

**CITY OF MOLALLA**

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED

JUNE 30, 2017

WITH

INDEPENDENT AUDITOR'S REPORT

**CITY OF MOLALLA, OREGON  
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## MAYOR AND CITY COUNCIL

### NAME

### TERM EXPIRES

#### **Mayor**

Jimmy Thompson

December 2020

#### **Councilors:**

Leota Childress

December 2018

Glen Boreth

December 2018

Elizabeth Klein

December 2018

Keith Swigart

December 2020

DeLise Palumbo

December 2020

Cindy Dragowsky

December 2020

## CITY STAFF

#### **City Manager**

Dan Huff

#### **Finance Director**

Chaunee Seifried

## MAILING ADDRESS

PO Box 248

Molalla, Oregon 97038

## **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 City of Molalla, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Molalla, Oregon's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 City of Molalla, Oregon, as of June 30, 2017, 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 the required supplementary information, such as management's discussion and analysis and schedule of revenues, expenditures and changes in fund balance – budget and actual, as listed in the table of contents under required supplementary information, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 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 City of Molalla, Oregon'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 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, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

## **Reports on Other Legal and Regulatory Requirements**

### **Other Reporting Required by Oregon Minimum Standards**

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated January 4, 2018, on our consideration of City of Molalla, Oregon'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.

A handwritten signature in black ink, appearing to read "Lonze M. M.", written in a cursive style.

For Merina & Company, LLP  
West Linn, Oregon  
January 4, 2018

**CITY OF MOLALLA, OREGON**  
**Management's Discussion and Analysis**  
**JUNE 30, 2017**

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, 2017. 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 \$38,900,703 at June 30, 2017 and consisted of \$11,933,317 in cash and cash equivalents; \$818,677 in accounts receivable and other assets; and \$26,148,709 in capital assets.

Net position was \$30,341,994 at June 30, 2017 compared to \$28,878,358 at June 30, 2016 year end.

As of June 30, 2017, the City had \$7,289,362 in outstanding bonds, notes payable and accrued compensated absences.

The City's net position increased by \$1,463,636 from June 30, 2016, 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 2017 totaled \$26,148,709 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 financed 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 \$30,341,994 at the close of the most recent fiscal year.

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

	2017			2016		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
<b>Assets</b>						
Current assets	\$ 6,818,735	\$ 5,933,259	\$ 12,751,994	\$ 7,266,581	\$ 5,614,845	\$ 12,881,426
Capital assets	11,773,486	14,375,223	26,148,709	12,013,640	12,856,303	24,869,943
Total assets	18,592,221	20,308,482	38,900,703	19,280,221	18,471,148	37,751,369
Deferred outflows of resources	1,031,424	352,511	1,383,935	316,206	101,622	417,828
<b>Liabilities</b>						
Current liabilities	35,960	121,002	156,962	25,949	80,758	106,707
Long-term liabilities	2,966,993	4,322,369	7,289,362	3,155,901	4,860,428	8,016,329
Net pension liability	1,848,846	631,883	2,480,729	719,902	231,361	951,263
Total liabilities	4,851,799	5,075,254	9,927,053	3,901,752	5,172,547	9,074,299
Deferred inflows of resources	11,620	3,971	15,591	163,874	52,666	216,540
<b>Net position</b>						
Net investment in capital assets	8,658,502	10,103,432	18,761,934	8,731,352	8,036,493	16,767,845
Restricted	3,511,668	2,703,957	6,215,625	4,445,288	3,022,290	7,467,578
Unrestricted	2,590,056	2,774,379	5,364,435	2,354,161	2,288,774	4,642,935
Total net position	\$ 14,760,226	\$ 15,581,768	\$ 30,341,994	\$ 15,530,801	\$ 13,347,557	\$ 28,878,358

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 \$6,215,625 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$5,364,435 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:

	2017			2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for services	\$ 1,088,030	\$ 4,432,507	\$ 5,520,537	\$ 1,615,091	\$ 5,007,629	\$ 6,622,720
Operating grants	15,489	-	15,489	5,576	-	5,576
<b>General Revenues</b>						
Property taxes	3,148,271	-	3,148,271	3,072,480	-	3,072,480
Other taxes	2,160,370	-	2,160,370	1,832,853	-	1,832,853
Other revenues	196,965	44,841	241,806	119,305	37,039	156,344
<b>Total Revenues</b>	<b>6,609,125</b>	<b>4,477,348</b>	<b>11,086,473</b>	<b>6,645,305</b>	<b>5,044,668</b>	<b>11,689,973</b>
<b>Expenses</b>						
<b>Governmental</b>						
General government	\$ 1,635,670	\$ -	\$ 1,635,670	\$ 1,361,581	\$ -	\$ 1,361,581
Public safety	2,548,515	-	2,548,515	2,550,779	-	2,550,779
Highways and streets	1,535,395	-	1,535,395	1,495,701	-	1,495,701
Culture and recreation	663,121	-	663,121	2,761,986	-	2,761,986
Community development	138,463	-	138,463	180,315	-	180,315
Interest long-term debt	75,892	-	75,892	103,971	-	103,971
<b>Business-Type</b>						
Water	-	910,285	910,285	-	1,359,442	1,359,442
Sewer	-	2,091,846	2,091,846	-	2,085,566	2,085,566
Storm water	-	116,548	116,548	-	329,046	329,046
<b>Total expenses</b>	<b>6,597,056</b>	<b>3,118,679</b>	<b>9,715,735</b>	<b>8,454,333</b>	<b>3,774,054</b>	<b>12,228,387</b>
Transfers	(782,644)	782,644	-	(121,034)	121,034	-
Change in Net Position	(770,575)	2,141,313	1,370,738	(1,930,062)	1,391,648	(538,414)
Net Position July, 1	15,530,801	13,347,557	28,878,358	17,460,863	11,955,909	29,416,772
Prior period adjustment	-	92,898	92,898	-	-	-
<b>Net Position--June 30</b>	<b>\$ 14,760,226</b>	<b>\$ 15,581,768</b>	<b>\$ 30,341,994</b>	<b>\$ 15,530,801</b>	<b>\$ 13,347,557</b>	<b>\$ 28,878,358</b>

**Governmental Activities.** Governmental activities decreased the City of Molalla's net position by \$770,575. 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 \$2,141,313. This is primarily due to a decrease in operating expenses.

## **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 \$6,482,456.

**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 \$57,580 more than what was budgeted mostly due to higher property taxes than expected.

The General Fund spent \$362,669 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				
	2017	2016	2017	2016	2017	2016	
Land	\$ 1,489,291	\$ 1,489,291	\$ 727,511	\$ 727,511	\$ 2,216,802	\$ 2,216,802	\$ -
Construction in Progress	-	1,981,489	-	-	-	1,981,489	(1,981,489)
Land improvement	174,475	188,911	8,519	9,829	182,994	198,740	(15,746)
Buildings	2,920,271	335,720	3,374,586	1,800,844	6,294,857	2,136,564	4,158,293
Infrastructure	6,993,600	7,821,582	9,354,972	9,590,901	16,348,572	17,412,483	(1,063,911)
Machinery and Equipment	134,781	117,788	663,161	716,314	797,942	834,102	(36,160)
Vehicles	61,068	78,859	246,474	10,904	307,542	89,763	217,779
Total	\$11,773,486	\$12,013,640	\$14,375,223	\$12,856,303	\$26,148,709	\$24,869,943	\$ 1,278,766

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, 2017, the City had bonded debt outstanding of \$5,279,002 compared to \$6,039,514 at June 30, 2016.

	Government		Business		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Bonds payable	\$ 2,515,000	\$ 2,700,000	\$ 2,460,000	\$ 3,010,000	\$ 4,975,000	\$ 5,710,000
Bond premium	304,002	329,514	-	-	304,002	329,514
Notes payable	-	-	1,811,791	2,003,292	1,811,791	2,003,292
Compensated absences	147,991	126,387	50,578	40,618	198,569	167,005
Total	\$ 2,966,993	\$ 3,155,901	\$ 4,322,369	\$ 5,053,910	\$ 7,289,362	\$ 8,209,811

### **Economic Factors and Next Year’s Budget**

Fiscal year 2016/2017 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 2017/2018 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**

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, 2017**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 6,437,479	\$ 5,495,838	\$ 11,933,317
Accounts receivable, net	181,755	437,421	619,176
Property taxes receivable	187,671	-	187,671
Due from other governments	11,830	-	11,830
Capital Assets:			
Non-depreciable	1,489,291	727,511	2,216,802
Depreciable	10,284,195	13,647,712	23,931,907
 Total assets	 <u>18,592,221</u>	 <u>20,308,482</u>	 <u>38,900,703</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred outflows related to pensions	<u>1,031,424</u>	<u>352,511</u>	<u>1,383,935</u>
 Total asset & deferred outflows of resources	 <u><u>\$ 19,623,645</u></u>	 <u><u>\$ 20,660,993</u></u>	 <u><u>\$ 40,284,638</u></u>
<b>LIABILITIES:</b>			
Accounts payable	\$ 15,066	\$ 49,973	\$ 65,039
Deposits	-	17,405	17,405
Accrued payroll	12,902		12,902
Accrued interest payable	7,992	53,624	61,616
Current portion of long-term debt	303,905	807,405	1,111,310
Non-current portion of long-term debt	2,663,088	3,514,964	6,178,052
Net pension liability	1,848,846	631,883	2,480,729
 Total liabilities	 <u>4,851,799</u>	 <u>5,075,254</u>	 <u>9,927,053</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred inflows related to pensions	<u>11,620</u>	<u>3,971</u>	<u>15,591</u>
<b>NET POSITION:</b>			
Net Investment in capital assets	8,658,502	10,103,432	18,761,934
Restricted for:			
Debt service	65,714	46,607	112,321
System development	2,082,916	2,657,350	4,740,266
Urban renewal projects	748,794	-	748,794
Highways and streets	584,288	-	584,288
Police department	29,956	-	29,956
Unrestricted	2,590,056	2,774,379	5,364,435
 Total net position	 <u>14,760,226</u>	 <u>15,581,768</u>	 <u>30,341,994</u>
 Total liabilities, deferred inflows of resources and net position	 <u><u>\$ 19,623,645</u></u>	 <u><u>\$ 20,660,993</u></u>	 <u><u>\$ 40,284,638</u></u>

*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, 2017**

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	\$ 1,635,670	\$ 700,437	\$ 2,676	\$ -	\$ (932,557)	\$ -	\$ (932,557)
Public safety	2,548,515	-	7,795	-	(2,540,720)	-	(2,540,720)
Highways and streets	1,535,395	154,094	-	-	(1,381,301)	-	(1,381,301)
Culture and recreation	663,121	19,800	5,018	-	(638,303)	-	(638,303)
Community Development	138,463	213,699	-	-	75,236	-	75,236
Interest on long-term debt	75,892	-	-	-	(75,892)	-	(75,892)
Total governmental activities	6,597,056	1,088,030	15,489	-	(5,493,537)	-	(5,493,537)
Business type activities:							
Water Operations	910,285	1,815,514	-	-	-	905,229	905,229
Sewer Operations	2,091,846	2,418,392	-	-	-	326,546	326,546
Storm Water Operations	116,548	198,601	-	-	-	82,053	82,053
Total business type activities	3,118,679	4,432,507	-	-	-	1,313,828	1,313,828
Total government	\$ 9,715,735	\$ 5,520,537	\$ 15,489	\$ -	(5,493,537)	1,313,828	(4,179,709)
General revenues:							
Taxes:							
Property taxes					3,148,271	-	3,148,271
Public Service taxes and state revenue sharing					1,759,103	-	1,759,103
Franchise taxes					401,267	-	401,267
Interest and investment earnings					121,451	-	121,451
Miscellaneous revenues					75,514	44,841	120,355
Transfers in (out)					(782,644)	782,644	-
Total general revenues and transfers					4,722,962	827,485	5,550,447
Change in net position					(770,575)	2,141,313	1,370,738
Net position - beginning					15,530,801	13,347,557	28,878,358
Prior period adjustment					-	92,898	92,898
Net position - ending					\$ 14,760,226	\$ 15,581,768	\$ 30,341,994

*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, 2017**

	General Fund	Library Fund	Street Fund	Urban Renewal Agency Fund	Park SDC Fund	Total Nonmajor Funds	Total Governmental
<b>ASSETS:</b>							
Cash and cash equivalents	\$ 1,391,196	\$ 1,533,338	\$ 586,859	\$ 747,500	\$ 1,476,441	\$ 702,145	\$ 6,437,479
Accounts receivable	181,755	-	-	-	-	-	181,755
Property taxes receivable	170,021	-	-	17,650	-	-	187,671
Due from other governments	11,287	-	-	543	-	-	11,830
<b>Total assets</b>	<b>\$ 1,754,259</b>	<b>\$ 1,533,338</b>	<b>\$ 586,859</b>	<b>\$ 765,693</b>	<b>\$ 1,476,441</b>	<b>\$ 702,145</b>	<b>\$ 6,818,735</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>							
<b>LIABILITIES:</b>							
Accounts payable	\$ 8,564	\$ 3,931	\$ 2,571	\$ -	\$ -	\$ -	\$ 15,066
Accrued payroll	12,902	-	-	-	-	-	12,902
<b>Total liabilities</b>	<b>21,466</b>	<b>3,931</b>	<b>2,571</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,968</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable revenue - franchise fees	90,240	-	-	-	-	-	90,240
Unavailable revenue - property taxes	163,496	-	-	16,899	-	-	180,395
Unavailable revenue - municipal court	37,676	-	-	-	-	-	37,676
<b>Total deferred inflows of resources</b>	<b>291,412</b>	<b>-</b>	<b>-</b>	<b>16,899</b>	<b>-</b>	<b>-</b>	<b>308,311</b>
<b>FUND BALANCES:</b>							
Restricted for:							
Debt service	-	-	-	-	-	65,714	65,714
System development	-	-	-	-	1,476,441	606,475	2,082,916
Urban renewal projects	-	-	-	748,794	-	-	748,794
Highways and streets	-	-	584,288	-	-	-	584,288
Police department	-	-	-	-	-	29,956	29,956
Committed to:							
Library	-	1,529,407	-	-	-	-	1,529,407
Unassigned	1,441,381	-	-	-	-	-	1,441,381
<b>Total fund balances</b>	<b>1,441,381</b>	<b>1,529,407</b>	<b>584,288</b>	<b>748,794</b>	<b>1,476,441</b>	<b>702,145</b>	<b>6,482,456</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,754,259</b>	<b>\$ 1,533,338</b>	<b>\$ 586,859</b>	<b>\$ 765,693</b>	<b>\$ 1,476,441</b>	<b>\$ 702,145</b>	

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.	11,773,486
Pension related changes	(829,042)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	308,311
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	(2,966,993)
Interest payable	(7,992)
<b>Net position of governmental activities</b>	<b>\$ 14,760,226</b>

*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, 2017**

	General Fund	Library Fund	Street Fund	Urban Renewal Agency Fund	Park SDC Fund	Total Nonmajor Funds	Total Governmental
<b>REVENUES:</b>							
Property taxes	\$ 2,727,922	\$ -	\$ -	\$ 345,526	\$ -	\$ 67,338	\$ 3,140,786
Franchise fees	133,974	-	228,678	-	-	-	362,652
Licenses, permits and fees	24,835	-	40,033	-	-	-	64,868
Intergovernmental	364,281	839,950	567,492	-	-	-	1,771,723
Grants	2,676	3,866	-	-	-	-	6,542
Fines and forfeitures	-	16,921	-	-	-	-	16,921
Charges for services	635,569	2,879	-	-	-	-	638,448
Interest revenue	120,566	-	-	885	-	-	121,451
Miscellaneous revenue	58,823	2,742	13,949	-	-	-	75,514
Contributions and donations	-	1,152	-	-	-	7,795	8,947
System development charges	-	-	-	-	213,699	154,094	367,793
<b>Total revenues</b>	<b>4,068,646</b>	<b>867,510</b>	<b>850,152</b>	<b>346,411</b>	<b>213,699</b>	<b>229,227</b>	<b>6,575,645</b>
<b>EXPENDITURES:</b>							
Current:							
General government	890,647	-	-	-	19,769	1,240	911,656
Public safety	2,395,215	-	-	-	-	-	2,395,215
Highways and streets	-	-	626,272	-	-	16,047	642,319
Culture and recreation	-	628,401	-	-	-	-	628,401
Community development	-	-	-	116,878	-	-	116,878
Capital outlay	474,403	105,701	47,614	1,362,042	96,349	-	2,086,109
Debt service:							
Principal	-	-	-	120,000	-	65,000	185,000
Interest	-	-	-	98,735	-	3,163	101,898
<b>Total expenditures</b>	<b>3,760,265</b>	<b>734,102</b>	<b>673,886</b>	<b>1,697,655</b>	<b>116,118</b>	<b>85,450</b>	<b>7,067,476</b>
Net changes in fund balances	308,381	133,408	176,266	(1,351,244)	97,581	143,777	(491,831)
<b>FUND BALANCES, BEGINNING</b>	<b>1,133,000</b>	<b>1,395,999</b>	<b>408,022</b>	<b>2,100,038</b>	<b>1,378,860</b>	<b>558,368</b>	<b>6,974,287</b>
<b>FUND BALANCES, ENDING</b>	<b>\$ 1,441,381</b>	<b>\$ 1,529,407</b>	<b>\$ 584,288</b>	<b>\$ 748,794</b>	<b>\$ 1,476,441</b>	<b>\$ 702,145</b>	<b>\$ 6,482,456</b>

*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, 2017**

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Amounts reported in the statement of activities are different because:

Net change in fund balances		\$ (491,831)
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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.		(261,472)
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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	(916,006)	
Capital asset additions	675,852	
		(240,154)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net position.

Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds.		33,480
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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	188,908	
Accrued interest expense	494	
		189,402

Change in net position of governmental activities		\$ <u><u>(770,575)</u></u>
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*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.

**CITY OF MOLALLA, OREGON**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
**June 30, 2017**

	Business-Type Activities - Enterprise Funds			
	Water Operations	Sewer Operations	Storm Water Operations	Total
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 3,311,530	\$ 2,029,725	\$ 154,583	\$ 5,495,838
Accounts receivable, net	188,837	233,982	14,602	437,421
Total current assets	3,500,367	2,263,707	169,185	5,933,259
Noncurrent assets:				
Capital assets, net	5,797,530	7,053,419	1,524,274	14,375,223
Total assets	9,297,897	9,317,126	1,693,459	20,308,482
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Deferred amounts related to pension	156,053	176,994	19,464	352,511
Total asset & deferred outflows of resources	<u>\$ 9,453,950</u>	<u>\$ 9,494,120</u>	<u>\$ 1,712,923</u>	<u>\$ 20,660,993</u>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable	\$ 14,489	\$ 35,484	\$ -	\$ 49,973
Accrued interest payable	25,199	28,425	-	53,624
Current accrued compensated absences	20,315	17,913	2,234	40,462
Deposits	17,405	-	-	17,405
Current portion of long-term debt	340,000	426,943	-	766,943
Total current liabilities	417,408	508,765	2,234	928,407
Noncurrent liabilities:				
Noncurrent accrued compensated absences	5,080	4,478	558	10,116
Noncurrent portion of long-term debt	-	3,504,848	-	3,504,848
Net pension liability	279,728	317,266	34,889	631,883
Total non current liabilities	284,808	3,826,592	35,447	4,146,847
Total liabilities	702,216	4,335,357	37,681	5,075,254
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Deferred amounts related to pensions	1,758	1,994	219	3,971
<b>NET POSITION:</b>				
Net investment in capital assets	5,457,530	3,121,628	1,524,274	10,103,432
Restricted for:				
System development	1,852,277	754,785	50,288	2,657,350
Debt service	-	46,607	-	46,607
Unrestricted	1,440,169	1,233,749	100,461	2,774,379
Total net position	8,749,976	5,156,769	1,675,023	15,581,768
Total liabilities, deferred inflows of resources, and net position	<u>\$ 9,453,950</u>	<u>\$ 9,494,120</u>	<u>\$ 1,712,923</u>	<u>\$ 20,660,993</u>

*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, 2017**

	Business-Type Activities - Enterprise Funds			
	Water Operations	Sewer Operations	Storm Water Operations	Total
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 1,748,064	\$ 2,329,724	\$ 171,898	\$ 4,249,686
System development charges	67,450	88,668	26,703	182,821
Miscellaneous income	8,072	36,769	-	44,841
Total operating revenues	<u>1,823,586</u>	<u>2,455,161</u>	<u>198,601</u>	<u>4,477,348</u>
<b>OPERATING EXPENSES:</b>				
Operating and maintenance expenses	65,598	1,202,398	26,964	1,294,960
Personnel services	634,239	513,955	67,673	1,215,867
Depreciation	176,455	231,318	21,911	429,684
Total operating expenses	<u>876,292</u>	<u>1,947,671</u>	<u>116,548</u>	<u>2,940,511</u>
Operating income (loss)	<u>947,294</u>	<u>507,490</u>	<u>82,053</u>	<u>1,536,837</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Interest expense	(33,993)	(144,175)	-	(178,168)
Total non-operating revenues (expenses)	<u>(33,993)</u>	<u>(144,175)</u>	<u>-</u>	<u>(178,168)</u>
Net income (loss) before transfers	913,301	363,315	82,053	1,358,669
<b>TRANSFERS:</b>				
Transfers in (out)	(86,960)	-	869,604	782,644
Change in net position	826,341	363,315	951,657	2,141,313
<b>NET POSITION, BEGINNING</b>	7,923,635	4,700,556	723,366	13,347,557
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>-</u>	<u>92,898</u>	<u>-</u>	<u>92,898</u>
<b>NET POSITION, ENDING</b>	<u>\$ 8,749,976</u>	<u>\$ 5,156,769</u>	<u>\$ 1,675,023</u>	<u>\$ 15,581,768</u>

*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, 2017**

	Business-Type Activities - Enterprise Funds			
	Water Operations	Sewer Operations	Storm Water Operations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 1,807,158	\$ 2,450,408	\$ 200,837	\$ 4,458,403
Cash paid to employees and others for salaries and benefits	(585,691)	(454,576)	(61,731)	(1,101,998)
Cash paid to suppliers and others	(60,713)	(1,189,676)	(29,935)	(1,280,324)
Net cash provided by (used for) operating activities	<u>1,160,754</u>	<u>806,156</u>	<u>109,171</u>	<u>2,076,081</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>				
Transfers in (out)	(86,960)	-	869,604	782,644
Net cash provided by (used for) non-capital financing activities	<u>(86,960)</u>	<u>-</u>	<u>869,604</u>	<u>782,644</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchase of capital assets	(627,673)	(24,433)	(1,010,119)	(1,662,225)
Debt principal payments	(325,000)	(416,500)	-	(741,500)
Interest paid	(15,075)	(146,921)	-	(161,996)
Net cash provided by (used for) capital and related financing activities	<u>(967,748)</u>	<u>(587,854)</u>	<u>(1,010,119)</u>	<u>(2,565,721)</u>
Net increase (decrease) in cash and cash equivalents	106,046	218,302	(31,344)	293,004
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>3,205,484</u>	<u>1,811,423</u>	<u>185,927</u>	<u>5,202,834</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 3,311,530</u>	<u>\$ 2,029,725</u>	<u>\$ 154,583</u>	<u>\$ 5,495,838</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>				
Operating Income	\$ 947,294	\$ 507,490	\$ 82,053	\$ 1,536,837
Adjustments				
Depreciation and amortization	176,455	231,318	21,911	429,684
Decrease (increase) in:				
Accounts receivable and due from other funds	(22,893)	(4,753)	2,236	(25,410)
Deferred outflows related to pension	(109,448)	(129,023)	(12,418)	(250,889)
Increase (decrease) in:				
Accounts payable and accrued expenses	4,885	12,722	-	17,607
Deposits	6,465	-	-	6,465
Pension liability	173,624	208,052	18,846	400,522
Deferred inflows related to pension	(22,395)	(22,867)	(3,433)	(48,695)
Accrued compensated absences	6,767	3,217	(24)	9,960
Net cash provided by (used for) operating activities	<u>\$ 1,160,754</u>	<u>\$ 806,156</u>	<u>\$ 109,171</u>	<u>\$ 2,076,081</u>

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

**CITY OF MOLALLA, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**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, 2017.

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, 2017**

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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**  
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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:

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- 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, 2017. 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.

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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.

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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, 2017 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	\$ 11,005,086
Total cash equivalents	0.00	\$ 11,005,086

Following is a summary of the City's deposit and investment balances at June 30, 2017:

	2017
Demand Deposits	\$ 926,931
Cash on hand	300
Petty Cash	1,000
LGIP	11,005,086
Total	\$11,933,317

**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, 2017, the book value of the City's deposits was \$926,931 and the bank balance was \$1,005,828. \$755,828 of the City's bank balances 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.

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**3. CAPITAL ASSETS**

The changes in capital assets for the governmental activities for the year ended June 30, 2017 is as follows:

Primary Government	Beginning Balance	Additions	Deletions	Ending Balance
<b><i>Capital assets, not being depreciated:</i></b>				
Land	\$ 1,489,291	\$ -	\$ -	\$ 1,489,291
Construction in progress	1,981,489	537,374	(2,518,863)	-
Total capital assets, not being depreciated	3,470,780	537,374	(2,518,863)	1,489,291
<b><i>Capital assets, being depreciated:</i></b>				
Land Improvements	625,795	-	-	625,795
Buildings	973,514	2,625,299	-	3,598,813
Infrastructure	20,744,076	-	-	20,744,076
Machinery and equipment	478,475	32,042	-	510,517
Vehicles	657,437	-	-	657,437
Total capital assets, being depreciated	23,479,297	2,657,341	-	26,136,638
<b><i>Less accumulated depreciation for:</i></b>				
Land Improvements	(436,884)	(14,436)	-	(451,320)
Buildings	(637,794)	(40,748)	-	(678,542)
Infrastructure	(12,922,494)	(827,982)	-	(13,750,476)
Machinery and equipment	(360,687)	(15,049)	-	(375,736)
Vehicles	(578,578)	(17,791)	-	(596,369)
Total accumulated depreciation	(14,936,437)	(916,006)	-	(15,852,443)
Total capital assets, being depreciated, net	8,542,860	1,741,335	-	10,284,195
Governmental activities capital assets, net	<u>\$ 12,013,640</u>	<u>\$ 2,278,709</u>	<u>\$ (2,518,863)</u>	<u>\$ 11,773,486</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:

<b>Governmental activities:</b>	<b>Depreciation</b>
General government	\$ 9,290
Public safety	14,003
Public works	871,128
Community development	21,585
Total depreciation expense - governmental activities	\$ 916,006

The changes in capital assets for business-type activities for the year ended June 30, 2017 is as follows:

	Beginning Balance As Restated	Additions	Deletions	Ending Balance
<b>Business-type activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 727,511	\$ -	\$ -	\$ 727,511
Total capital assets , not being depreciated	727,511	-	-	727,511
<i>Capital assets, being depreciated:</i>				
Land Improvements	159,202	-	-	159,202
Buildings	3,651,204	1,662,225	-	5,313,429
Infrastructure	15,019,548	-	-	15,019,548
Machinery and equipment	1,971,135	-	-	1,971,135
Vehicles	507,529	-	-	507,529
Total capital assets, being depreciated	21,308,618	1,662,225	-	22,970,843
<i>Less accumulated depreciation for:</i>				
Land Improvements	(149,373)	(1,310)	-	(150,683)
Buildings	(1,850,360)	(88,483)	-	(1,938,843)
Infrastructure	(5,428,647)	(235,929)	-	(5,664,576)
Machinery and equipment	(1,254,821)	(53,153)	-	(1,307,974)
Vehicles	(210,246)	(50,809)	-	(261,055)
Total accumulated depreciation	(8,893,447)	(429,684)	-	(9,323,131)
Total capital assets, being depreciated, net	12,415,171	1,232,541	-	13,647,712
Business-type activities capital assets, net	\$ 13,142,682	\$ 1,232,541	\$ -	\$ 14,375,223

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Depreciation expense is allocated to business-type functions as follows:

<b>Business-type activities:</b>	
Water	\$ 176,455
Sewer	231,318
Stormwater	<u>21,911</u>
Total depreciation expense - business-type activities	<u>\$ 429,684</u>

**4. LONG-TERM DEBT**

Long-term debt transactions for the year ended June 30, 2017 were as follows:

	<b>Beginning Balance As Restated</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due in 1 Year</b>
<b>Governmental Activities</b>					
Governmental Bonds					
Water Refunding Bonds	\$ 95,000	\$ -	\$ 65,000	\$ 30,000	\$ 30,000
Urban Renewal Series 2015	2,605,000	-	120,000	2,485,000	130,000
Bond Premium	<u>329,514</u>	<u>-</u>	<u>25,512</u>	<u>304,002</u>	<u>25,512</u>
Total Governmental Bonds	<u>3,029,514</u>	<u>-</u>	<u>210,512</u>	<u>2,819,002</u>	<u>185,512</u>
Compensated Absences	<u>126,387</u>	<u>21,604</u>	<u>-</u>	<u>147,991</u>	<u>118,393</u>
Total Governmental	<u>\$ 3,155,901</u>	<u>\$ 21,604</u>	<u>\$ 210,512</u>	<u>\$ 2,966,993</u>	<u>\$ 303,905</u>
<b>Business Type Activities</b>					
Enterprise Bonds					
2010 Water Refunding	\$ 665,000	\$ -	\$ 325,000	\$ 340,000	\$ 340,000
2010 Sewer Refunding	<u>2,345,000</u>	<u>-</u>	<u>225,000</u>	<u>2,120,000</u>	<u>230,000</u>
Total Enterprise Bonds	<u>3,010,000</u>	<u>-</u>	<u>550,000</u>	<u>2,460,000</u>	<u>570,000</u>
Enterprise Loan/Notes					
Clean Water State Revolving Loan	1,809,810	-	128,835	1,680,975	132,467
Vactor Sewer Vacuum Truck Lease	<u>193,482</u>	<u>-</u>	<u>62,666</u>	<u>130,816</u>	<u>64,476</u>
Total Enterprise Loans	<u>2,003,292</u>	<u>-</u>	<u>191,501</u>	<u>1,811,791</u>	<u>196,943</u>
Compensated Absences	<u>40,618</u>	<u>9,960</u>	<u>-</u>	<u>50,578</u>	<u>40,462</u>
Total Enterprise	<u>\$ 5,053,910</u>	<u>\$ 9,960</u>	<u>\$ 741,501</u>	<u>\$ 4,322,369</u>	<u>\$ 807,405</u>

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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. \$ 30,000  
Interest is a variable rate that ranges from 2.5% to 3.5% per annum.  
Repayment is on semi-annual payments every June 1.

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.

\$ 2,485,000

	Water Refunding Bonds		Urban Renewal Series 2015		Total Governmental Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 30,000	\$ 750	\$ 130,000	\$ 95,150	\$ 160,000	\$ 95,900
2019	-	-	140,000	91,250	140,000	91,250
2020	-	-	155,000	87,050	155,000	87,050
2021	-	-	165,000	82,400	165,000	82,400
2022	-	-	180,000	75,800	180,000	75,800
2023-2027	-	-	1,135,000	259,000	1,135,000	259,000
2028-2032	-	-	580,000	35,200	580,000	35,200
Total	<u>\$ 30,000</u>	<u>\$ 750</u>	<u>\$ 2,485,000</u>	<u>\$ 725,850</u>	<u>\$ 2,515,000</u>	<u>\$ 726,600</u>

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. \$ 340,000

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. \$ 2,120,000

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	2010 Water Refunding		2010 Sewer Refunding		Total Enterprise Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 340,000	\$ 5,100	\$ 230,000	\$ 84,800	\$ 570,000	\$ 89,900
2019	-	-	240,000	75,600	240,000	75,600
2020	-	-	250,000	66,000	250,000	66,000
2021	-	-	260,000	56,000	260,000	56,000
2022	-	-	270,000	45,600	270,000	45,600
2023-2027	-	-	870,000	65,000	870,000	65,000
Total	<u>\$ 340,000</u>	<u>\$ 5,100</u>	<u>\$ 2,120,000</u>	<u>\$ 393,000</u>	<u>\$ 2,460,000</u>	<u>\$ 398,100</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. \$ 1,680,975

In July 2013 the City of Molalla signed an agreement to finance \$381,383 for the purpose of purchasing a vactor sewer vacuum truck. The funds were issued in 2013 and repayment of the lease began on July 15, 2013. The repayment schedule is annual with payments on July 15 through 2018, including interest at the rate of 2.9% per annum. \$ 130,816

	Clean Water State Revolving Loan		Vactor Sewer Vacuum Truck Lease		Total Enterprise Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 132,467	\$ 46,147	64,476	3,781	\$ 196,943	\$ 49,928
2019	136,203	42,411	66,340	1,917	202,543	44,328
2020	140,043	38,571	-	-	140,043	38,571
2021	143,991	34,623	-	-	143,991	34,623
2022	148,051	30,563	-	-	148,051	30,563
2023-2027	805,279	87,791	-	-	805,279	87,791
2028-2032	174,941	3,673	-	-	174,941	3,673
Total	<u>\$ 1,680,975</u>	<u>\$ 283,779</u>	<u>\$ 130,816</u>	<u>\$ 5,698</u>	<u>\$ 1,811,791</u>	<u>\$ 289,477</u>

**5. NET POSITION**

The government-wide statement of net position reports \$6,215,625 of restricted net position, of which \$5,324,554 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 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](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 (COLA) changes. The COLA is capped at 2.0 percent.

## **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

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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, 2015. Employer contributions for the year ended June 30, 2017 were \$218,329, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2017 were 11.56 percent for Tier One/Tier Two General Service Member, 11.56 percent for Tier One/Tier Two Police, 4.42 percent for OPSRP Pension Program General Service Members, 8.53 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, 2017, the City reported a liability of \$2,480,729 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability 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, 2016, the City's proportion was 0.01652 percent, which was increased from its proportion of 0.01657 measured as of June 30, 2015.

For the year ended June 30, 2017, the City's recognized pension expense (income) of (\$362,410). At June 30, 2017, 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
Differences between expected and actual experience	\$ 82,073	\$ -
Changes of assumptions	529,080	-
Net difference between projected and actual earnings on investments	490,088	-
Changes in proportion	21,469	2,352
Differences between employer contributions and proportionate share of contributions	42,896	13,239
Total (prior to post-MD contributions)	1,165,606	15,591
Contributions subsequent to the MD	218,329	-
Total	<u>\$ 1,383,935</u>	<u>\$ 15,591</u>

\$218,329 Reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in

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pension expense as follows:

Amortization Period	
FY2018	\$ 209,178
FY2019	\$ 209,178
FY2020	\$ 387,848
FY2021	\$ 297,571
FY2022	\$ 46,240
Total	<u>\$1,150,015</u>

**Actuarial assumptions**

The employer contribution rates effective July 1, 2015, through June 30, 2017, were set using the entry age normal method.

For the ORS 238 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 ORS 238A OPSRP Pension Program 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 actuarially determined amount for funding a disability benefit component, and (3) 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.

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The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2014
Measurement Date	June 30, 2016
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.50 percent
Long-Term Expected Rate of Return	7.50 percent
Discount Rate	7.50 percent
Projected Salary Increases	3.50 percent overall payroll growth
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and grade COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision, blend based on service.
Mortality	Health retirees and beneficiaries: RP-2000 sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.  Active Members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.  Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 sex-distinct, generational per Scale BB, disabled
At its September 25, 2015 meeting, the PERS Board reduced the assumed rate of return on investments from 7.75 percent to 7.5 percent	

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 2015 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

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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 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>

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compounded Annual Return (Geometric)</u>
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.30%	6.99%
Micro Cap US Equities	1.30%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Foreign Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equities	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	2.50%	4.64%
Hedge Fund - Event-Driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
	<hr/>	
Total	<u>100.00%</u>	
Assumed Inflation - Mean		2.50%

**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 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.

**CITY OF MOLALLA, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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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 7.50 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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability (asset)	\$ 4,005,550	\$ 2,480,729	\$ 1,206,245

**Pension plan fiduciary net position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

**Changes in Plan Provisions During the Measurement Period**

There were no changes during the June 30, 2016 measurement period that require disclosure

**Changes in Plan Provisions Subsequent to Measurement Date**

On July 28, 2017, subsequent to the June 30, 2016 measurement date, the OSPERS Board lowered the assumed rate to 7.2 percent. The current assumed rate is 7.5 percent and has been in

**CITY OF MOLALLA, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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effect for member transactions since January 1, 2016. The new rate will take effect January 1, 2018. The effect on the City has not been determined.

**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 coverall 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, 2017, 2016, and 2015 were \$13,331, \$12,523, and \$13,373 respectively which equal the required contributions for that year.

**8. INTERFUND TRANSFERS**

<b>Proprietary Funds:</b>	<b>Transfer in</b>	<b>Transfer out</b>
Sewer Fund	\$ -	\$ 315,550
Water fund	-	299,105
Sewer Debt Retirement	315,550	-
Water Debt Retirement	299,105	-
CWSRF Debt	183,156	-
Sewer SDC	-	183,156
Total Proprietary Funds	<u>\$ 797,811</u>	<u>\$ 797,811</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

**CITY OF MOLALLA, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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

## **11. SUBSEQUENT EVENT**

Management has evaluated subsequent events through January 4, 2018, the date on which the financial statements were issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

## **12. PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2017, management became aware of a capital lease that had not been recorded by the City. A prior period adjustment of \$92,898 has been recorded on the proprietary funds statements of revenues, expenses, and changes in net position.

## 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, 2017**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 2,755,000	\$ 2,755,000	\$ 2,830,919	\$ 75,919
Franchise fees	135,250	135,250	133,974	(1,276)
Licenses, permits and fees	127,448	127,448	24,835	(102,613)
Intergovernmental	192,750	192,750	225,094	32,344
Grants	-	-	2,676	2,676
Charges for services	656,428	656,428	635,569	(20,859)
Interest revenue	52,000	52,000	120,566	68,566
Miscellaneous revenue	56,000	56,000	58,823	2,823
<b>Total revenues</b>	<b>3,974,876</b>	<b>3,974,876</b>	<b>4,032,456</b>	<b>57,580</b>
<b>EXPENDITURES:</b>				
General government	954,475	954,475	879,088	75,387
Public safety	2,601,900	2,601,900	2,395,215	206,685
Capital outlay	455,000	455,000	474,403	(19,403)
Contingency	100,000	100,000	-	100,000
<b>Total expenditures</b>	<b>4,111,375</b>	<b>4,111,375</b>	<b>3,748,706</b>	<b>362,669</b>
Revenues over (under) expenditures	(136,499)	(136,499)	283,750	420,249
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(300,000)	(300,000)	-	300,000
<b>Total other financing sources (uses)</b>	<b>(300,000)</b>	<b>(300,000)</b>	<b>-</b>	<b>300,000</b>
Net change in fund balance	(436,499)	(436,499)	283,750	720,249
<b>FUND BALANCES, BEGINNING BUDGETARY BASIS</b>	<b>1,050,000</b>	<b>1,050,000</b>	<b>1,107,446</b>	<b>57,446</b>
<b>FUND BALANCES, ENDING BUDGETARY BASIS</b>	<b>\$ 613,501</b>	<b>\$ 613,501</b>	<b>1,391,196</b>	<b>\$ 777,695</b>
Accounts receivable			181,755	
Property tax receivable			170,021	
Cash with county			11,287	
Unavailable revenue -franchise fees			(90,240)	
Unavailable revenue - property taxes			(163,496)	
Unavailable revenue -municipal court			(37,676)	
Accounts payable			(8,564)	
Accrued payroll			(12,902)	
<b>FUND BALANCES, ENDING</b>			<b>\$ 1,441,381</b>	

**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, 2017**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 825,000	\$ 825,000	\$ 839,950	\$ 14,950
Grants	853,500	853,500	3,866	(849,634)
Fines and forfeitures	15,000	15,000	16,921	1,921
Charges for services	2,500	2,500	2,879	379
Miscellaneous revenue	1,000	1,000	2,742	1,742
Contributions and donations	1,500	1,500	1,152	(348)
Total revenues	<u>1,698,500</u>	<u>1,698,500</u>	<u>867,510</u>	<u>(830,990)</u>
<b>EXPENDITURES:</b>				
Personnel service	567,600	567,600	444,310	123,290
Materials and service	273,016	273,016	180,201	92,815
Capital outlay	2,076,500	2,076,500	105,701	1,970,799
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>3,017,116</u>	<u>3,017,116</u>	<u>730,212</u>	<u>2,286,904</u>
Net change in fund balance	(1,318,616)	(1,318,616)	137,298	1,455,914
<b>FUND BALANCES, BEGINNING BUDGETARY</b>	<u>1,390,000</u>	<u>1,390,000</u>	<u>1,396,040</u>	<u>6,040</u>
<b>FUND BALANCES, ENDING BUDGETARY</b>	<u>\$ 71,384</u>	<u>\$ 71,384</u>	<u>1,533,338</u>	<u>\$ 1,461,954</u>
Accounts payable			<u>(3,931)</u>	
<b>FUND BALANCES, ENDING</b>			<u>\$ 1,529,407</u>	

**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, 2017**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Franchise fees	\$ 220,000	\$ 220,000	\$ 228,678	\$ 8,678
Licenses, permits and fees	-	-	40,033	40,033
Intergovernmental	595,000	595,000	584,874	(10,126)
Grants	80,742	80,742	-	(80,742)
Miscellaneous revenue	10,000	10,000	13,949	3,949
Total revenues	<u>905,742</u>	<u>905,742</u>	<u>867,534</u>	<u>(38,208)</u>
<b>EXPENDITURES:</b>				
Personnel service	348,075	348,075	293,631	54,444
Materials and service	418,002	418,002	337,585	80,417
Capital outlay	887,927	887,927	47,614	840,313
Contingency	150,738	150,738	-	150,738
Total expenditures	<u>1,804,742</u>	<u>1,804,742</u>	<u>678,830</u>	<u>1,125,912</u>
Revenues over (under) expenditures	<u>(899,000)</u>	<u>(899,000)</u>	<u>188,704</u>	<u>1,087,704</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	<u>600,000</u>	<u>600,000</u>	<u>-</u>	<u>(600,000)</u>
Total other financing sources (uses)	<u>600,000</u>	<u>600,000</u>	<u>-</u>	<u>(600,000)</u>
Net change in fund balance	(299,000)	(299,000)	188,704	487,704
<b>FUND BALANCES, BEGINNING BUDGETARY BASIS</b>	<u>475,000</u>	<u>475,000</u>	<u>398,155</u>	<u>(76,845)</u>
<b>FUND BALANCES, ENDING BUDGETARY BASIS</b>	<u>\$ 176,000</u>	<u>\$ 176,000</u>	<u>586,859</u>	<u>\$ 410,859</u>
Accounts payable			<u>(2,571)</u>	
<b>FUND BALANCES, ENDING</b>			<u>\$ 584,288</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, 2017**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 295,000	\$ 295,000	\$ 345,311	\$ 50,311
Interest revenue	1,000	1,000	885	(115)
Total revenues	296,000	296,000	346,196	50,196
<b>EXPENDITURES:</b>				
Materials and service	125,000	125,000	116,878	8,122
Capital outlay	1,477,100	1,477,100	1,362,042	115,058
Debt service:				
Principal	120,000	120,000	120,000	-
Interest	98,750	98,750	98,735	15
Contingency	150,000	150,000	-	150,000
Total expenditures	1,970,850	1,970,850	1,697,655	273,195
Net changes in fund balances	(1,674,850)	(1,674,850)	(1,351,459)	323,391
<b>FUND BALANCES, BEGINNING</b>				
<b>BUDGETARY BASIS</b>	2,000,000	2,000,000	2,098,959	98,959
<b>FUND BALANCES, ENDING BUDGETARY</b>				
<b>BASIS</b>	\$ 325,150	\$ 325,150	747,500	\$ 422,350
Property tax receivable			17,650	
Cash with county			543	
Unavailable revenue - property taxes			(16,899)	
<b>FUND BALANCES, ENDING</b>			\$ 748,794	

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

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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
2017	0.01652462%	\$ 2,480,729	\$ 2,891,160	85.80%	80.53%
2016	0.01656831%	951,263	2,627,835	36.20%	91.90%
2015	0.01495015%	(338,877)	2,773,860	-12.22%	103.60%
2014	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 Four Fiscal Years**

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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
2017	\$ 218,329	\$ 218,329	\$ -	\$ 2,404,732	9.08%
2016	320,569	320,569	-	2,891,160	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, 2017**

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**1. 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, 2017:

<u>Fund</u>	<u>Budget Category</u>	<u>Amount</u>
Bonded Debt Fund	Debt service	\$ 3,200
CWSRF Debt Retirement Fund	Debt service	\$ 3,534

**2. 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. Senate Bill 822 lowered the COLA from 2% to 1.5% for recipients who do not pay Oregon income tax because they are not residents of Oregon.

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.

**CITY OF MOLALLA, OREGON**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2017**

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**3. Changes of Assumptions**

Details and a comprehensive list of changes in methods and assumptions can be found in the 2012, 2014, and 2016 Experience Study for the System, which were published on September 18, 2013, September 23, 2015, and July 26, 2017. These reports can be found at: <http://www.oregon.gov/PERS/Pages/Financials/Actuarial-Presentations-and-Reports.aspx>.

## 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:

#### **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, 2017**

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	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
System development charges	\$ 245,700	\$ 245,700	\$ 213,699	\$ (32,001)
Total revenues	245,700	245,700	213,699	(32,001)
<b>EXPENDITURES:</b>				
Materials and service	50,000	50,000	19,769	30,231
Capital outlay	500,000	500,000	96,349	403,651
Total expenditures	550,000	550,000	116,118	433,882
Net changes in fund balances	(304,300)	(304,300)	97,581	401,881
<b>FUND BALANCES, BEGINNING</b>	569,817	569,817	1,378,860	809,043
<b>FUND BALANCES, ENDING</b>	<u>\$ 265,517</u>	<u>\$ 265,517</u>	<u>\$ 1,476,441</u>	<u>\$ 1,210,924</u>

**CITY OF MOLALLA, OREGON  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
June 30, 2017**

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	Police Department Restricted Revenue Fund	Bonded Debt Fund	Transportation SDC Fund	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 29,956	\$ 65,714	\$ 606,475	\$ 702,145
Total assets	<u>\$ 29,956</u>	<u>\$ 65,714</u>	<u>\$ 606,475</u>	<u>\$ 702,145</u>
<b>FUND BALANCES</b>				
Restricted for:				
Debt service	\$ -	\$ 65,714	\$ -	\$ 65,714
System development	-	-	606,475	606,475
Police department	<u>29,956</u>	<u>-</u>	<u>-</u>	<u>29,956</u>
Total fund balances	<u>29,956</u>	<u>65,714</u>	<u>606,475</u>	<u>702,145</u>
Total liabilities and fund balances	<u>\$ 29,956</u>	<u>\$ 65,714</u>	<u>\$ 606,475</u>	<u>\$ 702,145</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, 2017**

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	Police Department Restricted Revenue Fund	Bonded Debt Fund	Transportation SDC Fund	Total
<b>REVENUES:</b>				
Property taxes	\$ -	\$ 67,338	\$ -	\$ 67,338
Contributions and donations	7,795	-	-	7,795
System development charges	-	-	154,094	154,094
	<u>-</u>	<u>-</u>	<u>154,094</u>	<u>154,094</u>
Total revenues	<u>7,795</u>	<u>67,338</u>	<u>154,094</u>	<u>229,227</u>
<b>EXPENDITURES:</b>				
General government	1,240	-	-	1,240
Highways and streets	-	-	16,047	16,047
Debt service:				
Principal	-	65,000	-	65,000
Interest	-	3,163	-	3,163
	<u>-</u>	<u>3,163</u>	<u>-</u>	<u>3,163</u>
Total expenditures	<u>1,240</u>	<u>68,163</u>	<u>16,047</u>	<u>85,450</u>
Net change in fund balance	6,555	(825)	138,047	143,777
<b>FUND BALANCES, BEGINNING</b>	<u>23,401</u>	<u>66,539</u>	<u>468,428</u>	<u>558,368</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 29,956</u>	<u>\$ 65,714</u>	<u>\$ 606,475</u>	<u>\$ 702,145</u>

## **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
  - 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, 2017**

	Budget		Actual	Variance with Final Budget
	Original	Final		
Police operations:				
Personnel services	\$ 1,857,250	\$ 1,857,250	\$ 1,774,030	\$ 83,220
Materials and services	509,500	509,500	404,713	104,787
Capital outlay	55,000	55,000	53,096	1,904
Subtotal	2,421,750	2,421,750	2,231,839	189,911
Municipal court:				
Personnel services	147,450	147,450	146,985	465
Materials and services	87,700	87,700	69,487	18,213
Subtotal	235,150	235,150	216,472	18,678
Office of governance and management:				
Personnel services	636,725	636,725	583,169	53,556
Materials and services	317,750	317,750	295,919	21,831
Capital outlay	400,000	400,000	421,307	(21,307)
Subtotal	1,354,475	1,354,475	1,300,395	54,080
Total expenditures	\$ 4,011,375	\$ 4,011,375	\$ 3,748,706	\$ 262,669

**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, 2017**

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	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Miscellaneous revenue	\$ 13,000	\$ 13,000	\$ -	\$ (13,000)
Contributions and donations	540	540	7,795	7,255
Total revenues	13,540	13,540	7,795	(5,745)
<b>EXPENDITURES:</b>				
Materials and service	37,540	37,540	1,240	36,300
Total expenditures	37,540	37,540	1,240	36,300
Net change in fund balance	(24,000)	(24,000)	6,555	30,555
<b>FUND BALANCES, BEGINNING BUDGETARY BASIS</b>	24,000	24,000	23,401	(599)
<b>FUND BALANCES, ENDING</b>	\$ -	\$ -	\$ 29,956	\$ 29,956

**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, 2017**

---

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 67,338	\$ 67,338	\$ 67,338	\$ -
Total revenues	67,338	67,338	67,338	-
<b>EXPENDITURES:</b>				
Debt service:				
Principal	60,000	60,000	65,000	(5,000)
Interest	4,963	4,963	3,163	1,800
Total expenditures	64,963	64,963	68,163	(3,200)
Net changes in fund balances	2,375	2,375	(825)	(3,200)
<b>FUND BALANCES, BEGINNING</b>	65,789	65,789	66,539	750
<b>FUND BALANCES, ENDING</b>	\$ 68,164	\$ 68,164	\$ 65,714	\$ (2,450)

**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, 2017**

---

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
System development charges	\$ 432,010	\$ 432,010	\$ 154,094	\$ (277,916)
Total revenues	432,010	432,010	154,094	(277,916)
<b>EXPENDITURES:</b>				
Materials and service	10,000	10,000	6,312	3,688
Capital outlay	475,000	475,000	9,735	465,265
Total expenditures	485,000	485,000	16,047	468,953
Net changes in fund balances	(52,990)	(52,990)	138,047	191,037
<b>FUND BALANCE, BEGINNING</b>	550,000	550,000	468,428	(81,572)
<b>FUND BALANCE, ENDING</b>	\$ 497,010	\$ 497,010	\$ 606,475	\$ 109,465

## **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, 2017**

	<u>Water Fund</u>	<u>Water SDC Fund</u>	<u>Water Debt Retirement</u>	<u>Utility Deposits</u>	<u>Total Water Operations</u>
<b>REVENUES:</b>					
Charges for services	\$ 1,725,171	\$ -	\$ -	\$ 31,543	\$ 1,756,714
Miscellaneous revenue	8,072	-	-	-	8,072
System development charges	-	67,450	-	-	67,450
	<u>1,733,243</u>	<u>67,450</u>	<u>-</u>	<u>31,543</u>	<u>1,832,236</u>
Total revenues					
<b>EXPENDITURES:</b>					
Personnel service	585,691	-	-	-	585,691
Materials and service	431,471	2,133	-	25,078	458,682
Capital outlay	139,110	202,632	-	-	341,742
Debt service:					
Principal	-	-	325,000	-	325,000
Interest	-	-	15,075	-	15,075
	<u>1,156,272</u>	<u>204,765</u>	<u>340,075</u>	<u>25,078</u>	<u>1,726,190</u>
Total expenditures					
Revenues over (under) expenditures	<u>576,971</u>	<u>(137,315)</u>	<u>(340,075)</u>	<u>6,465</u>	<u>106,046</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	-	-	299,105	-	299,105
Transfers out	(299,105)	-	-	-	(299,105)
	<u>(299,105)</u>	<u>-</u>	<u>299,105</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)					
Net change in fund balance	277,866	(137,315)	(40,970)	6,465	106,046
<b>FUND BALANCES, BEGINNING</b>					
<b>BUDGETARY BASIS</b>	<u>804,257</u>	<u>1,989,592</u>	<u>400,695</u>	<u>10,940</u>	<u>3,205,484</u>
<b>FUND BALANCES, ENDING</b>					
<b>BUDGETARY BASIS</b>	<u>\$ 1,082,123</u>	<u>\$ 1,852,277</u>	<u>\$ 359,725</u>	<u>\$ 17,405</u>	3,311,530
Accounts receivable					188,837
Accounts payable					(14,489)
Deposits					(17,405)
Capital assets					5,797,530
Accrued interest payable					(25,199)
Long-term debt					(340,000)
Compensated absences					(25,395)
Net pension liability					(279,728)
Deferred outflow related to pension					156,053
Deferred inflows related to pension					(1,758)
<b>NET POSITION, ENDING</b>					<u>\$ 8,749,976</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, 2017**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 1,652,000	\$ 1,652,000	\$ 1,725,171	\$ 73,171
Miscellaneous revenue	3,000	3,000	8,072	5,072
Total revenues	<u>1,655,000</u>	<u>1,655,000</u>	<u>1,733,243</u>	<u>78,243</u>
<b>EXPENDITURES:</b>				
Personnel service	645,905	645,905	585,691	60,214
Materials and service	633,717	633,717	431,471	202,246
Capital outlay	362,000	362,000	139,110	222,890
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>1,741,622</u>	<u>1,741,622</u>	<u>1,156,272</u>	<u>585,350</u>
Revenues over (under) expenditures	<u>(86,622)</u>	<u>(86,622)</u>	<u>576,971</u>	<u>663,593</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	<u>(449,105)</u>	<u>(449,105)</u>	<u>(299,105)</u>	<u>150,000</u>
Total other financing sources (uses)	<u>(449,105)</u>	<u>(449,105)</u>	<u>(299,105)</u>	<u>150,000</u>
Net change in fund balance	<u>(535,727)</u>	<u>(535,727)</u>	<u>277,866</u>	<u>813,593</u>
<b>FUND BALANCE, BEGINNING BUDGETARY BASIS</b>	<u>810,000</u>	<u>810,000</u>	<u>804,257</u>	<u>(5,743)</u>
<b>FUND BALANCE, ENDING BUDGETARY BASIS</b>	<u>\$ 274,273</u>	<u>\$ 274,273</u>	<u>\$ 1,082,123</u>	<u>\$ 807,850</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, 2017**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
System development charges	\$ 470,750	\$ 470,750	\$ 67,450	\$ (403,300)
Total revenues	470,750	470,750	67,450	(403,300)
<b>EXPENDITURES:</b>				
Materials and service	10,000	10,000	2,133	7,867
Capital outlay	1,350,000	1,350,000	202,632	1,147,368
Total expenditures	1,360,000	1,360,000	204,765	1,155,235
Net change in fund balance	(889,250)	(889,250)	(137,315)	751,935
<b>FUND BALANCE, BEGINNING BUDGETARY BASIS</b>	2,000,000	2,000,000	1,989,592	(10,408)
<b>FUND BALANCE, ENDING BUDGETARY BASIS</b>	<u>\$ 1,110,750</u>	<u>\$ 1,110,750</u>	<u>\$ 1,852,277</u>	<u>\$ 741,527</u>

**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, 2017**

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	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>EXPENDITURES:</b>				
Debt service:				
Principal	\$ 325,000	\$ 325,000	\$ 325,000	\$ -
Interest	19,950	19,950	15,075	4,875
Total expenditures	344,950	344,950	340,075	4,875
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	299,105	299,105	299,105	-
Total other financing sources (uses)	299,105	299,105	299,105	-
Net changes in fund balances	(45,845)	(45,845)	(40,970)	4,875
<b>FUND BALANCE, BEGINNING BUDGETARY BASIS</b>	396,045	396,045	400,695	4,650
<b>FUND BALANCE, ENDING BUDGETARY BASIS</b>	<u>\$ 350,200</u>	<u>\$ 350,200</u>	<u>\$ 359,725</u>	<u>\$ 9,525</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, 2017**

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	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 22,000	\$ 22,000	\$ 31,543	\$ 9,543
Total revenues	22,000	22,000	31,543	9,543
<b>EXPENDITURES:</b>				
Materials and service	30,000	30,000	25,078	4,922
Total expenditures	30,000	30,000	25,078	4,922
Net changes in fund balances	(8,000)	(8,000)	6,465	14,465
<b>FUND BALANCE, BEGINNING BUDGETARY BASIS</b>	8,000	8,000	10,940	2,940
<b>FUND BALANCE, ENDING BUDGETARY BASIS</b>	\$ -	\$ -	\$ 17,405	\$ 17,405

**CITY OF MOLALLA, OREGON**  
**SEWER OPERATIONS COMBINED**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE**  
**For the Fiscal Year Ended June 30, 2017**

	Sewer Fund	Sewer SDC Fund	Sewer Debt Retirement	CWSRF Fund	Total Sewer Operations
<b>REVENUES:</b>					
Charges for services	\$ 2,324,971	\$ -	\$ -	\$ -	\$ 2,324,971
Miscellaneous revenue	36,769	-	-	-	36,769
System development charges	-	88,668	-	-	88,668
<b>Total revenues</b>	<b>2,361,740</b>	<b>88,668</b>	<b>-</b>	<b>-</b>	<b>2,450,408</b>
<b>EXPENDITURES:</b>					
Personnel service	513,955	-	-	-	513,955
Materials and service	956,409	2,133	-	8,729	967,271
Capital outlay	187,459	-	-	-	187,459
Debt service:					
Principal	62,665	-	225,000	128,835	416,500
Interest	5,592	-	91,550	49,779	146,921
<b>Total expenditures</b>	<b>1,726,080</b>	<b>2,133</b>	<b>316,550</b>	<b>187,343</b>	<b>2,232,106</b>
Revenues over (under) expenditures	635,660	86,535	(316,550)	(187,343)	218,302
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	-	-	315,550	183,156	498,706
Transfers out	(315,550)	(183,156)	-	-	(498,706)
<b>Total other financing sources (uses)</b>	<b>(315,550)</b>	<b>(183,156)</b>	<b>315,550</b>	<b>183,156</b>	<b>-</b>
Net change in fund balance	320,110	(96,621)	(1,000)	(4,187)	218,302
<b>FUND BALANCES, BEGINNING</b>					
<b>BUDGETARY BASIS</b>	<b>457,624</b>	<b>851,406</b>	<b>315,050</b>	<b>187,343</b>	<b>1,811,423</b>
<b>FUND BALANCES, ENDING</b>					
<b>BUDGETARY BASIS</b>	<b>\$ 777,734</b>	<b>\$ 754,785</b>	<b>\$ 314,050</b>	<b>\$ 183,156</b>	<b>2,029,725</b>
Accounts receivable					233,982
Accounts payable					(35,484)
Capital assets					7,053,419
Accrued interest payable					(28,425)
Long-term debt					(3,931,791)
Compensated absences					(22,391)
Net pension liability					(317,266)
Deferred outflow related to pension					176,994
Deferred inflows related to pension					(1,994)
<b>NET POSITION, ENDING</b>					<b>\$ 5,156,769</b>

**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, 2017**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 2,171,920	\$ 2,171,920	\$ 2,324,971	\$ 153,051
Miscellaneous revenue	5,000	5,000	36,769	31,769
Total revenues	<u>2,176,920</u>	<u>2,176,920</u>	<u>2,361,740</u>	<u>184,820</u>
<b>EXPENDITURES:</b>				
Personnel service	558,675	558,675	513,955	44,720
Materials and service	984,832	984,832	956,409	28,423
Capital outlay	265,170	265,170	187,459	77,711
Debt service:				
Principal	62,665	62,665	62,665	-
Interest	5,592	5,592	5,592	-
Contingency	<u>193,341</u>	<u>193,341</u>	<u>-</u>	<u>193,341</u>
Total expenditures	<u>2,070,275</u>	<u>2,070,275</u>	<u>1,726,080</u>	<u>344,195</u>
Revenues over (under) expenditures	<u>106,645</u>	<u>106,645</u>	<u>635,660</u>	<u>529,015</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	<u>(465,550)</u>	<u>(465,550)</u>	<u>(315,550)</u>	<u>150,000</u>
Total other financing sources (uses)	<u>(465,550)</u>	<u>(465,550)</u>	<u>(315,550)</u>	<u>150,000</u>
Net change in fund balance	(358,905)	(358,905)	320,110	679,015
<b>FUND BALANCE, BEGINNING BUDGETARY BASIS</b>	<u>475,000</u>	<u>475,000</u>	<u>457,624</u>	<u>(17,376)</u>
<b>FUND BALANCE, ENDING BUDGETARY BASIS</b>	<u>\$ 116,095</u>	<u>\$ 116,095</u>	<u>\$ 777,734</u>	<u>\$ 661,639</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, 2017**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
System development charges	\$ 663,610	\$ 663,610	\$ 88,668	\$ (574,942)
Total revenues	663,610	663,610	88,668	(574,942)
<b>EXPENDITURES:</b>				
Materials and service	10,000	10,000	2,133	7,867
Capital outlay	650,000	650,000	-	650,000
Total expenditures	660,000	660,000	2,133	657,867
Revenues over (under) expenditures	3,610	3,610	86,535	82,925
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(183,156)	(183,156)	(183,156)	-
Total other financing sources (uses)	(183,156)	(183,156)	(183,156)	-
Net change in fund balance	(179,546)	(179,546)	(96,621)	82,925
<b>FUND BALANCE, BEGINNING BUDGETARY BASIS</b>	<u>775,000</u>	<u>775,000</u>	<u>851,406</u>	<u>76,406</u>
<b>FUND BALANCE, ENDING BUDGETARY BASIS</b>	<u>\$ 595,454</u>	<u>\$ 595,454</u>	<u>\$ 754,785</u>	<u>\$ 159,331</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, 2017**

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	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>EXPENDITURES:</b>				
Debt service:				
Principal	\$ 225,000	\$ 225,000	\$ 225,000	\$ -
Interest	91,550	91,550	91,550	-
Total expenditures	<u>316,550</u>	<u>316,550</u>	<u>316,550</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	<u>315,550</u>	<u>315,550</u>	<u>315,550</u>	<u>-</u>
Total other financing sources (uses)	<u>315,550</u>	<u>315,550</u>	<u>315,550</u>	<u>-</u>
Net changes in fund balances	(1,000)	(1,000)	(1,000)	-
<b>FUND BALANCE, BEGINNING BUDGETARY BASIS</b>	<u>315,800</u>	<u>315,800</u>	<u>315,050</u>	<u>(750)</u>
<b>FUND BALANCE, ENDING BUDGETARY BASIS</b>	<u>\$ 314,800</u>	<u>\$ 314,800</u>	<u>\$ 314,050</u>	<u>\$ (750)</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, 2017**

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	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>EXPENDITURES:</b>				
Materials and service	\$ 8,729	\$ 8,729	\$ 8,729	\$ -
Debt service:				
Principal	125,301	125,301	128,835	(3,534)
Interest	49,779	49,779	49,779	-
Total expenditures	183,809	183,809	187,343	(3,534)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	183,156	183,156	183,156	-
Total other financing sources (uses)	183,156	183,156	183,156	-
Net changes in fund balances	(653)	(653)	(4,187)	(3,534)
<b>FUND BALANCE, BEGINNING BUDGETARY BASIS</b>	187,343	187,343	187,343	-
<b>FUND BALANCE, ENDING BUDGETARY BASIS</b>	<u>\$ 186,690</u>	<u>\$ 186,690</u>	<u>\$ 183,156</u>	<u>\$ (3,534)</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, 2017**

	Storm Water Fund	Storm Water SDC Fund	Total Storm Water Operations
<b>REVENUES:</b>			
Charges for services	\$ 174,134	\$ -	\$ 174,134
System development charges	-	26,703	26,703
Total revenues	<u>174,134</u>	<u>26,703</u>	<u>200,837</u>
<b>EXPENDITURES:</b>			
Personnel service	64,702	-	64,702
Materials and service	24,831	2,133	26,964
Capital outlay	31,548	108,967	140,515
Total expenditures	<u>121,081</u>	<u>111,100</u>	<u>232,181</u>
Net change in fund balance	53,053	(84,397)	(31,344)
<b>FUND BALANCES, BEGINNING BUDGETARY BASIS</b>	<u>51,242</u>	<u>134,685</u>	<u>185,927</u>
<b>FUND BALANCES, ENDING BUDGETARY BASIS</b>	<u><u>\$ 104,295</u></u>	<u><u>\$ 50,288</u></u>	154,583
Accounts receivable			14,602
Capital assets			1,524,274
Compensated absences			(2,792)
Net pension liability			(34,889)
Deferred outflow related to pension			19,464
Deferred inflows related to pension			<u>(219)</u>
<b>NET POSITION, ENDING</b>			<u><u>\$ 1,675,023</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, 2017**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 130,000	\$ 130,000	174,134	\$ 44,134
Total revenues	130,000	130,000	174,134	44,134
<b>EXPENDITURES:</b>				
Personnel service	73,815	73,815	64,702	9,113
Materials and service	46,646	46,646	24,831	21,815
Capital outlay	37,000	37,000	31,548	5,452
Contingency	6,503	6,503	-	6,503
Total expenditures	163,964	163,964	121,081	42,883
Net change in fund balance	(33,964)	(33,964)	53,053	87,017
<b>FUND BALANCE, BEGINNING BUDGETARY BASIS</b>	54,500	54,500	51,242	(3,258)
<b>FUND BALANCE, ENDING BUDGETARY BASIS</b>	<u>\$ 20,536</u>	<u>\$ 20,536</u>	<u>\$ 104,295</u>	<u>\$ 83,759</u>

**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, 2017**

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
System development charges	\$ 99,500	\$ 99,500	26,703	\$ (72,797)
Total revenues	99,500	99,500	26,703	(72,797)
<b>EXPENDITURES:</b>				
Materials and service	10,000	10,000	2,133	7,867
Capital outlay	126,237	126,237	108,967	17,270
Total expenditures	136,237	136,237	111,100	25,137
Net change in fund balance	(36,737)	(36,737)	(84,397)	(47,660)
<b>FUND BALANCE, BEGINNING BUDGETARY BASIS</b>	136,237	136,237	134,685	(1,552)
<b>FUND BALANCE, ENDING BUDGETARY BASIS</b>	<u>\$ 99,500</u>	<u>\$ 99,500</u>	<u>\$ 50,288</u>	<u>\$ (49,212)</u>

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH OREGON STATE REGULATION**

Honorable Mayor and City Council  
City of Molalla, Oregon

We have audited the basic financial statements of City of Molalla, Oregon, as of and for the year ended June 30, 2017 and have issued our report thereon dated January 4, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State.

**Compliance**

As part of obtaining reasonable assurance about whether City of Molalla, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162 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:

- 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.

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. In connection with our testing, nothing came to our attention that caused us to believe City of Molalla, Oregon 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, 2017:

<u>Fund</u>	<u>Budget Category</u>	<u>Amount</u>
Bonded Debt Fund	Debt service	\$ 3,200
CWSRF Debt Retirement Fund	Debt service	\$ 3,534

### **OAR 162-10-0230 Internal Control**

In planning and performing our audit, we considered City of Molalla, Oregon'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 City of Molalla, Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Molalla, Oregon'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.

### **Purpose of this Report**

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



For Merina & Company, LLP  
West Linn, Oregon  
January 4, 2018