

CITY OF MOLALLA

FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016
WITH
INDEPENDENT AUDITOR'S REPORT

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

5499 AMY STREET • WEST LINN, OR 97068
PHONE: (503) 723-0300 • FAX: (503) 723-9946 • WWW.MERINACPAS.COM

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INTRODUCTORY SECTION

CITY OFFICIALS

NAME

TERM EXPIRES

Mayor

Debbie Rogge

December 2016

Councilors:

George Pottle
Jason Griswold
Leota Childress
Jimmy Thompson
Russell Riggs
Stephen Clark

December 2018
December 2016
December 2018
December 2016
December 2018
December 2016

CITY STAFF

City Manager

Dan Huff

Finance Director

Heather Penni

MAILING ADDRESS

PO Box 248
Molalla, Oregon 97038

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Molalla, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Molalla, Oregon (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and required supplementary information, as listed in the table of contents, 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 management's discussion and analysis, schedule of the proportionate share of the net pension liability, and schedule of contributions, as listed in the table of contents under the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The schedule of revenues, expenditures, and changes in fund balance – budget and actual, as listed in the table of contents under required supplementary information, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated March 13, 2017, on our consideration of the City's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
March 13, 2017

CITY OF MOLALLA, OREGON
Management's Discussion and Analysis
JUNE 30, 2016

The management of the City of Molalla, Oregon offers readers of the Annual Financial Report, this narrative overview and analysis of the financial activities of the City of Molalla for the fiscal year ended June 30, 2016. This analysis focuses on significant financial issues, major financial activities, and resulting changes in financial position, budget variances and specific issues related to funds and the economic factors affecting the City.

Financial Highlights

Assets totaled \$37,751,369 at June 30, 2016 and consisted of \$12,127,012 in cash and cash equivalents; \$754,414 in accounts receivable and other assets; and \$24,869,943 in capital assets.

Net position was \$28,878,358 at June 30, 2016 compared to \$29,416,772 at June 30, 2015 year end.

As of June 30, 2016 the City had \$8,016,329 in outstanding bonds, notes payable and accrued compensated absences.

The City's net position decreased by \$538,414 from June 2015, primarily due to capital asset additions, utility rate increases, increased collection on receivables and early payoff of bonds. The City's capital assets in Fiscal Year 2016 totaled \$24,869,943 net of depreciation, which includes current year assets as well as other major capital construction projects.

Overview of the Financial Statements

The Management Discussion and Analysis (MD&A) is intended to serve as an introduction to the City of Molalla basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

1. Government-Wide Financial Statements

These two statements present an overview of the City's finances, in a manner similar to the private sector. Each statement presents highly condensed, entity-wide information and uses the full accrual basis of accounting.

The Statement of Net Position presents information on the City's total assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the City as of the date on the statement. Net position is the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Over time, increases or decreases in net position

may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how net position of the City changed over the most recent fiscal year by tracking receipts, disbursements and other transactions that increase or reduce net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In the government-wide financial statements, the City's activities are shown as governmental activities and business-type activities. Governmental activities of the City of Molalla include general government, city hall, legal, parks, library, streets, and police. These activities are primarily finance through property taxes and other intergovernmental activities. Business-type activities consist of water, sewer, and storm. These activities are services to the public for a fee.

2. Fund Financial Statements

A fund is a group 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 other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Molalla can be divided into two categories: governmental funds and proprietary funds.

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

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 financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Molalla maintains ten individual governmental funds. Information is presented separately in the governmental balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Library Fund, Street Fund, Urban Renewal Agency Fund, and Park SDC Fund. All of these funds are considered to be major funds. Data from the other five non-major governmental funds are combined into a

single aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining schedules in the other supplementary information described below.

Proprietary Funds. Proprietary funds represent three segments of business-type operations, water, sewer and storm, used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that the costs of providing these services to the general public on a continuing basis be financed primarily through user charges.

3. Notes to the Basic Financial Statements

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

Required Supplementary Information. Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered part of basic financial statements. A budgetary comparison schedule for the General Fund and major special revenue funds, schedule of the proportionate share of the net pension liability, and schedule of contributions are presented immediately following the notes to the basic financial statements.

Other Supplementary Information. The schedules for any major capital project funds and non-major governmental funds and budgetary comparison schedules for both the non-major governmental funds and the proprietary funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$28,878,358 at the close of the most recent fiscal year.

The following table reflects a Summary of Net Position for these fiscal years:

	2016			2015		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Assets						
Current assets	\$ 7,266,581	\$ 5,614,845	\$12,881,426	\$ 7,996,124	\$ 4,494,723	\$ 12,490,847
Net pension assets	-	-	-	254,498	84,379	338,877
Capital assets	12,013,640	12,856,303	24,869,943	12,939,431	13,153,507	26,092,938
Total assets	19,280,221	18,471,148	37,751,369	21,190,053	17,732,609	38,922,662
Deferred outflows of resources	316,206	101,622	417,828	139,294	46,185	185,479
Liabilities						
Current liabilities	25,949	80,758	106,707	330,261	830,112	1,160,373
Long-term liabilities	3,155,901	4,860,428	8,016,329	3,047,147	4,829,953	7,877,100
Net pension liability	719,902	231,361	951,263	-	-	-
Total liabilities	3,901,752	5,172,547	9,074,299	3,377,408	5,660,065	9,037,473
Deferred inflows of resources	163,874	52,666	216,540	491,076	162,820	653,896
Net position						
Net investment in capital assets	8,731,352	8,036,493	16,767,845	12,696,338	7,678,396	20,374,734
Restricted	4,445,288	3,022,290	7,467,578	2,976,327	1,990,122	4,966,449
Unrestricted	2,354,161	2,288,774	4,642,935	1,788,198	2,287,391	4,075,589
Total net position	\$15,530,801	\$13,347,557	\$28,878,358	\$17,460,863	\$11,955,909	\$ 29,416,772

By far the largest portion of the City of Molalla's net position reflect its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets do not have financial liquidity easily available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities. The balance of \$7,467,578 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,642,935 is unrestricted net position and may be used to meet the City's ongoing obligations to citizens and creditors.

The following table summarizes revenues and expenses for these fiscal years:

	2016			2015		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Revenues						
Program Revenues						
Charges for services	\$ 1,615,091	\$ 5,007,629	\$ 6,622,720	\$ 1,065,981	\$ 3,422,466	\$ 4,488,447
Operating grants	5,576	-	5,576	23,877	-	23,877
Capital grants	-	-	-	-	-	-
General Revenues						
Property taxes	3,072,480	-	3,072,480	2,954,828	-	2,954,828
Other taxes	1,832,853	-	1,832,853	2,283,739	-	2,283,739
Other revenues	119,305	37,039	156,344	169,655	10,601	180,256
Total Revenues	6,645,305	5,044,668	11,689,973	6,498,080	3,433,067	9,931,147
Expenses						
Governmental						
General government	\$ 1,361,581	\$ -	\$ 1,361,581	\$ 825,410	\$ -	\$ 825,410
Public safety	2,550,779	-	2,550,779	2,097,686	-	2,097,686
Highways and streets	1,495,701	-	1,495,701	1,457,004	-	1,457,004
Culture and recreation	2,761,986	-	2,761,986	643,646	-	643,646
Community development	180,315	-	180,315	244,004	-	244,004
Interest long-term debt	103,971	-	103,971	37,579	-	37,579
Business-Type						
Water	-	1,359,442	1,359,442	-	1,223,534	1,223,534
Sewer	-	2,085,566	2,085,566	-	2,457,600	2,457,600
Storm water	-	329,046	329,046	-	102,813	102,813
Total expenses	8,454,333	3,774,054	12,228,387	5,305,329	3,783,947	9,089,276
Transfers	(121,034)	121,034	-	(400,000)	400,000	-
Change in Net Position	(1,930,062)	1,391,648	(538,414)	792,751	49,120	841,871
Net Position July, 1	17,460,863	11,955,909	29,416,772	16,896,932	12,037,822	28,934,754
Restatements	-	-	-	(228,820)	(131,033)	(359,853)
Net Position-as restated	17,460,863	11,955,909	29,416,772	16,668,112	11,906,789	28,574,901
Net Position--June 30	\$15,530,801	\$13,347,557	\$28,878,358	\$17,460,863	\$11,955,909	\$29,416,772

Governmental Activities. Governmental activities decreased the City of Molalla's net position by \$1,930,062. This is primarily due to an increase in capital projects.

Business-type Activities. Business-type activities increased the City of Molalla's net position by \$1,391,648. This is primarily due to an increase in charges for services.

Financial Analysis of the City's Funds

Governmental Funds. The focus of the City of Molalla's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Molalla's financial requirements. In particular, unassigned fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year as they have not been limited to use for a particular purpose.

At the end of the fiscal year, the City of Molalla's governmental funds reported combined ending fund balances of \$6,974,287.

Proprietary Funds. The City's proprietary funds are enterprise funds. An enterprise fund is used to account for activities for which a fee is charged to external users for services. These funds provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The General Fund received \$43,309 more than what was budgeted mostly due to higher property taxes than expected.

The General Fund spent \$529,068 less than what was budgeted due to the city trying to improve the General Fund ending balance and conservative spending.

Capital Assets and Debt Administration

The following table compares capital assets for these fiscal years:

	Governmental		Business-Type		Total		Change + (-)
	Activities		Activities				
	2016	2015	2016	2015	2016	2015	
Land	\$ 1,489,291	\$ 1,489,291	\$ 727,511	\$ 727,511	\$ 2,216,802	\$ 2,216,802	\$ -
Construction in Progress	1,981,489	243,093	-	-	1,981,489	243,093	1,738,396
Land improvement	188,911	245,809	9,829	11,139	198,740	256,948	(58,208)
Buildings	335,720	2,076,019	1,800,844	1,878,135	2,136,564	3,954,154	(1,817,590)
Infrastructure	7,821,582	8,670,520	9,590,901	9,826,830	17,412,483	18,497,350	(1,084,867)
Machinery and Equipment	117,788	137,141	716,314	695,909	834,102	833,050	1,052
Vehicles	78,859	77,558	10,904	13,983	89,763	91,541	(1,778)
Total	\$12,013,640	\$12,939,431	\$12,856,303	\$13,153,507	\$24,869,943	\$26,092,938	\$ (1,222,995)

For more detailed information regarding capital assets please refer to Note 3 in the "notes to the Basic Financial Statements".

Long-term Debt. At June 30, 2016, the City had bonded debt outstanding of \$6,039,514 compared to \$6,740,026 at June 30, 2015.

	Government		Business		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Bonds payable	\$ 2,700,000	\$ 2,845,000	\$ 3,010,000	\$ 3,540,000	\$ 5,710,000	\$ 6,385,000
Bond premium	329,514	355,026	-	-	329,514	355,026
Notes payable	-	-	1,809,810	1,935,111	1,809,810	1,935,111
Compensated absences	126,387	77,773	73,483	61,107	199,870	138,880
Total	\$ 3,155,901	\$ 3,277,799	\$ 4,893,293	\$ 5,536,218	\$ 8,049,194	\$ 8,814,017

Economic Factors and Next Year's Budget

Fiscal year 2015/2016 is a continued year of calming the water, performing core operational functions, and not repeating past practices. The primary change is the gauging how to move forward. The City is preparing to begin some capital projects in the near future. We are doing our due diligence to ensure that the fiscal impact of the improvements do not change the course of the river back to what it was before. We will continue forward to ensure the conservative approaches to all spending remain in play and that the correct staffing are functioning as needed to maximize the benefits to the residents of Molalla. The City of Molalla will continue the practice of utilizing a cost allocation plan for administrative costs that are indirect and unassignable to a specific cost objective. The method in use is based on budget percentage of the entire city-wide budget but imposed only on actual expenditures.

The City of Molalla will remove the spending moratorium of system development charges as the methodology updates have been successfully completed for all five types. Capital system improvement project development is currently underway.

The City of Molalla budget committee considered all the following factors while preparing the City budget for the 2016/2017 fiscal year.

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

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

Chaunee Seifried, Finance Director
City of Molalla
PO Box 248
Molalla, Oregon 97038

BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

The basic financial statements include interrelated sets of financial statements as required by the GASB. The sets of statements include:

- Government-Wide Financial Statements
- Fund Financial Statements
 - Governmental Funds
 - Proprietary Funds

In addition, the notes to the basic financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF MOLALLA, OREGON
STATEMENT OF NET POSITION
For the Fiscal Year Ended June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 6,924,178	\$ 5,202,834	\$ 12,127,012
Accounts receivable, net	153,384	412,011	565,395
Property taxes receivable	179,671	-	179,671
Due from other governments	9,348	-	9,348
Capital Assets:			
Non-depreciable	3,470,780	727,511	4,198,291
Depreciable	8,542,860	12,128,792	20,671,652
Total assets	19,280,221	18,471,148	37,751,369
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows related to pensions	316,206	101,622	417,828
Total asset & deferred outflows of resources	\$ 19,596,427	\$ 18,572,770	\$ 38,169,197
LIABILITIES:			
Accounts payable	\$ 17,463	\$ 32,366	\$ 49,829
Deposits	-	10,940	10,940
Accrued interest payable	8,486	37,452	45,938
Current portion of long-term debt	311,622	711,329	1,022,951
Non-current portion of long-term debt	2,844,279	4,149,099	6,993,378
Net pension liability	719,902	231,361	951,263
Total liabilities	3,901,752	5,172,547	9,074,299
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows related to pensions	163,874	52,666	216,540
NET POSITION:			
Net Investment in capital assets	8,731,352	8,036,493	16,767,845
Restricted for:			
Debt service	66,539	46,607	113,146
System development	1,847,288	2,975,683	4,822,971
Urban renewal projects	2,100,038	-	2,100,038
Highways and streets	408,022	-	408,022
Police department	23,401	-	23,401
Unrestricted	2,354,161	2,288,774	4,642,935
Total net position	15,530,801	13,347,557	28,878,358
Total liabilities, deferred inflows of resources and net position	\$ 19,596,427	\$ 18,572,770	\$ 38,169,197

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

CITY OF MOLALLA, OREGON
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
General government	\$ 1,361,581	\$ 728,984	\$ -	\$ -	\$ (632,597)	\$ -	\$ (632,597)
Public safety	2,550,779	-	590	-	(2,550,189)	-	(2,550,189)
Highways and streets	1,495,701	433,458	-	-	(1,062,243)	-	(1,062,243)
Culture and recreation	2,761,986	452,649	4,986	-	(2,304,351)	-	(2,304,351)
Community Development	180,315	-	-	-	(180,315)	-	(180,315)
Interest on long-term debt	103,971	-	-	-	(103,971)	-	(103,971)
Total governmental activities	8,454,333	1,615,091	5,576	-	(6,833,666)	-	(6,833,666)
Business type activities:							
Water Operations	1,359,442	2,007,391	-	-	-	647,949	647,949
Sewer Operations	2,085,566	2,757,245	-	-	-	671,679	671,679
Storm Water Operations	329,046	242,993	-	-	-	(86,053)	(86,053)
Total business type activities	3,774,054	5,007,629	-	-	-	1,233,575	1,233,575
Total government	\$ 12,228,387	\$ 6,622,720	\$ 5,576	\$ -	(6,833,666)	1,233,575	(5,600,091)
General revenues:							
Taxes:							
Property taxes					3,072,480	-	3,072,480
Public Service taxes and state revenue sharing					1,469,469	-	1,469,469
Franchise taxes					363,384	-	363,384
Interest and investment earnings					62,437	-	62,437
Miscellaneous revenues					56,868	37,039	93,907
Transfers in (out)					(121,034)	121,034	-
Total general revenues and transfers					4,903,604	158,073	5,061,677
Change in net position					(1,930,062)	1,391,648	(538,414)
Net position - beginning					17,460,863	11,955,909	29,416,772
Net position - ending					\$ 15,530,801	\$ 13,347,557	\$ 28,878,358

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

FUND FINANCIAL STATEMENTS
Major Governmental Funds

General Fund

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

Library Fund

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

Street Fund

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

Urban Renewal Agency Fund

The Urban Renewal Agency Fund is used to account for the Molalla Urban Renewal Agency which is a blended component unit. The major source of revenue is property taxes assessed for the Urban Renewal Agency.

Park SDC Fund

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

CITY OF MOLALLA, OREGON
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2016

	General Fund	Library Fund	Street Fund	Urban Renewal Agency Fund	Park SDC Fund	Total Nonmajor Funds	Total Governmental
ASSETS:							
Cash and cash equivalents	\$ 1,093,796	\$ 1,396,040	\$ 398,155	\$ 2,098,959	\$ 1,378,860	\$ 558,368	\$ 6,924,178
Accounts receivable	136,002	-	17,382	-	-	-	153,384
Property taxes receivable	163,615	-	-	16,056	-	-	179,671
Due from other governments	8,819	-	-	529	-	-	9,348
Total assets	\$ 1,402,232	\$ 1,396,040	\$ 415,537	\$ 2,115,544	\$ 1,378,860	\$ 558,368	\$ 7,266,581
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
LIABILITIES:							
Accounts payable	\$ 9,907	\$ 41	\$ 7,515	\$ -	\$ -	\$ -	\$ 17,463
Total liabilities	9,907	41	7,515	-	-	-	17,463
DEFERRED INFLOWS OF RESOURCES:							
Unavailable revenue - franchise fees	51,625	-	-	-	-	-	51,625
Unavailable revenue - property taxes	157,404	-	-	15,506	-	-	172,910
Unavailable revenue - municipal court	50,296	-	-	-	-	-	50,296
Total deferred inflows of resources	259,325	-	-	15,506	-	-	274,831
FUND BALANCES:							
Restricted for:							
Debt service	-	-	-	-	-	66,539	66,539
System development	-	-	-	-	1,378,860	468,428	1,847,288
Urban renewal projects	-	-	-	2,100,038	-	-	2,100,038
Highways and streets	-	-	408,022	-	-	-	408,022
Police department	-	-	-	-	-	23,401	23,401
Committed to:							
Library	-	1,395,999	-	-	-	-	1,395,999
Unassigned	1,133,000	-	-	-	-	-	1,133,000
Total fund balances	1,133,000	1,395,999	408,022	2,100,038	1,378,860	558,368	6,974,287
Total liabilities, deferred inflows of resources and fund balances	\$ 1,402,232	\$ 1,396,040	\$ 415,537	\$ 2,115,544	\$ 1,378,860	\$ 558,368	

Amounts reported in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	12,013,640
Pension related changes	(567,570)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	274,831
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Long-term debt	(3,155,901)
Interest payable	(8,486)
Net position of governmental activities	\$ 15,530,801

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

CITY OF MOLALLA, OREGON
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2016

	General Fund	Library Fund	Street Fund	Urban Renewal Agency Fund	Park SDC Fund	Total Nonmajor Funds	Total Governmental
REVENUES:							
Property taxes	\$ 2,690,596	\$ -	\$ -	\$ 303,567	\$ -	\$ 65,726	\$ 3,059,889
Franchise fees	150,368	-	220,266	-	-	-	370,634
Licenses, permits and fees	120,968	-	-	-	-	-	120,968
Intergovernmental	160,209	804,652	526,906	-	-	-	1,491,767
Grants	-	3,816	-	-	-	-	3,816
Fines and forfeitures	-	18,031	-	-	-	-	18,031
Charges for services	609,776	3,094	-	-	-	294	613,164
Interest revenue	61,566	-	-	871	-	-	62,437
Miscellaneous revenue	57,112	2,024	36,593	-	-	21,350	117,079
Contributions and donations	-	1,170	-	-	-	590	1,760
System development charges	-	-	-	-	431,230	433,458	864,688
Total revenues	3,850,595	832,787	783,765	304,438	431,230	521,418	6,724,233
EXPENDITURES:							
Current:							
General government	761,239	-	-	-	-	32,404	793,643
Public safety	2,216,160	-	-	-	-	-	2,216,160
Highways and streets	-	-	590,042	-	-	-	590,042
Culture and recreation	-	629,034	-	-	-	357,460	986,494
Community development	-	-	-	107,257	-	-	107,257
Capital outlay	147,792	76,245	69,227	1,649,205	-	288,512	2,230,981
Debt service:							
Principal	-	-	-	85,000	-	60,000	145,000
Interest	-	-	-	131,143	-	5,713	136,856
Total expenditures	3,125,191	705,279	659,269	1,972,605	-	744,089	7,206,433
Revenues over (under) expenditures	725,404	127,508	124,496	(1,668,167)	431,230	(222,671)	(482,200)
OTHER FINANCING SOURCES (USES):							
Transfers in	-	-	-	-	-	345,000	345,000
Transfers out	(545,000)	-	-	-	-	-	(545,000)
Total other financing sources (uses)	(545,000)	-	-	-	-	345,000	(200,000)
Net changes in fund balances	180,404	127,508	124,496	(1,668,167)	431,230	122,329	(682,200)
FUND BALANCES, BEGINNING	952,596	1,268,491	283,526	3,768,205	947,630	436,039	7,656,487
FUND BALANCES, ENDING	\$ 1,133,000	\$ 1,395,999	\$ 408,022	\$ 2,100,038	\$ 1,378,860	\$ 558,368	\$ 6,974,287

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

CITY OF MOLALLA, OREGON
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016

Amounts reported in the statement of activities are different because:

Net change in fund balances \$ (682,200)

Governmental funds report pension contributions as expenditures. However, in the statements of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. (476,892)

The statement of revenues, expenditures, and changes in fund balances report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Current year depreciation	(4,399,293)	
Loss on disposal of asset	1,712,006	
Capital asset additions	1,761,496	(925,791)

Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds. (16,957)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This is the amount by which proceeds exceeded repayments.

Debt service principal payments	121,898	
Accrued interest expense	32,885	154,783

Internal service funds are used by management to charge the costs of the administrative services department to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities. 16,995

Change in net position of governmental activities \$ (1,930,062)

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

FUND FINANCIAL STATEMENTS

Proprietary Funds

Enterprise Funds

These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing the services to the general public on a continuing basis be financed primarily through user charges. These funds represent three segments of operations – Water, Sewer, and Storm Water. Included in these segments are:

Water Operations

Water Fund

The Water Fund accounts for water services for residents of the City. The principal revenues source is from user fees. The primary expenditure is for system operations.

Water SDC Fund

The Water Capital Asset Fund is used to implement the Water System Master Plan, provided sufficient revenue is generated from the water rate.

Water Debt Retirement

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

Utility Deposits

Utility deposits Fund accounts for funds in trust that are due back to residents, either through refund or applied to their utility account.

Sewer Operations

Sewer Fund

The Sewer Fund accounts for sewer services for residents of the City. The principal revenue source is from user fees. The primary expenditure is for system operations.

Sewer SDC Fund

The Sewer Capital Asset Fund accounts for expenditures on major construction projects or equipment acquisition. The principal resources are system development charges and transfers from the Sewer Fund.

Sewer Debt Retirement

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

CWSRF Fund

The CWSRF Debt Retirement Fund accounts for the debt service payments for the Clean Water State Revolving Loan.

Storm Water Operations

Storm Water Fund

The Storm Drain Fund accounts for storm drain services for residents of the City. The principal revenue source is from user fees. The primary expenditure is for system operations.

Storm Water SDC Fund

The Storm Drain Capital Asset Fund is used to implement the Storm Sewer System Master Plan provided there are sufficient revenues from operating rates and system development charges.

For Generally Accepted Accounting Principles purposes, these aforementioned funds are consolidated and included as three separate Enterprise funds.

Internal Service Fund

This fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

Public Works Personnel Service Fund

This fund accounts for services provided to other departments or agencies within the city on a cost reimbursement basis.

CITY OF MOLALLA, OREGON
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2016

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Water Operations	Sewer Operations	Storm Water Operations	Total	Internal Service Fund
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 3,205,484	\$ 1,811,423	\$ 185,927	\$ 5,202,834	\$ -
Accounts receivable, net	165,944	229,229	16,838	412,011	-
Total current assets	3,371,428	2,040,652	202,765	5,614,845	-
Noncurrent assets:					
Capital assets, net	5,346,312	6,973,925	536,066	12,856,303	-
Total assets	8,717,740	9,014,577	738,831	18,471,148	-
DEFERRED OUTFLOWS OF RESOURCES:					
Deferred amounts related to pension	46,605	47,971	7,046	101,622	-
Total asset & deferred outflows of resources	\$ 8,764,345	\$ 9,062,548	\$ 745,877	\$ 18,572,770	\$ -
LIABILITIES:					
Current liabilities:					
Accounts payable	\$ 9,604	\$ 22,762	\$ -	\$ 32,366	\$ -
Accrued interest payable	6,281	31,171	-	37,452	-
Current accrued compensated absences	14,902	15,339	2,253	32,494	-
Deposits	10,940	-	-	10,940	-
Current portion of long-term debt	325,000	353,835	-	678,835	-
Total current liabilities	366,727	423,107	2,253	792,087	-
Noncurrent liabilities:					
Noncurrent accrued compensated absences	3,726	3,835	563	8,124	-
Noncurrent portion of long-term debt	340,000	3,800,975	-	4,140,975	-
Net pension liability	106,104	109,214	16,043	231,361	-
Total non current liabilities	449,830	3,914,024	16,606	4,380,460	-
Total liabilities	816,557	4,337,131	18,859	5,172,547	-
DEFERRED INFLOWS OF RESOURCES:					
Deferred amounts related to pensions	24,153	24,861	3,652	52,666	-
NET POSITION:					
Net investment in capital assets	4,681,312	2,819,115	536,066	8,036,493	-
Restricted for:					
System development	1,989,592	851,406	134,685	2,975,683	-
Debt service	-	46,607	-	46,607	-
Unrestricted	1,252,731	983,428	52,615	2,288,774	-
Total net position	7,923,635	4,700,556	723,366	13,347,557	-
Total liabilities, deferred inflows of resources, and net position	\$ 8,764,345	\$ 9,062,548	\$ 745,877	\$ 18,572,770	\$ -

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

CITY OF MOLALLA, OREGON
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds				Governmental
	Water Operations	Sewer Operations	Storm Water Operations	Total	Internal Service Fund
OPERATING REVENUES:					
Charges for services	\$ 1,448,336	\$ 1,954,465	\$ 112,618	\$ 3,515,419	\$ -
System development charges	559,055	802,780	130,375	1,492,210	-
Miscellaneous income	7,567	29,472	-	37,039	-
Total operating revenues	2,014,958	2,786,717	242,993	5,044,668	-
OPERATING EXPENSES:					
Operating and maintenance expenses	572,916	1,290,413	245,022	2,108,351	-
Personnel services	590,982	457,592	69,782	1,118,356	-
Depreciation	174,913	191,084	14,242	380,239	-
Total operating expenses	1,338,811	1,939,089	329,046	3,606,946	-
Operating income (loss)	676,147	847,628	(86,053)	1,437,722	-
NON-OPERATING REVENUES (EXPENSES):					
Interest expense	(20,631)	(146,477)	-	(167,108)	-
Total non-operating revenues (expenses)	(20,631)	(146,477)	-	(167,108)	-
Net income (loss) before transfers	655,516	701,151	(86,053)	1,270,614	-
TRANSFERS:					
Transfers in (out)	(39,978)	161,012	-	121,034	99,969
Change in net position	615,538	862,163	(86,053)	1,391,648	99,969
NET POSITION, BEGINNING	7,308,097	3,838,393	809,419	11,955,909	(99,969)
NET POSITION, ENDING	\$ 7,923,635	\$ 4,700,556	\$ 723,366	\$ 13,347,557	\$ -

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

CITY OF MOLALLA, OREGON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds				Governmental
	Water Operations	Sewer Operations	Storm Water Operations	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 2,032,317	\$ 2,723,529	\$ 235,882	\$ 4,991,728	\$ -
Cash paid to employees and others for salaries and benefits	(488,702)	(352,314)	(38,852)	(879,868)	-
Cash paid to suppliers and others	(569,368)	(1,347,638)	(260,487)	(2,177,493)	-
Net cash provided by (used for) operating activities	974,247	1,023,577	(63,457)	1,934,367	-
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Transfers in (out)	(39,978)	161,012	-	121,034	(155,887)
Net cash provided by (used for) non-capital financing activities	(39,978)	161,012	-	121,034	(155,887)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets	(52,235)	(23,100)	(7,700)	(83,035)	-
Debt principal payments	(310,000)	(345,301)	-	(655,301)	-
Interest paid	(24,600)	(152,213)	-	(176,813)	-
Net cash provided by (used for) capital and related financing activities	(386,835)	(520,614)	(7,700)	(915,149)	-
Net increase (decrease) in cash and cash equivalents	547,434	663,975	(71,157)	1,140,252	(155,887)
CASH AND CASH EQUIVALENTS, BEGINNING	2,658,050	1,147,448	257,084	4,062,582	155,887
CASH AND CASH EQUIVALENTS, ENDING	\$ 3,205,484	\$ 1,811,423	\$ 185,927	\$ 5,202,834	\$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES					
Operating Income	\$ 676,147	\$ 847,628	\$ (86,053)	\$ 1,437,722	\$ -
Adjustments					
Depreciation and amortization	174,913	191,084	14,242	380,239	-
Decrease (increase) in:					
Accounts receivable and due from other funds	7,455	(63,188)	(7,111)	(62,844)	-
Deferred outflows related to pension	(46,605)	(47,971)	(7,046)	(101,622)	-
Increase (decrease) in:					
Accounts payable and accrued expense	3,548	(57,225)	-	(53,677)	-
Deposits	9,904	-	-	9,904	-
Pension liability	106,104	109,214	16,043	231,361	-
Deferred inflows related to pension	24,153	24,861	3,652	52,666	-
Accrued compensated absences	18,628	19,174	2,816	40,618	-
Net cash provided by (used for) operating activities	\$ 974,247	\$ 1,023,577	\$ (63,457)	\$ 1,934,367	\$ -

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

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Molalla, Oregon (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

The Financial Reporting Entity

The City of Molalla, Oregon is governed by an elected mayor and 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, 2016.

There are certain 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.

As defined by accounting principles generally accepted in the United States of America, the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. The City of Molalla's financial statements include the Molalla Urban Renewal Agency as a blended component unit. The City Council and Board of Directors of the Molalla Urban Renewal Agency are composed of the same individuals.

Basic Financial Statements

The government-wide financial statements report information on all activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees, fines, and charges for services.

The Statement of Activities demonstrates the degree to which the direct and allocated indirect expenses of a given function or business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Indirect expenses are those costs, usually administrative in nature, that support all City functions and enable direct services to be provided. Program revenues include (1) fees, fines, and charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Basis of Presentation

Measurement focus refers to what is being measured by a fund. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide and proprietary fund financial statements are accounted for using an economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The City's government-wide and proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements.

Interfund activity consists of transfers, services provided and/or used, reimbursements, advances, and loans. As a general rule, the effect of interfund activity has been eliminated from the governmental-wide financial statements. Exceptions to this general rule include interfund services provided and/or used. Interfund services provided and/or used are accounted for as revenues and expenses since the elimination of such revenues and expenses would distort the direct costs and program revenues reported for the various functions.

Operating revenues and operating expenses are intermediate components within the proprietary fund Statement of Revenues, Expenses and Changes in Net Position, and include only those transactions that constitute their principal, ongoing activities exclusive of investing or financing transactions. Significant operating revenues include charges for services and system development fees. Significant operating expenses include personnel, maintenance expenses, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements

The governmental fund financial statements are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded only when susceptible to accrual (both measurable and available). "Measurable" means that the amount of the transaction can be determined. "Available" is defined as being collectible within the current period or soon enough thereafter (60 days) to be used to liquidate liabilities of the current period. Expenditures other than interest on noncurrent obligations, are recorded when the fund liability is incurred.

Intergovernmental revenues are recognized as revenues when all eligibility requirements are met. There are, however, essentially two types of intergovernmental revenues. In one, monies must

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

be expended on the specific purpose or project before any amounts will be paid to the City; therefore, all eligibility requirements are determined to be met when the underlying expenditures are recorded. In the other, monies are virtually unrestricted as to the purpose of the expenditure

and are usually revocable only for failure to comply with prescribed requirements; therefore, all eligibility requirements are determined to be met at the time of receipt or earlier if the susceptible to accrual criteria are met.

Licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Rental income is typically received in advance and is deferred when appropriate.

The GASB 34 reporting model sets 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. Non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operation fund. It is used to account for all financial resources except those required to be accounted for in a different fund.

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

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

The *Urban Renewal Agency Fund* is used to account for the property tax revenue received for the rehabilitation of the blighted and deteriorated areas within the City's designated urban renewal area.

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

The City reports each of its proprietary funds as major funds. These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing the services to the general public on a continuing basis be financed primarily through user charges. The City reports the following proprietary funds:

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

- Water Operations
- Sewer Operations
- Storm Water Operations

Internal Service Fund accounts for administration services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, 2016. Actual results may differ from such estimates.

Cash and Cash Equivalents

Investments, included in cash and investments, are carried at cost which approximates fair value. For purposes of the statement of cash flows, the proprietary funds consider cash and cash equivalents to include the cash and investment common pool. These amounts have the general characteristics of demand deposit accounts in that the proprietary funds may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty. Investments are reported at fair value.

Receivables and Property Tax Calendar

Receivables for state, county and local shared revenues, included in accounts receivable, are recorded as revenue in the governmental funds as earned. Receivables of the enterprise funds are recorded as revenue as earned.

Property taxes receivable for the governmental fund types, which have been collected within thirty days subsequent to year end, are considered measurable and available and are recognized as revenues. All other property taxes are offset by unavailable revenues and, accordingly, have not been recorded as revenue. Real and personal property taxes are levied upon all taxable property within the City and become liens against the property as of July 1 of each year and are payable in three installments which are due on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent. Property taxes receivable by the City represent the City's allocated share of delinquent property taxes and other amounts to be collected from property owners within Clackamas County, Oregon.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure/expense) until then. The City has one item that qualifies for reporting in this category. It is the deferred amounts relating to pensions. This amount is deferred and recognized as an outflow of resources in the period when the City's recognizes pension expense/expenditures. Deferred outflows are included in the government-wide Statement of Net Position and the proprietary funds Statement of Net Position.

CITY OF MOLALLA, OREGON
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In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has four types of items that qualify for reporting in this category. Unavailable revenue from property taxes, franchise fees, and municipal court revenue is reported in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that amount becomes available. The City also reports deferred amounts related to pensions. This amount is deferred and recognized as an inflow of resources in the period when the City's recognizes pension income.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, street lights, etc.) are reported in the applicable governmental or business-type activities column in the governmental-wide financial statements. Capital assets are charged to expenditures as purchased in the governmental fund statements, and capitalized in the proprietary fund statements. Capital assets are recorded at historical cost, or estimated historical cost if actual cost is not available. Donated capital assets are recorded at their estimated fair market value at the time received.

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more, and having useful lives extending beyond a single reporting period. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position and is provided on the straight-line basis over the following estimated useful lives:

Land Improvements	20 years
Buildings	25-50 years
Infrastructure	20-65 years
Machinery and equipment	10-30 years
Vehicles	8 years

Annual depreciation is taken in the year the assets are acquired or retired. Gains or losses from sales or retirements of capital assets are included in operations of the current period.

Long-Term Debt

Long-term debt directly related and expected to be paid from the enterprise funds is recorded in these funds. All other unmatured long-term debt is recorded on the Statement of Net Position.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay

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benefits. No liability is recorded for non-vested unpaid accumulated sick pay benefits. All vacation pay and vested sick pay benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for vacation pay is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Benefit amounts are paid from the same fund as the employee's payroll, primarily the General Fund.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oregon Public Employees Retirement System (OPERS) and additions to/deductions from OPERS's fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Restricted Net Position

Net revenues received by the City which are restricted by donors or legislation are reported as restricted net position. Such net revenues include system development charges (SDC's), state gas tax, and designated donations or grants.

Fund Balance

In the fund financial statements, 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 purpose for which amounts in the funds can be spent. Fund balance is reported in five components – non-spendable, restricted, committed, assigned and unassigned.

Non-Spendable – Includes amounts not immediately converted to cash, such as prepaid items and inventory.

Restricted – Includes amounts that are restricted by external creditors, grantors or contributors, or restricted by enabling legislation.

Committed – Includes amounts that have been committed by resolution by the City Council which is the City's "highest level of decision-making authority." Committed amounts may not be used for any other purpose unless the City Council removes the constraint by similar council action. Commitments of fund balance must be made prior to the end of the fiscal year.

Assigned – Includes amounts assigned for specific purposes by Council action or their designee.

Unassigned – This is the residual classification used for those balances not assigned to another category.

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use it is the City's policy to use committed resources first, then assigned, and then unassigned as they are needed.

CITY OF MOLALLA, OREGON
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2. CASH AND CASH EQUIVALENTS

The City maintains a cash and investment pool that is available for use by all funds, except for restricted cash and investments. Each fund type's portion of this pool is displayed on the Statement of Net Position as part of "cash and investments."

At June 30, 2016 investments included in cash and cash equivalents consist of the following:

	Weighted Average Maturity (Years)	Fair Value
Investments in the State Treasurer's Local Government Investment Pool	0.00	\$ 9,681,624
Total cash equivalents	0.00	\$ 9,681,624

Following is a summary of the City's deposit and investment balances at June 30, 2016:

	2016
Demand Deposits	\$ 2,445,088
Cash on hand	300
LGIP	9,681,624
Total	\$ 12,127,012

Interest Rate Risk

The City of Molalla does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State statutes authorize the City of Molalla to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the State Treasurer's Oregon Local Government Investment Pool, among others. The City has no investment policy that would further limit its investment choices. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations, but is not regulated by other laws, organizations or regulations. The reported value of the Pool is the same as the fair value of Pool shares. Investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). The State Treasurer's Oregon Local Government Investment Pool is not registered with the SEC as an investment company and is unrated.

Concentration of Credit Risk

The City of Molalla does not currently have an investment policy for concentration of credit risk.

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Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. The Federal Depository Insurance Corporation (FDIC) and National Credit Union Administration (NCUA) provides insurance for the City's deposits up to \$250,000 for the combined total of all deposit accounts at each financial institution. The remaining deposits are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon in accordance with ORS 295. Depositories qualified under this program are required to pledge collateral against any public funds deposits in excess of deposit insurance amounts. This provides additional protection for public funds in the event of a bank failure or loss. ORS 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable. ORS 295 creates a shared liability structure for participating depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. As of June 30, 2016, the book value of the City's deposits was \$2,445,088 and the bank balance was \$2,899,868. The City's bank balances of 2,649,868 were exposed to custodial credit risk as they were collateralized under PFCP.

Custodial Credit 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 in the Local Government Investment Pool is considered unclassified as to credit risk because it is not evidenced by securities that exist in physical or book entry form.

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

3. CAPITAL ASSETS

The changes in capital assets for the governmental activities for the year ended June 30, 2016 is as follows:

Primary Government	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,489,291	\$ -	\$ -	\$ 1,489,291
Construction in progress	243,093	1,738,396	-	1,981,489
Total capital assets, not being depreciated	1,732,384	1,738,396	-	3,470,780
<i>Capital assets, being depreciated:</i>				
Land Improvements	748,442	-	(122,647)	625,795
Buildings	3,265,658	-	(2,292,144)	973,514
Infrastructure	20,744,076	-	-	20,744,076
Machinery and equipment	478,475	-	-	478,475
Vehicles	634,337	23,100	-	657,437
Total capital assets, being depreciated	25,870,988	23,100	(2,414,791)	23,479,297
<i>Less accumulated depreciation for:</i>				
Land Improvements	(502,633)	(20,067)	85,816	(436,884)
Buildings	(1,189,639)	(65,124)	616,969	(637,794)
Infrastructure	(12,073,556)	(848,938)	-	(12,922,494)
Machinery and equipment	(341,334)	(19,353)	-	(360,687)
Vehicles	(556,779)	(21,799)	-	(578,578)
Total accumulated depreciation	(14,663,941)	(975,281)	702,785	(14,936,437)
Total capital assets, being depreciated, net	11,207,047	(952,181)	(1,712,006)	8,542,860
Governmental activities capital assets, net	<u>\$ 12,939,431</u>	<u>\$ 786,215</u>	<u>\$ (1,712,006)</u>	<u>\$ 12,013,640</u>

CITY OF MOLALLA, OREGON
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All depreciation on governmental capital assets is allocated to governmental functions on the statement of activities as follows:

Governmental activities:	Depreciation
General government	\$ 12,323
Public safety	16,122
Public works	873,778
Community development	<u>73,058</u>
Total depreciation expense - governmental activities	<u><u>\$ 975,281</u></u>

The changes in capital assets for business-type activities for the year ended June 30, 2016 is as follows:

Business-type activities:	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Land	\$ 727,511	\$ -	\$ -	\$ 727,511
Total capital assets , not being depreciated	<u>727,511</u>	<u>-</u>	<u>-</u>	<u>727,511</u>
<i>Capital assets, being depreciated:</i>				
Land Improvements	159,202	-	-	159,202
Buildings	3,651,204	-	-	3,651,204
Infrastructure	15,019,548	-	-	15,019,548
Machinery and equipment	1,888,100	83,035	-	1,971,135
Vehicles	<u>125,691</u>	<u>-</u>	<u>-</u>	<u>125,691</u>
Total capital assets, being depreciated	<u>20,843,745</u>	<u>83,035</u>	<u>-</u>	<u>20,926,780</u>
<i>Less accumulated depreciation for:</i>				
Land Improvements	(148,063)	(1,310)	-	(149,373)
Buildings	(1,773,069)	(77,291)	-	(1,850,360)
Infrastructure	(5,192,718)	(235,929)	-	(5,428,647)
Machinery and equipment	(1,192,191)	(62,630)	-	(1,254,821)
Vehicles	<u>(111,708)</u>	<u>(3,079)</u>	<u>-</u>	<u>(114,787)</u>
Total accumulated depreciation	<u>(8,417,749)</u>	<u>(380,239)</u>	<u>-</u>	<u>(8,797,988)</u>
Total capital assets, being depreciated, net	<u>12,425,996</u>	<u>(297,204)</u>	<u>-</u>	<u>12,128,792</u>
Business-type activities capital assets, net	<u><u>\$ 13,153,507</u></u>	<u><u>\$ (297,204)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,856,303</u></u>

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
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Depreciation expense is allocated to business-type functions as follows:

Business-type activities:	
Water	\$ 174,913
Sewer	191,084
Stormwater	<u>14,242</u>
Total depreciation expense - business-type activities	<u><u>\$ 380,239</u></u>

4. LONG-TERM DEBT

Long-term debt transactions for the year ended June 30, 2016 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due in 1 Year</u>
Governmental Activities					
Governmental Bonds					
Water Refunding Bonds	\$ 155,000	\$ -	\$ 60,000	\$ 95,000	\$ 65,000
Urban Renewal Series 2015	2,690,000	-	85,000	2,605,000	120,000
Bond Premium	<u>355,026</u>	<u>-</u>	<u>25,512</u>	<u>329,514</u>	<u>25,512</u>
Total Governmental Bonds	<u>3,200,026</u>	<u>-</u>	<u>170,512</u>	<u>3,029,514</u>	<u>210,512</u>
Compensated Absences	<u>77,773</u>	<u>48,614</u>	<u>-</u>	<u>126,387</u>	<u>101,110</u>
Total Governmental	<u><u>\$ 3,277,799</u></u>	<u><u>\$ 48,614</u></u>	<u><u>\$ 170,512</u></u>	<u><u>\$ 3,155,901</u></u>	<u><u>\$ 311,622</u></u>
Business Type Activities					
Enterprise Bonds					
2010 Water Refunding	\$ 975,000	\$ -	\$ 310,000	\$ 665,000	\$ 325,000
2010 Sewer Refunding	<u>2,565,000</u>	<u>-</u>	<u>220,000</u>	<u>2,345,000</u>	<u>225,000</u>
Total Enterprise Bonds	<u>3,540,000</u>	<u>-</u>	<u>530,000</u>	<u>3,010,000</u>	<u>550,000</u>
Enterprise Loan/Notes					
Clean Water State Revolving Loan	<u>1,935,111</u>	<u>-</u>	<u>125,301</u>	<u>1,809,810</u>	<u>128,835</u>
Total Enterprise Loans	<u>1,935,111</u>	<u>-</u>	<u>125,301</u>	<u>1,809,810</u>	<u>128,835</u>
Compensated Absences	<u>61,107</u>	<u>-</u>	<u>20,489</u>	<u>40,618</u>	<u>32,494</u>
Total Enterprise	<u><u>\$ 5,536,218</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 675,790</u></u>	<u><u>\$ 4,860,428</u></u>	<u><u>\$ 711,329</u></u>

CITY OF MOLALLA, OREGON
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Bonds

Governmental Activities:

In 2010, the City of Molalla refunded General Obligation Installment Water Bond No. 1 and No. 2. The bonds were for capital improvements. Interest is a variable rate that ranges from 2.5% to 3.5% per annum. Repayment is on semi-annual payments every June 1. \$ 95,000

During 2014-2015, the Urban Renewal Agency issued \$2,690,000 of series 2015 full faith and credit obligation bonds secured by the City of Molalla's full faith and credit. This series bond pays interest of 3.00%. The bond matures in June 2029. Loan principal and interest is payable annually through June 2029. \$ 2,605,000

	Water Refunding Bonds		Urban Renewal Series 2015	
	Principal	Interest	Principal	Interest
2017	65,000	3,088	120,000	98,750
2018	30,000	750	130,000	95,150
2019	-	-	140,000	91,250
2020	-	-	155,000	87,050
2021-2025	-	-	970,000	340,000
2026-2030	-	-	1,090,000	112,400
Total	\$ 95,000	\$ 3,838	\$ 2,605,000	\$ 824,600

Business-Type Activities:

In August 2010, the City of Molalla refunded series 1997 and 1992 bonds that were for major water system improvements. The interest is at 3% per annum. Interest payments are due each February 1 and principal and interest payments are due each August 1. \$ 665,000

In March 2010, the City of Molalla refunded series 2000 bonds that were for improvements to the sewer system. The interest is at a variable rate ranges from 3% to 4% per annum. Interest payments are due each March 1. \$ 2,345,000

CITY OF MOLALLA, OREGON
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	2010 Water Refunding		2010 Sewer Refunding	
	Principal	Interest	Principal	Interest
2017	325,000	15,075	225,000	91,550
2018	340,000	5,100	230,000	84,800
2019	-	-	240,000	75,600
2020	-	-	250,000	66,000
2021-2025	<u>-</u>	<u>-</u>	<u>1,400,000</u>	<u>166,600</u>
Total	<u>\$ 665,000</u>	<u>\$ 20,175</u>	<u>\$ 2,345,000</u>	<u>\$ 484,550</u>

Loans/Notes

Business-Type Activities:

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

\$ 1,809,810

**Clean Water State Revolving
Loan**

	Principal	Interest
2017	128,835	49,779
2018	132,467	46,147
2019	136,203	42,411
2020	140,043	38,571
2021-2025	761,717	131,353
2026-2030	<u>510,545</u>	<u>25,297</u>
Total	<u>\$ 1,809,810</u>	<u>\$ 333,558</u>

5. NET POSITION

The government-wide statement of net position reports \$7,467,578 of restricted net position, of which \$5,230,993 is restricted by enabling legislation.

6. PENSION PLAN

Plan Description

Employees of the City are provided with pensions through the Oregon Public Employees Retirement System (OPERS) a cost-sharing multiple-employer defined benefit pension plan, the Oregon Legislature has delegated authority to the Public Employees Retirement Board to administer and manage the system. All benefits of the System are established by the legislature

CITY OF MOLALLA, OREGON
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pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Pension Program, established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. OPERS issues a publicly available Comprehensive Annual Financial Report and Actuarial Valuation that can be obtained at

http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

Benefits provided

A. Tier One/Tier Two Retirement Benefit ORS Chapter 238

Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police members). General service employees may retire after reaching age 55. Police members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- the member was employed by a PERS employer at the time of death,
- the member died within 120 days after termination of PERS-covered employment,
- the member died as a result of injury sustained while employed in a PERS-covered job, or
- the member was on an official leave of absence from a PERS-covered job at the time of death.

Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police members) when determining the monthly benefit.

Benefit Changes

After Retirement Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

B. OPSRP Pension Program (OPSRP DB)

Pension Benefits

The Pension Program (ORS Chapter 238A) provides benefits to members hired on or after August 29, 2003. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

Police: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police member, the individual must have been employed continuously as a police member for at least five years immediately preceding retirement.

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP Pension Program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member

becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

C. OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Recordkeeping

OPERS contracts with VOYA Financial to maintain IAP participant records.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation as subsequently modified by 2015 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013. Employer contributions for the year ended June 30, 2016 were \$404,819, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2016 were 11.03 percent for Tier One/Tier Two General Service Member, 11.03 percent for Tier One/Tier Two Police, 3.97 percent for OPSRP Pension

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Program General Service Members, 8.08 percent for OPSRP Pension Program Police Members, and 6 percent for OPSRP Individual Account Program.

Pension Assets, Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability of \$951,263 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013 rolled forward to June 30, 2015. The City's proportion of the net pension asset was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City's proportion was 0.01657 percent, which was increased from its proportion of 0.01495 measured as of June 30, 2014.

For the year ended June 30, 2016, the City's recognized pension expense (income) of (\$492,734). At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 51,297	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on investments	-	199,406
Changes in proportion	27,783	-
Differences between employer contributions and proportionate share of contributions	18,179	17,134
Total (prior to post-MD contributions)	<u>97,259</u>	<u>216,540</u>
Contributions subsequent to the MD	<u>320,569</u>	<u>-</u>
Total	<u>\$ 417,828</u>	<u>\$ 216,540</u>

Deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

<u>Deferred Outflows</u>		<u>Deferred Inflows</u>	
Amortization Period		Amortization Period	
FY2017	\$ 343,591	FY2017	\$ 99,038
FY2018	23,022	FY2018	99,038
FY2019	23,022	FY2019	99,038
FY2020	21,001	FY2020	(82,132)
FY2021	7,192	FY2021	1,558
Total	<u>\$ 417,828</u>	Total	<u>\$ 216,540</u>

Actuarial assumptions

The employer contribution rates effective July 1, 2013, through June 30, 2015 and effective July 1, 2015, through June 30, 2017, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years.

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2013
Measurement Date	June 30, 2015
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.75 percent
Long-Term Expected Rate of Return	7.75 percent
Discount Rate	7.75 percent
Projected Salary Increases	3.75 percent overall payroll growth
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and grade COLA
Mortality	<p>Health retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.</p> <p>Active Members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 statistic combined disabled mortality sex-distinct table.</p>

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

Long-term expected rate of return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

based on historical returns, but instead are based on a forward-looking capital market economic model.

<u>Asset Class/Strategy</u>	<u>Assumed Asset Allocation</u>		
	<u>Low Range</u>	<u>High Range</u>	<u>Target</u>
Cash	0.0%	3.0%	0.0%
Debt Securities	15.0%	25.0%	20.0%
Public Equity	32.5%	42.5%	37.5%
Private Equity	16.0%	24.0%	20.0%
Real Estate	9.5%	15.5%	12.5%
Alternative Equity	0.0%	10.0%	10.0%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			<u>100.0%</u>

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compounded Annual Return (Geometric)</u>
Core Fixed Income	7.20%	4.50%
Short-Term Bonds	8.00%	3.70%
Intermediate -Term Bonds	3.00%	4.10%
High Yield Bonds	1.80%	6.66%
Large Cap US Equities	11.65%	7.20%
Mid Cap US Equities	3.88%	7.30%
Small Cap US Equities	2.27%	7.45%
Developed Foreign Equities	14.21%	6.90%
Emerging Foreign Equities	5.49%	7.40%
Private Equities	20.00%	8.26%
Opportunity Funds/Absolute Return	5.00%	6.01%
Real Estate (Property)	13.75%	6.51%
Real Estate (REITS)	2.50%	6.76%
Commodities	1.25%	6.07%
Total	<u>100.00%</u>	

Assumed Inflation - Mean 2.75%

Depletion Date Projection

GASB 68 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position is projected to cover benefit payments and

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASB 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for PERS:

- PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 68 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is our independent actuary's opinion that the detailed depletion date projections outlined in GASB 68 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

Discount rate

The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's proportionate share of the net pension liability (asset)	\$ 2,295,838	\$ 951,263	\$ (181,860)

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

issued OPERS financial report.

Changes in Plan Provisions During the Measurement Period

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. OPERS will make restoration payments to those benefit recipients.

OPERS members who have accrued benefits before and after the effective periods of the 2013 legislation will have a blended COLA rate when they retire.

This change in benefit terms were reflected in the current valuation.

Changes in Plan Provisions Subsequent to Measurement Date

There were no changes subsequent to the June 30, 2015 measurement date.

7. RETIREMENT HEALTH INSURANCE ACCOUNT (RHIA)

Plan Description

As a member of Oregon Public Employees Retirement System (OPERS), the City contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other post-employment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provision of RHIA resides with the Oregon Legislature. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700.

Funding Policy

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid by the eligible retired member in the manner provided in ORS 238.410.

Participating employers are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently 0.59% of annual overall payroll. The OPERS Board of Trustees sets the employer contribution rate based on level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortized the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represent any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The City's contributions to RHIA for the years ended June 30, 2016, 2015, and 2014 were \$12,523, \$13,373 and \$25,176 respectively which

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

equal the required contributions for that year.

8. INTERFUND TRANSFERS

Governmental Funds:	Transfer in	Transfer out
General Fund	\$ -	\$ 545,000
Aquatic Center Fund	345,000	-
Total Governmental Funds	<u>345,000</u>	<u>545,000</u>
Proprietary Funds:		
Sewer Fund	200,000	315,929
Water fund	-	250,000
Sewer Debt Retirement	315,929	-
Water Debt Retirement	250,000	-
CWSRF Debt	187,343	-
Sewer SDC	-	187,343
Total Proprietary Funds	<u>953,272</u>	<u>753,272</u>
Total All Funds	<u>\$ 1,298,272</u>	<u>\$ 1,298,272</u>

Transfers on the modified accrual basis are different from transfers on the full accrual basis due to capital assets acquired by the systems development fund being transferred to the enterprise funds. Such transfers are not reported on the modified accrual basis of accounting but are recorded on the full accrual basis.

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 then, (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.

9. 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.

Management of the City believes that the total amount of liability if any, which may arise from claims and lawsuits pending against the City beyond which is covered by insurance, would not have a material effect on the City's financial condition.

10. RISK MANAGEMENT

The City is exposed to various risks of loss related to errors and omissions; automobile; damage to or destruction of assets; bodily injury; and worker's compensation for which the City carries

CITY OF MOLALLA, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

commercial insurance. Settled claims resulting from risks of loss have not exceeded commercial insurance coverage in any of the past three years.

11. COMMITMENT

During the year, the City entered into a construction contract for road improvements to Molalla Avenue. The amount spent to date is \$544,212. The remaining construction commitment is \$1,587,638.

12. SUBSEQUENT EVENT

The City entered into a construction contract on October 17, 2016 for the remodel of City hall in the amount of \$248,500.

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements.

- Budgetary Comparison Schedule
 - General Fund
 - Library Fund
 - Street Fund
 - Urban Renewal Agency Fund
- Schedule of the Proportionate Share of the Net Pension Liability
- Schedule of Contributions

CITY OF MOLALLA, OREGON
GENERAL FUND - BUDGETARY BASIS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 2,752,000	\$ 2,752,000	\$ 2,695,051	\$ (56,949)
Franchise fees	149,750	149,750	150,368	618
Licenses, permits and fees	51,310	51,310	120,968	69,658
Intergovernmental	160,000	160,000	161,128	1,128
Charges for services	610,100	610,100	609,776	(324)
Interest revenue	48,000	48,000	61,566	13,566
Miscellaneous revenue	41,500	41,500	57,112	15,612
Total revenues	3,812,660	3,812,660	3,855,969	43,309
EXPENDITURES:				
General government	841,300	896,300	791,130	105,170
Public safety	2,512,850	2,512,850	2,216,160	296,690
Capital outlay	305,000	275,000	147,792	127,208
Contingency	150,000	-	-	-
Total expenditures	3,809,150	3,684,150	3,155,082	529,068
Revenues over (under) expenditures	3,510	128,510	700,887	572,377
OTHER FINANCING SOURCES (USES):				
Transfers out	(20,000)	(545,000)	(545,000)	-
Total other financing sources (uses)	(20,000)	(545,000)	(545,000)	-
Net change in fund balance	(16,490)	(416,490)	155,887	572,377
FUND BALANCES, BEGINNING BUDGETARY BASIS	885,000	885,000	951,559	66,559
FUND BALANCES, ENDING BUDGETARY BASIS	\$ 868,510	\$ 468,510	1,107,446	\$ 638,936
Accounts receivable			122,352	
Property tax receivable			163,615	
Cash with county			8,819	
Unavailable revenue -franchise fees			(51,625)	
Unavailable revenue - property taxes			(157,404)	
Unavailable revenue -municipal court			(50,296)	
Accounts payable			(9,907)	
FUND BALANCES, ENDING			\$ 1,133,000	

CITY OF MOLALLA, OREGON
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 750,000	\$ 750,000	\$ 804,652	\$ 54,652
Grants	853,500	853,500	3,816	(849,684)
Fines and forfeitures	20,000	20,000	18,031	(1,969)
Charges for services	2,500	2,500	3,094	594
Miscellaneous revenue	1,000	1,000	2,024	1,024
Contributions and donations	1,500	1,500	1,170	(330)
Total revenues	1,628,500	1,628,500	832,787	(795,713)
EXPENDITURES:				
Personnel service	550,500	550,500	479,437	71,063
Materials and service	246,650	246,650	155,908	90,742
Capital outlay	426,000	426,000	76,245	349,755
Contingency	100,000	100,000	-	100,000
Total expenditures	1,323,150	1,323,150	711,590	611,560
Net change in fund balance	305,350	305,350	121,197	(184,153)
FUND BALANCES, BEGINNING BUDGETARY	1,161,068	1,161,068	1,274,843	113,775
FUND BALANCES, ENDING BUDGETARY BASIS	\$ 1,466,418	\$ 1,466,418	1,396,040	\$ (70,378)
Accounts payable			(41)	
FUND BALANCES, ENDING			\$ 1,395,999	

CITY OF MOLALLA, OREGON
STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Franchise fees	\$ 220,000	\$ 220,000	\$ 220,266	\$ 266
Intergovernmental	610,000	610,000	576,565	(33,435)
Grants	405,000	405,000	-	(405,000)
Miscellaneous revenue	42,500	42,500	36,593	(5,907)
Total revenues	<u>1,277,500</u>	<u>1,277,500</u>	<u>833,424</u>	<u>(444,076)</u>
EXPENDITURES:				
Personnel service	327,400	327,400	263,866	63,534
Materials and service	479,600	479,600	320,360	159,240
Capital outlay	557,000	557,000	69,227	487,773
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>1,464,000</u>	<u>1,464,000</u>	<u>653,453</u>	<u>810,547</u>
Net change in fund balance	(186,500)	(186,500)	179,971	366,471
FUND BALANCES, BEGINNING BUDGETARY BASIS	<u>197,500</u>	<u>197,500</u>	<u>218,184</u>	<u>20,684</u>
FUND BALANCES, ENDING BUDGETARY BASIS	<u>\$ 11,000</u>	<u>\$ 11,000</u>	398,155	<u>\$ 387,155</u>
Accounts receivable			17,382	
Accounts payable			<u>(7,515)</u>	
FUND BALANCES, ENDING			<u>\$ 408,022</u>	

CITY OF MOLALLA, OREGON
URBAN RENEWAL AGENCY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 285,000	\$ 285,000	\$ 304,274	\$ 19,274
Interest revenue	750	750	871	121
Total revenues	<u>285,750</u>	<u>285,750</u>	<u>305,145</u>	<u>19,395</u>
EXPENDITURES:				
Materials and service	225,000	225,000	107,257	117,743
Capital outlay	3,100,000	3,100,000	1,649,205	1,450,795
Debt service:				
Principal	300,000	300,000	85,000	215,000
Interest	75,000	75,000	131,143	(56,143)
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>3,800,000</u>	<u>3,800,000</u>	<u>1,972,605</u>	<u>1,827,395</u>
Net changes in fund balances	<u>(3,514,250)</u>	<u>(3,514,250)</u>	<u>(1,667,460)</u>	<u>1,846,790</u>
FUND BALANCES, BEGINNING				
BUDGETARY BASIS	<u>4,005,292</u>	<u>4,005,292</u>	<u>3,766,419</u>	<u>(238,873)</u>
FUND BALANCES, ENDING BUDGETARY				
BASIS	<u>\$ 491,042</u>	<u>\$ 491,042</u>	2,098,959	<u>\$ 1,607,917</u>
Property tax receivable			16,056	
Cash with county			529	
Unavailable revenue - property taxes			<u>(15,506)</u>	
FUND BALANCES, ENDING			<u>\$ 2,100,038</u>	

CITY OF MOLALLA, OREGON
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Last Three Fiscal Years

Measurement Date June 30,	(a) City's proportion of the net pension liability (asset)	(b) City's proportionate share of the net pension liability (asset)	(c) City's covered payroll	(b/c) City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.01656831%	\$ 951,263	\$ 2,627,835	36.20%	91.90%
2014	0.01495015%	(338,877)	2,773,860	-12.22%	103.60%
2013	0.01656831%	673,613	2,540,455	26.52%	91.97%

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

CITY OF MOLALLA, OREGON
SCHEDULE OF CONTRIBUTIONS
For the Last Three Fiscal Years

Year Ended June 30,	(a) Statutorily required contribution	(b) Contributions in relation to the statutorily required contribution	(a-b) Contribution deficiency (excess)	(c) City's covered payroll	(b/c) Contributions as a percent of covered payroll
2016	\$ 320,569	\$ 320,569	\$ -	\$ 2,892,324	11.08%
2015	733,439	733,439	-	2,627,835	27.91%
2014	764,158	764,158	-	2,773,860	27.55%

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

CITY OF MOLALLA, OREGON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

Stewardship, Compliance, and Accountability

A. Budgetary Information

On or before June 30 of each year, the City enacts a resolution approving the budget, appropriating the expenditures, and levying the property taxes. Prior to enacting this resolution, the proposed budget is presented to a budget committee consisting of members of the City Council and a like number of interested citizens. The budget committee presents the budget to the City Council for budget hearings prior to enactment of the resolution. The City budgets all funds as required by Oregon Local Budget Law. The basis of budgeting for all major funds is the cash basis of accounting.

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Total expenditures by department as established by the resolution are the legal level of control for the General Fund. Expenditure categories of personnel services, materials and services, capital outlay, debt service, transfers, and contingency are the legal level of control for all other funds. The detail budget document, however, is required to contain more specific information for the above mentioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and adoption by the City Council. Management may modify original and supplemental budgets by the use of appropriation transfers between the legal levels of control within a fund. Such transfers require approval by the City Council.

Expenditures in the following funds exceeded appropriations for the year ended June 30, 2016:

<u>Fund</u>	<u>Budget Category</u>	<u>Amount of Over Expenditure</u>
General Fund: Police Operations	Capital outlay	\$3,619
General Fund: Municipal Court	Personnel service	\$1,395
Aquatic Center Fund	Materials and service	\$10,397
Transportation SDC Fund	Capital outlay	\$38,512
Water Fund	Personnel service	\$7,030
Sewer Fund	Capital outlay	\$3,626
Storm Water SDC Fund	Capital outlay	\$49,624
Utility Deposits Fund	Materials and service	\$1,639

B. Changes in Plan Provisions During the Measurement Period

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. OPERS will make restoration payments to those benefit recipients.

OPERS members who have accrued benefits before and after the effective periods of the 2013

CITY OF MOLALLA, OREGON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

legislation will have a blended COLA rate when they retire.

This change in benefit terms were reflected in the current valuation.

Changes in Plan Provisions Subsequent to Measurement Date

There were no changes subsequent to the June 30, 2015 measurement date.

Changes in Benefit Terms

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. OPERS will make restoration payments to those benefit recipients.

OPERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

This is a change in benefit terms was not included in the net pension liability (asset) proportionate shares provided by OPERS for the years ending June 30, 2015 and June 30, 2014.

Changes of Assumptions

Details and a comprehensive list of changes in methods and assumptions can be found in the 2012 and 2014 Experience Study for the System, which were published on September 18, 2013 and September 23, 2015. These reports can be found at:

http://www.oregon.gov/pers/Pages/section/financial_reports/mercereports.aspx.

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OTHER SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such schedules include:

- Budgetary Comparison - Park SDC Fund
- Combining Schedules – Nonmajor Governmental Funds
- Budgetary Comparison Schedules
- Budgetary Comparison Schedules – Enterprise Funds

COMBINING SCHEDULES

Nonmajor Governmental Funds

Special Revenue Funds

These funds account for revenue derived from specific taxes or other earmarked revenue sources, which are legally restricted to expenditures for specified purposes. Funds included in this category are:

Aquatic Center Fund

The Aquatic Center Fund accounts for revenue received from user fees collected at the pool, a park and rec fee and transfers from the General fund. The revenue received is used to fund the operations of the Aquatic Center.

TAP Grant Fund

The TAP Grant Fund accounts for Tourism Grant Program grants to the City received from Clackamas County.

Police Department Restricted Revenue Fund

The Police Department Restricted Revenue Fund accounts for revenues restricted to the police department. These funds are only to be used on expenditures for the police department as they are legally restricted.

Debt Service Fund

These funds are used to account for revenues and expenditures related to the servicing of general long-term debt:

Bonded Debt Fund

The Bonded Debt Fund accounts for the collection of special assessments and the payment of debt principal and interest on special assessment bonded debt.

Capital Projects Fund

These funds are used to account for financial resources to be used for the acquisition or construction of major capital items and facilities. The fund included in this category is:

Transportation SDC Fund

The Transportation SDC Fund accounts for revenues from the Transportation System Development Charges. These funds are used to pay for upgrade and expansion of the street systems.

CITY OF MOLALLA, OREGON
PARK SDC FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
System development charges	\$ 245,700	\$ 245,700	\$ 431,230	\$ 185,530
Total revenues	245,700	245,700	431,230	185,530
EXPENDITURES:				
Materials and service	50,000	50,000	-	50,000
Capital outlay	500,000	500,000	-	500,000
Total expenditures	550,000	550,000	-	550,000
Net changes in fund balances	(304,300)	(304,300)	431,230	735,530
FUND BALANCES, BEGINNING	569,817	569,817	947,630	377,813
FUND BALANCES, ENDING	<u>\$ 265,517</u>	<u>\$ 265,517</u>	<u>\$ 1,378,860</u>	<u>\$ 1,113,343</u>

**CITY OF MOLALLA, OREGON
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2016**

	Aquatic Center Fund	Police Department Restricted Revenue Fund	Bonded Debt Fund	Transportation SDC Fund	Total
ASSETS					
Cash and cash equivalents	\$ -	\$ 23,401	\$ 66,539	\$ 468,428	\$ 558,368
Total assets	<u>\$ -</u>	<u>\$ 23,401</u>	<u>\$ 66,539</u>	<u>\$ 468,428</u>	<u>\$ 558,368</u>
FUND BALANCES					
Restricted for:					
Debt service	\$ -	\$ -	\$ 66,539	\$ -	\$ 66,539
System development	-	-	-	468,428	468,428
Police department	-	23,401	-	-	23,401
Total fund balances	<u>-</u>	<u>23,401</u>	<u>66,539</u>	<u>468,428</u>	<u>558,368</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 23,401</u>	<u>\$ 66,539</u>	<u>\$ 468,428</u>	<u>\$ 558,368</u>

**CITY OF MOLALLA, OREGON
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2016**

	Aquatic Center Fund	Police Department Restricted Revenue Fund	Bonded Debt Fund	Transportation SDC Fund	Total
REVENUES:					
Property taxes	\$ -	\$ -	\$ 65,726	\$ -	\$ 65,726
Charges for services	294	-	-	-	294
Miscellaneous revenue	-	21,350	-	-	21,350
Contributions and donations	-	590	-	-	590
System development charges	-	-	-	433,458	433,458
Total revenues	294	21,940	65,726	433,458	521,418
EXPENDITURES:					
General government	-	32,404	-	-	32,404
Culture and recreation	357,460	-	-	-	357,460
Capital outlay	-	-	-	288,512	288,512
Debt service:					
Principal	-	-	60,000	-	60,000
Interest	-	-	5,713	-	5,713
Total expenditures	357,460	32,404	65,713	288,512	744,089
Revenues over (under) expenditures	(357,166)	(10,464)	13	144,946	(222,671)
OTHER FINANCING SOURCES (USES):					
Transfers in	345,000	-	-	-	345,000
Total other financing sources (uses)	345,000	-	-	-	345,000
Net change in fund balance	(12,166)	(10,464)	13	144,946	122,329
FUND BALANCES, BEGINNING	12,166	33,865	66,526	323,482	436,039
FUND BALANCES, ENDING	\$ -	\$ 23,401	\$ 66,539	\$ 468,428	\$ 558,368

BUDGETARY COMPARISON SCHEDULES

Pursuant to the provisions of Oregon Revised Statute, an individual schedule of revenues, expenditures, and changes in fund balances - budget and actual be displayed for each fund where legally adopted budgets are required.

Major Governmental Budgetary Comparison schedules not included in required supplemental information include the following:

- General Fund Schedule of Expenditures - Budgetary Basis

Nonmajor Governmental Budgetary Comparison schedules included the following:

- Special Revenue Funds
 - Aquatic Center Fund
 - TAP Grant Fund
 - Police Department Restricted Revenue Fund
- Debt Service Fund
 - Bonded Debt Fund
- Capital Project Fund
 - Transportation SDC Fund

CITY OF MOLALLA, OREGON
GENERAL FUND - BUDGETARY BASIS
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Original	Final		
Police operations:				
Personnel services	\$ 1,789,750	\$ 1,789,750	\$ 1,562,287	\$ 227,463
Materials and services	488,250	488,250	439,750	48,500
Capital outlay	55,000	55,000	58,619	(3,619)
Subtotal	2,333,000	2,333,000	2,060,656	272,344
Municipal court:				
Personnel services	141,650	141,650	143,045	(1,395)
Materials and services	93,200	93,200	71,078	22,122
Subtotal	234,850	234,850	214,123	20,727
Office of governance and management:				
Personnel services	517,500	572,500	511,371	61,129
Materials and services	323,800	323,800	279,759	44,041
Capital outlay	250,000	220,000	89,173	130,827
Subtotal	1,091,300	1,116,300	880,303	235,997
Total expenditures	\$ 3,659,150	\$ 3,684,150	\$ 3,155,082	\$ 529,068

CITY OF MOLALLA, OREGON
AQUATIC CENTER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ -	\$ -	\$ 294	\$ 294
Total revenues	-	-	294	294
EXPENDITURES:				
Personnel service	14,100	14,100	3,563	10,537
Materials and service	18,500	343,500	353,897	(10,397)
Total expenditures	32,600	357,600	357,460	140
Revenues over (under) expenditures	(32,600)	(357,600)	(357,166)	434
OTHER FINANCING SOURCES (USES):				
Transfers in	20,000	345,000	345,000	-
Total other financing sources (uses)	20,000	345,000	345,000	-
Net changes in fund balances	(12,600)	(12,600)	(12,166)	434
FUND BALANCES, BEGINNING	12,600	12,600	12,166	(434)
FUND BALANCES, ENDING	\$ -	\$ -	\$ -	\$ -

CITY OF MOLALLA, OREGON
TAP GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Grants	\$ 20,000	\$ 20,000	\$ -	\$ (20,000)
Total revenues	20,000	20,000	-	(20,000)
EXPENDITURES:				
Materials and service	20,000	20,000	-	20,000
Total expenditures	20,000	20,000	-	20,000
Net changes in fund balances	-	-	-	-
FUND BALANCES, BEGINNING	-	-	-	-
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MOLALLA, OREGON
POLICE DEPARTMENT RESTRICTED REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Miscellaneous revenue	\$ 19,000	\$ 19,000	\$ 21,350	\$ 2,350
Contributions and donations	1,580	1,580	590	(990)
Total revenues	<u>20,580</u>	<u>20,580</u>	<u>21,940</u>	<u>1,360</u>
EXPENDITURES:				
Materials and service	<u>57,453</u>	<u>57,453</u>	<u>32,404</u>	<u>25,049</u>
Total expenditures	<u>57,453</u>	<u>57,453</u>	<u>32,404</u>	<u>25,049</u>
Net change in fund balance	(36,873)	(36,873)	(10,464)	26,409
FUND BALANCES, BEGINNING BUDGETARY BASIS	<u>36,873</u>	<u>36,873</u>	<u>33,865</u>	<u>(3,008)</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,401</u>	<u>\$ 23,401</u>

CITY OF MOLALLA, OREGON
BONDED DEBT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 65,726	\$ 65,726	\$ 65,726	\$ -
Total revenues	65,726	65,726	65,726	-
EXPENDITURES:				
Debt service:				
Principal	60,000	60,000	60,000	-
Interest	6,463	6,463	5,713	750
Total expenditures	66,463	66,463	65,713	750
Net changes in fund balances	(737)	(737)	13	750
FUND BALANCES, BEGINNING	65,701	65,701	66,526	825
FUND BALANCES, ENDING	\$ 64,964	\$ 64,964	\$ 66,539	\$ 1,575

**CITY OF MOLALLA, OREGON
TRANSPORTATION SDC FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016**

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
System development charges	\$ 142,290	\$ 142,290	\$ 433,458	\$ 291,168
Total revenues	142,290	142,290	433,458	291,168
EXPENDITURES:				
Materials and service	10,000	10,000	-	10,000
Capital outlay	250,000	250,000	288,512	(38,512)
Total expenditures	260,000	260,000	288,512	(28,512)
Net changes in fund balances	(117,710)	(117,710)	144,946	262,656
FUND BALANCE, BEGINNING	365,099	365,099	323,482	(41,617)
FUND BALANCE, ENDING	\$ 247,389	\$ 247,389	\$ 468,428	\$ 221,039

BUDGETARY COMPARISON SCHEDULES

Enterprise Funds

Pursuant to the provisions of Oregon Revised Statute, an individual schedule of revenues, expenditures, and changes in fund balances - budget and actual be displayed for each fund where legally adopted budgets are required.

Enterprise Budgetary Comparison schedules include the following:

- Water Operations
 - Water Fund
 - Water SDC Fund
 - Water Debt Retirement
 - Utility Deposits

- Sewer Operations
 - Sewer Fund
 - Sewer SDC Fund
 - Sewer Debt Retirement
 - CWSRF Fund

- Storm Water Operations
 - Storm Water Fund
 - Storm Water SDC Fund

CITY OF MOLALLA, OREGON
WATER OPERATIONS COMBINED
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2016

	<u>Water Fund</u>	<u>Water SDC Fund</u>	<u>Water Debt Retirement</u>	<u>Utility Deposits</u>	<u>Total Water Operations</u>
REVENUES:					
Charges for services	\$ 1,455,791	\$ -	\$ -	\$ 25,673	\$ 1,481,464
Miscellaneous revenue	7,567	-	-	-	7,567
System development charges	-	559,055	-	-	559,055
	<u>1,463,358</u>	<u>559,055</u>	<u>-</u>	<u>25,673</u>	<u>2,048,086</u>
Total revenues					
EXPENDITURES:					
Personnel service	528,680	-	-	-	528,680
Materials and service	421,837	5,105	-	15,769	442,711
Capital outlay	128,756	65,905	-	-	194,661
Debt service:					
Principal	-	-	310,000	-	310,000
Interest	-	-	24,600	-	24,600
	<u>1,079,273</u>	<u>71,010</u>	<u>334,600</u>	<u>15,769</u>	<u>1,500,652</u>
Total expenditures					
Revenues over (under) expenditures	<u>384,085</u>	<u>488,045</u>	<u>(334,600)</u>	<u>9,904</u>	<u>547,434</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	250,000	-	250,000
Transfers out	(250,000)	-	-	-	(250,000)
	<u>(250,000)</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)					
Net change in fund balance	134,085	488,045	(84,600)	9,904	547,434
FUND BALANCES, BEGINNING					
BUDGETARY BASIS	<u>670,172</u>	<u>1,501,547</u>	<u>485,295</u>	<u>1,036</u>	<u>2,658,050</u>
FUND BALANCES, ENDING					
BUDGETARY BASIS	<u>\$ 804,257</u>	<u>\$ 1,989,592</u>	<u>\$ 400,695</u>	<u>\$ 10,940</u>	3,205,484
Accounts receivable					165,944
Accounts payable					(9,604)
Deposits					(10,940)
Capital assets					5,346,312
Accrued interest payable					(6,281)
Long-term debt					(665,000)
Compensated absences					(18,628)
Net pension liability					(106,104)
Deferred outflow related to pension					46,605
Deferred inflows related to pension					(24,153)
NET POSITION, ENDING					<u>\$ 7,923,635</u>

CITY OF MOLALLA, OREGON
WATER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 1,477,000	\$ 1,477,000	\$ 1,455,791	\$ (21,209)
Miscellaneous revenue	3,000	3,000	7,567	4,567
Total revenues	<u>1,480,000</u>	<u>1,480,000</u>	<u>1,463,358</u>	<u>(16,642)</u>
EXPENDITURES:				
Personnel service	521,650	521,650	528,680	(7,030)
Materials and service	585,750	585,750	421,837	163,913
Capital outlay	232,000	232,000	128,756	103,244
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>1,439,400</u>	<u>1,439,400</u>	<u>1,079,273</u>	<u>360,127</u>
Revenues over (under) expenditures	<u>40,600</u>	<u>40,600</u>	<u>384,085</u>	<u>343,485</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>-</u>
Net change in fund balance	<u>(209,400)</u>	<u>(209,400)</u>	<u>134,085</u>	<u>343,485</u>
FUND BALANCE, BEGINNING BUDGETARY BASIS	<u>615,875</u>	<u>615,875</u>	<u>670,172</u>	<u>54,297</u>
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ 406,475</u>	<u>\$ 406,475</u>	<u>\$ 804,257</u>	<u>\$ 397,782</u>

CITY OF MOLALLA, OREGON
WATER SDC FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
System development charges	\$ 159,750	\$ 159,750	\$ 559,055	\$ 399,305
Total revenues	159,750	159,750	559,055	399,305
EXPENDITURES:				
Materials and service	25,000	25,000	5,105	19,895
Capital outlay	1,000,000	1,000,000	65,905	934,095
Total expenditures	1,025,000	1,025,000	71,010	953,990
Net change in fund balance	(865,250)	(865,250)	488,045	1,353,295
FUND BALANCE, BEGINNING BUDGETARY BASIS	1,427,647	1,427,647	1,501,547	73,900
FUND BALANCE, ENDING BUDGETARY BASIS	\$ 562,397	\$ 562,397	\$ 1,989,592	\$ 1,427,195

**CITY OF MOLALLA, OREGON
WATER DEBT RETIREMENT
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
EXPENDITURES:				
Debt service:				
Principal	\$ 310,000	\$ 310,000	\$ 310,000	\$ -
Interest	29,250	29,250	24,600	4,650
	<u>339,250</u>	<u>339,250</u>	<u>334,600</u>	<u>4,650</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Net changes in fund balances	(89,250)	(89,250)	(84,600)	4,650
FUND BALANCE, BEGINNING BUDGETARY BASIS	<u>480,170</u>	<u>480,170</u>	<u>485,295</u>	<u>5,125</u>
FUND BALANCE, ENDING BUDGETARY BASIS	<u><u>\$ 390,920</u></u>	<u><u>\$ 390,920</u></u>	<u><u>\$ 400,695</u></u>	<u><u>\$ 9,775</u></u>

CITY OF MOLALLA, OREGON
UTILITY DEPOSITS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 10,000	\$ 10,000	\$ 25,673	\$ 15,673
Total revenues	10,000	10,000	25,673	15,673
EXPENDITURES:				
Materials and service	14,130	14,130	15,769	(1,639)
Total expenditures	14,130	14,130	15,769	(1,639)
Net changes in fund balances	(4,130)	(4,130)	9,904	14,034
FUND BALANCE, BEGINNING BUDGETARY BASIS	4,130	4,130	1,036	(3,094)
FUND BALANCE, ENDING BUDGETARY BASIS	\$ -	\$ -	\$ 10,940	\$ 10,940

**CITY OF MOLALLA, OREGON
SEWER OPERATIONS COMBINED
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2016**

	Sewer Fund	Sewer SDC Fund	Sewer Debt Retirement	CWSRF Fund	Total Sewer Operations
REVENUES:					
Charges for services	\$ 1,891,277	\$ -	\$ -	\$ -	\$ 1,891,277
Miscellaneous revenue	29,472	-	-	-	29,472
System development charges	-	802,780	-	-	802,780
Total revenues	1,920,749	802,780	-	-	2,723,529
EXPENDITURES:					
Personnel service	457,592	-	-	-	457,592
Materials and service	1,128,893	2,065	-	9,364	1,140,322
Capital outlay	164,126	-	-	-	164,126
Debt service:					
Principal	-	-	220,000	125,301	345,301
Interest	-	-	98,900	53,313	152,213
Total expenditures	1,750,611	2,065	318,900	187,978	2,259,554
Revenues over (under) expenditures	170,138	800,715	(318,900)	(187,978)	463,975
OTHER FINANCING SOURCES (USES):					
Transfers in	200,000	-	315,929	187,343	703,272
Transfers out	(315,929)	(187,343)	-	-	(503,272)
Total other financing sources (uses)	(115,929)	(187,343)	315,929	187,343	200,000
Net change in fund balance	54,209	613,372	(2,971)	(635)	663,975
FUND BALANCES, BEGINNING BUDGETARY BASIS					
	403,415	238,034	318,021	187,978	1,147,448
FUND BALANCES, ENDING BUDGETARY BASIS					
	<u>\$ 457,624</u>	<u>\$ 851,406</u>	<u>\$ 315,050</u>	<u>\$ 187,343</u>	<u>1,811,423</u>
Accounts receivable					229,229
Accounts payable					(22,762)
Capital assets					6,973,925
Accrued interest payable					(31,171)
Long-term debt					(4,154,810)
Compensated absences					(19,174)
Net pension liability					(109,214)
Deferred outflow related to pension					47,971
Deferred inflows related to pension					(24,861)
NET POSITION, ENDING					<u>\$ 4,700,556</u>

CITY OF MOLALLA, OREGON
SEWER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 1,602,000	\$ 1,602,000	\$ 1,891,277	\$ 289,277
Miscellaneous revenue	2,500	2,500	29,472	26,972
Total revenues	<u>1,604,500</u>	<u>1,604,500</u>	<u>1,920,749</u>	<u>316,249</u>
EXPENDITURES:				
Personnel service	482,330	482,330	457,592	24,738
Materials and service	888,850	1,175,590	1,128,893	46,697
Capital outlay	160,500	160,500	164,126	(3,626)
Contingency	100,000	-	-	-
Total expenditures	<u>1,631,680</u>	<u>1,818,420</u>	<u>1,750,611</u>	<u>67,809</u>
Revenues over (under) expenditures	<u>(27,180)</u>	<u>(213,920)</u>	<u>170,138</u>	<u>384,058</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	200,000	200,000	-
Transfers out	(315,929)	(315,929)	(315,929)	-
Total other financing sources (uses)	<u>(315,929)</u>	<u>(115,929)</u>	<u>(115,929)</u>	<u>-</u>
Net change in fund balance	(343,109)	(329,849)	54,209	384,058
FUND BALANCE, BEGINNING BUDGETARY BASIS	<u>416,675</u>	<u>416,675</u>	<u>403,415</u>	<u>(13,260)</u>
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ 73,566</u>	<u>\$ 86,826</u>	<u>\$ 457,624</u>	<u>\$ 370,798</u>

CITY OF MOLALLA, OREGON
SEWER SDC FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
System development charges	\$ 202,950	\$ 202,950	\$ 802,780	\$ 599,830
Total revenues	202,950	202,950	802,780	599,830
EXPENDITURES:				
Materials and service	10,000	10,000	2,065	7,935
Total expenditures	10,000	10,000	2,065	7,935
Revenues over (under) expenditures	192,950	192,950	800,715	607,765
OTHER FINANCING SOURCES (USES):				
Transfers out	(187,343)	(187,343)	(187,343)	-
Total other financing sources (uses)	(187,343)	(187,343)	(187,343)	-
Net change in fund balance	5,607	5,607	613,372	607,765
FUND BALANCE, BEGINNING BUDGETARY BASIS	147,834	147,834	238,034	90,200
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ 153,441</u>	<u>\$ 153,441</u>	<u>\$ 851,406</u>	<u>\$ 697,965</u>

**CITY OF MOLALLA, OREGON
SEWER DEBT RETIREMENT
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
EXPENDITURES:				
Debt service:				
Principal	\$ 220,000	\$ 220,000	\$ 220,000	\$ -
Interest	98,150	98,150	98,900	(750)
	<u>318,150</u>	<u>318,150</u>	<u>318,900</u>	<u>(750)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>315,929</u>	<u>315,929</u>	<u>315,929</u>	<u>-</u>
	<u>315,929</u>	<u>315,929</u>	<u>315,929</u>	<u>-</u>
Net changes in fund balances	(2,221)	(2,221)	(2,971)	(750)
FUND BALANCE, BEGINNING BUDGETARY BASIS	<u>318,771</u>	<u>318,771</u>	<u>318,021</u>	<u>(750)</u>
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ 316,550</u>	<u>\$ 316,550</u>	<u>\$ 315,050</u>	<u>\$ (1,500)</u>

CITY OF MOLALLA, OREGON
CWSRF FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
EXPENDITURES:				
Materials and service	\$ -	\$ -	\$ 9,364	\$ (9,364)
Debt service:				
Principal	125,301	125,301	125,301	-
Interest	<u>62,677</u>	<u>62,677</u>	<u>53,313</u>	<u>9,364</u>
Total expenditures	<u>187,978</u>	<u>187,978</u>	<u>187,978</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>187,343</u>	<u>187,343</u>	<u>187,343</u>	<u>-</u>
Total other financing sources (uses)	<u>187,343</u>	<u>187,343</u>	<u>187,343</u>	<u>-</u>
Net changes in fund balances	(635)	(635)	(635)	-
FUND BALANCE, BEGINNING BUDGETARY BASIS	<u>187,978</u>	<u>187,978</u>	<u>187,978</u>	<u>-</u>
FUND BALANCE, ENDING BUDGETARY BASIS	<u>\$ 187,343</u>	<u>\$ 187,343</u>	<u>\$ 187,343</u>	<u>\$ -</u>

CITY OF MOLALLA, OREGON
STORM WATER OPERATIONS COMBINED
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2016

	Storm Water Fund	Storm Water SDC Fund	Total Storm Water Operations
REVENUES:			
Charges for services	\$ 105,507	\$ -	\$ 105,507
System development charges	-	130,375	130,375
Total revenues	<u>105,507</u>	<u>130,375</u>	<u>235,882</u>
EXPENDITURES:			
Personnel service	54,317	-	54,317
Materials and service	34,341	-	34,341
Capital outlay	<u>18,757</u>	<u>199,624</u>	<u>218,381</u>
Total expenditures	<u>107,415</u>	<u>199,624</u>	<u>307,039</u>
Net change in fund balance	(1,908)	(69,249)	(71,157)
FUND BALANCES, BEGINNING BUDGETARY BASIS	<u>53,150</u>	<u>203,934</u>	<u>257,084</u>
FUND BALANCES, ENDING BUDGETARY BASIS	<u><u>\$ 51,242</u></u>	<u><u>\$ 134,685</u></u>	185,927
Accounts receivable			16,838
Capital assets			536,066
Compensated absences			(2,816)
Net pension liability			(16,043)
Deferred outflow related to pension			7,046
Deferred inflows related to pension			<u>(3,652)</u>
NET POSITION, ENDING			<u><u>\$ 723,366</u></u>

CITY OF MOLALLA, OREGON
STORM WATER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 95,000	\$ 95,000	\$ 105,507	\$ 10,507
Total revenues	95,000	95,000	105,507	10,507
EXPENDITURES:				
Personnel service	54,800	54,800	54,317	483
Materials and service	44,800	44,800	34,341	10,459
Capital outlay	20,000	20,000	18,757	1,243
Contingency	15,000	15,000	-	15,000
Total expenditures	134,600	134,600	107,415	27,185
Net change in fund balance	(39,600)	(39,600)	(1,908)	37,692
FUND BALANCE, BEGINNING BUDGETARY BASIS	39,722	39,722	53,150	13,428
FUND BALANCE, ENDING BUDGETARY BASIS	\$ 122	\$ 122	\$ 51,242	\$ 51,120

CITY OF MOLALLA, OREGON
STORM WATER SDC FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
System development charges	\$ 33,525	\$ 33,525	\$ 130,375	\$ 96,850
Total revenues	33,525	33,525	130,375	96,850
EXPENDITURES:				
Materials and service	10,000	10,000	-	10,000
Capital outlay	150,000	150,000	199,624	(49,624)
Total expenditures	160,000	160,000	199,624	(39,624)
Net change in fund balance	(126,475)	(126,475)	(69,249)	57,226
FUND BALANCE, BEGINNING BUDGETARY BASIS	181,269	181,269	203,934	22,665
FUND BALANCE, ENDING BUDGETARY BASIS	\$ 54,794	\$ 54,794	\$ 134,685	\$ 79,891

**INDEPENDENT AUDITOR'S REPORT REQUIRED
BY OREGON STATE REGULATION**

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATION**

We have audited the basic financial statements of the City of Molalla, Oregon (the City), as of and for the year ended June 30, 2016 and have issued our report thereon dated March 13, 2017. 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'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 the Oregon Administrative Rules 162-10-000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- 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, and 279C).
- Accountability for collecting or receiving money by elected officials. The City does not have any elected officials collecting or receiving money.

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 the Oregon Administrative Rules 162-10-000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations* except as follows:

Expenditures in the following funds exceeded appropriations for the year ended June 30, 2016:

<u>Fund</u>	<u>Budget Category</u>	<u>Amount of Over Expenditure</u>
General Fund: Police Operations	Capital outlay	\$3,619
General Fund: Municipal Court	Personnel service	\$1,395
Aquatic Center Fund	Materials and service	\$10,397
Transportation SDC Fund	Capital outlay	\$38,512
Water Fund	Personnel service	\$7,030
Sewer Fund	Capital outlay	\$3,626
Storm Water SDC Fund	Capital outlay	\$49,624
Utility Deposits Fund	Materials and service	\$1,639

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Merina & Company, LLP
West Linn, Oregon
March 13, 2017