>26,994,804</u>
Net position, June 30, 2013							
					<u>\$ 16,513,072</u>	<u>\$ 11,533,533</u>	<u>\$ 28,046,605</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF MOLALLA, OREGON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Library Fund	Street Fund	Nonmajor Governmental Funds	Total June 30, 2013
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Assets					
Cash and investments	\$ 197,635	\$ 964,348	\$ 233,155	\$ 1,568,495	\$ 2,963,633
Receivables					
Property taxes	161,986	-	-	12,844	174,830
Other	19,377	-	50	379	19,806
Total assets	<u>378,998</u>	<u>964,348</u>	<u>233,205</u>	<u>1,581,718</u>	<u>3,158,269</u>
Deferred outflows of resources	-	-	-	-	-
Total assets and deferred outflows of resources	<u>\$378,998</u>	<u>\$964,348</u>	<u>\$233,205</u>	<u>\$ 1,581,718</u>	<u>\$3,158,269</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Current liabilities					
Accounts payable	\$ 11,050	\$ -	\$ -	\$ -	\$ 11,050
Payroll liabilities	18,308	-	-	-	18,308
Total current liabilities	<u>29,358</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,358</u>
Total liabilities	<u>29,358</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,358</u>
Deferred inflows of resources					
Deferred property taxes	140,459	-	-	10,940	151,399
Total deferred inflows of resources	<u>140,459</u>	<u>-</u>	<u>-</u>	<u>10,940</u>	<u>151,399</u>
Fund balances					
Nonspendable	-	-	-	96,303	96,303
Spendable					
Restricted					
Public works	-	-	233,205	736,013	969,218
Community development	-	-	-	619,030	619,030
Debt service	-	-	-	69,437	69,437
Assigned					
Community development	-	964,348	-	49,995	1,014,343
Unassigned	209,181	-	-	-	209,181
Total fund balances	<u>209,181</u>	<u>964,348</u>	<u>233,205</u>	<u>1,570,778</u>	<u>2,977,512</u>
Total liabilities, deferred inflows and fund balances	<u>\$378,998</u>	<u>\$964,348</u>	<u>\$233,205</u>	<u>\$ 1,581,718</u>	<u>\$3,158,269</u>

CITY OF MOLALLA, OREGON
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2013

TOTAL FUND BALANCES		\$ 2,977,512
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets are not financial resources and therefore are not reported in the governmental funds.</p>		
Cost	\$ 26,399,483	
Accumulated depreciation	<u>(12,636,689)</u>	13,762,794
<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>		
		(378,633)
<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>		
		151,399
TOTAL NET POSITION		<u><u>\$ 16,513,072</u></u>

CITY OF MOLALLA, OREGON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended
June 30, 2013

	General Fund	Library Fund	Street Fund	Nonmajor Governmental Funds	Total June 30, 2013
Revenues					
Property taxes	\$ 2,315,147	\$ -	\$ -	\$ 332,950	\$ 2,648,097
Other taxes and assessments	251,310	-	622,968	-	874,278
System development charges	-	-	-	57,793	57,793
Intergovernmental revenues	32,680	689,101	-	65,426	787,207
Licenses and permits	188,062	-	-	-	188,062
Fines and forfeits	232,200	24,366	-	277,612	534,178
Grants	12,212	3,151	236,000	-	251,363
Donations	-	2,112	-	111,529	113,641
Interest	39,203	-	-	484	39,687
Miscellaneous revenues	374,790	3,878	14,336	18,331	411,335
Total revenues	<u>3,445,604</u>	<u>722,608</u>	<u>873,304</u>	<u>864,125</u>	<u>5,905,641</u>
Expenditures					
Current					
Personal services	2,029,949	349,436	-	342,076	2,721,461
Materials and services	733,234	105,432	546,604	308,024	1,693,294
Capital outlay	-	66,899	258,239	6,000	331,138
Debt service					
Interest	574	-	-	9,112	9,686
Principal	4,656	-	-	55,000	59,656
Total expenditures	<u>2,768,413</u>	<u>521,767</u>	<u>804,843</u>	<u>720,212</u>	<u>4,815,235</u>
Excess of revenues over (under) expenditures	<u>677,191</u>	<u>200,841</u>	<u>68,461</u>	<u>143,913</u>	<u>1,090,406</u>
Other financing sources (uses)					
Operating transfers in	-	-	-	166,089	166,089
Operating transfers out	(166,089)	-	-	-	(166,089)
Total other financing sources (uses)	<u>(166,089)</u>	<u>-</u>	<u>-</u>	<u>166,089</u>	<u>-</u>
Net change in fund balances	511,102	200,841	68,461	310,002	1,090,406
Fund balances, July 1, before restatement	(320,485)	711,420	164,744	1,260,776	1,816,455
Restatements see note 11	18,564	52,087	-	-	70,651
Fund balances, July 1, after restatement	<u>(301,921)</u>	<u>763,507</u>	<u>164,744</u>	<u>1,260,776</u>	<u>1,887,106</u>
Fund balances, June 30	<u>\$ 209,181</u>	<u>\$ 964,348</u>	<u>\$ 233,205</u>	<u>\$ 1,570,778</u>	<u>\$ 2,977,512</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, 2013

NET CHANGE IN FUND BALANCES \$ 1,090,406

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

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.

Expenditures for capital assets	\$ 258,252	
Less current year depreciation	<u>(1,054,204)</u>	(795,952)

Repayment of principal is an expenditure in the governmental funds
but reduces the liability in the Statement of Net Position.

Debt principal repaid	59,656
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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.

5,174

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:

Compensated absences	10,861
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CHANGE IN NET POSITION	\$ 370,145
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PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF MOLALLA, OREGON
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS

June 30, 2013

	Sewer Fund	Water Fund	Sewer Debt Retirement Fund
ASSETS			
Cash and investments	\$ 610,103	\$ 918,849	\$ -
Receivables			
Customer accounts receivable, net of allowance of \$9,169	204,750	167,524	-
Restricted cash	-	-	519,521
Land	494,445	227,825	-
Capital assets, net of accumulated depreciation	2,402,590	2,403,292	2,815,083
Total assets	3,711,888	3,717,490	3,334,604
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
LIABILITIES			
Current liabilities			
Accounts payable	5,022	-	-
Current portion of non-current liabilities	-	-	200,000
Total current liabilities	5,022	-	200,000
Non-current liabilities			
Accrued compensated absences	-	64,777	-
Notes payable	-	-	2,775,000
Total liabilities	5,022	64,777	2,975,000
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Net investment in capital assets	2,897,035	2,631,117	(159,917)
Restricted net position			
Debt service	-	-	519,521
System development	-	-	-
Unrestricted net position	809,831	1,021,596	-
Total net position	\$ 3,706,866	\$ 3,652,713	\$ 359,604

See notes to the basic financial statements.

Water Debt Retirement Fund	Water SDC Fund	Nonmajor Proprietary Funds	Total June 30, 2013	Internal Service Fund
\$ 14,976	\$ -	\$ 225,312	\$ 1,769,240	\$ 111,576
-	-	-	372,274	-
592,600	1,258,757	210,475	2,581,353	-
-	-	5,241	727,511	-
2,767,801	-	2,368,112	12,756,878	-
<u>3,375,377</u>	<u>1,258,757</u>	<u>2,809,140</u>	<u>18,207,256</u>	<u>111,576</u>
-	-	-	-	-
-	-	-	5,022	-
290,000	-	118,524	608,524	-
<u>290,000</u>	<u>-</u>	<u>118,524</u>	<u>613,546</u>	<u>-</u>
-	-	-	64,777	-
1,275,000	-	2,056,976	6,106,976	-
<u>1,565,000</u>	<u>-</u>	<u>2,175,500</u>	<u>6,785,299</u>	<u>-</u>
-	-	-	-	-
1,202,801	-	197,853	6,768,889	-
607,576	-	202,066	1,329,163	-
-	1,258,757	208,097	1,466,854	-
-	-	25,624	1,857,051	111,576
<u>\$ 1,810,377</u>	<u>\$ 1,258,757</u>	<u>\$ 633,640</u>	<u>\$ 11,421,957</u>	<u>\$ 111,576</u>

**Reconciliation of Proprietary Funds
Statement of Net Position to the
Statement of Net Position**

TOTAL PROPRIETARY FUNDS NET POSITION \$ 11,421,957

Amounts reported for the business-type activities in the Statement of Net Position are different because:

Internal service fund is used by management to charge the costs of personnel charges to individual funds. The internal service fund predominately service the proprietary funds so the asset of the internal service fund is included in the Business-Type Activities in the Statement of Net Position as follows:

Cash 111,576

TOTAL NET POSITION \$ 11,533,533

CITY OF MOLALLA, OREGON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended
June 30, 2013

	Sewer Fund	Water Fund	Sewer Debt Retirement Fund
Operating revenues			
System development charges	\$ -	\$ -	\$ -
Consumer receipts	1,556,939	1,297,809	-
Charges for services	-	-	-
Grant income	-	84,000	-
Miscellaneous	2,059	33,030	-
Total operating revenues	<u>1,558,998</u>	<u>1,414,839</u>	<u>-</u>
Operating expenses			
Personal services	-	-	-
Materials and services	990,199	861,388	-
Capital outlay	4,033	5,511	-
Bad debt expense	16,810	13,754	-
Depreciation expense	195,233	171,710	-
Total operating expenses	<u>1,206,275</u>	<u>1,052,363</u>	<u>-</u>
Operating income (loss)	352,723	362,476	-
Non operating revenue (expenses)			
Interest earned on investments	-	576	-
Interest expense	-	-	(116,800)
Total non operating income (expenses)	<u>-</u>	<u>576</u>	<u>(116,800)</u>
Net income	352,723	363,052	(116,800)
Other financing sources (uses)			
Transfers in	-	-	215,000
Transfers out	(415,000)	(266,000)	-
Total other financing sources (uses)	<u>(415,000)</u>	<u>(266,000)</u>	<u>215,000</u>
Change in net position	(62,277)	97,052	98,200
Net position beginning of year	3,769,143	3,555,661	261,404
Net position end of year	<u>\$ 3,706,866</u>	<u>\$ 3,652,713</u>	<u>\$ 359,604</u>

See notes to the basic financial statements.

Water Debt Retirement Fund	Water SDC Fund	Nonmajor Proprietary Funds	Totals June 30, 2013	Internal Service Fund
\$ -	\$ 29,582	\$ 59,500	\$ 89,082	\$ -
-	-	107,423	2,962,171	-
-	-	-	-	1,315,000
-	-	-	84,000	-
-	-	-	35,089	-
-	29,582	166,923	3,170,342	1,315,000
-	-	-	-	1,203,424
-	-	94,219	1,945,806	-
-	-	2,112	11,656	-
-	-	-	30,564	-
-	-	13,778	380,721	-
-	-	110,109	2,368,747	1,203,424
-	29,582	56,814	801,595	111,576
-	-	-	576	-
(51,950)	-	(63,341)	(232,091)	-
(51,950)	-	(63,341)	(231,515)	-
(51,950)	29,582	(6,527)	570,080	111,576
266,000	-	200,000	681,000	-
-	-	-	(681,000)	-
266,000	-	200,000	-	-
214,050	29,582	193,473	570,080	111,576
1,596,327	1,229,175	440,167	10,851,877	-
<u>\$ 1,810,377</u>	<u>\$ 1,258,757</u>	<u>\$ 633,640</u>	<u>\$ 11,421,957</u>	<u>\$ 111,576</u>

**Reconciliation of the Statement of Revenues,
Expenses in Fund Net Position of Proprietary Funds
to the Statement of Activities**

CHANGE IN NET POSITION \$ 570,080

Amounts reported for the business-type activities in the Statement of Activities are different because:

Internal service fund is used by management to charge the costs of personnel charges to individual funds. The net revenue (expense) of the internal service fund is allocated to business-type activities.

111,576

CHANGE IN NET POSITION \$ 681,656

CITY OF MOLALLA, OREGON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended
June 30, 2013

	Sewer Fund	Water Fund	Sewer Debt Retirement Fund
Cash flows from operating activities			
Cash received from customers	\$ 1,551,290	\$ 1,293,186	\$ -
Cash payment to employees for services	-	-	-
Cash payment to suppliers for goods and services	(989,210)	(882,471)	-
Other operating revenues	2,059	117,030	-
Net cash provided by operating activities	<u>564,139</u>	<u>527,745</u>	<u>-</u>
Cash flows from noncapital financing activities			
Operating transfers-out to other funds	(415,000)	(266,000)	-
Operating transfers-in from funds	-	-	215,000
Net cash provided by noncapital financing activities	<u>(415,000)</u>	<u>(266,000)</u>	<u>215,000</u>
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	-	(140,365)	-
Interest paid on notes payable	-	-	(116,800)
Payment from interfund receivables	-	190,000	-
Payment on notes	-	-	(200,000)
Net cash used for capital and related financing activities	<u>-</u>	<u>49,635</u>	<u>(316,800)</u>
Cash flows from investing activities			
Interest and dividends on investments	-	576	-
Net cash provided (used) in investing activities	<u>-</u>	<u>576</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	149,139	311,956	(101,800)
Cash and cash equivalents at beginning of year	460,964	606,893	621,321
Cash and cash equivalents at end of year	<u>\$ 610,103</u>	<u>\$ 918,849</u>	<u>\$ 519,521</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ 352,723	\$ 362,476	\$ -
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation expense	195,233	171,710	-
(Increase) decrease in accounts receivable, net of allowance	11,161	9,131	-
Increase (decrease) in accounts payable	5,022	(9,818)	-
Increase (decrease) in accrued compensated absences	-	(5,754)	-
Total adjustments	<u>211,416</u>	<u>165,269</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 564,139</u>	<u>\$ 527,745</u>	<u>\$ -</u>

See notes to the basic financial statements.

Water Debt Retirement Fund	Water SDC Fund	Nonmajor Proprietary Funds	Total	Internal Service Fund
\$ -	\$ 29,582	\$ 166,923	\$ 3,040,981	\$ -
-	-	-	-	(1,203,424)
-	-	(96,331)	(1,968,012)	-
-	-	-	119,089	1,315,000
-	29,582	70,592	1,192,058	111,576
-	-	-	(681,000)	-
266,000	-	200,000	681,000	-
266,000	-	200,000	-	-
-	-	-	(140,365)	-
(51,950)	-	(63,341)	(232,091)	-
-	-	-	190,000	-
(310,000)	-	(115,273)	(625,273)	-
(361,950)	-	(178,614)	(807,729)	-
-	-	-	576	-
-	-	-	576	-
(95,950)	29,582	91,978	384,905	111,576
703,526	1,229,175	343,809	3,965,688	-
<u>\$ 607,576</u>	<u>\$ 1,258,757</u>	<u>\$ 435,787</u>	<u>\$ 4,350,593</u>	<u>\$ 111,576</u>
\$ -	\$ 29,582	\$ 56,814	\$ 801,595	\$ 111,576
-	-	13,778	380,721	-
-	-	-	20,292	-
-	-	-	(4,796)	-
-	-	-	(5,754)	-
-	-	13,778	390,463	-
<u>\$ -</u>	<u>\$ 29,582</u>	<u>\$ 70,592</u>	<u>\$ 1,192,058</u>	<u>\$ 111,576</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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 a 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

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.

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.

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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 Position 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 Position presents the city's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has 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 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.

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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.

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

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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.

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.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted as they are needed.

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 and 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 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

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Statement of Net Position. 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. 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 Position. 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 Outflows of Resources

Deferred outflows of resources in the Statement of Net Position represents a consumption of net position that is applicable to a future reporting period. The city does not have any deferred outflows of resources.

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 General, and Water Fund. The compensated absences liability was \$163,475 at June 30, 2013.

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

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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. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that is applicable to a future reporting period. In the Statement of Net Position this includes resources that are received before the city has met its eligibility requirements related to time. In the governmental fund financial statements, deferred inflows of resources also include revenues that are measurable but not available.

L. Encumbrances

The city does not use encumbrance accounting

M. 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.

N. 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.

O. 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.

P. 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.

Q. 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

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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 has not adopted a spending policy or made any commitments.

R. Change in Accounting Principle

City of Molalla adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Recognized as Assets and Liabilities* as of July 1, 2012. These standards impacted financial reporting by establishing accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

These new statements have no impact on the city's net position.

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 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, 2013 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

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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, 2013, 2012, and 2011 were \$351,288, \$382,043, and \$268,155, 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, 2013, 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	\$ 209,793
Less allowance for uncollectible accounts	<u>(5,043)</u>
Sewer Fund net accounts receivable	<u><u>\$ 204,750</u></u>
Water Fund accounts receivable	\$ 171,650
Less allowance for uncollectible accounts	<u>(4,126)</u>
Water Fund net accounts receivable	<u><u>\$ 167,524</u></u>

An allowance for uncollectible accounts was estimated based on the age of the receivable balance on June 30, 2013.

CITY OF MOLALLA, OREGON
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The governmental funds accounts receivable at June 30, 2013 was:

Fund Source		
General Fund		
Property taxes	\$ 161,986	
Other	19,377	
Street Fund		
Other	50	
Nonmajor funds		
Property taxes	12,844	
Other	379	
Total receivables	\$ 194,636	

Note 5. Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2013 is as follows:

Description	Balance 6/30/2012	Increases	Decreases	Balance 6/30/2013	Due within one year
GOVERNMENTAL ACTIVITIES					
OEDD Loan	\$ 9,591	\$ -	\$ 4,656	\$ 4,935	\$ 4,935
2010 GO Water Refunding bonds	330,000	-	55,000	275,000	60,000
BUSINESS-TYPE ACTIVITIES					
State Revolving Loan	2,290,773	-	115,273	2,175,500	118,524
2010 Water Revenue Refunding Bonds	1,875,000	-	310,000	1,565,000	290,000
2010 Sewer Revenue Refunding Bonds	3,175,000	-	200,000	2,975,000	200,000
Total Long-term Debt	\$ 7,680,364	\$ -	\$ 684,929	\$ 6,995,435	\$ 673,459

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, 2013 was \$4,935. Future payments consist of the following:

Fiscal Year Ending June 30,	Principal	Interest	Remaining Balance
2014	\$ 4,935	\$ 575	-
	\$ 4,935	\$ 575	

CITY OF MOLALLA, OREGON
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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, 2013 is \$275,000. Future payments consist of the following:

Fiscal Year Ending June 30,	Principal	Interest	Remaining Balance
			\$ 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>\$ 275,000</u>	<u>\$ 19,363</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, 2013 is \$2,175,500. Future payments consist of the following:

Fiscal Year Ending June 30	Principal	Interest	Total	Remaining Balance
				\$ 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	132,467	46,147	178,614	1,548,508
2019-2023	720,514	172,556	893,070	827,994
2024-2028	827,994	65,085	893,079	-
Total	<u>\$ 2,175,500</u>	<u>\$ 503,719</u>	<u>\$ 2,679,219</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, 2013 of \$592,600. The outstanding loan balance at June 30, 2013 is \$1,565,000. Future payments consist of the following:

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Fiscal Year Ending June 30	Principal	Interest	Remaining Balance
			\$ 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	-
Total	<u>\$ 1,565,000</u>	<u>\$ 121,125</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, 2013 of \$636,300. The outstanding loan balance at June 30, 2013 is \$2,975,000. Future payments consist of the following:

Fiscal Year Ending June 30	Principal	Interest	Remaining Balance
			\$ 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	230,000	84,800	1,890,000
2019-2023	1,300,000	278,000	590,000
2024-2025	590,000	35,600	-
Total	<u>\$ 2,975,000</u>	<u>\$ 803,000</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, 2013:

Deposits with banks	\$ 650,153
Investments	6,775,115
Cash on hand	534
	\$ 7,425,802

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

Statement of Net Position	
Cash and investments	\$ 4,844,449
Restricted cash	2,581,353
	\$ 7,425,802

As of June 30, 2013, the city held the following investments and maturities:

Investment Type	Fair Value	% of Investment Portfolio
Local Government Investment Pool	\$ 6,775,115	100.0%

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, 2013. 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, 2013, the carrying amount of the city's deposits was \$650,153 and the bank balance was \$787,483. 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

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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

<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)	\$ 6,775,115	50% less than 90-days, no more than 25% over one year, and no investment over three years	Unrated
<i>Total cash and cash equivalents</i>	<u>\$ 6,775,115</u>		

At June 30, 2013, the city held \$6,775,115 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 2013. 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, 2013 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

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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.

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, 2013, 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, 2013 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>
Nonmajor Funds	General Fund	\$ 166,089	Sewer Debt Retirement Fund	Sewer Fund	\$ 215,000
			Water Debt Retirement Fund	Water Fund	266,000
			Nonmajor funds	Sewer Fund	200,000
Total transfers in for governmental funds		<u>\$ 166,089</u>	Total transfers in for proprietary funds		<u>\$ 681,000</u>
<u>Transfers out</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Transfer to</u>	<u>Amount</u>
Nonmajor funds	General Fund	(166,089)	Sewer Fund	Sewer Debt Retirement Fund	\$ (215,000)
				Nonmajor funds	(200,000)
			Water Fund	Water Debt Retirement Fund	(266,000)
Total transfers out for governmental funds		<u>(166,089)</u>	Total transfers out for proprietary funds		<u>(681,000)</u>
Total transfers for governmental funds		<u>\$ -</u>	Total transfers for proprietary funds		<u>\$ -</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.

CITY OF MOLALLA, OREGON
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Note 10. Schedule of Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,489,291	\$ -	\$ -	\$ 1,489,291
Total capital assets not being depreciated	<u>1,489,291</u>	<u>-</u>	<u>-</u>	<u>1,489,291</u>
Capital assets being depreciated				
Land Improvements	622,376	-	-	622,376
Buildings	3,265,658	-	-	3,265,658
Machinery and equipment	380,384	-	-	380,384
Vehicles	634,676	-	30,000	604,676
Infrastructure	19,778,846	258,252	-	20,037,098
Total capital assets being depreciated	<u>24,059,564</u>	<u>258,252</u>	<u>30,000</u>	<u>24,910,192</u>
Less accumulated depreciation for				
Land Improvements	441,113	22,124	-	463,237
Buildings	992,446	66,173	-	1,058,619
Equipment	285,269	16,067	-	301,336
Vehicles	480,181	53,790	30,000	503,971
Infrastructure	9,413,476	896,050	-	10,309,526
Total accumulated depreciation	<u>11,612,485</u>	<u>1,054,204</u>	<u>30,000</u>	<u>12,636,689</u>
Total capital assets being depreciated, net	12,447,079	(795,952)	-	12,273,503
Governmental activities capital assets, net	<u>\$ 13,936,370</u>	<u>\$ (795,952)</u>	<u>\$ -</u>	<u>\$ 13,762,794</u>
Business type activities				
Capital assets not being depreciated				
Land	\$ 727,511	\$ -	\$ -	\$ 727,511
Total capital assets not being depreciated	<u>727,511</u>	<u>-</u>	<u>-</u>	<u>727,511</u>
Capital assets being depreciated				
Land Improvements	159,202	-	-	159,202
Buildings	3,651,205	-	-	3,651,205
Equipment	1,867,551	-	-	1,867,551
Vehicles	125,691	-	-	125,691
Infrastructure	14,470,734	140,365	-	14,611,099
Total capital assets being depreciated	<u>20,274,383</u>	<u>140,365</u>	<u>-</u>	<u>20,414,748</u>
Less accumulated depreciation for				
Land improvements	144,134	1,310	-	145,444
Buildings	1,541,196	77,291	-	1,618,487
Equipment	979,099	76,123	-	1,055,222
Vehicles	102,472	3,079	-	105,551
Infrastructure	4,510,244	222,918	-	4,733,162
Total accumulated depreciation	<u>7,277,145</u>	<u>380,721</u>	<u>-</u>	<u>7,657,866</u>
Total capital assets being depreciated, net	12,997,238	(240,356)	-	12,756,878
Business type activities capital assets, net	<u>\$ 13,724,749</u>	<u>\$ (240,356)</u>	<u>\$ -</u>	<u>\$ 13,484,389</u>

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

Governmental Activities	
General government	\$ 1,054,204
Business Activities	
Sewer	195,233
Water	171,710
Storm Water	13,778

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2013

Note 11. Accounting Changes and Restatements

City of Molalla has chosen to restate beginning fund balance as follows:

Governmental fund balances restatements:

GOVERNMENTAL FUNDS	General Fund	Library Fund
Fund balance - July 1 as previously reported	\$ (320,485)	\$ 711,420
Restate for:		
Correct accounts receivable	18,564	52,087
Total restatements	18,564	52,087
Fund balance - July 1 as restated	\$ (301,921)	\$ 763,507

Note 12. Deficit Fund Balances

<u>Fund</u>	<u>Amount</u>	<u>Corrective Action in 2013-2014</u>
CWRSF Debt Retirement Fund	\$(157,116)	The city will transfer money in from the Sewer Proprietary Fund due to lack of money in the Sewer SDC fund.

Note 13. 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, 2013 the principal balance was \$96,303.

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2013

Note 14. 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>					
Endowments	\$ -	\$ -	\$ -	\$ 96,303	\$ 96,303
<u>Restricted</u>					
Public works	-	-	233,205	736,013	969,218
Community development	-	-	-	619,030	619,030
Debt Service	-	-	-	69,437	69,437
	-	-	233,205	1,424,480	1,657,685
<u>Assigned</u>					
Community development	-	964,348	-	49,995	1,014,343
<u>Unassigned</u>					
	209,181	-	-	-	209,181
TOTAL FUND BALANCES	\$ 209,181	\$ 964,348	\$ 233,205	\$ 1,570,778	\$ 2,977,512

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.

Note 15. Implementation of New GASB Statements

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements.*

This statement will improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. A SCA is an arrangement between a transferor (government) and an operator (governmental or nongovernmental), where the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (facility) in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The Statement applies only to those SCAs in which set criteria determine whether a transferor has control over the facility are met. This statement has been implemented by the City of Molalla for fiscal year ending June 30, 2013. Management has evaluated existing contracts, leases and other agreements to determine if they are in fact a SCA, and if the criteria outlined in the statement for a SCA have been met. The city does not have any agreements which require accounting and reporting under GASB No. 60. On an annual basis, management will evaluate new lease agreements and other arrangements in accordance with the criteria outlined in statement No. 60.

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34.*

The objective of this statement is to improve financial reporting for a governmental financial reporting entity. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amended statements No. 14, The Financial Reporting Entity, and No. 34, Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments, to

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements. This statement has been implemented by City of Molalla for fiscal year ending June 30, 2013. Management reviewed the financial reporting criteria outlined in GASB No. 61 to identify any potential component units. Management's analysis did not identify any additional reportable component units that were material to include or disclose in the financial statements.

GASB Statement No. 62 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

The intent of this statement is to provide a single source for applicable guidance from FASB and the AICPA, rather than establishing new guidance on affected topics. City of Molalla implemented this statement effective for fiscal year ending June 30, 2013.

This statement has minimal impact to the city's accounting and financial reporting. The effect of implementing this standard was to remove footnote disclosure in the Summary of Significant Accounting Policies referencing private-sector standards issued prior to December 1, 1989. There were no other changes to the city's financials as a result of implementing this standard.

GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

The objective of this statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The statement provides reporting guidance for financial statement line items and the actual financial statements presentation and disclosure of these financial statement elements. City of Molalla implemented this standard in the current fiscal year.

Management has reviewed the requirements of this standard and has determined the impact to the city's financial reporting is to rename the Statement of Net Assets to the Statement of Net Position and change related references throughout the financial statements. In addition, the line item for "invested in capital assets, net of related debt" will change to "net investment in capital assets." There does not appear to any other impact to the city's financial accounting and reporting.

GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities

This statement evaluates and reclassifies various financial statements items that have been previously reported as either assets or liabilities and evaluates them against the definitions provided for deferred outflows and deferred inflows of resources. This statement is effective for fiscal year ending June 30, 2014, however management has elected to early implement this standard for fiscal year ending June 30, 2013. There is no impact of implementing this standard.

GASB Statement No. 66 – Technical Corrections

This statement clarified conflicting guidance that was created by GASB statements No. 54 and No. 62 with existing guidance in statements No. 10, No. 13 and No. 48. More specifically, statement No. 66 addressed certain transactions related to risk financing activities, operating leases, purchased loans and gains or losses recognized when services fees related to a transferred loan is significantly different than "normal" service fee rates. This statement is effective for fiscal year ending June 30, 2014, however management has elected to early implement this standard for fiscal year ending June 30, 2013.

CITY OF MOLALLA, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Note 16. New Accounting Pronouncements

The following pronouncements have been issued by the Governmental Accounting Standards Board (GASB) but not yet implemented by the city.

GASB Statement No. 67 – Financial Reporting for Pension Plans

The objective of this statement is to improve the financial reporting by state and local governmental pension plans. This statement replaces the requirements of statements No. 25 and will be effective for fiscal year ending June 30, 2014.

The city along with other local governments participate in a cost-sharing multiple employer defined benefit public employees pension plan, PERS. This statement will not directly affect the city reporting for PERS, however changes implemented by PERS under No. 67 will affect the city's reporting and disclosures for No. 68.

GASB Statement No. 68 – Accounting and Financial Reporting for Pensions

This statement was issued to improve accounting and financial reporting by state and local government for pensions. This statement replaces statement No. 27 as well as requirements of statement No. 50. This statement and statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pension and paying benefits to plan members as they come due. This statement will be effective for fiscal year ending June 30, 2015.

The city along with other local governments participate in a cost-sharing multiple employer defined benefit public employees pension plan, PERS. The requirements of this standard appear to have a significant impact over financial accounting and reporting for the city's participation in the PERS plan. At this point management is researching all of the requirements outlined in this standard and will be working with other local governments and PERS to ensure proper financial reporting and disclosures are met.

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, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Property tax	\$ 2,250,000	\$ 2,250,000	\$ 2,316,502	\$ 66,502
Other taxes and assessments	255,500	255,500	251,718	(3,782)
Intergovernmental revenues	55,000	15,000	32,680	17,680
Licenses and permits	201,250	201,250	188,062	(13,188)
Fines and forfeits	277,800	277,800	230,991	(46,809)
Grants	-	12,212	12,212	-
Interest	24,000	24,000	39,203	15,203
Miscellaneous	44,650	386,346	374,777	(11,569)
Total revenues	3,108,200	3,422,108	3,446,145	24,037
Expenditures				
City hall				
Personal services	333,570	353,570	331,681	21,889
Materials and services	328,850	376,350	285,096	91,254
Capital outlay	-	-	-	-
Total city hall	662,420	729,920	616,777	113,143
Police department				
Personal services	1,501,550	1,547,710	1,567,864	(20,154)
Materials and services	373,800	384,852	273,682	111,170
Capital outlay	-	-	-	-
Total police department	1,875,350	1,932,562	1,841,546	91,016
Municipal court and legal				
Personal services	78,200	98,600	97,709	891
Materials and services	114,250	93,850	90,017	3,833
Total municipal court and legal	192,450	192,450	187,726	4,724
Planning				
Personal services	37,500	37,500	32,695	4,805
Materials and services	105,000	105,000	78,968	26,032
Debt service	-	-	5,230	(5,230)
Total planning	142,500	142,500	116,893	25,607
Contingency	145,000	32,500	-	32,500
Total expenditures	3,017,720	3,029,932	2,762,942	266,990
Excess of revenues over (under) expenditures	90,480	392,176	683,203	291,027
Other financing sources (uses)				
Transfers out	(350,665)	(360,665)	(166,089)	194,576
Administrative services	341,696	-	-	-
Total other sources (uses)	(8,969)	(360,665)	(166,089)	194,576
Net change in fund balance	81,511	31,511	517,114	485,603
Fund balances July 1	-	-	(337,787)	(337,787)
Fund balance, June 30	\$ 81,511	\$ 31,511	\$ 179,327	\$ 147,816

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, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Intergovernmental revenues	\$ 615,000	\$ 615,000	\$ 741,188	\$ 126,188
Fines	27,500	27,500	24,366	(3,134)
Grants	2,000	2,000	3,151	1,151
Donations	1,500	1,500	2,112	612
Miscellaneous	2,500	2,500	3,878	1,378
Total revenues	648,500	648,500	774,695	126,195
Expenditures				
Personal services	457,570	457,570	349,436	108,134
Materials and services	92,800	145,939	105,432	40,507
Capital outlay	104,500	104,500	66,899	37,601
Contingency	400,000	400,000	-	400,000
Total expenditures	1,054,870	1,108,009	521,767	586,242
Excess of revenues over (under) expenditures	(406,370)	(459,509)	252,928	712,437
Other financing sources (uses)				
Administrative services	(53,139)	-	-	-
Total other financing sources (uses)	(53,139)	-	-	-
Net change in fund balance	(459,509)	(459,509)	252,928	712,437
Fund balance, July 1	666,833	666,833	711,420	44,587
Fund balance, June 30	<u>\$ 207,324</u>	<u>\$ 207,324</u>	<u>\$ 964,348</u>	<u>\$ 757,024</u>

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, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Taxes and assessments	\$ 590,000	\$ 590,000	\$ 622,968	\$ 32,968
Grants	322,000	-	236,000	236,000
Miscellaneous	-	-	14,286	14,286
Total revenues	<u>912,000</u>	<u>590,000</u>	<u>873,254</u>	<u>283,254</u>
Expenditures				
Materials and services	187,500	551,592	546,604	4,988
Capital outlay	322,000	5,000	258,239	(253,239)
Contingency	50,000	45,000	-	45,000
Total expenditures	<u>559,500</u>	<u>601,592</u>	<u>804,843</u>	<u>(248,251)</u>
Excess of revenues over (under) expenditures	352,500	(11,592)	68,411	35,003
Other financing sources (uses)				
Transfers out	(315,000)	-	-	-
Administrative services	(49,092)	-	-	-
Total other financing sources (uses)	<u>(364,092)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(11,592)	(11,592)	68,411	80,003
Fund balance, July 1	<u>31,361</u>	<u>31,361</u>	<u>164,744</u>	<u>133,383</u>
Fund balance, June 30	<u>\$ 19,769</u>	<u>\$ 19,769</u>	<u>\$ 233,155</u>	<u>\$ 213,386</u>

CITY OF MOLALLA, OREGON
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION
GOVERNMENTAL FUNDS
For the Year Ended
June 30, 2013

Budget Basis							
	General Fund	Library Fund	Street Fund	Nonmajor Governmental Funds	Total Governmental Funds	Accrual Adjustments	Modified Accrual Basis
Receipts							
Property taxes	\$ 2,316,502	\$ -	\$ -	\$ 332,463	\$ 2,648,965	\$ (868)	\$ 2,648,097
Other taxes and assessments	251,718	-	622,968	-	874,686	(408)	874,278
System development charges	-	-	-	57,793	57,793	-	57,793
Intergovernmental revenues	32,680	741,188	-	65,047	838,915	(51,708)	787,207
Licenses and permits	188,062	-	-	-	188,062	-	188,062
Fines and forfeits	230,991	24,366	-	277,612	532,969	1,209	534,178
Grants	12,212	3,151	236,000	-	251,363	-	251,363
Donations	-	2,112	-	111,529	113,641	-	113,641
Interest	39,203	-	-	484	39,687	-	39,687
Miscellaneous	374,777	3,878	14,286	18,331	411,272	63	411,335
Total receipts	<u>3,446,145</u>	<u>774,695</u>	<u>873,254</u>	<u>863,259</u>	<u>5,957,353</u>	<u>(51,712)</u>	<u>5,905,641</u>
Disbursements							
Personal services	2,029,949	349,436	-	342,076	2,721,461	-	2,721,461
Materials and services	727,763	105,432	546,604	308,024	1,687,823	5,471	1,693,294
Capital outlay	-	66,899	258,239	6,000	331,138	-	331,138
Debt service	5,230	-	-	64,112	69,342	-	69,342
Total disbursements	<u>2,762,942</u>	<u>521,767</u>	<u>804,843</u>	<u>720,212</u>	<u>4,809,764</u>	<u>5,471</u>	<u>4,815,235</u>
Excess of receipts over disbursements	683,203	252,928	68,411	143,047	1,147,589	(57,183)	1,090,406
Other financing sources, net	(166,089)	-	-	170,089	4,000	-	4,000
Net change in fund balances	517,114	252,928	68,411	313,136	1,151,589	(57,183)	1,094,406
Fund balances July 1, before restatement	(337,787)	711,420	164,744	1,259,359	1,797,736	18,718	1,816,454
Restatement, see note 11	-	-	-	-	-	-	70,651
Fund balances July 1, after restatement	<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>1,887,105</u>
Balances at end of year	<u>\$ 179,327</u>	<u>\$ 964,348</u>	<u>\$ 233,155</u>	<u>\$ 1,572,495</u>	<u>\$ 2,949,325</u>	<u>\$ (38,465)</u>	<u>\$ 2,981,512</u>
Prior year property tax receivable - General Fund					\$ (22,881)		
Current year property tax receivable - General Fund					21,526		
Prior year property tax receivable - Nonmajor funds					(1,417)		
Current year property tax receivable - Nonmajor funds					1,904		
Net property tax receivable						(868)	
Restate for prior year accounts receivable- General fund					(18,564)		
Restate for prior year accounts receivable- Library Fund					(52,087)		
Record current year accounts receivable - General fund					19,378		
Record current year accounts receivable - Street Fund					50		
Record current year accounts receivable - Nonmajor funds					379		
Net accounts receivable						(50,844)	
Prior year accounts payable - General Fund					(5,579)		
Current year accounts payable - General Fund					11,050		
Net accounts payable						5,471	
Prior year accruals						18,718	
						<u>\$ (38,465)</u>	

CITY OF MOLALLA, OREGON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
For the Year Ended
June 30, 2013

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.

During the year ended June 30, 2013 the city had the following overexpenditures:

General Fund	
Police department	
Personal services	\$20,154
Planning	
Debt service	5,230
Street Fund	
Capital outlay	253,239
Parks and Recreation Fund	
Materials and services	80
911 State Revenue Fund	
Materials and services	791
Utility Deposit Fund	
Materials and services	10,769
Water Fund	
Capital outlay	105,876

OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

MODIFIED ACCRUAL BASIS

CITY OF MOLALLA, OREGON
COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2013

	Special Revenue Funds		
	Parks and Recreation Fund	Adult Center Fund	911 State Revenue Fund
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets			
Cash and investments	\$ 48,233	\$ 1,383	\$ -
Property tax receivable	-	-	-
Accounts receivable	-	379	-
Total assets	<u>48,233</u>	<u>1,762</u>	<u>-</u>
Deferred outflows of resources			
Total assets and deferred outflows or resources	<u>\$ 48,233</u>	<u>\$ 1,762</u>	<u>\$ -</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources			
Deferred property taxes	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances			
Nonspendable	-	-	-
Spendable			
Restricted			
Public works	-	-	-
Community development	-	-	-
Debt service	-	-	-
Assigned			
Community development	48,233	1,762	-
Total fund balances	<u>48,233</u>	<u>1,762</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 48,233</u>	<u>\$ 1,762</u>	<u>\$ -</u>

See accompanying independent auditor's report.

Special Revenue Funds

Police Department Restricted Revenue Fund	Molalla Mural Commission Fund	Fox Park Pavillion Fund
\$ 20,850	\$ 1,474	\$ -
-	-	-
-	-	-
<u>20,850</u>	<u>1,474</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 20,850</u>	<u>\$ 1,474</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
-	-	-
20,850	1,474	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>20,850</u>	<u>1,474</u>	<u>-</u>
<u>\$ 20,850</u>	<u>\$ 1,474</u>	<u>\$ -</u>

Special Revenue Funds		
Molalla Arts Commission Fund	EID Assessments Fund	Fee in Lieu of Park Fund
\$ 2,113	\$ -	\$ 1,346
-	-	-
-	-	-
<u>2,113</u>	<u>-</u>	<u>1,346</u>
-	-	-
<u>\$ 2,113</u>	<u>\$ -</u>	<u>\$ 1,346</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
2,113	-	1,346
-	-	-
-	-	-
<u>2,113</u>	<u>-</u>	<u>1,346</u>
<u>\$ 2,113</u>	<u>\$ -</u>	<u>\$ 1,346</u>

Special Revenue Fund	Capital Project Funds		Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
Urban Renewal Agency	Street SDC Fund	Park SDC Fund	Bonded Debt Fund	Sally Fox Park Fund	
\$ 591,258	\$ 221,466	\$ 514,547	\$ 69,437	\$ 96,388	\$ 1,568,495
12,844	-	-	-	-	12,844
-	-	-	-	-	379
<u>604,102</u>	<u>221,466</u>	<u>514,547</u>	<u>69,437</u>	<u>96,388</u>	<u>1,581,718</u>
-	-	-	-	-	-
<u>\$ 604,102</u>	<u>\$ 221,466</u>	<u>\$ 514,547</u>	<u>\$ 69,437</u>	<u>\$ 96,388</u>	<u>\$ 1,581,718</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
10,940	-	-	-	-	10,940
<u>10,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,940</u>
-	-	-	-	96,303	96,303
-	221,466	514,547	-	-	736,013
593,162	-	-	-	85	619,030
-	-	-	69,437	-	69,437
-	-	-	-	-	49,995
<u>593,162</u>	<u>221,466</u>	<u>514,547</u>	<u>69,437</u>	<u>96,388</u>	<u>1,570,778</u>
<u>\$ 604,102</u>	<u>\$ 221,466</u>	<u>\$ 514,547</u>	<u>\$ 69,437</u>	<u>\$ 96,388</u>	<u>\$ 1,581,718</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
For the Year Ended
June 30, 2013

	Special Revenue Funds		
	Parks and Recreation Fund	Adult Center Fund	911 State Revenue Fund
Revenues			
Property taxes	\$ -	\$ -	\$ -
System development charges	-	-	-
Intergovernmental revenues	-	45,635	19,791
Fines and assessments	277,612	-	-
Donations	-	103,998	-
Interest	-	-	-
Miscellaneous revenue	70	9,726	-
Total revenues	<u>277,682</u>	<u>159,359</u>	<u>19,791</u>
Expenditures			
Current			
Personal services	176,636	165,440	-
Materials and services	176,605	84,121	19,791
Capital outlay	-	-	-
Debt service - interest	-	-	-
Debt service - principal	-	-	-
Total expenditures	<u>353,241</u>	<u>249,561</u>	<u>19,791</u>
Excess of revenues over (under) expenditures	(75,559)	(90,202)	-
Other financing sources (uses)			
Operating transfers in	104,743	60,000	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>104,743</u>	<u>60,000</u>	<u>-</u>
Net change in fund balances	29,184	(30,202)	-
Fund balances, July 1	<u>19,049</u>	<u>31,964</u>	<u>-</u>
Fund balances, June 30	<u>\$ 48,233</u>	<u>\$ 1,762</u>	<u>\$ -</u>

See accompanying independent auditor's report.

Special Revenue Funds

Police Department Restricted Revenue Fund	Molalla Mural Commission Fund	Fox Park Pavillion Fund
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
3,061	1,050	3,020
-	-	-
8,166	369	-
<u>11,227</u>	<u>1,419</u>	<u>3,020</u>
-	-	-
1,120	5,463	6,696
-	-	-
-	-	-
-	-	-
<u>1,120</u>	<u>5,463</u>	<u>6,696</u>
10,107	(4,044)	(3,676)
-	-	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
10,107	(4,044)	(3,676)
10,743	5,518	3,676
<u>\$ 20,850</u>	<u>\$ 1,474</u>	<u>\$ -</u>

Special Revenue Funds

Molalla Arts Commission Fund	EID Assessments Fund	Fee in Lieu of Park Fund
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
400	-	-
-	-	-
-	-	-
<u>400</u>	<u>-</u>	<u>-</u>
-	-	-
222	-	-
-	-	-
-	-	-
-	-	-
<u>222</u>	<u>-</u>	<u>-</u>
178	-	-
-	-	1,346
-	-	-
<u>-</u>	<u>-</u>	<u>1,346</u>
178	-	1,346
1,935	-	-
<u>\$ 2,113</u>	<u>\$ -</u>	<u>\$ 1,346</u>

Special Revenue Fund	Capital Project Funds		Debt Service Fund	Permanent Fund	Total
Urban Renewal Agency	Street SDC Fund	Park SDC Fund	Bonded Debt Fund	Sally Fox Park Fund	June 30, 2013
\$ 240,487	\$ -	\$ -	\$ 92,463	\$ -	\$ 332,950
-	46,054	11,739	-	-	57,793
-	-	-	-	-	65,426
-	-	-	-	-	277,612
-	-	-	-	-	111,529
234	-	-	250	-	484
-	-	-	-	-	18,331
<u>240,721</u>	<u>46,054</u>	<u>11,739</u>	<u>92,713</u>	<u>-</u>	<u>864,125</u>
-	-	-	-	-	342,076
14,006	-	-	-	-	308,024
6,000	-	-	-	-	6,000
-	-	-	9,112	-	9,112
-	-	-	55,000	-	55,000
<u>20,006</u>	<u>-</u>	<u>-</u>	<u>64,112</u>	<u>-</u>	<u>720,212</u>
220,715	46,054	11,739	28,601	-	143,913
-	-	-	-	-	166,089
-	-	-	-	-	-
-	-	-	-	-	166,089
220,715	46,054	11,739	28,601	-	310,002
<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>
<u>\$ 593,162</u>	<u>\$ 221,466</u>	<u>\$ 514,547</u>	<u>\$ 69,437</u>	<u>\$ 96,388</u>	<u>\$ 1,570,778</u>

BUDGET BASIS

CITY OF MOLALLA, OREGON
COMBINING BALANCE SHEET
NONMAJOR FUNDS
(Budget Basis)
June 30, 2013

	Special Revenue Funds		
	Parks and Recreation Fund	Adult Center Fund	911 State Revenue Fund
ASSETS			
Cash and investments	\$ 48,233	\$ 1,383	\$ -
Total assets	\$ 48,233	\$ 1,383	\$ -
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	-	-	-
Fund balances			
Nonspendable	-	-	-
Spendable			
Restricted			
Public works	-	-	-
Community development	-	-	-
Debt service	-	-	-
Assigned			
Community development	48,233	1,383	4,000
Total fund balances	48,233	1,383	4,000
Total liabilities and fund balances	\$ 48,233	\$ 1,383	\$ 4,000

See accompanying independent auditor's report.

Special Revenue Funds

<u>Police Department Restricted Revenue Fund</u>	<u>Molalla Mural Commission Fund</u>	<u>Fox Park Pavillion Fund</u>
<u>\$ 20,850</u>	<u>\$ 1,474</u>	<u>\$ -</u>
<u>\$ 20,850</u>	<u>\$ 1,474</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>20,850</u>	<u>1,474</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>20,850</u>	<u>1,474</u>	<u>-</u>
<u>\$ 20,850</u>	<u>\$ 1,474</u>	<u>\$ -</u>

Special Revenue Funds

Molalla Arts Commission Fund	EID Assessments Fund	Fee in Lieu of Park Fund
\$ 2,113	\$ -	\$ 1,346
<u>\$ 2,113</u>	<u>\$ -</u>	<u>\$ 1,346</u>
-	-	-
-	-	-
-	-	-
2,113	-	1,346
-	-	-
-	-	-
<u>2,113</u>	<u>-</u>	<u>1,346</u>
<u>\$ 2,113</u>	<u>\$ -</u>	<u>\$ 1,346</u>

Special Revenue Fund	Capital Project Funds		Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
URA Fund	Street SDC Fund	Park SDC Fund	Bonded Debt Fund	Sally Fox Park Fund	
\$ 591,258	\$ 221,466	\$ 514,547	\$ 69,437	\$ 96,388	\$ 1,568,495
<u>\$ 591,258</u>	<u>\$ 221,466</u>	<u>\$ 514,547</u>	<u>\$ 69,437</u>	<u>\$ 96,388</u>	<u>\$ 1,568,495</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	96,303	96,303
-	221,466	514,547	-	-	736,013
591,258	-	-	-	85	617,126
-	-	-	69,437	-	69,437
-	-	-	-	-	53,616
<u>591,258</u>	<u>221,466</u>	<u>514,547</u>	<u>69,437</u>	<u>96,388</u>	<u>1,572,495</u>
<u>\$ 591,258</u>	<u>\$ 221,466</u>	<u>\$ 514,547</u>	<u>\$ 69,437</u>	<u>\$ 96,388</u>	<u>\$ 1,572,495</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
(Budget Basis)
For the Year Ended
June 30, 2013

	Special Revenue Funds		
	Parks and Recreation Fund	Adult Center Fund	911 State Revenue Fund
Revenues			
Property taxes	\$ -	\$ -	\$ -
System development charges	-	-	-
Intergovernmental revenues	-	45,256	19,791
Fines and assessments	277,612	-	-
Donations	-	103,998	-
Interest	-	-	-
Miscellaneous revenue	70	9,726	-
Total revenues	<u>277,682</u>	<u>158,980</u>	<u>19,791</u>
Expenditures			
Current			
Personal services	176,636	165,440	-
Materials and services	176,605	84,121	19,791
Capital outlay	-	-	-
Debt Service	-	-	-
Total expenditures	<u>353,241</u>	<u>249,561</u>	<u>19,791</u>
Excess of revenues over (under) expenditures	(75,559)	(90,581)	-
Other financing sources (uses)			
Operating transfers in	104,743	60,000	4,000
Total other financing sources (uses)	<u>104,743</u>	<u>60,000</u>	<u>4,000</u>
Net change in fund balances	29,184	(30,581)	4,000
Fund balances July 1	<u>19,049</u>	<u>31,964</u>	<u>-</u>
Fund balances, June 30	<u>\$ 48,233</u>	<u>\$ 1,383</u>	<u>\$ 4,000</u>

See accompanying independent auditor's report.

Special Revenue Funds

Police Department Restricted Revenue Fund	Molalla Mural Commission Fund	Fox Park Pavillion Fund
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
3,061	1,050	3,020
-	-	-
8,166	369	-
<u>11,227</u>	<u>1,419</u>	<u>3,020</u>
-	-	-
1,120	5,463	6,696
-	-	-
-	-	-
<u>1,120</u>	<u>5,463</u>	<u>6,696</u>
10,107	(4,044)	(3,676)
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
10,107	(4,044)	(3,676)
10,743	5,518	3,676
<u>\$ 20,850</u>	<u>\$ 1,474</u>	<u>\$ -</u>

Special Revenue Funds

Molalla Arts Commission Fund	EID Assessments Fund	Fee in Lieu of Park Fund
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
400	-	-
-	-	-
-	-	-
<u>400</u>	<u>-</u>	<u>-</u>
-	-	-
222	-	-
-	-	-
-	-	-
<u>222</u>	<u>-</u>	<u>-</u>
178	-	-
-	-	1,346
<u>-</u>	<u>-</u>	<u>1,346</u>
178	-	1,346
1,935	-	-
<u>\$ 2,113</u>	<u>\$ -</u>	<u>\$ 1,346</u>

Special Revenue Fund	Capital Project Funds		Debt Service Fund	Permanent Fund	Total June 30, 2013
Urban Renewal Agency	Street SDC Fund	Park SDC Fund	Bonded Debt Fund	Sally Fox Park Fund	
\$ 240,000	\$ -	\$ -	\$ 92,463	\$ -	\$ 332,463
-	46,054	11,739	-	-	57,793
-	-	-	-	-	65,047
-	-	-	-	-	277,612
-	-	-	-	-	111,529
234	-	-	250	-	484
-	-	-	-	-	18,331
<u>240,234</u>	<u>46,054</u>	<u>11,739</u>	<u>92,713</u>	<u>-</u>	<u>863,259</u>
-	-	-	-	-	342,076
14,006	-	-	-	-	308,024
6,000	-	-	-	-	6,000
-	-	-	64,112	-	64,112
<u>20,006</u>	<u>-</u>	<u>-</u>	<u>64,112</u>	<u>-</u>	<u>720,212</u>
220,228	46,054	11,739	28,601	-	143,047
-	-	-	-	-	170,089
-	-	-	-	-	170,089
220,228	46,054	11,739	28,601	-	313,136
<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>
<u>\$ 591,258</u>	<u>\$ 221,466</u>	<u>\$ 514,547</u>	<u>\$ 69,437</u>	<u>\$ 96,388</u>	<u>\$ 1,572,495</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, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Fees	\$ 270,000	\$ 270,000	\$ 277,612	\$ 7,612
Miscellaneous	-	-	70	70
Total revenues	<u>270,000</u>	<u>270,000</u>	<u>277,682</u>	<u>7,682</u>
Expenditures				
Personal services	177,875	192,800	176,636	16,164
Material and services	131,750	176,525	176,605	(80)
Contingency	42,508	12,583	-	12,583
Total expenditures	<u>352,133</u>	<u>381,908</u>	<u>353,241</u>	<u>28,667</u>
Excess of revenues over (under) expenditures	(82,133)	(111,908)	(75,559)	36,349
Other financing sources (uses)				
Transfers in	104,743	104,743	104,743	-
Administrative services	(29,775)	-	-	-
Total other sources (uses)	<u>74,968</u>	<u>104,743</u>	<u>104,743</u>	<u>-</u>
Net change in fund balance	(7,165)	(7,165)	29,184	36,349
Fund balance, July 1	<u>7,165</u>	<u>7,165</u>	<u>19,049</u>	<u>11,884</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,233</u>	<u>\$ 48,233</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
Intergovernmental revenues	\$ 109,253	\$ 109,253	\$ 45,256	\$ (63,997)
Donations	135,000	135,000	103,998	(31,002)
Miscellaneous	35,000	35,000	9,726	(25,274)
Total revenues	<u>279,253</u>	<u>279,253</u>	<u>158,980</u>	<u>(120,273)</u>
Expenditures				
Personal services	222,667	222,667	165,440	57,227
Material and services	81,575	111,318	84,121	27,197
Contingency	38,157	38,157	-	38,157
Total expenditures	<u>342,399</u>	<u>372,142</u>	<u>249,561</u>	<u>122,581</u>
Excess of revenues over (under) expenditures	(63,146)	(92,889)	(90,581)	2,308
Other financing sources (uses)				
Transfers in	64,000	64,000	60,000	4,000
Administrative services	(29,743)	-	-	-
Total other financing sources (uses)	<u>34,257</u>	<u>64,000</u>	<u>60,000</u>	<u>4,000</u>
Net change in fund balance	(28,889)	(28,889)	(30,581)	(1,692)
Fund balance, July 1	<u>28,889</u>	<u>28,889</u>	<u>31,964</u>	<u>3,075</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,383</u>	<u>\$ 1,383</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - 911 STATE REVENUE FUND
(Budget Basis)
For the Year Ended
June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
Intergovernmental revenue	\$ 19,000	\$ 19,000	\$ 19,791	\$ 791
Total revenues	<u>19,000</u>	<u>19,000</u>	<u>19,791</u>	<u>791</u>
Expenditures				
Materials and services	<u>19,000</u>	<u>19,000</u>	<u>19,791</u>	<u>(791)</u>
Total expenditures	<u>19,000</u>	<u>19,000</u>	<u>19,791</u>	<u>(791)</u>
Net change in fund balance	-	-	-	-
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>\$ -</u></u>	<u><u>\$ -</u></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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
Donations	\$ 1,320	\$ 3,820	\$ 3,061	\$ (759)
Miscellaneous	-	6,500	8,166	1,666
Total revenues	<u>1,320</u>	<u>10,320</u>	<u>11,227</u>	<u>907</u>
Expenditures				
Materials and services	<u>3,865</u>	<u>12,865</u>	<u>1,120</u>	<u>11,745</u>
Total expenditures	<u>3,865</u>	<u>12,865</u>	<u>1,120</u>	<u>11,745</u>
Net change in fund balance	(2,545)	(2,545)	10,107	12,652
Fund balance, July 1	<u>2,545</u>	<u>2,545</u>	<u>10,743</u>	<u>8,198</u>
Fund balance, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 20,850</u></u>	<u><u>\$ 20,850</u></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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
Donations	\$ -	\$ -	\$ 1,050	\$ 1,050
Miscellaneous	-	-	369	369
Total revenues	<u>-</u>	<u>-</u>	<u>1,419</u>	<u>1,419</u>
Expenditures				
Materials and services	<u>12,679</u>	<u>12,679</u>	<u>5,463</u>	<u>7,216</u>
Total expenditures	<u>12,679</u>	<u>12,679</u>	<u>5,463</u>	<u>7,216</u>
Net change in fund balance	(12,679)	(12,679)	(4,044)	8,635
Fund balance, July 1	<u>12,679</u>	<u>12,679</u>	<u>5,518</u>	<u>(7,161)</u>
Fund balance, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,474</u></u>	<u><u>\$ 1,474</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
Donations	\$ -	\$ -	\$ 3,020	\$ 3,020
Total revenues	<u>-</u>	<u>-</u>	<u>3,020</u>	<u>3,020</u>
Expenditures				
Materials and services	<u>7,100</u>	<u>7,100</u>	<u>6,696</u>	<u>404</u>
Total expenditures	<u>7,100</u>	<u>7,100</u>	<u>6,696</u>	<u>404</u>
Net change in fund balance	(7,100)	(7,100)	(3,676)	3,424
Fund balance, July 1	<u>7,100</u>	<u>7,100</u>	<u>3,676</u>	<u>(3,424)</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Donations	\$ -	\$ -	\$ 400	\$ 400
Total revenues	<u>-</u>	<u>-</u>	<u>400</u>	<u>400</u>
Expenditures				
Materials and services	850	850	222	628
Total expenditures	<u>850</u>	<u>850</u>	<u>222</u>	<u>628</u>
Net change in fund balance	(850)	(850)	178	1,028
Fund balance, July 1	<u>850</u>	<u>850</u>	<u>1,935</u>	<u>1,085</u>
Fund balance, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,113</u></u>	<u><u>\$ 2,113</u></u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - EID ASSESSMENTS FUND
(Budget Basis)
For the Year Ended
June 30, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Fines and assessments	\$ 45,000	\$ -	\$ -	\$ -
Total revenues	45,000	-	-	-
Expenditures				
Materials and services	45,000	-	-	-
Total expenditures	45,000	-	-	-
Net change in fund balance	-	-	-	-
Fund balance, July 1	-	-	-	-
Fund balance, June 30	\$ -	\$ -	\$ -	\$ -

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - FEE IN LIEU OF PARK FUND
(Budget Basis)
For the Year Ended
June 30, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Fines and assessments	\$ 2,500	\$ 2,500	\$ -	\$ (2,500)
Total revenues	<u>2,500</u>	<u>2,500</u>	<u>-</u>	<u>(2,500)</u>
Expenditures				
Materials and services	3,846	3,846	-	3,846
Total expenditures	<u>3,846</u>	<u>3,846</u>	<u>-</u>	<u>3,846</u>
Excess of revenues and other sources over (under) expenditures and other uses	(1,346)	(1,346)	-	1,346
Other financing sources (uses)				
Transfers in	1,346	1,346	1,346	-
Total other financing sources (uses)	<u>1,346</u>	<u>1,346</u>	<u>1,346</u>	<u>-</u>
Net change in fund balance	-	-	1,346	1,346
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,346</u>	<u>\$ 1,346</u>

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, 2013

	Adopted Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Property taxes	\$ 215,000	\$ 215,000	\$ 240,000	\$ 25,000
Interest	-	-	234	234
Total revenues	<u>215,000</u>	<u>215,000</u>	<u>240,234</u>	<u>25,234</u>
Expenditures				
Materials and services	35,000	35,000	14,006	20,994
Capital outlay	100,000	100,000	6,000	94,000
Contingency	86,226	86,226	-	86,226
Total expenditures	<u>221,226</u>	<u>221,226</u>	<u>20,006</u>	<u>201,220</u>
Net change in fund balance	(6,226)	(6,226)	220,228	226,454
Fund balance, July 1	<u>361,226</u>	<u>361,226</u>	<u>371,030</u>	<u>9,804</u>
Fund balance, June 30	<u>\$ 355,000</u>	<u>\$ 355,000</u>	<u>\$ 591,258</u>	<u>\$ 236,258</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance with Final Budget
Revenues				
System development charges	\$ 29,390	\$ 29,390	\$ 46,054	\$ 16,664
Total revenues	<u>29,390</u>	<u>29,390</u>	<u>46,054</u>	<u>16,664</u>
Expenditures				
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	29,390	29,390	46,054	16,664
Fund balance, July 1	<u>294,069</u>	<u>294,069</u>	<u>175,412</u>	<u>(118,657)</u>
Fund balance, June 30	<u>\$ 323,459</u>	<u>\$ 323,459</u>	<u>\$ 221,466</u>	<u>\$ (101,993)</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
System development charges	\$ 9,030	\$ 9,030	\$ 11,739	\$ 2,709
Total revenues	<u>9,030</u>	<u>9,030</u>	<u>11,739</u>	<u>2,709</u>
Expenditures				
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	9,030	9,030	11,739	2,709
Fund balance, July 1	<u>80,616</u>	<u>80,616</u>	<u>502,808</u>	<u>422,192</u>
Fund balance, June 30	<u>\$ 89,646</u>	<u>\$ 89,646</u>	<u>\$ 514,547</u>	<u>\$ 424,901</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, 2013

	Adopted Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Property taxes	\$ 92,463	\$ 92,463	\$ 92,463	\$ -
Interest	250	250	250	-
Total revenues	<u>92,713</u>	<u>92,713</u>	<u>92,713</u>	<u>-</u>
Expenditures				
Debt service	<u>132,250</u>	<u>132,250</u>	<u>64,112</u>	<u>68,138</u>
Total expenditures	<u>132,250</u>	<u>132,250</u>	<u>64,112</u>	<u>68,138</u>
Net change in fund balance	(39,537)	(39,537)	28,601	68,138
Fund balance, July 1	39,537	39,537	40,836	1,299
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,437</u>	<u>\$ 69,437</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance with <u>Final Budget</u>
Revenues				
Interest	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Materials and services	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1	<u>96,303</u>	<u>96,303</u>	<u>96,388</u>	<u>85</u>
Fund balance, June 30	<u>\$ 96,303</u>	<u>\$ 96,303</u>	<u>\$ 96,388</u>	<u>\$ 85</u>

NONMAJOR PROPRIETARY FUNDS

ACCRUAL BASIS

CITY OF MOLALLA, OREGON
COMBINING SCHEDULE OF FUND NET POSITION
NONMAJOR PROPRIETARY FUNDS
June 30, 2013

	Storm Water Fund	Utility Deposit Fund	CWSR Debt Retirement Fund	Sewer SDC Fund	Storm Water SDC Fund	Total Nonmajor Governmental Funds
ASSETS						
Cash and investments	\$ 23,246	\$ -	\$ 202,066	\$ -	\$ -	\$ 225,312
Restrcted cash	-	2,378	-	53,720	154,377	210,475
Land	5,241	-	-	-	-	5,241
Capital assets, net of accumulated depreciation	551,794	-	1,816,318	-	-	2,368,112
Total assets	<u>580,281</u>	<u>2,378</u>	<u>2,018,384</u>	<u>53,720</u>	<u>154,377</u>	<u>2,809,140</u>
LIABILITIES						
Current liabilities						
Current portion of non-current liabilities	-	-	118,524	-	-	118,524
Total current liabilities	<u>-</u>	<u>-</u>	<u>118,524</u>	<u>-</u>	<u>-</u>	<u>118,524</u>
Non-current liabilities						
Notes payable	-	-	2,056,976	-	-	2,056,976
Total liabilities	<u>-</u>	<u>-</u>	<u>2,175,500</u>	<u>-</u>	<u>-</u>	<u>2,175,500</u>
NET POSITION						
Net investment in capital assets	557,035	-	(359,182)	-	-	197,853
Restricted for debt service	-	-	202,066	-	-	202,066
Restricted for system development	-	-	-	53,720	154,377	208,097
Unrestricted	23,246	2,378	-	-	-	25,624
Total net position	<u>\$ 580,281</u>	<u>\$ 2,378</u>	<u>\$ (157,116)</u>	<u>\$ 53,720</u>	<u>\$ 154,377</u>	<u>\$ 633,640</u>

CITY OF MOLALLA, OREGON
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
NONMAJOR PROPRIETARY FUNDS
For the Year Ended
June 30, 2013

	Storm Water Fund	Utility Deposit Fund	CWSR Debt Retirement Fund	Sewer SDC Fund	Storm Water SDC Fund	Total June 30, 2013
Operating revenues						
Charges for services	\$ 91,776	\$ 15,647	\$ -	\$ -	\$ -	\$ 107,423
System development charges	-	-	-	53,720	5,780	59,500
Total operating revenues	<u>91,776</u>	<u>15,647</u>	<u>-</u>	<u>53,720</u>	<u>5,780</u>	<u>166,923</u>
Operating expenses						
Materials and services	75,366	13,269	5,584	-	-	94,219
Capital outlay	2,112	-	-	-	-	2,112
Depreciation	13,778	-	-	-	-	13,778
Total operating expenses	<u>91,256</u>	<u>13,269</u>	<u>5,584</u>	<u>-</u>	<u>-</u>	<u>110,109</u>
Operating income (loss)	<u>520</u>	<u>2,378</u>	<u>(5,584)</u>	<u>53,720</u>	<u>5,780</u>	<u>56,814</u>
Nonoperating income (expenses)						
Interest expense	-	-	(63,341)	-	-	(63,341)
Total nonoperating income (expenses)	<u>-</u>	<u>-</u>	<u>(63,341)</u>	<u>-</u>	<u>-</u>	<u>(63,341)</u>
Net income	<u>520</u>	<u>2,378</u>	<u>(68,925)</u>	<u>53,720</u>	<u>5,780</u>	<u>(6,527)</u>
Other financing sources (uses)						
Operating transfers in	-	-	200,000	-	-	200,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
Change in fund net position	520	2,378	131,075	53,720	5,780	193,473
Net position, July 1	579,761	-	(288,191)	-	148,597	440,167
Net position, June 30	<u>\$ 580,281</u>	<u>\$ 2,378</u>	<u>\$ (157,116)</u>	<u>\$ 53,720</u>	<u>\$ 154,377</u>	<u>\$ 633,640</u>

BUDGET BASIS

CITY OF MOLALLA, OREGON
COMBINING SCHEDULE OF FUND NET POSITION
NONMAJOR PROPRIETARY FUNDS
(Budget Basis)
June 30, 2013

	Storm Water Fund	Utility Deposit Fund	CWSR Debt Retirement Fund	Sewer SDC Fund	Storm Water SDC Fund	Total Nonmajor Governmental Funds
ASSETS						
Cash and investments	\$ 23,246	\$ -	\$ 202,066	\$ -	\$ -	\$ 225,312
Restricted cash	-	2,378	-	53,720	154,377	210,475
Total assets	<u>23,246</u>	<u>2,378</u>	<u>202,066</u>	<u>-</u>	<u>154,377</u>	<u>435,787</u>
LIABILITIES AND NET POSITION						
Liabilities						
Accounts payable	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-
Net position						
Restricted for debt retirement	-	-	202,066	-	-	202,066
Restricted for system development	-	-	-	53,720	154,377	208,097
Unrestricted	23,246	2,378	-	-	-	25,624
Total net position	<u>23,246</u>	<u>2,378</u>	<u>202,066</u>	<u>53,720</u>	<u>154,377</u>	<u>435,787</u>
Total liabilities and net position	<u>\$ 23,246</u>	<u>\$ 2,378</u>	<u>\$ 202,066</u>	<u>\$ 53,720</u>	<u>\$ 154,377</u>	<u>\$ 435,787</u>

CITY OF MOLALLA, OREGON
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
NONMAJOR PROPRIETARY FUNDS
(Budget Basis)
For the Year Ended
June 30, 2013

	Storm Water Fund	Utility Deposit Fund	CWSR Debt Retirement Fund	Sewer SDC Fund	Storm Water SDC Fund	Total June 30, 2013
Revenues						
Charges for services	\$ 91,776	\$ 15,647	\$ -	\$ -	\$ -	\$ 107,423
System development charges	-	-	-	53,720	5,780	59,500
Total revenues	<u>91,776</u>	<u>15,647</u>	<u>-</u>	<u>53,720</u>	<u>5,780</u>	<u>166,923</u>
Expenses						
Materials and services	75,366	13,269	5,584	-	-	94,219
Capital outlay	2,112	-	-	-	-	2,112
Debt service	-	-	178,614	-	-	178,614
Total expenses	<u>77,478</u>	<u>13,269</u>	<u>184,198</u>	<u>-</u>	<u>-</u>	<u>274,945</u>
Excess of revenues over (under) expenses	14,298	2,378	(184,198)	53,720	5,780	(108,022)
Other financing sources (uses)						
Operating transfers in	-	-	200,000	-	-	200,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
Change in fund net position	14,298	2,378	15,802	53,720	5,780	91,978
Net position, July 1	<u>8,948</u>	<u>-</u>	<u>186,264</u>	<u>-</u>	<u>148,597</u>	<u>343,809</u>
Net position, June 30	<u>\$ 23,246</u>	<u>\$ 2,378</u>	<u>\$ 202,066</u>	<u>\$ 53,720</u>	<u>\$ 154,377</u>	<u>\$ 435,787</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL - STORM WATER FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Consumer receipts	\$ 94,000	\$ 94,000	\$ 91,776	\$ (2,224)
Total revenues	<u>94,000</u>	<u>94,000</u>	<u>91,776</u>	<u>(2,224)</u>
Expenses				
Materials and services	48,425	83,425	75,366	8,059
Capital outlay	-	2,500	2,112	388
Contingency	8,720	6,220	-	6,220
Total expenses	<u>57,145</u>	<u>92,145</u>	<u>77,478</u>	<u>14,667</u>
Excess of revenues over (under) expenses	36,855	1,855	14,298	12,443
Other financing sources (uses)				
Transfer out	<u>(35,000)</u>	-	-	-
Total other financing sources (uses)	<u>(35,000)</u>	-	-	-
Change in fund net position	1,855	1,855	14,298	12,443
Net position, July 1	<u>3,970</u>	<u>3,970</u>	<u>8,948</u>	<u>4,978</u>
Net position, June 30	<u>\$ 5,825</u>	<u>\$ 5,825</u>	<u>\$ 23,246</u>	<u>\$ 17,421</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL - UTILITY DEPOSITS FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Consumer receipts	\$ 2,500	\$ 2,500	\$ 15,647	\$ 13,147
Total revenues	<u>2,500</u>	<u>2,500</u>	<u>15,647</u>	<u>13,147</u>
Expenses				
Materials and services	2,500	2,500	13,269	(10,769)
Total expenses	<u>2,500</u>	<u>2,500</u>	<u>13,269</u>	<u>(10,769)</u>
Change in fund net position	-	-	2,378	2,378
Net position, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net positon, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,378</u></u>	<u><u>\$ 2,378</u></u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL - CWSRF DEBT RETIREMENT FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2013

	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	12,000	12,000	5,584	6,416
Debt service	374,264	374,264	178,614	195,650
Total expenses	<u>386,264</u>	<u>386,264</u>	<u>184,198</u>	<u>202,066</u>
Excess of revenues over (under) expenses	(386,264)	(386,264)	(184,198)	202,066
Other financing sources (uses)				
Transfers in	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Total other financing sources (uses)	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Change in fund net position	(186,264)	(186,264)	15,802	202,066
Net position, July 1	<u>186,264</u>	<u>186,264</u>	<u>186,264</u>	<u>-</u>
Net position, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 202,066</u>	<u>\$ 202,066</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL - SEWER SDC FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance with Final Budget
Revenues				
System development charges	\$ 39,030	\$ 39,030	\$ 53,720	\$ 14,690
Total revenues	<u>39,030</u>	<u>39,030</u>	<u>53,720</u>	<u>14,690</u>
Expenses				
Materials and services	-	-	-	-
Total expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund net position	39,030	39,030	53,720	14,690
Net position, July 1	<u>242,530</u>	<u>242,530</u>	<u>-</u>	<u>(242,530)</u>
Net position, June 30	<u>\$ 281,560</u>	<u>\$ 281,560</u>	<u>\$ 53,720</u>	<u>\$ (227,840)</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL - STORM WATER SDC FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
System development charges	\$ 2,890	\$ 2,890	\$ 5,780	\$ 2,890
Total revenues	<u>2,890</u>	<u>2,890</u>	<u>5,780</u>	<u>2,890</u>
Expenses				
Materials and services	-	-	-	-
Total expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund net position	2,890	2,890	5,780	2,890
Net position, July 1	<u>145,085</u>	<u>145,085</u>	<u>148,597</u>	<u>3,512</u>
Net position, June 30	<u><u>\$ 147,975</u></u>	<u><u>\$ 147,975</u></u>	<u><u>\$ 154,377</u></u>	<u><u>\$ 6,402</u></u>

MAJOR PROPRIETARY FUNDS

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL - SEWER FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Consumer receipts	\$ 1,510,000	\$ 1,510,000	\$ 1,551,290	\$ 41,290
Miscellaneous revenue	5,000	5,000	2,059	(2,941)
Total revenues	<u>1,515,000</u>	<u>1,515,000</u>	<u>1,553,349</u>	<u>38,349</u>
Expenses				
Materials and services	619,211	1,039,211	985,177	54,034
Capital outlay	-	10,000	4,033	5,967
Contingency	100,000	90,000	-	90,000
Total expenses	<u>719,211</u>	<u>1,139,211</u>	<u>989,210</u>	<u>150,001</u>
Excess of revenues over (under) expenses	795,789	375,789	564,139	188,350
Other financing sources (uses)				
Transfers out	(835,000)	(415,000)	(415,000)	-
Total other financing sources (uses)	<u>(835,000)</u>	<u>(415,000)</u>	<u>(415,000)</u>	<u>-</u>
Change in fund net position	(39,211)	(39,211)	149,139	188,350
Net position, July 1	523,057	523,057	460,964	(62,093)
Net position, June 30	<u>\$ 483,846</u>	<u>\$ 483,846</u>	<u>\$ 610,103</u>	<u>\$ 126,257</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL - WATER FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Consumer receipts	\$ 1,310,000	\$ 1,310,000	\$ 1,293,186	\$ (16,814)
Grant income	-	-	84,000	84,000
Interest	-	-	576	576
Miscellaneous revenue	145,576	145,576	33,030	(112,546)
Total revenues	<u>1,455,576</u>	<u>1,455,576</u>	<u>1,410,792</u>	<u>(44,784)</u>
Expenses				
Materials and services	374,211	919,211	876,960	42,251
Capital outlay	-	40,000	145,876	(105,876)
Contingency	250,000	260,000	-	260,000
Total expenses	<u>624,211</u>	<u>1,219,211</u>	<u>1,022,836</u>	<u>196,375</u>
Excess of revenues over (under) expenses	831,365	236,365	387,956	(241,159)
Other financing sources (uses)				
Transfers in	-	50,000	-	(50,000)
Transfers out	(811,000)	(266,000)	(266,000)	-
Total other financing sources (uses)	<u>(811,000)</u>	<u>(216,000)</u>	<u>(266,000)</u>	<u>(50,000)</u>
Change in fund net position	20,365	20,365	121,956	101,591
Net position, July 1	780,565	780,565	796,893	16,328
Net position, June 30	<u>\$ 800,930</u>	<u>\$ 800,930</u>	<u>\$ 918,849</u>	<u>\$ 117,919</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL - SEWER DEBT RETIREMENT FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Interest	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses				
Capital outlay	191,322	191,322	-	191,322
Debt service	645,000	645,000	316,800	328,200
Total expenses	<u>836,322</u>	<u>836,322</u>	<u>316,800</u>	<u>519,522</u>
Excess of revenues over (under) expenses	(836,322)	(836,322)	(316,800)	519,522
Other financing sources (uses)				
Transfers in	215,000	215,000	215,000	-
Total other financing sources (uses)	<u>215,000</u>	<u>215,000</u>	<u>215,000</u>	<u>-</u>
Change in fund net position	(621,322)	(621,322)	(101,800)	519,522
Net position, July 1	621,322	621,322	621,322	-
Net position, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 519,522</u>	<u>\$ 519,522</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - WATER DEBT RETIREMENT FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Interest	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses				
Capital outlay	231,315	231,315	-	231,315
Debt service	733,000	733,000	361,950	371,050
Total expenses	<u>964,315</u>	<u>964,315</u>	<u>361,950</u>	<u>602,365</u>
Excess of revenues over (under) expenses	(964,315)	(964,315)	(361,950)	602,365
Other financing sources (uses)				
Transfers in	266,000	266,000	266,000	-
Total other financing sources (uses)	<u>266,000</u>	<u>266,000</u>	<u>266,000</u>	<u>-</u>
Change in fund net position	(698,315)	(698,315)	(95,950)	602,365
Net position, July 1	698,315	698,315	703,526	5,211
Net position, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 607,576</u>	<u>\$ 607,576</u>

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - WATER SDC FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance with Final Budget
Revenues				
System development charges	\$ 21,130	\$ 21,130	\$ 29,582	\$ 8,452
Total revenues	<u>21,130</u>	<u>21,130</u>	<u>29,582</u>	<u>8,452</u>
Expenditures				
Materials and services	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund net position	21,130	21,130	29,582	8,452
Net position, July 1	<u>1,052,291</u>	<u>1,052,291</u>	<u>1,229,175</u>	<u>176,884</u>
Net position, June 30	<u><u>\$ 1,073,421</u></u>	<u><u>\$ 1,073,421</u></u>	<u><u>\$ 1,258,757</u></u>	<u><u>\$ 185,336</u></u>

CITY OF MOLALLA, OREGON
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION
PROPRIETARY FUNDS
For the Year Ended
June 30, 2013

	Budget Basis						Total Proprietary Funds	Accrual Adjustments	Accrual Basis
	Sewer Fund	Water Fund	Sewer Debt Retirement Fund	Water Debt Retirement Fund	Water SDC Fund	Nonmajor Proprietary Funds			
Receipts									
Consumer receipts	\$ 1,551,290	\$ 1,293,186	\$ -	\$ -	\$ -	\$ 107,423	\$ 2,951,899	\$ 10,272	\$ 2,962,171
System development charges	-	-	-	-	29,582	59,500	89,082	-	89,082
Grant income	-	84,000	-	-	-	-	84,000	-	84,000
Interest	-	576	-	-	-	-	576	-	576
Miscellaneous	2,059	33,030	-	-	-	-	35,089	-	35,089
Total receipts	<u>1,553,349</u>	<u>1,410,792</u>	<u>-</u>	<u>-</u>	<u>29,582</u>	<u>166,923</u>	<u>3,160,646</u>	<u>10,272</u>	<u>3,170,918</u>
Disbursements									
Materials and services	985,177	876,960	-	-	-	94,219	1,956,356	(10,550)	1,945,806
Capital outlay	4,033	145,876	-	-	-	2,112	152,021	(140,365)	11,656
Debt service	-	-	316,800	361,950	-	178,614	857,364	(625,273)	232,091
Bad debt expense	-	-	-	-	-	-	-	30,564	30,564
Depreciation expense	-	-	-	-	-	-	-	380,721	380,721
Total disbursements	<u>989,210</u>	<u>1,022,836</u>	<u>316,800</u>	<u>361,950</u>	<u>-</u>	<u>274,945</u>	<u>2,965,741</u>	<u>(364,903)</u>	<u>2,600,838</u>
Excess of receipts over disbursements	564,139	387,956	(316,800)	(361,950)	29,582	(108,022)	194,905	375,175	570,080
Other financing sources, net	(415,000)	(266,000)	215,000	266,000	-	200,000	-	-	-
Change in fund net position	149,139	121,956	(101,800)	(95,950)	29,582	91,978	194,905	375,175	570,080
Balances at beginning of year	460,964	796,893	621,322	703,526	1,229,175	343,809	4,155,689	6,696,188	10,851,877
Balances at end of year	<u>\$ 610,103</u>	<u>\$ 918,849</u>	<u>\$ 519,522</u>	<u>\$ 607,576</u>	<u>\$ 1,258,757</u>	<u>\$ 435,787</u>	<u>\$ 4,350,594</u>	<u>\$ 7,071,363</u>	<u>\$ 11,421,957</u>
Record current year accounts receivable - Water Fund							\$ 4,622		
Record current year accounts receivable - Sewer Fund							5,650		
Total account receivable								\$ 10,272	
Record current year change in compensated absences - Water Fund								(5,754)	
Record current year accounts payable - Sewer Fund							5,022		
Reverse prior year accounts payable - Sewer Fund							(9,818)		
Total accounts payable								(4,796)	
Record current year capital asset addition - Water Fund								(140,365)	
Record current year bad debt expense - Water Fund							13,754		
Record current year bad debt expense - Sewer Fund							16,810		
Total bad debt expense								30,564	
Depreciation expense - Sewer Fund							195,233		
Depreciation expense - Water Fund							171,710		
Depreciation expense - Storm Water Fund							13,778		
Total depreciation expense								380,721	
Reclass current year principal payments - CWSRF Debt Retirement Fund							(115,273)		
Reclass current year principal payments - Sewer Debt Retirement Fund							(200,000)		
Reclass current year principal payments - Water Debt Retirement Fund							(310,000)		
Total principal payments								(625,273)	
Prior year accruals								6,696,188	
								<u>\$ 7,071,363</u>	

INTERNAL SERVICE FUND

CITY OF MOLALLA, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - PUBLIC WORKS PERSONNEL SERVICE FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Charges for services	\$ 1,315,000	\$ 1,315,000	\$ 1,315,000	\$ -
Total revenues	<u>1,315,000</u>	<u>1,315,000</u>	<u>1,315,000</u>	<u>-</u>
Expenditures				
Personal services	1,290,020	1,290,020	1,203,424	86,596
Contingency	<u>24,980</u>	<u>24,980</u>	<u>-</u>	<u>24,980</u>
Total expenditures	<u>1,315,000</u>	<u>1,315,000</u>	<u>1,203,424</u>	<u>111,576</u>
Change in fund net position	-	-	111,576	111,576
Net position, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 111,576</u></u>	<u><u>\$ 111,576</u></u>

OTHER FINANCIAL SCHEDULES

CITY OF MOLALLA, OREGON
SCHEDULE OF CASH, CASH ITEMS AND COLLATERAL SECURITY
 June 30, 2013

Cash in governmental funds	\$ 2,963,633
Cash in proprietary funds	4,350,593
Cash in internal service fund	111,576
Total all cash and cash items	<u><u>\$ 7,425,802</u></u>

COLLATERAL SECURITY

Wells Fargo Bank *	
Insurance under FDIC	<u>\$ 250,000</u>
Total Wells Fargo Bank	<u>250,000</u>
Total collateral security	<u><u>\$ 250,000</u></u>

	Balance per Bank	Reconciling Amounts	Carrying Value
CASH AND CASH ITEMS			
Wells Fargo Bank*			
General checking	\$ 194,633	\$ (135,739)	\$ 58,894
Urban Renewal Agency	592,850	(1,592)	591,259
Total West Coast Bank	<u>787,483</u>	<u>(137,331)</u>	<u>650,153</u>
Cash on hand	<u>534</u>	<u>-</u>	<u>534</u>
Total cash	<u>788,017</u>	<u>(137,331)</u>	<u>650,687</u>
Local Government Investment Pool**			
Operating	6,775,115	-	6,775,115
Total cash and cash items	<u><u>\$ 7,563,132</u></u>	<u><u>\$ (137,331)</u></u>	<u><u>\$ 7,425,802</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, 2013

GENERAL FUND

Tax Year	Uncollected Taxes	2012-13 Assessment	(Abatement) and Adjustments	Rebates Allowed	Interest Collected	Taxes Collected	Total Amount Collected	Uncollected Taxes
Special Levy	June 30, 2012						June 30, 2013	June 30, 2013
2012-13		\$ 2,482,036	\$ (7,530)	\$ (62,012)	\$ 719	\$ 2,339,138	\$ 2,339,857	\$ 73,356
2011-12	\$ 80,767	-	(3,098)	70	1,860	36,152	38,012	41,587
2010-11	41,006	-	(2,147)	40	1,751	12,445	14,196	26,454
2009-10	26,737	-	(321)	3	2,224	11,619	13,843	14,800
2008-09	8,169	-	(157)	2	1,100	5,371	6,471	2,643
2007-08	1,482	-	(112)	1	131	383	514	988
2006-07	786	-	(86)	-	51	141	192	559
Prior years	1,773	-	(19)	-	110	156	266	1,599
Total	\$ 160,720	\$ 2,482,036	\$ (13,471)	\$ (61,896)	\$ 7,945	\$ 2,405,405	\$ 2,413,351	\$ 161,986

URBAN RENEWAL AGENCY

Tax Year	Uncollected Taxes	2012-13 Assessment	(Abatement) and Adjustments	Rebates Allowed	Interest Collected	Taxes Collected	Total Amount Collected	Uncollected Taxes
Special Levy	June 30, 2012						June 30, 2013	June 30, 2013
2012-13		\$ 250,166	\$ (759)	\$ (6,250)	\$ 72	\$ 235,763	\$ 235,835	\$ 7,394
2011-12	\$ 6,953	-	(267)	6	160	3,112	3,272	3,580
2010-11	2,429	-	(127)	2	104	737	841	1,567
2009-10	549	-	(8)	-	46	238	284	303
Total	\$ 9,931	\$ 250,166	\$ (1,161)	\$ (6,242)	\$ 382	\$ 239,850	\$ 240,232	\$ 12,844

Total property tax receivable \$ 174,830

REPORTS REQUIRED BY THE STATE OF OREGON

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

For the Year Ended
June 30, 2013

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 2012-2013 and 2013-2014 budgets indicates the city did not substantially comply with the local budget law in the execution of the 2012-2013 budget however, they did substantially comply with the preparation and adoption of the 2013-2014 budgets. We noted nine expenditures that exceeded appropriations as listed in the Notes to the Required Supplementary Information on page 44. 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, 2013, 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
For the Year Ended
June 30, 2013

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, 2013, 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, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Molalla as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Molalla's basic financial statements and have issued our report thereon dated January 16, 2014.

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, see finding 2013-1. 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.


City of Molalla's Response to Finding

City of Molalla's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. City of Molalla's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Oregon Minimum Standards in considering the district's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Oster Professional Group, CPA's, LLP

By 

January 16, 2014
Burns, Oregon

CITY OF MOLALLA, OREGON
CONTINUING DISCLOSURE REQUIREMENTS FOR BONDED DEBT
For the Year Ended
June 30, 2013

2012-13 Assessed valuation of taxable property \$469,045,651

Tax rate (Dollars per \$1,000 assessed value) \$5.4539

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
2012-13	\$ 565,000	\$ 240,728	\$ 805,728	\$ 2,929,031	27.51%

Ratio of net bonded debt to assessed value:

	Assessed Valuation	Net Bonded Debt (1)	Ratio of Net Bonded Debt to Assessed Value
2012-13	\$469,045,651	\$ 3,618,465	0.77%

(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>		
Molalla Market Center Associates LLC	\$ 13,625,122	2.90%
Brentwood Acquisition Corporation	6,065,019	1.29%
Stoneplace Apartments LLC	4,979,197	1.06%
ARHC PPMOLOR01 LLC	4,404,723	0.94%
MSRE LLC	3,899,437	0.83%
Hi-Valley Development Corporation	3,887,250	0.83%
Loren L Mcleod	3,619,773	0.77%
Steven J & Janis D Olivia	2,975,408	0.63%
<u>Public Utilities</u>		
Molalla Telephone Co	19,768,600	4.21%
Portland General Electric	3,596,000	0.77%
Northwest Natural Gas Co.	2,594,000	0.55%
Verizon Communications	712,400	0.15%
Direct TV	236,000	0.05%
AT&T Inc	192,000	0.04%
Dish Network Corporation	188,200	0.04%
Sprint Nextel Corporation	123,600	0.03%
Leap Wireless Corporation	44,750	0.01%
T-Mobile USA, Inc	31,000	0.01%
<u>All other taxpayers</u>	398,103,172	84.88%
Total	\$ 469,045,651	100.00%

CITY OF MOLALLA, OREGON
CONTINUING DISCLOSURE REQUIREMENTS FOR BONDED DEBT
 For the Year Ended
 June 30, 2013

Summary of General Fund State Revenue:

	State Sources	State Sources as % of Total Revenues	Total Revenues
2012-13	\$ 482,968	4.63%	\$ 10,434,344

Computation of Legal Debt Margin:

Real market value	\$ 532,760,618		
Allowable proportion	0.0300		
Debt limit: 3% of real market value (1)	15,982,819		
Amount of debt applicable to debt limit:			
Bonded debt	\$4,815,000		
Less: amount available in debt service funds	(1,196,535)		
Amount of debt applicable to debt limit	3,618,465		
Legal debt margin	\$ 12,364,354		

(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%

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, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information City of Molalla as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Molalla's basic financial statements and have issued our report thereon dated January 16, 2014.

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. 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.

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, see finding 2013-1.

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.

City of Molalla's Response to Finding

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.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the district's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

Oster Professional Group, CPA's, LLP

By 

January 16, 2014
Burns, Oregon

CITY OF MOLALLA, OREGON
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended
June 30, 2013

Finding 2013-1

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’s Response: We have hired a part-time employee in the finance department in order to segregate some specific duties. The City Manager will also become more involved in financial oversight of the city.