

MOLALLA URBAN
RENEWAL AGENCY

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

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

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URBAN RENEWAL AGENCY OFFICIALS

NAME

TERM EXPIRES

Mayor

Debbie Rogge

December 2016

Councilors:

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

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

CITY STAFF

City Manager

Dan Huff

Finance Director

Chaunee Seifried

MAILING ADDRESS

PO Box 248
Molalla, Oregon 97038

INDEPENDENT AUDITOR'S REPORT

Agency Officials
Molalla Urban Renewal Agency
Molalla, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Molalla Urban Renewal Agency, (the Agency), a component unit of the City of Molalla, Oregon, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Agency, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison statement for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

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

Report on Other Legal and Regulatory Requirements

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



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

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

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.

MOLALLA URBAN RENEWAL AGENCY
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 2,098,959
Cash with county	529
Property taxes receivable	<u>16,056</u>
Total current assets	<u><u>\$ 2,115,544</u></u>
LIABILITIES:	
Current liabilities:	
Interest payable	\$ 7,929
Current portion of long-term debt	<u>145,512</u>
Total current liabilities	<u>153,441</u>
Noncurrent liabilities:	
Noncurrent portion of long-term debt	<u>2,789,002</u>
Total noncurrent liabilities	<u>2,789,002</u>
Total liabilities	<u>2,942,443</u>
NET POSITION:	
Unrestricted	<u>(826,899)</u>
Total net position	<u>(826,899)</u>
Total liabilities and net position	<u><u>\$ 2,115,544</u></u>

The accompanying notes are an integral part of these financial statements

MOLALLA URBAN RENEWAL AGENCY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>Expenses</u>	<u>Net Revenue (Expenses) and Change in Net Position</u>
EXPENSES:		
Community development	\$ 1,756,462	\$ (1,756,462)
Interest on long-term debt	<u>72,577</u>	<u>(72,577)</u>
Total activities	<u><u>\$ 1,829,039</u></u>	<u>(1,829,039)</u>
GENERAL REVENUES:		
Property taxes		305,293
Interest		<u>871</u>
Total general revenues		<u>306,164</u>
Change in net position		(1,522,875)
NET POSITION, BEGINNING		<u>695,976</u>
NET POSITION, ENDING		<u><u>\$ (826,899)</u></u>

The accompanying notes are an integral part of these financial statements

FUND FINANCIAL STATEMENTS
Major Governmental Funds

General Fund

This fund accounts for property taxes collected for public improvements, acquisitions and to attract economic and redevelopment in Molalla.

**MOLALLA URBAN RENEWAL AGENCY
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2016**

	<u>General Fund</u>
ASSETS:	
Cash and cash equivalents	\$ 2,098,959
Cash with county	529
Property taxes receivable	<u>16,056</u>
Total assets	<u><u>\$ 2,115,544</u></u>
DEFERRED INFLOWS OF RESOURCES:	
Unavailable revenue- property taxes	<u>15,506</u>
Total deferred inflows of resources	<u>15,506</u>
FUND BALANCE:	
Unassigned	<u>2,100,038</u>
Total fund balance	<u>2,100,038</u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 2,115,544</u></u>
Amounts reported in the statement of net position are different because:	
Total fund balance	\$ 2,100,038
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred inflows in the funds.	
Unavailable revenues	15,506
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	(2,934,514)
Interest payable	<u>(7,929)</u>
Net position	<u><u>\$ (826,899)</u></u>

The accompanying notes are an integral part of these financial statements

MOLALLA URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE
IN FUND BALANCE - GOVERNMENTAL FUND
For the Year Ended June 30, 2016

	<u>General Fund</u>
REVENUES:	
Property taxes	\$ 303,567
Interest	871
	<hr/>
Total revenues	304,438
	<hr/>
EXPENDITURES:	
Current:	
Community development	107,257
Capital outlay	1,649,205
Debt service:	
Principal	85,000
Interest	131,143
	<hr/>
Total expenditures	1,972,605
	<hr/>
Revenues over (under) expenditures	(1,668,167)
	<hr/>
Net change in fund balance	(1,668,167)
	<hr/>
FUND BALANCE, BEGINNING	3,768,205
	<hr/>
FUND BALANCE, ENDING	<u>\$ 2,100,038</u>

The accompanying notes are an integral part of these financial statements

MOLALLA URBAN RENEWAL AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT
OF ACTIVITIES
For the Year Ended June 30, 2016

Amounts reported in the statement of activities are different because:

Net change in fund balance	\$ (1,668,167)
Some revenue reported in the statement of activities do not provide current financial resources in the governmental funds.	1,726
Accrued interest payable	33,054
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.	<u>110,512</u>
Change in net position	<u><u>\$ (1,522,875)</u></u>

The accompanying notes are an integral part of these financial statements

**MOLALLA URBAN RENEWAL AGENCY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2016**

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

The accompanying notes are an integral part of these financial statements

MOLALLA URBAN RENEWAL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

(1) Summary of Significant Accounting Policies

The financial statements of the Molalla Urban Renewal Agency have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Description of Reporting Entity

The Molalla Urban Renewal Agency (a component unit of the City of Molalla) was established August 24, 2008 under the provisions of Oregon Revised Statutes, Chapter 457, to assist in the re-development of blighted and deteriorated areas within the City's designated urban renewal area. As provided by ORS 457, the City Council of the City of Molalla is designated as the governing body of the Molalla Urban Renewal Agency. Principle funding sources are property tax revenues and interest earnings. Fiscal and accounting functions are handled by personnel of the City of Molalla.

The Molalla Urban Renewal Agency Board of Directors is not financially accountable for any other governmental entity. Financial accountability is determined in accordance with criteria set forth in accounting principles generally accepted in the United States of America, primarily on the basis of authority to appoint voting majority of an organization's governing board, ability to impose its will on that organization, the potential for that organization to provide specific benefits or impose specific financial burdens and that organization's fiscal dependency. The Molalla Urban Renewal Agency is a component unit of the City of Molalla and, as such is included in the financial statements of the City of Molalla for the year ended June 30, 2016.

The Molalla Urban Renewal Agency has no component units.

B. Basic Financial Statements

The Molalla Urban Renewal Agency's financial operations are presented at both the Agency-wide and fund financial levels. All activities on the Molalla Urban Renewal Agency are categorized as governmental.

Molalla Urban Renewal Agency-wide financial statements

The statement of net position and the statement of activities display information about the Molalla Urban Renewal Agency as a whole.

The Molalla Urban Renewal Agency uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Molalla Urban Renewal Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

MOLALLA URBAN RENEWAL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

Fund financial statements

These statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, and fiduciary. Currently the Molalla Urban Renewal Agency has only governmental fund type.

C. Basis of Presentation

The financial transactions of the Molalla Urban Renewal Agency are recorded in the General Fund. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures.

The GASB 34 model sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. For purposes of presentation, the Molalla Urban Renewal Agency's fund is presented as a major fund.

General Fund - The General Fund is used to record expenditures related to capital improvements projects. Major sources of revenue and other financing sources are specific taxes that are legally restricted to expenditures for specific purposes.

D. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded with the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

The Molalla Urban Renewal Agency-wide financial statements are reported using the *economic resources measurement focus* and the *full 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Molalla Urban Renewal Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the Molalla Urban Renewal Agency-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the Agency-wide presentation.

E. Cash and cash equivalents

The Molalla Urban Renewal Agency considers cash equivalents as all highly liquid investments with maturity of three months or less. Investments included in cash and cash equivalents are reported at fair value.

MOLALLA URBAN RENEWAL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

F. Receivables and Property Tax Calendar

Uncollected property taxes receivable, which have been collected within thirty days following year-end are considered measurable and available and are recognized as revenue. All other uncollected property taxes receivable are offset by unavailable revenue and, accordingly, have not been recorded as revenue. Property taxes are assessed and become a lien against the property as of July 1 each year and are payable in three installments on November 15, February 15, and May 15 following the lien date. Taxes unpaid and outstanding on May 16 are considered delinquent. All property taxes are billed and collected by Clackamas County and remitted to the Molalla Urban Renewal Agency. Uncollected taxes, including delinquent amounts, are considered substantially collectible or recoverable through liens, and accordingly no allowance for uncollected taxes has been established. All property taxes receivable are due from property owners within the Molalla Urban Renewal Agency's boundaries.

G. Deferred outflows and inflows of resources

The statements will sometimes report separate sections for deferred outflows of resources and deferred inflows of resources. Items in these categories represent a consumption or acquisition of net position that applies to future periods.

H. Net Position

In the government-wide financial statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets, represents capital assets less accumulated depreciation less outstanding principal of related debt. Net investment in capital assets, does not include the unspent proceeds of capital debt. Restricted net position represents net position restricted by parties outside of the Agency (such as creditors, grantors, contributors, laws, and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. All other net position is considered unrestricted.

I. 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 Agency 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 legal constitutional provisions.

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

MOLALLA URBAN RENEWAL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

Assigned – Includes amounts assigned for specific purposes by board action. Assigned fund balance is established by the Agency through adoption or amendment of the budget as intended for specific purpose.

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

J. Use of Restricted Resources

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

K. Use of Estimates

In preparing the Molalla Urban Renewal Agency's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Budgetary Information

On or before June 30 of each biennium, the Molalla Urban Renewal Agency 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 Molalla Urban Renewal Agency Board of Directors and a like number of interested citizens. The budget committee presents the budget to the Agency Board for budget hearings prior to enactment of the resolution. The Molalla Urban Renewal Agency budgets all funds as required by Oregon Local Budget Law.

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Expenditure categories of personal 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 Molalla Urban Renewal Agency Board. 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 Molalla Urban Renewal Agency Board. Management may not amend the budget without seeking the approval of the Board. Appropriations lapse as of year-end.

MOLALLA URBAN RENEWAL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

(3) Cash and Cash Equivalents

The Agency maintains its cash in a separate bank account from the City. At June 30, 2016, the Agency's cash and cash equivalents were comprised of the following:

Deposits with banks	\$ 2,098,959
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A. Custodial credit risk – deposits

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned. The Agency does not have a deposit policy for custodial credit risk. The Federal Depository Insurance Corporation (FDIC) provides insurance for the Agency's deposits up to \$250,000 for the combined total of all deposit accounts at each financial institution. The remaining deposits are covered by the Public Funds Collateralization program (PFCP) of the State of Oregon in accordance with ORS 295. Depositories qualified under this program are required to pledge collateral against any public funds deposits in excess of deposit insurance amounts. This provides additional protection for public funds in the event of a bank failure or loss. ORS 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable. ORS 295 creates a shared liability structure for participating depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. As of June 30, 2016, the book value of the Agency's deposits was \$2,098,959 and the bank balance was \$2,370,634. The Agency's bank balances of \$2,120,634 were exposed to custodial credit risk as they were collateralized under PFCP.

B. Credit risk

State statutes authorize the Molalla Urban Renewal Agency 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 Molalla Urban Renewal Agency has no investment policy that would further limit its investment choices.

(4) Long Term Debt

During the year ended June 30, 2016, long-term liability activity was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in 1 Year
Urban Renewal Series 2015	\$2,690,000	\$ -	\$ 85,000	\$2,605,000	\$ 120,000
Bond Premium	355,026	-	25,512	329,514	25,512
Total Governmental Bonds	<u>\$3,045,026</u>	<u>\$ -</u>	<u>\$ 110,512</u>	<u>\$2,934,514</u>	<u>\$ 145,512</u>

MOLALLA URBAN RENEWAL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

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.

Total bonds payable \$ 2,605,000

Annual debt service requirements to maturity are as follows:

Urban Renewal Series 2015	
Principal	Interest
\$ 120,000	\$ 98,750
130,000	95,150
140,000	91,250
155,000	87,050
165,000	82,400
1,055,000	301,200
<u>840,000</u>	<u>68,800</u>
<u>\$ 2,605,000</u>	<u>\$ 824,600</u>

(5) Risk Management

The Molalla Urban Renewal Agency is exposed to various risks of loss related to: torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. Except for unemployment compensation, the Molalla Urban Renewal Agency purchases commercial insurance to minimize its exposure to these risks.

Workers compensation claims are insured through incurred loss retrospective policies. Settled claims have not exceeded this commercial coverage for any of the past three years.

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

We have audited the basic financial statements of the Molalla Urban Renewal Agency, (the Agency), a component unit of the City of Molalla, Oregon, as of and for the year ended June 30, 2016 and have issued our report thereon dated March 13, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162-10-000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets. The Agency does not receive highway revenues.
- 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 Agency does not have any elected officials collecting or receiving money.

In connection with our testing, nothing came to our attention that caused us to believe the Agency was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon

Administrative Rules 162-10-000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

OAR 162-10-0230 Internal Control

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

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

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

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



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