

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

CITY OF MOLALLA, OREGON

CITY OFFICIALS

JUNE 30, 2011

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CITY COUNCIL

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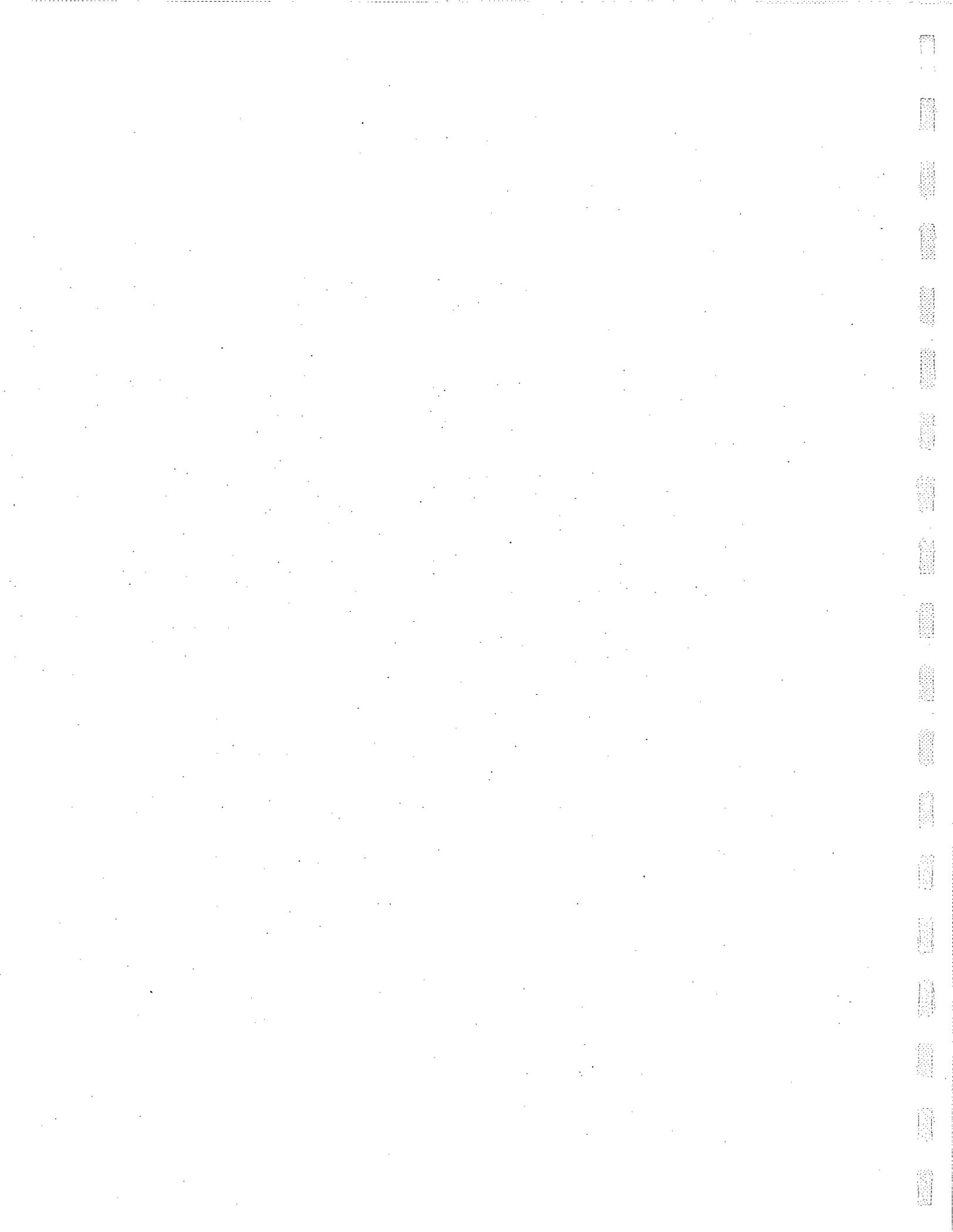
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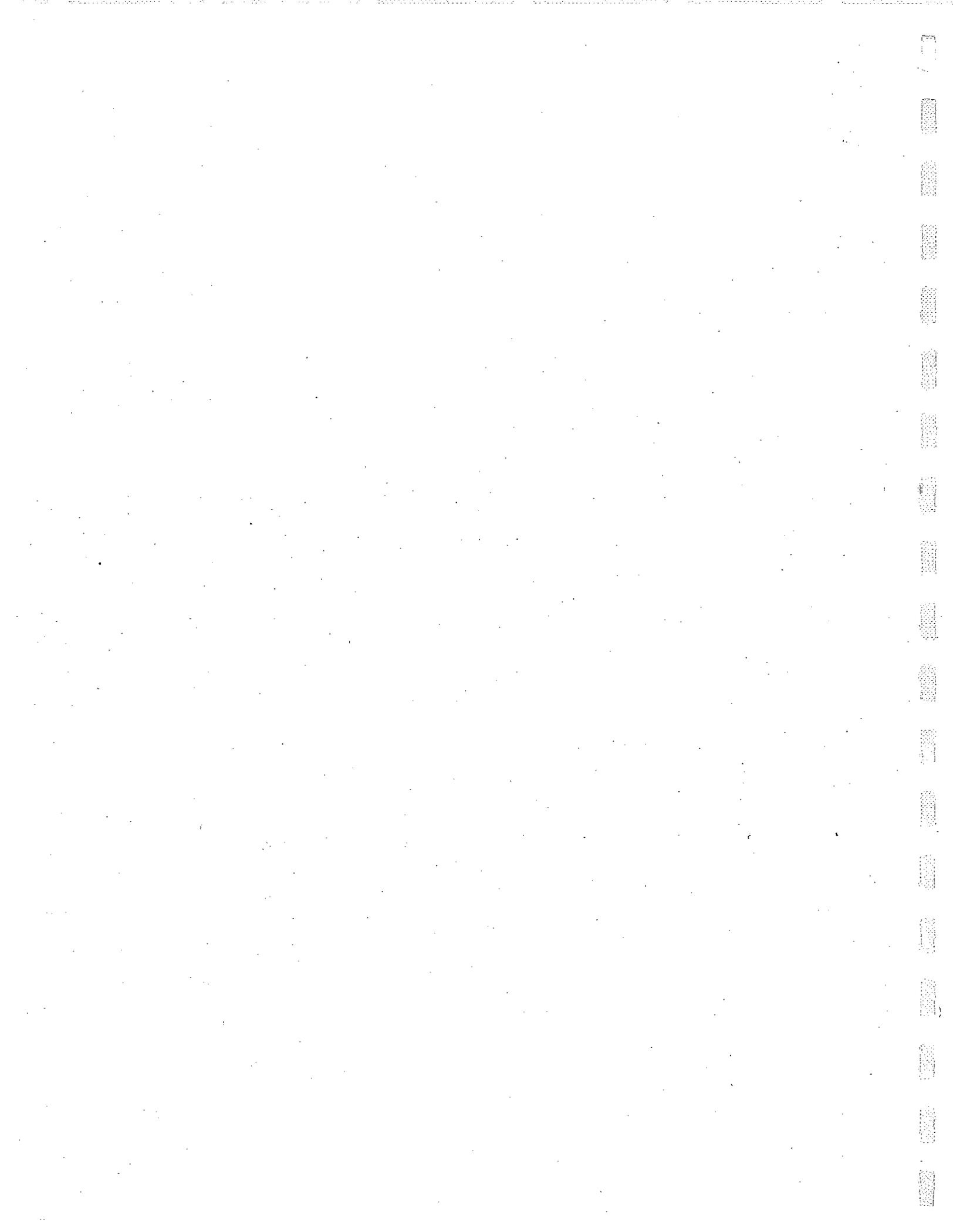
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FINANCIAL SECTION





GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT

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

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

Except as described below, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) (pages 3 through 7), the schedule of funding progress – public employees retirement system (page 32), and budgetary comparison information (pages 33 through 35) be presented to supplement the basic

financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and schedule of funding progress – public employees retirement system in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information on pages 33 through 35 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statements as a whole.

GROVE, MUELLER & SWANK, PC
CERTIFIED PUBLIC ACCOUNTANTS

By: 
Charles A. Swank, Shareholder
January 18, 2012

CITY OF MOLALLA, OREGON

Management's Discussion and Analysis June 30, 2011

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

Financial Highlights

	June 30,		change
	2011	2010	
Net assets	\$ 5,592,088	\$ 5,361,774	\$ 230,313
Change in net assets	230,313	444,312	(213,999)
Governmental net assets	1,346,932	1,382,776	(35,844)
Change in governmental net assets	69,293	461,098	(391,805)
Proprietary net assets	4,245,156	3,978,998	266,158
Change in proprietary net assets	161,020	(16,786)	177,806

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

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

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

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

Statements of Net Assets at June 30,

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

Statements of Activities
For the years ended June 30,

	2011			2010		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Receipts						
Program receipts:						
Charges for service	\$ 949,243	\$ 2,912,417	\$ 3,861,660	\$ 1,016,693	\$ 2,888,369	\$ 3,905,062
Operating grants	1,627,946	-	1,627,946	1,457,419	-	1,457,419
Capital grants	34,487	43,378	77,865	294,749	219,200	513,949
General receipts						
Property taxes	2,488,050	-	2,488,050	2,362,963	-	2,362,963
Intergovernmental	103,907	-	103,907	149,799	-	149,799
Licenses and permits	268,475	-	268,475	292,917	-	292,917
Miscellaneous	177,786	30,591	208,377	459,108	34,752	493,860
Total Receipts	5,649,894	2,986,386	8,636,280	6,033,648	3,142,321	9,175,969
Disbursements						
Governmental						
General government	912,395	-	912,395	831,924	-	831,924
Public safety	2,598,947	-	2,598,947	2,527,461	-	2,527,461
Community	1,636,911	-	1,636,911	1,659,655	-	1,659,655
Public works	542,614	-	542,614	853,522	-	853,522
Long-term debt	12,063	-	12,063	26,830	-	26,830
Business-type						
Water	-	1,216,462	1,216,462	-	1,331,792	1,331,792
Sewer	-	1,349,734	1,349,734	-	1,446,684	1,446,684
Storm water	-	136,841	136,841	-	124,960	124,960
Total Disbursements	5,702,930	2,703,037	8,405,967	5,899,392	2,903,436	8,802,828
Transfers	122,329	(122,329)	-	326,842	(326,842)	-
Loan proceeds	-	-	-	-	6,672,189	6,672,189
Refunding of debt	-	-	-	-	(6,601,018)	(6,601,018)
Total other financing sources (uses)	122,329	(122,329)	-	326,842	(255,671)	71,171
Change in net assets	69,293	161,020	230,313	461,098	(16,786)	444,312
Net assets – July 1						
as previously reported	1,382,777	3,978,998	5,361,775	921,678	3,995,784	4,917,462
restatement	(105,138)	105,138	-	-	-	-
Net assets – as restated	1,277,639	4,084,136	5,361,775	921,678	3,995,784	4,917,462
Net assets – June 30	\$ 1,346,932	\$ 4,245,156	\$ 5,592,088	\$ 1,382,776	\$ 3,978,998	\$ 5,361,774

Statement of Activities (modified cash basis). During the current fiscal year, the City's net assets from governmental activities increased by \$69,293 , for business-type activities net assets increased \$101,306. The key elements of the change in the City's net assets for the year ended June 30, 2011 are as follows:

1. Property tax revenues increased by \$125,087 (5.29%) during the year.
2. Charges for services decreased by \$43,402 during the year.
3. Operating grants increased by \$170,527 during the year.
4. Capital grants decreased by \$436,084 during the year.
5. Water disbursements decreased \$96,950 and sewer disbursements decreased \$11,881 during the year.

Financial Analysis of the City of Molalla's Government Funds

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

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

As of June 30, 2011 the City's governmental funds reported \$1,346,932 combined ending fund balances, an increase of \$69,293 from the prior year after a restatement of \$105,138.

General Fund. The General Fund is the primary operating fund of the City of Molalla. As of June 30, 2011, the fund balance was \$(321,757) which was a decrease of \$362,755 during the current fiscal year.

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

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

Business-type funds.

As of June 30, 2011, the City's proprietary funds reported \$4,245,156 of combined ending net assets, an increase of \$161,020 from the prior year after a restatement of \$105,138. The combined enterprise funds had an increase in net assets of \$161,020 after \$806,665 in debt service payments and net outgoing transfers of \$122,329

General Fund Budgetary Highlights

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

Debt Administration

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

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

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

Economic Factors and the Next Year's Budget

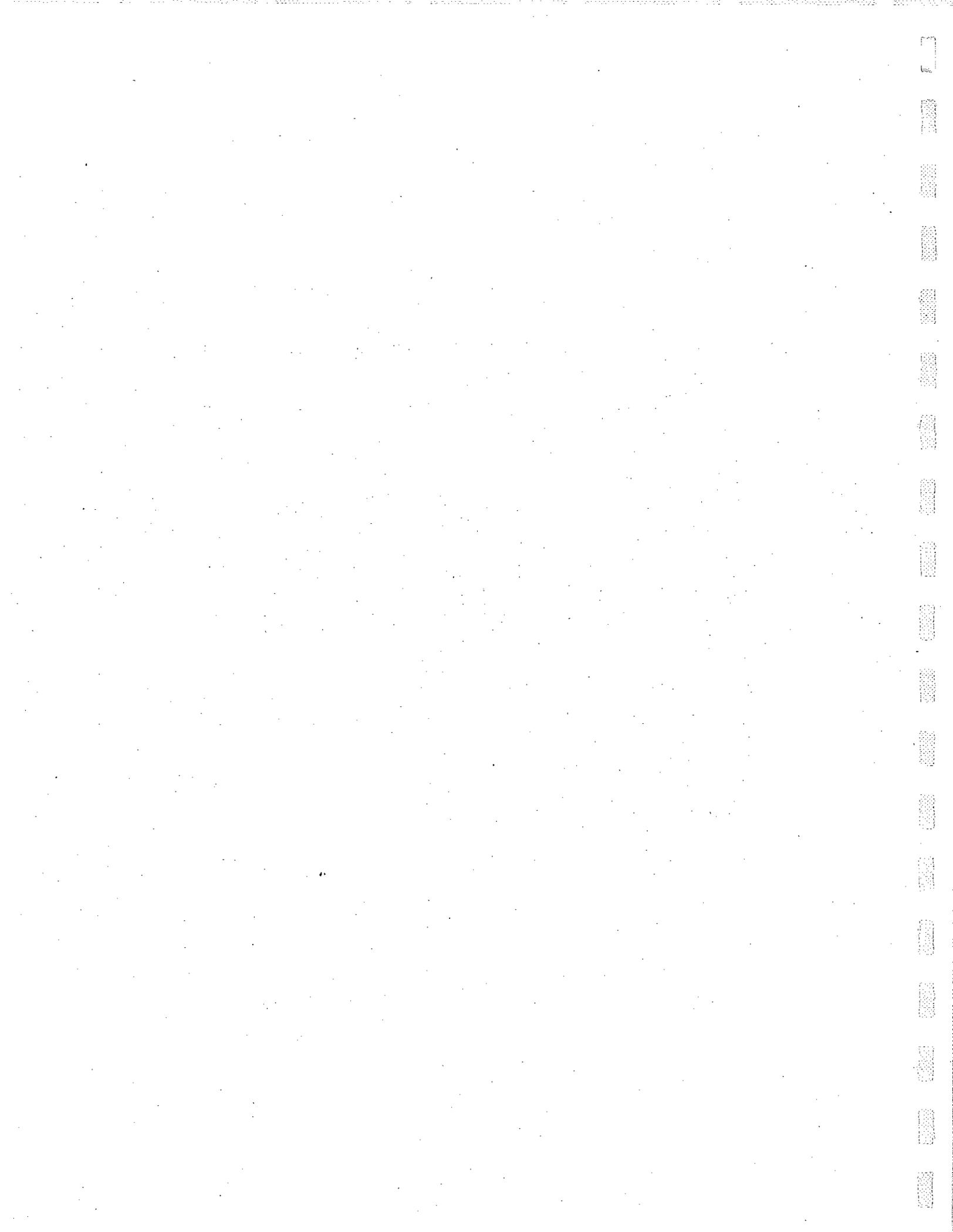
The City of Molalla's Budget Committee considered all the following factors while preparing the City budget for the 2011-12 fiscal year:

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

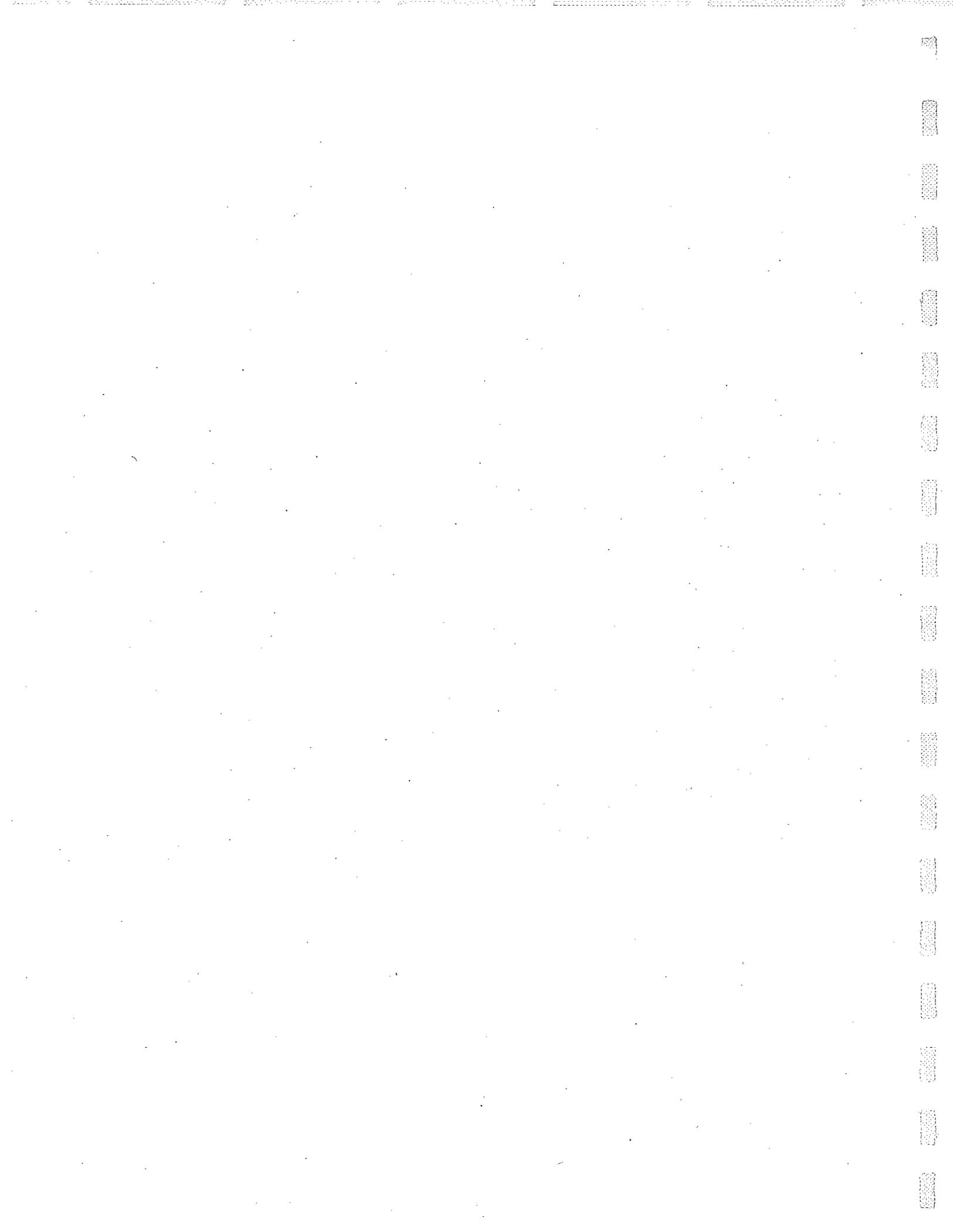
Requests for Information

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

Ellen Barnes
City Manager
City of Molalla
P.O. Box 248
Molalla, Oregon 97038



BASIC FINANCIAL STATEMENTS



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

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

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

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

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

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

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
\$ (528,493)	\$ -	\$ (528,493)
(1,989,832)	-	(1,989,832)
482,200	-	482,200
(1,043,066)	-	(1,043,066)
(12,063)	-	(12,063)
(3,091,254)	-	(3,091,254)
-	65,789	65,789
-	227,497	227,497
-	(40,528)	(40,528)
-	252,758	252,758
(3,091,254)	252,758	(2,838,496)
2,488,050	-	2,488,050
268,475	-	268,475
103,907	-	103,907
177,786	30,591	208,377
3,038,218	30,591	3,068,809
122,329	(122,329)	-
69,293	161,020	230,313
1,382,777	3,978,998	5,361,775
(105,138)	105,138	-
1,277,639	4,084,136	5,361,775
\$ 1,346,932	\$ 4,245,156	\$ 5,592,088

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

CITY OF MOLALLA, OREGON**STATEMENT OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS**

JUNE 30, 2011

	<u>General</u>	<u>Street</u>	<u>Library</u>
ASSETS			
Cash and investments	\$ -	\$ 446,160	\$ 288,946
Property taxes receivable	149,270	-	-
Due from other funds	-	-	287,489
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	\$ 149,270	\$ 446,160	\$ 576,435
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES			
Liabilities			
Payroll withholdings	\$ 34,268	\$ -	\$ -
Due to other funds	287,489	-	-
Deferred revenue	149,270	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	471,027	-	-
Fund Balances			
Nonspendable	-	-	-
Restricted for:			
Public works	-	446,160	-
Community development	-	-	-
Debt service	-	-	-
Committed to:			
Capital outlay	-	-	-
Community development	-	-	576,435
Unassigned	(321,757)	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balances</i>	(321,757)	446,160	576,435
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Total Liabilities and Fund Balances</i>	\$ 149,270	\$ 446,160	\$ 576,435

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

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

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

	<u>General</u>	<u>Street</u>	<u>Library</u>
RECEIPTS			
Taxes and assessments	\$ 2,299,790	\$ -	\$ -
Licenses and permits	267,605	77,631	-
Charges for services	-	-	-
Intergovernmental	384,859	529,338	669,420
Fines and forfeitures	234,396	-	28,375
Miscellaneous	180,441	8,376	4,482
<i>Total Receipts</i>	<u>3,367,091</u>	<u>615,345</u>	<u>702,277</u>
DISBURSEMENTS			
Current operating			
Personal services	2,320,016	310,754	323,916
Materials and services	1,037,552	220,382	66,400
Capital outlay	81,686	4,724	214,887
Debt service			
Principal	4,143	-	-
Interest	1,088	-	-
<i>Total Disbursements</i>	<u>3,444,485</u>	<u>535,860</u>	<u>605,203</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(77,394)	79,485	97,074
OTHER FINANCING SOURCES (USES)			
Transfers in	158,096	370,539	-
Transfers out	(443,457)	-	-
<i>Total Other Financing Sources (Uses)</i>	<u>(285,361)</u>	<u>370,539</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(362,755)	450,024	97,074
FUND BALANCES (DEFICIT), Beginning of year			
As previously reported	(18,716)	(80,260)	479,361
Restatement	59,714	76,396	-
FUND BALANCES (Deficit) - Beginning, as restated	<u>40,998</u>	<u>(3,864)</u>	<u>479,361</u>
FUND BALANCES (DEFICIT), End of year	<u>\$ (321,757)</u>	<u>\$ 446,160</u>	<u>\$ 576,435</u>

<i>Other Governmental Funds</i>	<i>Totals</i>
\$ 188,261	\$ 2,488,051
34,487	379,723
294,717	294,717
23,562	1,607,179
276,135	538,906
148,019	341,318
<hr/>	<hr/>
965,181	5,649,894
434,265	3,388,951
571,476	1,895,810
44,578	345,875
55,000	59,143
12,063	13,151
<hr/>	<hr/>
1,117,382	5,702,930
(152,201)	(53,036)
422,348	950,983
(385,197)	(828,654)
<hr/>	<hr/>
37,151	122,329
(115,050)	69,293
1,002,392	1,382,777
(241,248)	(105,138)
<hr/>	<hr/>
761,144	1,277,639
<hr/>	<hr/>
\$ 646,094	\$ 1,346,932

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

CITY OF MOLALLA, OREGON

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

JUNE 30, 2011

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

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

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

CITY OF MOLALLA, OREGON**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS
(MODIFIED CASH BASIS) - PROPRIETARY FUNDS**

YEAR ENDED JUNE 30, 2011

	<i>Business Activities -</i>		
	<i>Water</i>	<i>Water Debt Retirement</i>	<i>Water Capital Improvement</i>
OPERATING RECEIPTS			
Charges for services	\$ 1,267,714	\$ -	\$ -
Miscellaneous	15,544	-	-
<i>Total Operating Receipts</i>	1,283,258	-	-
OPERATING DISBURSEMENTS			
Personal services	527,513	-	-
Materials and services	215,442	-	-
Capital outlay	113,243	-	-
<i>Total Operating Disbursements</i>	856,198	-	-
OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	427,060	-	-
NONOPERATING RECEIPTS (DISBURSEMENTS)			
Interest earnings	1,637	5,599	-
Debt service			
Principal	-	(360,263)	-
Interest	-	-	-
<i>Total Nonoperating Receipts (Disbursements)</i>	1,637	(354,664)	-
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	428,697	(354,664)	-
OTHER FINANCING SOURCES (USES)			
Capital contributions	-	-	-
Transfers in	1,261,885	473,026	-
Transfers out	(1,516,919)	-	(1,140,285)
CHANGE IN NET ASSETS	173,663	118,362	(1,140,285)
NET ASSETS, Beginning of year			
As previously reported	329,411	737,363	1,140,285
Restatement	90,128	-	-
NET ASSETS - Beginning, as restated	419,539	737,363	1,140,285
NET ASSETS, End of year	\$ 593,202	\$ 855,725	\$ -

<i>Enterprise Funds</i>					
<i>Sewer</i>	<i>Sewer Debt Retirement</i>	<i>Sewer Capital Improvement</i>	<i>Water SDC</i>	<i>Other Business-type Funds</i>	<i>Totals</i>
\$ 1,550,378	\$ -	\$ -	\$ -	\$ 94,325	\$ 2,912,417
5,271	-	-	-	1,076	21,891
1,555,649	-	-	-	95,401	2,934,308
277,943	-	-	-	89,507	894,963
461,065	-	-	-	54,184	730,691
152,035	-	-	-	5,440	270,718
891,043	-	-	-	149,131	1,896,372
664,606	-	-	-	(53,730)	1,037,936
604	300	-	-	560	8,700
-	(267,788)	-	-	(109,038)	(737,089)
-	-	-	-	(69,576)	(69,576)
604	(267,488)	-	-	(178,054)	(797,965)
665,210	(267,488)	-	-	(231,784)	239,971
-	-	-	14,537	28,841	43,378
886,874	697,509	-	950,000	1,386,409	5,655,703
(1,762,860)	(40,000)	(691,874)	-	(626,094)	(5,778,032)
(210,776)	390,021	(691,874)	964,537	557,372	161,020
458,144	336,074	691,874	69,441	216,406	3,978,998
(3,179)	-	-	-	18,189	105,138
454,965	336,074	691,874	69,441	234,595	4,084,136
\$ 244,189	\$ 726,095	\$ -	\$ 1,033,978	\$ 791,967	\$ 4,245,156

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

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basic Financial Statements

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

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

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

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

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

CITY OF MOLALLA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

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

The City reports the following major governmental funds:

General

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

Street

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

Library

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

The City reports the following nonmajor governmental funds:

Adult Center

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

Parks & Recreation

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

Recorder's Trust

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

URA

This fund accounts for the activities of the Urban Renewal Agency

CITY OF MOLALLA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Planning

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

Street Capital Improvement

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

State Revenue Sharing

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

911 Emergency

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

Drug Investigation

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

Park Capital

The fund was closed during the current fiscal year.

Emergency Management

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

D.A.R.E.

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

Emergency Vehicle

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Street SDC

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

Park SDC

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

Equipment

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

Capital Improvement

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

Bonded Debt

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

Sally Foxx Park

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

The city reports the following major enterprise funds:

Water

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

Water Debt Retirement

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

Water Capital Improvement

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

CITY OF MOLALLA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sewer

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

Sewer Debt Retirement

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

Sewer Capital Improvement

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

The City reports the following nonmajor enterprise funds:

Storm Water

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

Storm Water Capital Improvement

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

Storm Water SDC

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

Water SDC

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

Sewer SDC

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

CWSRF Debt Retirement

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

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

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

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

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

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

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

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

Definitions of Governmental Fund Types

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

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

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

CITY OF MOLALLA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Definitions of Governmental Fund Types (Continued)

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

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

Measurement Focus and Basis of Accounting

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

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

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

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

CITY OF MOLALLA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Cash and Investments

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

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

Receivables and Deferred Revenues

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

Capital Assets

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

Long-Term Debt

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

Budgets and Budgetary Accounting

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Restricted Assets

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

CASH AND INVESTMENTS

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

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

Deposits

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

Investments

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

CITY OF MOLALLA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

CASH AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits

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

Interest Rate Risk

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

Custodial Risk - Investments

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

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

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

LONG-TERM DEBT

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

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

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

CITY OF MOLALLA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

LONG-TERM DEBT (Continued)

Future debt service requirements are as follows:

Governmental Activities

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

Business-type Activities

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

In 2009-10 the Water Capital Fund loaned \$175,000 to the Planning Department Fund. The Planning Department Fund was subsequently merged into the General Fund, and the Water Capital Fund was subsequently merged into the Water Fund. The loan is scheduled to be repaid \$35,000 in 2011-12 and \$140,000 in 2012-13.

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

PENSION PLAN

Plan Description

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

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

Funding Policy

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

Annual Pension Cost

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

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

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

CITY OF MOLALLA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

PENSION PLAN (Continued)

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

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

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

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

TRANSFERS

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

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

TRANSFERS (Continued)

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 158,096	\$ 443,457
Street	370,539	-
Planning Department	69,111	-
Adult Center	186,337	-
911 Emergency	-	84
Drug Investigation	-	3,043
D.A.R.E.	-	660
State Revenue Sharing	-	10,197
Street Improvements	-	284,643
Park Development	139,000	-
Park Expansion	-	64,896
Emergency Management	-	972
Emergency Vehicle	-	9,687
Capital Improvement	-	11,015
Equipment	27,900	-
Urban Renewal Agency	-	-
Sewer	886,874	1,762,860
Water	1,261,885	1,516,919
Storm Water	139,862	128,715
Sewer Debt	357,517	-
Sewer System Expansion	697,509	40,000
Water System Expansion	473,026	-
Sewer Capital Improvement	-	691,874
Water Capital Improvement	-	1,140,285
Storm Water Capital Improvement	-	139,862
Sewer SDC	765,030	357,517
Water SDC	950,000	-
Storm Water SDC	124,000	-
	<u>\$ 6,606,686</u>	<u>\$ 6,606,686</u>

DISBURSEMENTS IN EXCESS OF APPROPRIATIONS

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

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

CITY OF MOLALLA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

DISBURSEMENTS IN EXCESS OF APPROPRIATIONS (Continued)

<u>Fund/Appropriation Category</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
<i>Governmental</i>			
<i>General</i>			
City Hall	\$ 804,566	\$ 844,344	\$ (39,778)
Police	1,979,887	2,102,477	(122,590)
Municipal court	174,219	184,804	(10,585)
<i>Street</i>			
Personal services	285,863	310,754	(24,891)
Materials and services	195,150	220,382	(25,232)
<i>Parks & Recreation</i>			
Personal services	205,043	212,304	(7,261)
<i>911 Emergency</i>			
Transfers out	-	84	(84)
<i>Drug Investigation</i>			
Transfers out	-	3,043	(3,043)
<i>DARE</i>			
Transfers out	-	660	(660)
<i>Emergency Management</i>			
Transfers out	-	972	(972)
<i>Park Capital</i>			
Transfers out	-	64,896	(64,896)
<i>Recorder's Trust</i>			
Materials and services	240,000	311,666	(71,666)
<i>Capital Improvement</i>			
Transfers out	-	11,015	(11,015)
<i>Emergency Vehicle</i>			
Transfers out	-	9,687	(9,687)
<i>Water</i>			
Transfers out	1,515,105	1,516,919	(1,814)
<i>Water Capital Improvement</i>			
Transfers out	950,000	1,140,285	(190,285)
<i>Sewer</i>			
Transfers out	1,759,111	1,762,860	(3,749)
<i>Storm Water</i>			
Transfers out	128,510	128,715	(205)
<i>Storm Water Capital Improvement</i>			
Transfers out	124,000	139,862	(15,862)

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

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

RESTATED BEGINNING FUND BALANCES

The City has restated beginning fund balances as of June 30, 2010 to correct errors as follows:

	Governmental Funds		
	<i>General Fund</i>	<i>Street Fund</i>	<i>Equipment Fund</i>
Fund Balance - beginning, as previously reported	\$ (18,716)	\$ (80,260)	\$ 227,443
Adjustment to:			
Correct report capital outlay	-	76,396	(241,248)
Correct prior year liability	59,714	-	-
Total Restatements	59,714	76,396	(241,248)
Fund balance - beginning, as restated	<u>\$ 40,998</u>	<u>\$ (3,864)</u>	<u>\$ (13,805)</u>

	Proprietary Funds		
	<i>Water Fund</i>	<i>Sewer Fund</i>	<i>Storm Water Fund</i>
Fund Balance - beginning, as previously reported	\$ 329,411	\$ 458,144	\$ 116,882
Adjustment to:			
Correct report capital outlay	119,985	(33,036)	18,189
Correct prior year liability	(29,857)	29,857	-
Total Restatements	90,128	(3,179)	18,189
Fund balance - beginning, as restated	<u>\$ 419,539</u>	<u>\$ 454,965</u>	<u>\$ 135,071</u>

FUND ACCUMULATED DEFICITS

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

RESERVATION OF FUND EQUITY

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

CITY OF MOLALLA, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2011

CONTINGENCIES

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

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

SUBSEQUENT EVENTS

The City follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855). ASC 855 establishes accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through January 18, 2012, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.



REQUIRED SUPPLEMENTARY INFORMATION



CITY OF MOLALLA, OREGON

SCHEDULE OF FUNDING PROGRESS - PUBLIC EMPLOYEES RETIREMENT SYSTEM

JUNE 30, 2011

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

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

More current information is not available.

CITY OF MOLALLA, OREGON

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

BUDGET AND ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Taxes and assessments	\$ 2,570,578	\$ 2,570,578	\$ 2,299,790	\$ (270,788)
Licenses and permits	293,650	563,650	267,605	(296,045)
Intergovernmental	249,607	323,529	384,859	61,330
Fines and forfeitures	180,000	185,500	234,396	48,896
Miscellaneous	132,360	313,638	180,441	(133,197)
<i>Total Receipts</i>	<u>3,426,195</u>	<u>3,956,895</u>	<u>3,367,091</u>	<u>(589,804)</u>
DISBURSEMENTS				
City Hall	618,952	804,566	844,344	(39,778)
Planning	377,038	547,301	312,860	234,441
Police	1,883,479	1,979,887	2,102,477	(122,590)
Municipal court and legal	153,819	174,219	184,804	(10,585)
Contingency	164,711	163,511	-	163,511
<i>Total Disbursements</i>	<u>3,197,999</u>	<u>3,669,484</u>	<u>3,444,485</u>	<u>224,999</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	228,196	287,411	(77,394)	(364,805)
OTHER FINANCING SOURCES (USES)				
Transfers in	180,261	185,781	158,096	(27,685)
Transfers out	(408,457)	(443,457)	(443,457)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(228,196)</u>	<u>(257,676)</u>	<u>(285,361)</u>	<u>(27,685)</u>
NET CHANGE IN FUND BALANCE	-	29,735	(362,755)	(392,490)
FUND BALANCE (Deficit), Beginning of year				
As previously reported	-	(29,735)	(18,716)	11,019
Restatement	-	-	59,714	59,714
FUND BALANCE (Deficit) - Beginning, as restated	<u>-</u>	<u>(29,735)</u>	<u>40,998</u>	<u>70,733</u>
FUND BALANCE (Deficit), End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (321,757)</u>	<u>\$ (321,757)</u>

CITY OF MOLALLA, OREGON

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

BUDGET AND ACTUAL - STREET FUND

YEAR ENDED JUNE 30, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Licenses and permits	\$ 90,000	\$ 95,000	\$ 77,631	\$ (17,369)
Intergovernmental	390,312	666,360	529,338	(137,022)
Miscellaneous	41,171	46,171	8,376	(37,795)
<i>Total Receipts</i>	<u>521,483</u>	<u>807,531</u>	<u>615,345</u>	<u>(192,186)</u>
DISBURSEMENTS				
Personal services	285,863	285,863	310,754	(24,891)
Materials and services	195,150	195,150	220,382	(25,232)
Capital outlay	61,470	912,518	4,724	907,794
<i>Total Disbursements</i>	<u>542,483</u>	<u>1,393,531</u>	<u>535,860</u>	<u>857,671</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(21,000)	(586,000)	79,485	665,485
OTHER FINANCING SOURCES (USES)				
Transfers in	21,000	21,000	370,539	349,539
NET CHANGE IN FUND BALANCE	-	(565,000)	450,024	1,015,024
FUND BALANCE (Deficit), Beginning of year				
As previously reported	-	565,000	(80,260)	(645,260)
Restatement	-	-	76,396	76,396
FUND BALANCE (Deficit) - Beginning, as restated	<u>-</u>	<u>565,000</u>	<u>(3,864)</u>	<u>(568,864)</u>
FUND BALANCE (Deficit), End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 446,160</u>	<u>\$ 446,160</u>

CITY OF MOLALLA, OREGON

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

BUDGET AND ACTUAL - LIBRARY FUND

YEAR ENDED JUNE 30, 2011

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF MOLALLA, OREGON**COMBINING STATEMENT OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS) -****NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2011

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

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

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

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

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

CITY OF MOLALLA, OREGON

COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES

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

YEAR ENDED JUNE 30, 2011

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

<i>Capital Projects Funds</i>				<i>Debt Service Fund</i>	<i>Permanent Funds</i>	
<i>Street SDC</i>	<i>Park SDC</i>	<i>Equipment</i>	<i>Capital Improvement</i>	<i>Bonded Debt</i>	<i>Sally Foxx Park</i>	<i>Totals</i>
\$ -	\$ -	\$ -	\$ -	\$ 54,169	\$ -	\$ 188,261
28,274	6,213	-	-	-	-	34,487
-	-	-	-	-	-	294,717
-	-	-	-	-	-	23,562
-	-	-	-	-	-	276,135
-	-	1,424	-	525	187	148,019
28,274	6,213	1,424	-	54,694	187	965,181
-	-	-	-	-	-	434,265
-	-	-	-	-	-	571,476
-	-	15,519	-	-	6,767	44,578
-	-	-	-	55,000	-	55,000
-	-	-	-	12,063	-	12,063
-	-	15,519	-	67,063	6,767	1,117,382
28,274	6,213	(14,095)	-	(12,369)	(6,580)	(152,201)
-	-	27,900	-	-	-	422,348
-	-	-	(11,015)	-	-	(385,197)
-	-	27,900	(11,015)	-	-	37,151
28,274	6,213	13,805	(11,015)	(12,369)	(6,580)	(115,050)
139,272	26,006	227,443	11,015	13,345	108,738	1,002,392
-	-	(241,248)	-	-	-	(241,248)
139,272	26,006	(13,805)	11,015	13,345	108,738	761,144
\$ 167,546	\$ 32,219	\$ -	\$ -	\$ 976	\$ 102,158	\$ 646,094

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

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

CITY OF MOLALLA, OREGON

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

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

CITY OF MOLALLA, OREGON

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

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

CITY OF MOLALLA, OREGON

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

BUDGET AND ACTUAL - URA FUND

YEAR ENDED JUNE 30, 2011

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

CITY OF MOLALLA, OREGON

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

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

CITY OF MOLALLA, OREGON

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

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

CITY OF MOLALLA, OREGON

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

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

CITY OF MOLALLA, OREGON

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

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

CITY OF MOLALLA, OREGON

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

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

CITY OF MOLALLA, OREGON

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

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

CITY OF MOLALLA, OREGON

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

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

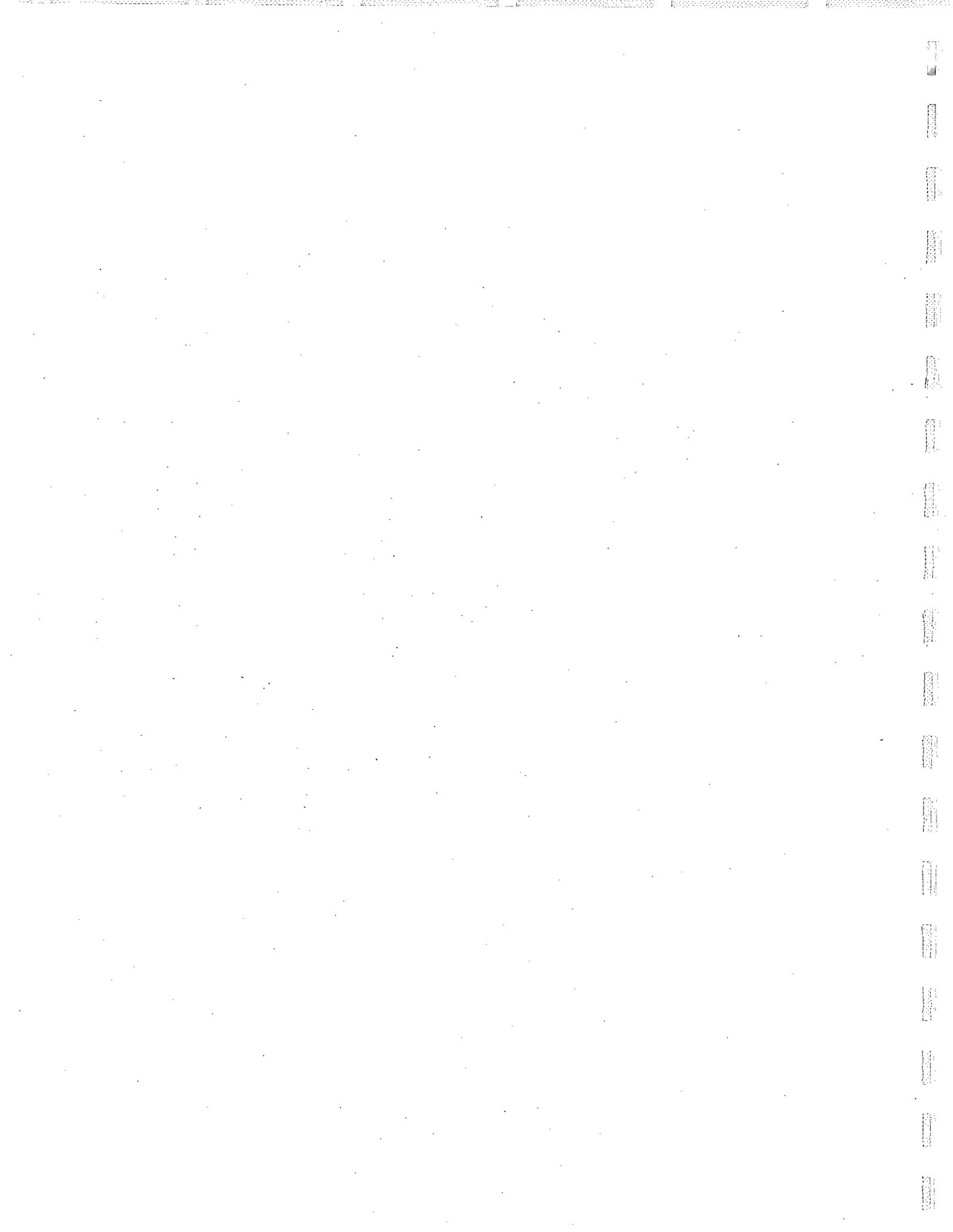
CITY OF MOLALLA, OREGON

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

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

YEAR ENDED JUNE 30, 2011

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



CITY OF MOLALLA, OREGON

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

BUDGET AND ACTUAL – SALLY FOXX PARK FUND

YEAR ENDED JUNE 30, 2011

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

CITY OF MOLALLA, OREGON

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

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

Enterprise Funds

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

CITY OF MOLALLA, OREGON

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

	<i>Business Activities -</i>		
	<i>Storm Water</i>	<i>Storm Water Capital Improvement</i>	<i>Storm Water SDC</i>
OPERATING RECEIPTS			
Charges for services	\$ 94,325	\$ -	\$ -
Miscellaneous	1,076	-	-
<i>Total Operating Receipts</i>	95,401	-	-
OPERATING DISBURSEMENTS			
Current Operating			
Personal services	89,507	-	-
Materials and services	41,895	-	-
Capital outlay	5,440	-	-
<i>Total Operating Disbursements</i>	136,842	-	-
OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	(41,441)	-	-
NONOPERATING RECEIPTS (DISBURSEMENTS)			
Interest earnings	560	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
<i>Total Nonoperating Receipts (Disbursements)</i>	560	-	-
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	(40,881)	-	-
Capital contributions	-	-	1,989
Transfers in	139,862	-	124,000
Transfers out	(128,715)	(139,862)	-
CHANGE IN RESTRICTED AND UNRESTRICTED NET ASSETS	(29,734)	(139,862)	125,989
NET ASSETS (Deficit), Beginning of year			
As previously reported	116,882	141,206	13,675
Restatement	18,189	-	-
NET ASSETS (Deficit) - Beginning, as restated	135,071	141,206	13,675
NET ASSETS, End of year	\$ 105,337	\$ 1,344	\$ 139,664

Enterprise Funds

<i>Sewer SDC</i>	<i>CWSRF Debt Retirement</i>	<i>Totals</i>
\$ -	\$ -	\$ 94,325
-	-	1,076
-	-	95,401
-	-	89,507
-	12,289	54,184
-	-	5,440
-	12,289	149,131
-	(12,289)	(53,730)
-	-	560
-	(109,038)	(109,038)
-	(69,576)	(69,576)
-	(178,614)	(178,054)
-	(190,903)	(231,784)
26,852	-	28,841
765,030	357,517	1,386,409
(357,517)	-	(626,094)
434,365	166,614	557,372
(55,357)	-	216,406
-	-	18,189
(55,357)	-	234,595
\$ 379,008	\$ 166,614	\$ 791,967

CITY OF MOLALLA, OREGON

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

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Charges for services	\$ 1,330,075	\$ 1,330,075	\$ 1,267,714	\$ (62,361)
Miscellaneous	6,900	20,900	17,181	(3,719)
<i>Total Receipts</i>	<u>1,336,975</u>	<u>1,350,975</u>	<u>1,284,895</u>	<u>(66,080)</u>
DISBURSEMENTS				
Personal services	529,891	529,891	527,513	2,378
Materials and services	255,600	255,600	215,442	40,158
Capital outlay	137,500	258,768	113,243	145,525
Contingency	400,879	400,879	-	400,879
<i>Total Disbursements</i>	<u>1,323,870</u>	<u>1,445,138</u>	<u>856,198</u>	<u>588,940</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	13,105	(94,163)	428,697	-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	121,600	1,261,885	1,140,285
Transfers out	(565,105)	(1,515,105)	(1,516,919)	(1,814)
<i>Total Other Financing Sources (Uses)</i>	<u>(565,105)</u>	<u>(1,393,505)</u>	<u>(255,034)</u>	<u>1,138,471</u>
CHANGE IN FUND BALANCE	(552,000)	(1,487,668)	173,663	1,661,331
FUND BALANCE, Beginning of year				
As previously reported	552,000	1,498,809	329,411	(1,169,398)
Restatement	-	-	90,128	90,128
FUND BALANCE - Beginning, as restated	<u>552,000</u>	<u>1,498,809</u>	<u>419,539</u>	<u>(1,079,270)</u>
FUND BALANCE, End of year	<u>\$ -</u>	<u>\$ 11,141</u>	<u>\$ 593,202</u>	<u>\$ 582,061</u>

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

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

CITY OF MOLALLA, OREGON

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

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

CITY OF MOLALLA, OREGON

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

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Charges for services	\$ 1,487,432	\$ 1,487,432	\$ 1,550,378	\$ 62,946
Miscellaneous	3,200	15,700	5,875	(9,825)
<i>Total Receipts</i>	1,490,632	1,503,132	1,556,253	53,121
DISBURSEMENTS				
Personal services	326,401	326,401	277,943	48,458
Materials and services	544,450	544,450	461,065	83,385
Capital outlay	150,000	286,844	152,035	134,809
Contingency	10,700	10,700	-	10,700
<i>Total Disbursements</i>	1,031,551	1,168,395	891,043	277,352
RECEIPTS OVER (UNDER) DISBURSEMENTS	459,081	334,737	665,210	330,473
OTHER FINANCING SOURCES (USES)				
Transfers in	-	195,000	886,874	691,874
Transfers out	(994,081)	(1,759,111)	(1,762,860)	(3,749)
<i>Total Other Financing Sources (Uses)</i>	(994,081)	(1,564,111)	(875,986)	688,125
CHANGE IN FUND BALANCE	(535,000)	(1,229,374)	(210,776)	1,018,598
FUND BALANCE, Beginning of year				
As previously reported	535,000	1,229,374	458,144	(771,230)
Restatement	-	-	(3,179)	(3,179)
FUND BALANCE - Beginning, as restated	535,000	1,229,374	454,965	(774,409)
FUND BALANCE, End of year	\$ -	\$ -	\$ 244,189	\$ 244,189

CITY OF MOLALLA, OREGON

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

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

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

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

CITY OF MOLALLA, OREGON

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

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Charges for services	\$ 90,190	\$ 90,190	\$ 94,325	\$ 4,135
Miscellaneous	3,000	5,200	1,636	(3,564)
<i>Total Receipts</i>	93,190	95,390	95,961	571
DISBURSEMENTS				
Personal services	100,586	100,586	89,507	11,079
Materials and services	43,800	43,800	41,895	1,905
Capital outlay	30,000	48,200	5,440	42,760
Contingency	24,639	24,639	-	24,639
<i>Total Disbursements</i>	199,025	217,225	136,842	80,383
RECEIPTS OVER (UNDER) DISBURSEMENTS	(105,835)	(121,835)	(40,881)	-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	139,862	139,862
Transfers out	(4,510)	(128,510)	(128,715)	(205)
<i>Total Other Financing Sources (Uses)</i>	(4,510)	(128,510)	11,147	139,657
CHANGE IN FUND BALANCE	(110,345)	(250,345)	(29,734)	220,611
FUND BALANCE, Beginning of year				
As previously reported	110,345	250,345	116,882	(133,463)
Restatement	-	-	18,189	18,189
FUND BALANCE - Beginning, as restated	110,345	250,345	135,071	(115,274)
FUND BALANCE, End of year	\$ -	\$ -	\$ 105,337	\$ 105,337

CITY OF MOLALLA, OREGON

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

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

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

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

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

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

CITY OF MOLALLA, OREGON

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

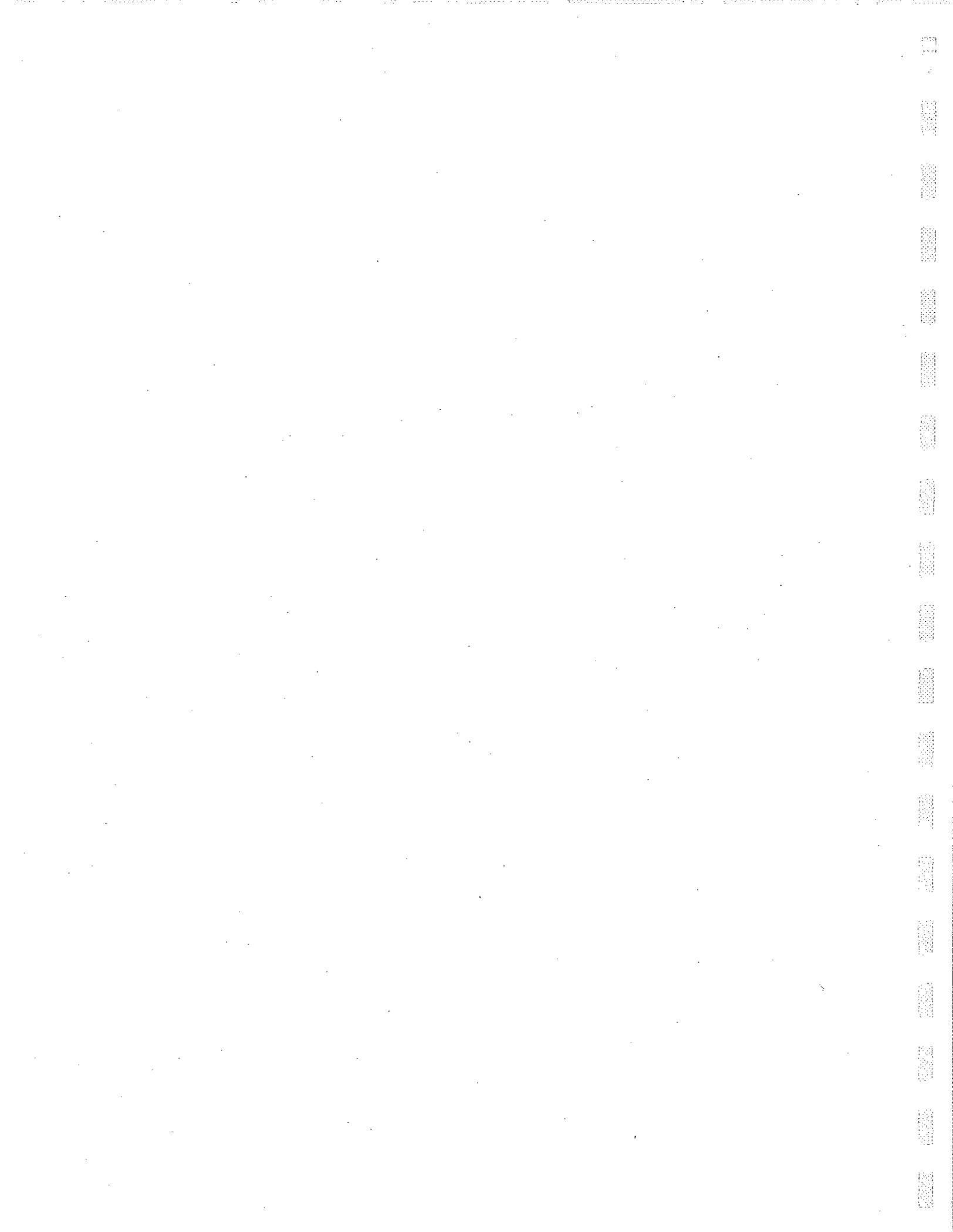
	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Licenses and permits	\$ 85,620	\$ 85,620	\$ 26,852	\$ (58,768)
DISBURSEMENTS	-	-	-	-
RECEIPTS OVER (UNDER) DISBURSEMENTS	85,620	85,620	26,852	(58,768)
OTHER FINANCING SOURCES (USES)				
Transfers in	765,030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

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

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



OTHER SCHEDULES



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

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

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

	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Fiscal Year of Maturity</u>
PRINCIPAL TRANSACTIONS			
<i>Governmental debt:</i>			
1993 EDD Loan	6.0%	1993	2012-13
2007 State Revolving Loan	2.80%	2007	2028
<i>Business-type debt</i>			
2010 Water Revenue Refunding Bonds	3.0%	2010	2017
2010 Sewer Revenue Refunding Bonds	3%-4%	2010	2025
2010 GO Water Refunding Bonds	2% - 3.5%	2010	2018

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

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

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

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

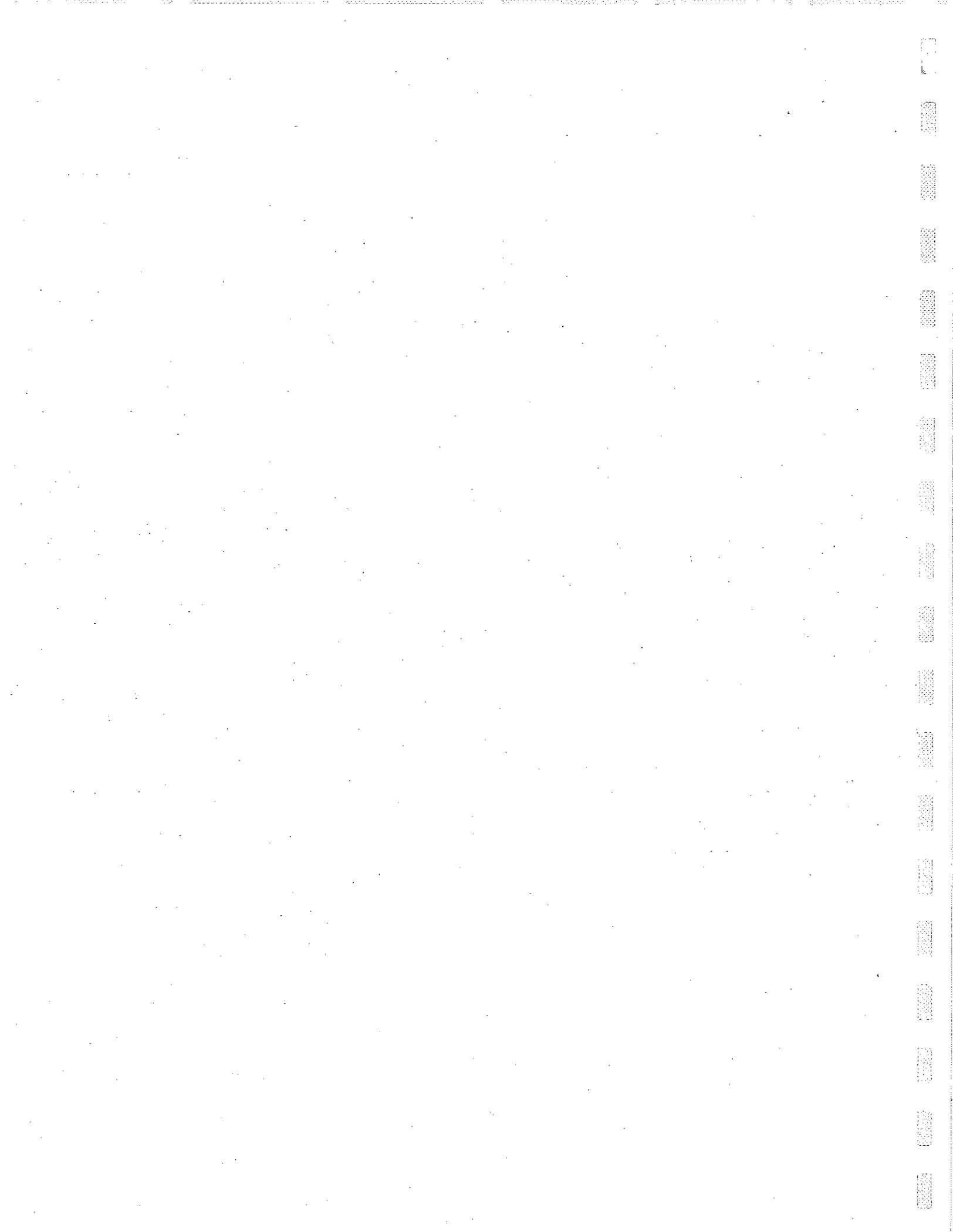
<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>1993 EDD Loan</i>			<i>2007 Clean Water State Revolving Loan</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2012	\$ 4,392	\$ 839	\$ 5,231	\$ 112,113	\$ 66,501	\$ 178,614
2013	4,656	575	5,231	115,273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

<i>2010 GO Water Refunding Bonds</i>			<i>2010 Water Revenue Refunding Bonds</i>		
<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
\$ 55,000	\$ 12,063	\$ 67,063	\$ 300,000	\$ 60,750	\$ 360,750
55,000	10,413	65,413	310,000	51,600	361,600
60,000	3,763	63,763	290,000	42,600	332,600
60,000	7,663	67,663	300,000	33,750	333,750
60,000	6,463	66,463	310,000	24,600	334,600
65,000	3,163	68,163	325,000	15,075	340,075
30,000	1,868	31,868	340,000	5,100	345,100
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ 385,000	\$ 45,396	\$ 430,396	\$ 2,175,000	\$ 233,475	\$ 2,408,475

CITY OF MOLALLA, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS BY ISSUE (Continued)
JUNE 30, 2011

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

REGULATORY SECTION





GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Board of Directors
City of Molalla, Oregon
Molalla, Oregon

We have audited the basic financial statements of the City of Molalla, Oregon as of and for the year ended June 30, 2011, and have issued our report thereon dated January 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the City of Molalla, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

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

OAR 162-10-0230 Internal Control

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

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

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

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

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

By: 

Charles A. Swank, A Shareholder
January 18, 2012