

MOLALLA RIVER SCHOOL DISTRICT NO. 35
CLACKAMAS COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016



12700 SW 72nd Ave.
Tigard, OR 97223

MOLALLA RIVER SCHOOL DISTRICT 35
CLACKAMAS COUNTY, OREGON

2015-2016 FINANCIAL REPORT

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MOLALLA RIVER SCHOOL DISTRICT 35
CLACKAMAS COUNTY, OREGON

2015-2016 FINANCIAL REPORT

<u>BOARD OF DIRECTORS</u>	<u>TERM EXPIRES</u>
Neal Lucht, Chair	June 30, 2019
Calvin Nunn, Vice-Chair	June 30, 2017
Linda Eskridge	June 30, 2019
Mark Lucht	June 30, 2017
Ralph Gierke	June 30, 2019
Craig Loughridge	June 30, 2017
Liz Cruthers	June 30, 2017

All board members receive mail at the District Office address below.

ADMINISTRATION

Tony Mann – Superintendent
Richard Gill – Business Manager

P.O. Box 188
Molalla, OR 97038-8113

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MOLALLA RIVER SCHOOL DISTRICT 35

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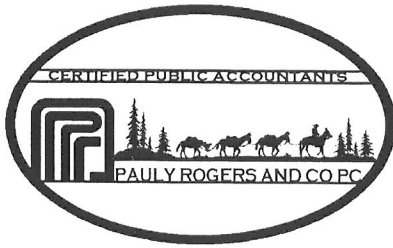
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PAULY, ROGERS, AND CO., P.C.
12700 SW 72nd Ave. Tigard, OR 97223
(503) 620-2632 (503) 684-7523 FAX
www.paulyrogersandcocpas.com

September 26, 2016

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Molalla River School District 35
Clackamas County, Oregon

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Molalla River School District 35 as of and for the year ended June 30, 2016, and the related notes to the basic financial statements, which collectively comprise the 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 basic 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 the basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the basic 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 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 basic 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 basic 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 Molalla River School District 35, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The District adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application* and GASB 79 – *Certain External Investment Pools and Pool Participants*, for the year ended June 30, 2016. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the schedule of funding progress and employer contributions or management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison schedules presented as Required Supplementary Information, as listed in the table of contents, have 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 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, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CRF) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

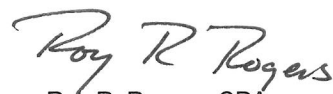
Other Information

The listing of Board Members containing their term expiration dates, located before the table of contents, and the other information, as listed in the table of contents, have 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 them.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated September 26, 2016, on our consideration of 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.

In accordance with *Government Auditing Standards*, we have also issued our reports September 26, 2016 on our consideration of the internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.



Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.



412 S. Sweigle Avenue
P.O. Box 188
Molalla, Oregon 97038
503-829-2359 FAX 503-829-5540

**MOLALLA RIVER SCHOOL DISTRICT 35, CLACKAMAS COUNTY, OREGON
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

The management of the Molalla River School District 35, Clackamas County, Oregon (the District), offers readers this narrative overview and analysis of the financial activities of the Molalla Public Schools for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements and notes of this report, to enhance their understanding of the District's financial activities.

Financial Highlights

- The June 30 2016 net position of Molalla River School District in the government-wide financial statements was \$2,103,411. The District invested \$11,593,123 in capital assets, net of related debt.
- At June 30, 2016 the District's governmental funds reported combined ending fund balances of \$6,297,892. This represents an increase of \$117,574 from the prior year. A majority of this balance is committed to sustaining school district curriculum and programs.
- At June 30, 2016, the General Fund had an unassigned fund balance of \$4,249,155 or about 17.91% of general fund expenditures. The increase in fund balance results from the district intentionally managing resources. The district plans to invest in strategic learning instructional practices in 2016 - 2017 which could decrease the general fund balance.
- Reserve funds for self insurance and future debt payments increased by \$38,650. Although these funds are technically restricted for specific purposes, the intention of reserves is to help mitigate and protect the general fund from large unanticipated negative cash flows and ultimately the stability of classroom instruction.
- The District's total liabilities decreased by \$396,859 during the 2015-16 fiscal year. The primary factors were the payment of principal on Pension Obligation bonds..
- This discussion and analysis is intended to serve as an introduction to the Molalla Public School's 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. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

- The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Molalla Public Schools is improving or deteriorating.

- The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. 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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). As is typical for a school district, Molalla Public Schools has governmental activities, which include instruction, support services, facilities, food services, community service, and debt service. Molalla Public Schools currently does not have any business-type activities.

Fund Financial Statements are designed to demonstrate compliance with finance-related legal requirements overseeing the use of fund accounting. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. All of the funds of the Molalla Public Schools can be divided into three categories: governmental funds, fiduciary funds, and proprietary funds. The School Board sets appropriations within every fund each year (for instruction, support services, community services, facilities acquisition and construction, debt service, transfers, contingency, and un-appropriated ending fund balance) that establish the legal limits for expenditures of the District.

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 available resources, as well as on balances of available resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing 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 District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Molalla Public Schools reports three major governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Federal Grants Fund and Other Governmental Funds.

Molalla Public Schools adopts an annual appropriated budget for all of its funds as stated above. A budgetary comparison statement has been provided for each fund individually to demonstrate compliance with their budgets.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information and supplemental information including the District's bond and bond interest transactions, schedule of bond redemption and interest requirements and schedule of property tax transactions for both the General Fund and Debt Service Fund.

Government-Wide Financial Analysis

Net position. As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of Molalla Public Schools, assets exceeded liabilities by \$2,103,411 at the close of the most recent fiscal year.

	2016	2015	Difference
Assets			
Current and other assets	\$ 8,303,294	\$ 8,230,722	\$ 72,572
Prepaid pension expense	0	0	0
Net capital assets	11,593,123	11,271,354	321,769
Total assets	19,896,417	19,502,076	394,341
Liabilities			
Noncurrent long-term debt	15,356,515	15,902,307	(545,792)
Other liabilities	2,436,491	2,287,558	148,933
Total liabilities	17,793,006	18,189,865	(396,859)
Net Position			
Invested in capital assets, net of related debt	11,593,123	11,271,354	321,769
Restricted	680,186	615,500	64,686
Unrestricted	(10,169,898)	(10,628,207)	458,309
Total net position	\$ 2,103,411	\$ 1,258,647	\$ 844,764

Capital assets, which consist of the District's land, buildings, building improvements, land improvements, vehicles, and equipment, represent about 58 percent of total assets, approximately the same percent as the prior year. The remaining assets consist mainly of investments, cash, grants, and property taxes receivable.

The District's largest liability, about 87 percent, is for the repayment of PERS pension bonds. Pension bonds were issued on October 31, 2002 and April 21, 2003 to pay off the district's portion of the debt associated with the Oregon Public Retirement System of which Molalla River School District is a member. Current liabilities, representing about 13 percent of the District's total liabilities, consist almost entirely of payables on accounts, salaries and benefits, and the current portion of long-term debt.

A large portion of the District's net position reflects 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 District uses these capital assets for classrooms and supporting services for providing K-12 education; consequently, these assets are not available for future spending. Although the District's investment in 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 liquidate these liabilities.

During the current fiscal year, the District's net position increased by approximately \$818,199. Some key elements of the change in the District's net position for the year ended June 30, 2016 and 2015 are as follows:

Change in Net Position for the Fiscal Year Ending June 30 2016

	2016	2015	Increase (Decrease)	%
Revenues				
Function revenues				
Charges for services	\$ 515,080	\$ 479,037	\$ 36,043	7.5
Operating grants and contributions	1,747,710	1,789,854	(42,144)	(2.4)
Total function revenues	2,262,790	2,268,891	(6,101)	(0.3)
General revenues				
Property taxes	7,279,705	6,918,316	361,389	5.2
State school fund	16,602,625	15,618,404	984,221	6.3
Unrestricted local and intermediate	3,212,919	2,518,470	694,449	27.6
Investment earnings	63,980	53,080	10,900	20.5
Gain on sale of assets	(28,507)	(14,739)	(13,768)	93.4
Total general revenues	27,130,722	25,093,531	2,037,191	8.1
Total revenues	29,393,512	27,362,422	2,031,090	7.4
Expenses				
Instruction	16,067,200	14,873,555	1,193,645	8.0
Support services	10,435,103	9,882,939	552,164	5.6
Enterprise and community services	771,101	878,110	(107,009)	(12.2)
Facilities acquisition and construction	0	72,347		
Interest on long-term debt	1,275,344	1,214,441	60,903	5.0
Total expenses	28,548,748	26,921,392	1,699,703	6.3
Increase in net position	844,764	441,030	n/a	n/a
Net position - beginning	1,258,647	817,617	n/a	n/a
Net position - ending	\$ 2,103,411	\$ 1,258,647	\$ 844,764	67.1

Total revenues increased approximately \$2,004,525 from June 30, 2015 mostly as a result of an increase in property taxes and the state school fund for 2015-16.

Since the District's mission is to provide a free and appropriate public education for K-12 students within its boundaries, the District may not charge for its academic services. Charges for services stem from activities related to the School Lunch Program and Pay-to-Play fees for athletics. Total fees represented 1.75 percent of total resources.

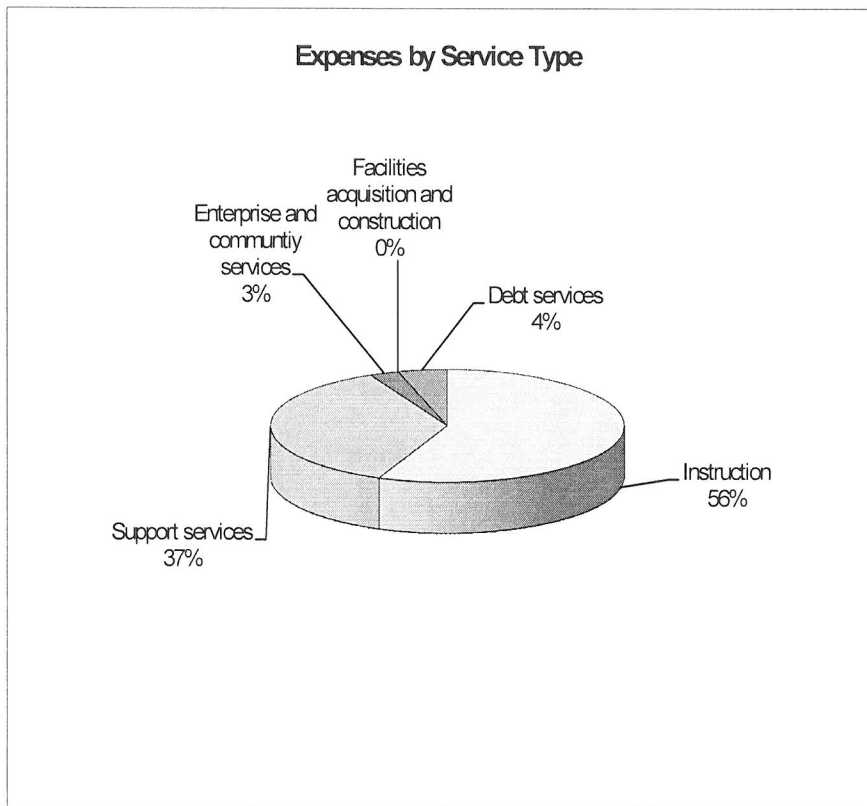
Operating grants are comprised primarily of dollars allocated by the Federal Government and distributed by the State of Oregon. Reimbursements from the Federal School Lunch Program are also included. Federal dollars available through grants increased over the prior year by one hundred thousand dollars.

General Revenues account for more than 92 percent of all resources. The State School Support Fund (SSSF) is the largest group of resources. Each Oregon school district receives money from the state based upon an average weighted student membership formula (ADMw). The formula is allocated by multiplying a dollar rate per student established by the legislature every two year period (bi-annum). All General Fund Ad Valorem Taxes, County School Fund, State School Support, Common School Fund, and Federal Forest Fees are included in the SSF formula.

Expenses. Expenses related to governmental activities are presented in five broad functional categories. Costs of direct classroom instruction activities account for 56% of the total expenses of \$28,548,748. In addition, approximately 42% of the costs in support services relate to students, instructional staff and school administration.

Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 16,067,200	\$ 14,940,856
Support services	10,435,103	9,576,661
Enterprise and community services	771,101	493,097
Facilities acquisition and construction	0	0
Debt services	1,275,344	1,275,344
Total	\$ 28,548,748	\$ 26,285,958



Financial Analysis of the District's Funds

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

The focus of the District's *governmental funds* is to provide information on relatively short-term cash flow and funding for future basic services. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* and any unused *budgeted contingencies* may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year. The district did not spend any of the budgeted contingency for the year ended June 30, 2016.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance was \$4,249,155. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund revenue. General Fund balance represents 17 percent of General Fund revenues.

Debt Service fund balance increased by \$53,734 and ended the year at \$998,252.

The Capital Project fund balances decreased by \$348,020 and ended the year at \$627,657.

Fund Budgetary Highlights

Expenditures of all the various funds were within authorized appropriations, except as noted on page 55 of the financial statements.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2016, amounts to \$11,593,123 net of accumulated depreciation. This investment in capital assets includes land, buildings, equipment, furniture, vehicles and construction in progress. Capital assets for the prior year amounted to \$11,271,354 and reflect a increase of \$321,769. This increase is net of acquisitions and normal depreciation.

Capital Assets (net of depreciation)

	June 30, 2016	June 30, 2015	Total Percentage Change
Land	\$ 735,979	\$ 735,979	0.00%
Buildings and improvements	9,414,616	10,097,651	-6.76%
Vehicles and equipment	1,442,528	437,724	229.55%
Total assets	\$ 11,593,123	\$ 11,271,354	

Long-term debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$15,964,411. \$15,653,209 of this is for Pension bonds issued on October 31, 2002 and April 21, 2003 to pay off the district's portion of the Unfunded Actuarial Liabilities associated with the Oregon Public Retirement System of which Molalla River School District is a member. The District's total long-term debt decreased by \$441,265 during the current fiscal year.

Outstanding Long-Term Debt

	June 30, 2016	June 30, 2015	Total Percentage Change
Bonds payable	\$ 15,653,209	\$ 16,158,614	-3.13%
Post employment benefit obligations	344,271	280,131	22.90%
Total Long-Term Debt	\$ 15,997,480	\$ 16,438,745	

The pension bonds issued in 2002 and 2003 were part of a state-wide effort, to reduce pension debt, sponsored by the Oregon School Boards Association (OSBA). Moody's and Standard & Poor's gave ratings of A1 and AA- respectively to the group pension issue.

Additional information on the District's long-term debt can be found in note 8 on pages 23 - 24 of this report.

Economic Factors and Next Year's Budgets

- The 2015 legislative Session appropriated \$7.376 billion for the state school fund for the two year period ending June 30, 2017. The district increased operating costs in the 2016-2017 budget by \$1,500,000 compared to expenditures in 2015-2016. The general fund balance will be reduced by approximately one million two hundred thousand in 2016-2017.
- District licensed employees are represented by the Molalla River Education Association (MREA), affiliated with the Oregon Education Association (OEA) and the National Education Association and have an agreement with the District through June 2017.
- District classified employees are represented by the Oregon School Employees Association (OSEA) and have an agreement with the District through June 2018.
- Student membership is expected to increase slowly over the next several years. The district receives approximately \$7,050 per student from the State School Support Fund. Any loss in student membership creates a financial burden upon the district.
- The School Board has a policy that targets an ending fund cash balance goal of at least 8 percent of total adopted revenues. It is projected that a surplus of this size will be attainable during both years of the bi-annum and the School Board continues to discuss fund balance amounts appropriate for future budgets.

Requests for Information

This financial report is designed to provide a general overview of the Molalla Public Schools' finances for all those with an interest in the school district's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to Richard Gill at the District Office, Molalla River School District, P.O. Box 188, Molalla, OR, 97038-8113.

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MOLALLA RIVER SCHOOL DISTRICT 35
CLACKAMAS COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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MOLALLA RIVER SCHOOL DISTRICT 35

STATEMENT OF NET POSITION

June 30, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 6,916,663
Receivables:	
Accounts	954,756
Property taxes	392,600
Other assets	7,961
Prepaid expenses	31,314
Capital assets, net of depreciation:	
Land	735,979
Buildings, vehicles and equipment	10,857,144
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Total assets	19,896,417
	<hr/>
LIABILITIES	
Current liabilities:	
Accounts payable	190,180
Payroll deductions and withholdings	971,371
Due to fiduciary funds	322,577
Other liabilities	196
Long-term debt due within one year	607,896
Noncurrent liabilities:	
Long-term debt due in more than one year	15,356,515
Other Post Employment Benefits (OPEB)	344,271
	<hr/>
Total liabilities	17,793,006
	<hr/>
NET POSITION	
Net investment in capital assets	11,593,123
Restricted for:	
Grants	63,847
Capital projects	616,339
Unrestricted	(10,169,898)
	<hr/>
Total net position	\$ 2,103,411
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See accompanying notes to basic financial statements.

MOLALLA RIVER SCHOOL DISTRICT 35

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION

Year Ended June 30, 2016

FUNCTIONS	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Change in Net Position
Governmental activities:				Governmental Activities
Instruction	\$ 16,067,200	\$ 111,908	\$ 1,014,436	\$ (14,940,856)
Support services	10,435,103	172,807	685,635	(9,576,661)
Enterprise and community services	771,101	230,365	47,639	(493,097)
Facilities acquisition and construction	-	-	-	-
Interest on long-term debt	1,275,344	-	-	(1,275,344)
Total governmental activities	\$ 28,548,748	\$ 515,080	\$ 1,747,710	(26,285,958)
General revenues:				
Property taxes				7,279,705
Construction excise tax				182,988
State revenue sharing				16,602,625
Unrestricted local				2,789,017
Unrestricted intermediate sources				240,914
Earnings on investments				63,980
Loss on disposal of assets				(28,507)
Total general revenues				27,130,722
CHANGE IN NET POSITION				844,764
Net position - July 1, 2015				1,258,647
Net position - June 30, 2016				\$ 2,103,411

See accompanying notes to basic financial statements.

MOLALLA RIVER SCHOOL DISTRICT 35

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2016

	GENERAL	FEDERAL GRANTS	OTHER GOVERNMENTAL	TOTAL
ASSETS				
Cash and investments	\$ 6,910,086	\$ -	\$ 6,577	\$ 6,916,663
Accounts receivable	290,834	360,214	303,708	954,756
Taxes receivable	392,600	-	-	392,600
Due from other governmental funds	26,388	-	1,833,940	1,860,328
Interest receivable	7,961	-	-	7,961
Prepaid expenses	23,902	4,452	2,960	31,314
	<u>7,651,771</u>	<u>364,666</u>	<u>2,147,185</u>	<u>10,163,622</u>
Total assets	<u>\$ 7,651,771</u>	<u>\$ 364,666</u>	<u>\$ 2,147,185</u>	<u>\$ 10,163,622</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Due to other governmental funds	\$ 1,779,108	\$ 363,493	\$ 40,304	\$ 2,182,905
Due to non-governmental funds	175,212	-	-	175,212
Accounts payable	128,537	1,173	58,144	187,854
Payroll deductions and withholdings	971,371	-	-	971,371
Other short term liabilities	196	-	-	196
Unearned revenues	-	-	-	-
	<u>3,054,424</u>	<u>364,666</u>	<u>98,448</u>	<u>3,517,538</u>
Total liabilities	<u>3,054,424</u>	<u>364,666</u>	<u>98,448</u>	<u>3,517,538</u>
Deferred inflows of resources:				
Unavailable revenue-property taxes	348,192	-	-	348,192
	<u>348,192</u>	<u>-</u>	<u>-</u>	<u>348,192</u>
Fund balances:				
Nonspendable	23,902	4,452	-	28,354
Restricted for				
Grants	-	-	63,847	63,847
Capital projects	-	-	616,339	616,339
Committed	-	-	1,310,863	1,310,863
Assigned	25,675	-	57,688	83,363
Unassigned	4,199,578	(4,452)	-	4,195,126
	<u>4,249,155</u>	<u>-</u>	<u>2,048,737</u>	<u>6,297,892</u>
Total fund balances	<u>4,249,155</u>	<u>-</u>	<u>2,048,737</u>	<u>6,297,892</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,651,771</u>	<u>\$ 364,666</u>	<u>\$ 2,147,185</u>	<u>\$ 10,163,622</u>

See accompanying notes to basic financial statements.

MOLALLA RIVER SCHOOL DISTRICT 35

RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION

June 30, 2016

TOTAL FUND BALANCES \$ 6,297,892

Capital assets are not financial resources and therefore are not reported in the governmental funds:

Cost	\$ 39,172,759	
Accumulated depreciation	<u>(27,579,636)</u>	11,593,123

The assets and liabilities of the Internal service fund are included in government activities in the Statement of Net Position 172,886

A portion of the District's property taxes are collected after year-end but are not available soon enough to pay for the current year's operations, and therefore are not reported as revenue in the governmental funds.

Property tax unearned	348,192
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Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. Interest in long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due. These liabilities consist of:

Accrued compensated absences	(63,805)	
Bonds payable	(15,653,209)	
Accrued discount on bonds payable	(247,397)	
Early retirement	(97,300)	
Health insurance stipend	<u>(246,971)</u>	<u>(16,308,682)</u>

TOTAL NET POSITION	<u>\$ 2,103,411</u>
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See accompanying notes to basic financial statements.

MOLALLA RIVER SCHOOL DISTRICT 35

GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 Year Ended June 30, 2016

	GENERAL	FEDERAL GRANTS	OTHER GOVERNMENTAL	TOTAL
REVENUES				
Local sources	\$ 7,730,227	\$ -	\$ 3,156,604	\$ 10,886,831
Intermediate sources	197,869	38,400	4,645	240,914
State sources	16,537,309	-	65,316	16,602,625
Federal sources	55,008	1,079,914	606,440	1,741,362
Total revenues	24,520,413	1,118,314	3,833,005	29,471,732
EXPENDITURES				
Instruction	14,069,477	702,670	433,471	15,205,618
Support services	9,605,354	112,677	463,973	10,182,004
Community service & enterprise	-	-	714,066	714,066
Facilities acquisition and construction	-	-	-	-
Capital outlay	53,151	302,967	1,115,603	1,471,721
Debt service	-	-	1,780,749	1,780,749
Total expenditures	23,727,982	1,118,314	4,507,862	29,354,158
Excess of revenues over (under) expenditures	792,431	-	(674,857)	117,574
OTHER FINANCING SOURCES (USES)				
Transfer in	220,091	-	270,000	490,091
Transfer out	(488,073)	(2,018)	-	(490,091)
Total other financing sources (uses)	(267,982)	(2,018)	270,000	-
Net change in fund balance	524,449	(2,018)	(404,857)	117,574
FUND BALANCE, beginning of year	3,724,706	2,018	2,453,594	6,180,318
FUND BALANCE, end of year	\$ 4,249,155	\$ -	\$ 2,048,737	\$ 6,297,892

See accompanying notes to basic financial statements.

MOLALLA RIVER SCHOOL DISTRICT 35

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

NET CHANGE IN FUND BALANCE \$ 117,574

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

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Removal of capital assets	\$ (28,507)	
Expenditures for capital assets	1,471,721	
Less current year depreciation	(1,121,445)	321,769

Internal service funds are used by the District to charge the costs of Worker' Compensation and Unemployment Compensation to the individual funds. The change in net position of the internal service funds is reported with governmental activities. (15,084)

Long-term debt proceeds are reported as other financing sources in governmental funds. In the Statement of Net Position, however, issuing long-term debt increases liabilities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Position. This is the amount by which proceeds exceeded repayments:

Early retirement	(2,607)	
Health insurance stipend	(61,533)	
Debt principal repaid	505,405	441,265

Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. 32,019

Property tax revenue in the Statement of Activities differs from the amount reported in the governmental funds. In the governmental funds, which are on the modified accrual basis, the District recognizes unearned revenue for all property taxes levied but not received, however in the Statement of Activities, there is no unearned revenue and the full property tax receivable is accrued. (49,714)

Compensated absences are recognized as expenditures in the governmental funds when they are paid. In the Statement of Activities compensated absences are recognized as an expense when earned. (Net) (3,065)

CHANGE IN NET POSITION \$ 844,764

See accompanying notes to basic financial statements.

MOLALLA RIVER SCHOOL DISTRICT 35

PROPRIETARY FUND
STATEMENT OF NET POSITION
June 30, 2016

	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUND
ASSETS	
Interfund loans receivable	\$ 175,212
LIABILITIES	
Accounts payable	2,326
NET POSITION	
Total net position	\$ 172,886

See accompanying notes to basic financial statements.

MOLALLA RIVER SCHOOL DISTRICT 35

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION

Year Ended June 30, 2016

	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUND
REVENUES	
Local sources	\$ -
Transfer in	-
	<hr/>
Total revenues	-
	<hr/>
EXPENDITURES	
Support services	15,084
	<hr/>
Change in net position	(15,084)
NET POSITION, beginning of year	187,970
	<hr/>
NET POSITION, end of year	\$ 172,886
	<hr/> <hr/>

See accompanying notes to basic financial statements.

MOLALLA RIVER SCHOOL DISTRICT 35

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUND
Cash flow from operating activities:	
Receipts from other funds	\$ -
Net cash provided by operating activities	-
Net increase in cash and cash equivalents	-
CASH BALANCE, beginning of year	-
CASH BALANCE, end of year	\$ -

NOTE: For the year ended June 30, 2016, there were no cash revenues or cash expenses associated with the proprietary fund, and thus the statement of cash flows shows no activity.

See accompanying notes to basic financial statements.

MOLALLA RIVER SCHOOL DISTRICT 35

FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 June 30, 2016

	<u>TRUST FUND</u>	<u>AGENCY FUND</u>
	<u>SCHOLARSHIP TRUST FUND</u>	<u>STUDENT ACTIVITY FUND</u>
ASSETS		
Cash and investments	\$ -	\$ 129,650
Due from other governmental funds	322,578	-
	<u>322,578</u>	<u>-</u>
Total assets	<u>322,578</u>	<u>129,650</u>
LIABILITIES		
Due to student groups	-	129,650
	<u>-</u>	<u>129,650</u>
NET POSITION		
Assets held in trust for scholarships	<u>\$ 322,578</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

MOLALLA RIVER SCHOOL DISTRICT 35

FIDUCIARY FUNDS - TRUST FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2016

	<u>SCHOLARSHIP TRUST FUND</u>
ADDITIONS	
Contributions	\$ 5,932
Total additions	<u>5,932</u>
DEDUCTIONS	
Scholarships	<u>10,081</u>
Total deductions	<u>10,081</u>
Changes in net position	(4,149)
NET POSITION, beginning	<u>326,727</u>
NET POSITION, ending	<u><u>\$ 322,578</u></u>

See accompanying notes to basic financial statements.

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MOLALLA RIVER SCHOOL DISTRICT 35
NOTES TO BASIC FINANCIAL STATEMENTS

1. REPORTING ENTITY

The Molalla River School District 35 (the District) was established on July 1, 1993 as the result of the unification of the former Clarkes School District No. 32, Dickey Prairie School District No. 25, Maple Grove School District No. 87, Molalla Elementary School District No. 35, Mulino School District No. 84, Rural Dell School District No. 92 and Schuebel School District No. 80 merged into Molalla Union High School District No. 4 to form the present District. The District assumed all assets and liabilities of the elementary districts, except for bonded debt.

The District is governed by an elected seven-member board, and is a special-purpose primary government exercising financial accountability for all public education within its boundaries. As required by accounting principles generally accepted in the United States of America, all significant activities and organizations have been included in the basic financial statements. Component units, as established by GASB Statement 61, are separate organizations that would be included in the District's reporting because of the significance of their operational or financial relationships with the District. Based on these criteria, there are no component units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the governmental and proprietary financial activities, excluding the fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are financed primarily through property taxes, intergovernmental revenues, and charges for services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each of its functions/programs. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to that function. Eliminations have been made to minimize the double counting of internal activities in the Statement of Activities. Program revenues include: (1) charges to students or others for tuition, fees, rentals, materials, supplies or services provided, (2) operating grants and contributions and (3) capital grants and contributions. Revenues that are not classified as program revenues, including property taxes and state support, are presented as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter is excluded from the government-wide financial statements.

Net position is reported as restricted when constraints placed on net position use are either externally restricted, imposed by creditors (such as through grantors, contributors or laws) or through constitutional provisions or enabling resolutions.

FUND FINANCIAL STATEMENTS

The fund financial statements provide information about the funds including those of a fiduciary nature. Separate statements for each fund category – governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

There are the following major governmental funds:

General Fund - This is the primary operating fund and accounts for all revenues and expenditures except those required to be accounted for in another fund.

Federal Grants Fund – The Grants Fund includes Title I, IDEA, and other federally financed special project funds. The principal sources of revenue are grants from governmental agencies. The primary uses of revenue are salaries and supplies specifically requested with application for grant.

There is the following proprietary fund:

Internal Service Fund – This fund's purpose is to account for costs and claims related to risk management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SPECIAL REVENUE FUNDS ROLLED INTO THE GENERAL FUND FOR GASB 54 PURPOSES

As discussed at Note 2 (Fund Balance), financial statements for periods beginning after June 15, 2010 must report as Special Revenue funds only those which have a substantial portion of revenue inflows from restricted or committed revenue sources. The MHS Land Lab fund is combined into the General fund because the primary revenue source is transfers from the General fund or there is not revenue to report.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the business-type fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net positions available to finance the program. It is policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds, and proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

CASH AND INVESTMENTS

Investments in the State of Oregon Local Government Investment Pool, savings deposits, demand deposits and cash with the county treasurer are considered to be cash equivalents. Investments that have a remaining maturity at the time of purchase of one year or less are stated at amortized cost. All other investments are stated at fair value or estimated fair value.

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

PROPERTY TAXES RECEIVABLE

Property taxes are levied and become a lien as of July 1st on personal and real property values assessed as of the same date. Collection dates are November 15th, February 15th and May 15th following the lien date. Discounts are allowed if the amount due is received by November 15th or February 15th. Taxes unpaid and outstanding on May 16th are considered delinquent. All property taxes receivable are due from property owners within the District.

Uncollected property taxes are shown in the combined balance sheet. Uncollected taxes are deemed by management to be substantially collectible or recoverable through liens; therefore no allowance for uncollectible taxes has been established. Property taxes collected within approximately sixty days of fiscal year-end are recognized as revenue.

The remaining balance of taxes receivable is recorded as a deferred inflow of resources because it is not deemed available to finance operations of the current period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GRANTS

Unreimbursed grant expenditures due from grantor agencies are reflected in the basic financial statements as receivables and revenues. Cash and donated commodities received from grantor agencies in excess of related grant expenditures are recorded as unearned revenue on the combined balance sheet.

SUPPLIES INVENTORY

Supplies inventory is valued at cost using first-in, first-out (FIFO) method. Accounting for supplies inventory is based on the consumption method for the government-wide financial statements. Under the consumption method inventory is recorded when purchased and expenditures/expenses are recorded when inventory items are used. Donated commodities consumed during the year are reported as revenues and expenditures. The amount of unused supplies inventory and donated commodities at balance sheet date is considered immaterial by management for reporting purposes.

CAPITAL ASSETS

Capital assets are stated at cost or estimated historical cost. Donated assets are stated at their estimated fair market value on the date donated. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated life in excess of one year. Interest incurred during construction is not capitalized. Maintenance and repairs of a routine nature are charged to expenditures as incurred and not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 to 50 years
Vehicles and equipment	5 to 30 years

LONG-TERM DEBT

In the government-wide financial statements long-term debt is reported as a liability in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements bond premiums and discounts are recognized when incurred and not deferred. The face amount of the debt issued, premiums received on debt issuances, and discounts are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

ESTIMATES

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

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. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. There are no deferred outflows, due to the District's previous issuance of pension bonds effect upon pension-related liabilities, detailed further in Note 10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (CONTINUED)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items, which qualify for reporting in this category. Unavailable revenue, of \$348,192, is in the governmental funds balance sheet for property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In the Statement of Net Position, \$0 is recognized for Pension Related Deferrals due to actuaries determining the District does not have a shared proportion of the State liability, due to the sale of PERS Bonds in previous years to fund the liability.

FUND BALANCE

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, is followed. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are – nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents inventories and prepaid items.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body. Authority to classify portions of ending fund balance as Assigned is granted to the Superintendent and the Business Manager.
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

The governing body has approved the following order of spending regarding fund balance categories: Restricted resources are spent first when both restricted and unrestricted (committed, assigned or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed (if applicable), assigned (if applicable) and unassigned.

RETIREMENT PLANS

Substantially all of the District's employees are participants in the State of Oregon Public Employees Retirement System (PERS). For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of PERS and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. 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.

Employees are also offered a tax deferred annuity plan. This plan has been established pursuant to Section 403(b) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

POST EMPLOYMENT HEALTH BENEFITS

Retirees electing to take part in any of the retirement programs will be allowed to continue the group medical, dental and/or vision insurance coverage at their own expense, subject to the terms and conditions of the OEGB or its successor. Insurance premiums may be deducted from the retiree's monthly stipend upon authorization of the retiree. The District is not paying any retirees group medical and dental insurance premiums.

ACCRUED SALARIES AND BENEFITS

Accrued salaries and benefits for vacation pay are calculated at fiscal year-end and adjusted to current salary costs including payroll related benefits. All unused vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements. Sick pay does not vest and is forfeited at resignation, retirement or death and is, therefore recorded as an expenditure when taken and no accrued liability is recorded.

APPROPRIATIONS AND BUDGETARY CONTROLS

A budget is prepared for each fund, except the Agency Fund, in accordance with the modified accrual basis of accounting and legal requirements set forth in Oregon Local Budget Law. The budgetary basis of accounting is substantially the same as generally accepted accounting principles in the United States of America with the following features:

- Capital outlay expenditures are expensed when purchased and depreciation is not calculated,
- Inventories of supplies are budgeted as expenditures when purchased or constructed,
- Compensated absences are expensed when paid rather than when accrued
- Interest is expensed when paid rather than when incurred
- Debt principal is recorded as an expense when paid instead of a liability reduction
- Debt issuance costs are expensed when paid rather than amortized
- OPEB benefits are expensed when paid rather than when incurred
- Property taxes are recorded as revenue when received rather than when levied
- Pension costs are not recorded as an expense until paid

Consistent with Oregon law, expenditures are appropriated for each legally adopted annual operating budget at the following levels of control:

- Instruction
- Support Services
- Enterprise and Community Services
- Facilities Acquisition and Construction
- Other Uses (Interagency/Fund Transactions and Debt Service)
- Contingency
- Unappropriated Ending Fund Balance

Budgetary appropriations may not be legally over-expended except in the case of reimbursable grant expenditures and trust monies, which could not be reasonably estimated at the time the budget was adopted. After the original budget is adopted, the Board of Directors may approve appropriation transfers between levels of control. There were three amended appropriations adopted by the board during the year under audit. After budget approval, the Board of Directors may approve supplemental appropriations if any occurrence, condition or need exists which had not been anticipated at the time the budget was adopted. Expenditures of all the various funds were within authorized appropriation, except in the State Funded Grants fund, where instruction expense was over-expended by \$6,563.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE INPUTS AND METHODOLOGIES AND HIERARCHY

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based upon the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

Level 1 – unadjusted price quotations in active markets/exchanges for identical assets or liabilities that each Fund has the ability to access

Level 2 – other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs)

Level 3 – unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including each Fund’s own assumptions used in determining the fair value of investments)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

3. CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2016:

		Reported In:		
Cash in Bank	\$ 60,799	Governmental Funds	\$ 6,916,663	
Investments	<u>6,985,515</u>	Fiduciary Funds	<u>129,650</u>	
	<u>\$ 7,046,314</u>		<u>\$ 7,046,314</u>	

There were the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in months)</u>	
		<u>Less than 3</u>	<u>More than 3</u>
State Treasurer’s Investment Pool	\$ 6,985,515	\$ 6,985,515	\$ -
Total	<u>\$ 6,985,515</u>	<u>\$ 6,985,515</u>	<u>\$ -</u>

DEPOSITS

Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statements is \$621,425, of which \$378,400 was covered by federal depository insurance and the remainder was covered by the collateral held in multiple financial institutions collateral pool administered by the Oregon State Treasurer. The insurance and collateral requirements for deposits are established by banking regulations and Oregon law.

3. CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS

State statutes authorize investing in general obligations of the U.S. government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, commercial paper and the State of Oregon Local Government Investment Pool (LGIP), among others. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments with a remaining maturity of more than one year, at the time of purchase are stated at fair value at June 30, 2016. Fair value is determined at the quoted market price, if available; otherwise the fair value is estimated based on the amount at which the investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. As of June 30, 2016 the fair value of the District's position in the LGIP approximates 100% of the value of the pool shares as reported in the Oregon Short Term Fund audited financial statements.

Investments in the Local Government Investment Pool (LGIP) are included in the Oregon Short-Term Fund, which is an external investment pool that is not a 2a-7-like external investment pool, and is not registered with the U.S. Securities and Exchange Commission as an investment company. Fair value of the LGIP is calculated at the same value as the number of pool shares owned. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund appears to be in compliance with all portfolio guidelines at June 30, 2016. The LGIP seeks to exchange shares at \$1.00 per share; an investment in the LGIP is neither insured nor guaranteed by the FDIC or any other government agency. Although the LGIP seeks to maintain the value of share investments at \$1.00 per share, it is possible to lose money by investing in the pool. We intend to measure these investments at book value since it approximates fair value. The pool is comprised of a variety of investments. These investments are characterized as a level 2 fair value measurement in the Oregon Short Term Fund's audited financial report. As of June 30, 2016, the fair value of the position in the LGIP is 100.6% of the value of the pool shares as reported in the Oregon Short Term Fund audited financial statements. Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized.

INTEREST RATE RISK

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. There were no investments that had a maturity date beyond three months.

CREDIT RISK – DEPOSITS

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned. The District does not have a deposit policy for custodial credit risk.

CREDIT RISK - INVESTMENTS

Oregon Revised Statutes do not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE.

CONCENTRATION OF CREDIT RISK

At June 30, 2016, 100% of total investments were in the State Treasurer's Investment Pool. State statutes do not limit the percentage of investments in this instrument.

MOLALLA RIVER SCHOOL DISTRICT 35
 NOTES TO BASIC FINANCIAL STATEMENTS

4. ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables are comprised primarily of claims for reimbursement of costs under various federal, state and local grant programs and various billings for services rendered. Property taxes are levied and become a lien on all taxable property as of July 1. Taxes unpaid and outstanding on May 16 are considered delinquent. No allowance for uncollectible accounts has been recorded because management believes all receivables are collectible.

5. DUE TO/DUE FROM OTHER FUNDS

Amounts are comprised of the following:

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$ 26,388	\$ 1,954,321
Federal Grants Fund	-	363,493
Other Governmental	1,833,940	40,304
Internal Service Fund	175,212	-
Fiduciary Fund	322,578	-
Totals	<u>\$ 2,358,118</u>	<u>\$ 2,358,118</u>

6. TRANSFERS IN/OUT

Amounts are comprised of the following:

	Transfers Out	Transfers In
General Fund	\$ 488,073	\$ 2,018
Other Governmental	2,018	488,073
Totals	<u>\$ 490,091</u>	<u>\$ 490,091</u>

MOLALLA RIVER SCHOOL DISTRICT 35
 NOTES TO BASIC FINANCIAL STATEMENTS

7. CAPITAL ASSETS

Capital assets activity for the year was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 735,979	\$ -	\$ -	\$ 735,979
Total capital assets not being depreciated	<u>735,979</u>	<u>-</u>	<u>-</u>	<u>735,979</u>
Capital assets being depreciated				
Buildings & improvements	35,840,034	203,768	(39,636)	36,004,166
Vehicles and equipment	<u>1,196,237</u>	<u>1,267,953</u>	<u>(31,576)</u>	<u>2,432,614</u>
Total capital assets being depreciated	<u>37,036,271</u>	<u>1,471,721</u>	<u>(71,212)</u>	<u>38,436,780</u>
Less accumulated depreciation for:				
Buildings & improvements	25,742,383	885,837	(38,670)	26,589,550
Vehicles and equipment	<u>758,513</u>	<u>235,608</u>	<u>(4,035)</u>	<u>990,086</u>
Total accumulated depreciation	<u>26,500,896</u>	<u>1,121,445</u>	<u>(42,705)</u>	<u>27,579,636</u>
Total capital assets being depreciated, net	<u>10,535,375</u>	<u>350,276</u>	<u>(28,507)</u>	<u>10,857,144</u>
Total capital assets, net	<u>\$ 11,271,354</u>			<u>\$ 11,593,123</u>

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

Program	
Instruction	\$ 841,084
Support services	224,289
Enterprise and community services	<u>56,072</u>
Total	<u>\$ 1,121,445</u>

8. LONG-TERM DEBT

	BALANCE JULY 1, 2015	Additions	Reductions	BALANCE JUNE 30, 2016	Due Within One Year
Bonds Payable	\$ 16,158,614	\$ -	\$ 505,405	\$ 15,653,209	\$ 510,751
Notes Payable	0	-	-	-	-
Compensated Absences	<u>60,740</u>	<u>63,805</u>	<u>60,740</u>	<u>63,805</u>	<u>63,805</u>
	16,219,354	63,805	566,145	15,717,014	574,556
Accrued Discount on PERS Bond	<u>279,416</u>	<u>-</u>	<u>32,019</u>	<u>247,397</u>	<u>33,340</u>
Total Long-term Liabilities	<u>\$ 16,498,770</u>	<u>\$ 63,805</u>	<u>\$ 598,164</u>	<u>\$ 15,964,411</u>	<u>\$ 607,896</u>

MOLALLA RIVER SCHOOL DISTRICT 35
 NOTES TO BASIC FINANCIAL STATEMENTS

8. LONG-TERM DEBT (CONTINUED)

Principal and Interest Payment Streams for Long-Term Debt:

Amounts Payable in the Fiscal Year Ending June 30,	Bond Principal Payable	Bond Interest Payable	Total
2017	\$ 510,751	\$ 1,361,800	\$ 1,872,551
2018	512,033	1,455,519	1,967,552
2019	512,730	1,571,321	2,084,051
2020	511,592	1,655,956	2,167,548
2021	601,509	1,384,292	1,985,801
2022-2026	8,864,594	4,383,939	13,248,533
2027-2028	4,140,000	307,530	4,447,530
	<u>\$ 15,653,209</u>	<u>\$ 12,120,357</u>	<u>\$ 27,773,566</u>

Payment of principal and interest on the general obligation bonds are payable from the Debt Service Fund. The District is in compliance for continuing disclosure on all long-term bonds.

The following pension obligations were outstanding at June 30, 2016:

Issue Date	Original Issue	Interest Coupon Rates	Final Maturity Date	Principal Balance Remaining
October 31, 2002	\$ 8,635,318	2.06-6.10	6-30-28	\$ 6,847,551
April 21, 2003	12,181,530	1.50-6.27	6-30-28	8,805,658
Total Outstanding:				<u>\$ 15,653,209</u>

9. OPERATING LEASES

There is one operating lease for copiers, with a monthly payment of \$5,720. The operating lease obligation paid for the year ended June 30, 2016, was approximately \$68,638. Future minimum lease payments are as follows:

Fiscal Year	Amount
2016-17	\$ 68,638
2017-18	\$ 68,638
2018-19	62,918
Total	<u>\$ 200,194</u>

10. DEFINED BENEFIT PENSION PLAN

Plan Description – The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple-employer defined benefit plan. All benefits of the system are established by the legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. Oregon PERS produces an independently audited Comprehensive Annual Financial Report which can be found at:

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

If the link is expired please contact Oregon PERS for this information.

10. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description (Continued)

- a. **PERS Pension (Chapter 238).** The ORS Chapter 238 Defined Benefit Plan is closed to new members hired on or after August 29, 2003.
- i. **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, and 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 benefits results.
- ii. **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 on or more of the following contributions are met:
- member was employed by PERS employer at the time of death,
 - member died within 120 days after termination of PERS covered employment,
 - member died as a result of injury sustained while employed in a PERS-covered job, or
 - member was on an official leave of absence from a PERS-covered job at the time of death.
- iii. **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 and fire members) when determining the monthly benefit.
- iv. **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 equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA will vary based on the amount of the annual benefit.
- b. **OPSRP Pension Program (OPSRP DB).** The ORS Chapter 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.
- i. **Pension Benefits.** 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 and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire 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 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.

- ii. **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.

10. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description (Continued)

- iii. **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.
- iv. **Benefit Changes After Retirement.** Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA will vary based on the amount of the annual benefit.

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. The funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation, which became effective July 1, 2015. The state of Oregon and certain schools, community colleges, and political subdivision have made unfunded actuarial liability payments and their rates have been reduced. Employer contributions for the year ended June 30, 2016, 2015, 2014, and 2013 were \$111,461, \$110,529, \$105,949, and \$106,568 respectively, excluding amounts to fund employer specific liabilities. In addition, approximately \$1,284,203, \$1,235,739, \$1,173,933, and \$1,157,155 in employee contributions were paid or picked up by the District in those years.

Pension Asset or Liability - The District does not report a net pension asset or liability (or deferred inflows or outflows) because the PERS actuaries determined that it does not share any proportionate share (or "percentage") of the statewide obligation. This percentage was determined by calculating the factors that would affect entities future contributions. As of December 31, 2012 (the date at which the proportionate share was calculated), the District had a side account adjustment of \$27,360,165, which drove the District's future rates to 0%. The substantial side account was created by previously issued pension bonds.

All assumptions, methods and plan provisions used in these calculations are described in the Oregon PERS system-wide GASB 68 reporting summary dated May 23, 2016. Oregon PERS produces an independently audited CAFR which can be found at:

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

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

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an actuarially determined amount for funding a disability benefit component, and (c) 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.

10. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions:

Valuation date	December 31, 2013 rolled forward to June 30, 2015
Experience Study Report	2014, Published September 2015
Actuarial cost method	Entry Age Normal
Amortization method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years
Asset valuation method	Market value of assets
Inflation rate	2.75 percent
Investment rate of return	7.75 percent
Projected salary increase	3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service. For COLA, a blend of 2% COLA and graded COLA (1.25%/0.15%) in accordance with Moro decision, blend based on service.
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy rates that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (65% for males and 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts 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 method and assumptions shown are based on the 2014 Experience Study which is reviewed for the four-year period ending December 31, 2013.

Discount Rate – The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from the 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.

Since the December 31, 2013 actuarial valuation, the system-wide actuarial accrued liability has increased primarily due to the Moro decision and assumption changes, along with interest on the liability as current active members get closer to retirement. The Oregon Supreme Court decision in *Moro v. State of Oregon*, issued on April 30, 2015, reversed a significant portion of the reductions the 2013 Oregon Legislature made to future system Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the benefits projected to be paid by Employers compared to those developed in the prior actuarial valuation, and consequently increased plan liabilities. The employers’ projected long-term contribution effort has been adjusted for the estimated impact of the Moro Decision. In accordance with statute, a biennial review of actuarial methods and assumptions was completed in 2015 to be used for the December 31, 2014 actuarial valuation. After completion of this review and subsequent to the measurement date, the PERS Board adopted several assumption changes, including lowering the investment return assumption to 7.50%, which will be effective January 1, 2016 and will be included in the next update.

10. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Individual Account Program - In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for OPERS. The Oregon Public Service Retirement Plan (OPSRP) is effective for all new employees hired on or after August 29, 2003, and applies to any inactive OPERS members who return to employment following a six month or greater break in service. The new plan consists of the defined benefit pension plans and a defined contribution pension plan (the Individual Account Program or IAP). Beginning January 1, 2004, all OPERS member contributions go into the IAP portion of OPSRP. OPERS' members retain their existing OPERS accounts, but any future member contributions are deposited into the member's IAP, not the member's OPERS account. Those employees who had established an OPERS membership prior to the creation of OPSRP will be members of both the OPERS and OPSRP system as long as they remain in covered employment. Members of OPERS and OPSRP are required to contribute six percent of their salary covered under the plan which is invested in the IAP.

Additional disclosures related to Oregon PERS not applicable to specific employers are available online, or by contacting PERS at the following address: PO BOX 23700 Tigard, OR 97281-3700.

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Early Retirement

A single employer, defined benefit early retirement supplement program is maintained. The program covers all teachers hired at the District prior to July 1, 2001. It was established under collective bargaining agreements and contains provisions for early retirement after reaching age 55 or after 30 years of credited service with PERS and at least 10 years of service with the District prior to normal retirement age. This optional early retirement program provides employees with a monthly stipend of \$400 until the teacher reaches age 62 or qualifies for social security benefits, whichever comes first. A teacher may be paid this stipend for a maximum of seven years and the retiree shall be obligated to either five or ten days of service to the District per year. The retirees electing to take part in this program will be allowed to continue in the group medical, dental and/or vision insurance coverage at their own expense. All payments under these programs terminate upon the employee's death.

The District implemented GASB Statement #27, Accounting and Financial Reporting by Employers for Pensions for the fiscal year ended June 30, 2009. This implementation allows the district to report its liability for other post-employment benefits consistent with newly established generally accepted accounting principles and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements. The District maintains single employer post-employment benefit programs (commonly referred to as early retirement). These programs cover licensed and administrative personnel of the District, individual employees, and certain retired employees.

Contributions and Funding Policy – The benefits from this program are fully paid and, consequently, no contributions by employees are required. There is no obligation to fund these benefits in advance. The only obligation is to make current benefit payments due each fiscal year. Consequently, it has not been found necessary to establish a pension trust fund, and payments are made on a pay-as-you-go basis each year out of the General Fund. An estimate of this liability for current retirees is done annually. There is no separately issued financial report for the plan. The annual expenditures recognized on a budgetary basis were approximately \$45,387 and \$51,606, for the years ended June 30, 2016 and 2015 respectively.

Annual OPEB Cost and Net OPEB Obligation – The annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 27. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year ending June 30, 2016, 2015, 2014, and 2013 the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

MOLALLA RIVER SCHOOL DISTRICT 35
 NOTES TO BASIC FINANCIAL STATEMENTS

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

	2016	2015	2014	2013
Annual required contribution	\$ 68,223	\$ 66,236	\$ 106,211	\$ 103,117
Interest on net pension obligation	3,788	4,073	3,745	3,876
Adjustment to annual required contribution	<u>(24,017)</u>	<u>(25,824)</u>	<u>(23,746)</u>	<u>(24,575)</u>
Annual pension cost (APC)	47,994	44,485	86,210	82,418
Contributions made	<u>(45,387)</u>	<u>(51,606)</u>	<u>(78,018)</u>	<u>(85,688)</u>
Increase in net pension obligation	2,607	(7,121)	8,192	(3,270)
Net Pension Obligation (Asset) at beginning of year	<u>94,693</u>	<u>101,814</u>	<u>93,622</u>	<u>96,892</u>
Net Pension Obligation (Asset) at end of year	<u>\$ 97,300</u>	<u>\$ 94,693</u>	<u>\$ 101,814</u>	<u>\$ 93,622</u>
Percentage of APC contributed	67%	78%	73%	83%

Actuarial Methods and Assumptions - The annual required contribution (ARC) for the current year was determined as part of the July 1, 2014 actuarial valuation using the projected unit credit actuarial cost method. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality, claim cost and the healthcare cost trend. The actuarial assumptions included; (a) a rate of return on investment of present and future assets of 4% compounded annually; (b) no future increase in benefit payable from this program; and (c) no post-retirement benefit increases and a payroll increase of 3%. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Under this method, the expected accrued benefit of each participant at benefit commencement (reflecting future expected increases in salaries and medical premiums) is allocated in equal proportion over the participant's years of service from hire to expected retirement. The normal cost is the present value of benefits expected to accrue in the current year. The present value of benefits accrued as of the valuation date is called the accrued liability. The difference between the accrued liability and the actuarial value of plan assets is called the unfunded accrued liability. The unfunded accrued liability is being amortized over an initial period of four years as a level percentage of payroll for stipend benefits.

Funding Status and Funding Progress – As of July 1, 2014, the actuarial accrued liability for benefits was \$230,620, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$230,620. The covered payroll is to be determined. The Annual Required Contribution (ARC) for June 30, 2016, 2015, 2014, and 2013 has been actuarially determined to be \$68,223, \$66,236, \$106,211, and \$103,117 respectively for District contributions.

Program membership consisted of the following at July 1, 2014:

Active program members:	
Vested	245
Non-vested	31
	<u>276</u>

Post-Employment Health Insurance Subsidy

Plan Description - A single-employer retiree benefit plan is maintained that provides postemployment health, dental vision and life insurance benefits to eligible employees and their spouses. There are active and retired members in the plan. Benefits and eligibility for members are established through the collective bargaining agreements.

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The post-retirement healthcare plan is established in accordance with Oregon Revised Statutes (ORS) 243.303. ORS stipulated that for the purpose of establishing healthcare premiums, the rate must be based on all plan members, including both active employees and retirees. The difference between retiree claims cost, which because of the effect of age is generally higher in comparison to all plan members, and the amount of retiree healthcare premiums represents the District's implicit employer contribution.

The District did not establish an irrevocable trust (or equivalent arrangement) to account for the plan.

Funding Policy – The benefits from this program are paid by the retired employees on a self-pay basis and the required contribution is based on projected pay-as-you go financing requirements. There is no obligation on the part of the District to fund these benefits in advance.

Annual Pension Cost and Net Pension Obligation – The annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance within the parameter of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the OPEB obligation at June 30, 2016, 2015, 2014, and 2013:

	2016	2015	2014	2013
Annual required contribution	\$ 119,647	\$ 116,162	\$ 102,572	\$ 99,584
Interest on net pension obligation	7,418	5,479	4,310	3,056
Adjustment to annual required contribution	(7,086)	(5,234)	(4,118)	(2,920)
Annual pension cost (APC)	119,979	116,407	102,764	99,720
Contributions made	(58,446)	(67,940)	(73,554)	(68,363)
Increase in net pension obligation	61,533	48,467	29,210	31,357
Net Pension Obligation (Asset) at beginning of year	185,438	136,971	107,761	76,404
Net Pension Obligation (Asset) at end of year	\$ 246,971	\$ 185,438	\$ 136,971	\$ 107,761
Percentage of APC contributed	49%	58%	72%	69%

Actuarial Methods and Assumptions – The annual required contribution (ARC) for the current year was determined as part of the July 1, 2014 actuarial valuation using the projected unit credit actuarial cost method. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality, claim cost and the healthcare cost trend. The actuarial assumptions included; (a) a rate of return on investment of present and future assets of 4% compounded annually; (b) no future increase in benefit payable from this program; and (c) no post-retirement benefit increases and a payroll increase of 3%. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Funding Status and Funding Progress – As of July 1, 2014, the plan was 0% funded. The actuarial accrued liability for benefits was \$948,911, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$948,911. The covered payroll was \$9,934,183. The Annual Required Contribution (ARC) for June 30, 2016, 2015 and 2014 has been actuarially determined to be \$119,647, \$116,162, \$102,572, and \$99,584 respectively for District contributions.

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Program membership consisted of the following at July 1, 2014:

Active program members:	
Vested	245
Non-vested	31
	<u>276</u>

12. RISK MANAGEMENT

There is exposure to various risks or losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. Commercial insurance is purchased for all claims other than that represented by minimal deductible amounts per loss. Workers' compensation insurance is purchased to manage the risk of loss as the total insurance cost is ultimately in direct proportion to losses. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years and there have been no reductions in insurance coverage from the prior year.

13. PROPERTY TAX LIMITATIONS

The Voters of the State of Oregon imposed a constitutional limit on property taxes for schools and non-school government operations. School operations include community colleges, local school districts, and education service districts. The limitation provides that property taxes for school operations are limited to \$5 for each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt. The result of this requirement has been that school districts have become more dependent upon state funding and less dependent upon property tax revenues as their major source of operating revenue.

The Voters further reduced property taxes by replacing the previous constitutional limits on tax bases with a rate and value limit in 1997. This reduction was accomplished by rolling property values back to their 1995-96 values less 10% and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The State Constitution sets restrictive voter approval requirements for most tax and many fee increases and new bond issues and requires the State to minimize the impact to school districts from the impact of the tax cuts.

14. COMMITMENTS AND CONTINGENCIES

A substantial portion of operating funding is received from the State of Oregon. State funding is determined through state-wide revenue projections that are paid to individual school districts based on pupil counts and other factors in the state school fund revenue formula. Since these projections and pupil counts fluctuate, they can cause either increases or decreases in revenue. Due to these future uncertainties at the state level, the future effect on the operations cannot be determined.

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The federal audits for these programs for the year ended June 30, 2016 have not been conducted. Accordingly, compliance with grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although such amounts are expected by management to be immaterial.

15. DEFERRED COMPENSATION PLAN

Deferred Compensation Plan -A deferred compensation plan is available to employees wherein they may execute an individual agreement with the District for amounts earned by them to not be paid until a future date when certain circumstances are met. These circumstances are: termination by reason of death, disability, resignation, or retirement. Payment to the employee will be made over a period not to exceed 15 years. The deferred compensation plan is one which is authorized under IRC Section 403(b) and has been approved in its specifics by a private ruling from the Internal Revenue Service. The assets of the plan are held by the administrator for the sole benefit of the plan participants and are not considered assets or liabilities of the District.

MOLALLA RIVER SCHOOL DISTRICT 35
CLACKAMAS COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

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MOLALLA RIVER SCHOOL DISTRICT 35

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
 June 30, 2016

EARLY RETIREMENT STIPENDS

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b)-(a) AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
7/1/2008	\$ -	\$ 552,785	\$ 552,785	0%	\$ 12,394,408	4.5%
7/1/2010	-	408,433	408,433	0%	10,276,388	4.0%
7/1/2012	-	367,338	367,338	0%	9,934,183	3.7%
7/1/2014	-	230,620	230,620	0%	TBD	TBD

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2012	\$ 120,208	63%
2013	103,117	83%
2014	106,211	73%
2015	66,236	78%
2016	68,223	67%

RETIREEES MEDICAL BENEFIT

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b)-(a) AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
7/1/2008	\$ -	\$ 499,778	\$ 499,778	0%	\$ 12,394,408	4.0%
7/1/2010	-	668,443	668,443	0%	10,276,388	6.5%
7/1/2012	-	907,896	907,896	0%	9,934,183	9.1%
7/1/2014	-	948,911	948,911	0%	9,934,183	9.6%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2012	\$ 77,001	73%
2013	99,584	69%
2014	102,572	72%
2015	116,162	58%
2016	119,647	49%

MOLALLA RIVER SCHOOL DISTRICT 35

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL

Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Local sources	\$ 7,457,000	\$ 7,457,000	\$ 7,716,318	\$ 259,318
Intermediate sources	477,272	477,272	197,869	(279,403)
State sources	16,327,374	16,327,374	16,537,309	209,935
Federal sources	-	-	55,008	55,008
Total revenues	24,261,646	24,261,646	24,506,504	244,858
EXPENDITURES				
Instruction	14,172,588	14,172,588 (1)	13,870,275	302,313
Support services	9,795,831	9,795,831 (1)	9,618,291	177,540
Contingency	1,242,645	1,242,645 (1)	-	1,242,645
Total expenditures	25,211,064	25,211,064	23,488,566	1,722,498
Excess of revenues over (under) expenditures	(949,418)	(949,418)	1,017,938	1,967,356
OTHER FINANCING SOURCES (USES)				
Transfer in	2,018	2,018	2,018	-
Transfer out	(500,006)	(500,006) (1)	(488,073)	11,933
Total other financing sources (uses)	(497,988)	(497,988)	(486,055)	11,933
Net change in fund balance	(1,447,406)	(1,447,406)	531,883	1,979,289
FUND BALANCE, beginning of the year	3,819,385	3,819,385	3,691,597	(127,788)
FUND BALANCE, end of the year	<u>\$ 2,371,979</u>	<u>\$ 2,371,979</u>	4,223,480	<u>\$ 1,851,501</u>

(1) Appropriation level

Reconciliation to governmental fund balance as required by GASB #54

Ending fund balance

MHS land lab

25,675
\$ 4,249,155

MOLALLA RIVER SCHOOL DISTRICT 35

FEDERAL GRANTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Intermediate Sources	-	-	38,400	38,400
Federal sources	1,213,717	1,213,717	1,079,914	(133,803)
Total revenues	1,215,736	1,215,736	1,118,314	(97,422)
EXPENDITURES				
Instruction	739,457	739,457 (1)	719,853	19,604
Support services	474,261	474,261 (1)	398,461	75,800
Total expenditures	1,213,718	1,213,718	1,118,314	95,404
Excess of revenues over (under) expenditures	2,018	2,018	-	(2,018)
OTHER FINANCING SOURCES (USES)				
Transfer In	-	-	-	-
Transfer Out	(2,018)	(2,018) (1)	(2,018)	-
Total other financing sources (uses)	(2,018)	(2,018)	(2,018)	-
Net change in fund balance	-	-	(2,018)	(2,018)
FUND BALANCE, beginning of year	-	-	2,018	2,018
FUND BALANCE, end of year	\$ -	\$ -	\$ -	\$ -

(1) Appropriation level

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MOLALLA RIVER SCHOOL DISTRICT 35
CLACKAMAS COUNTY, OREGON

SUPPLEMENTARY INFORMATION

MOLALLA RIVER SCHOOL DISTRICT 35

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2016

	FOOD SERVICE	PUBLIC PURPOSE	E-RATE	MHS ATHLETIC
ASSETS				
Cash and investments	\$ -	\$ -	\$ -	\$ -
Accounts receivable	102,091	-	58,344	76
Interfund loans receivable	4,601	222,128	-	109,452
Prepaid expenses	-	-	-	460
Total assets	\$ 106,692	\$ 222,128	\$ 58,344	\$ 109,988
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund loans payable	\$ -	\$ -	\$ 30,268	\$ -
Accounts payable	47,829	-	-	1,211
Unearned revenues	-	-	-	-
Total liabilities	47,829	-	30,268	1,211
Fund Balances:				
Restricted	58,863	222,128	-	-
Committed	-	-	28,076	51,089
Assigned	-	-	-	57,688
Unassigned	-	-	-	-
Total fund balances	58,863	222,128	28,076	108,777
Total liabilities and fund balances	\$ 106,692	\$ 222,128	\$ 58,344	\$ 109,988

MOLALLA RIVER SCHOOL DISTRICT 35

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2016

CAPITAL RESERVE	CAPITAL CONSTRUCTION	PENSION OBLIGATION BONDS	MISC. COMMUNITY GRANTS	STATE FUNDED GRANTS	TOTAL
\$ -	\$ -	\$ 6,577	\$ -	\$ -	\$ 6,577
-	129,057	-	-	14,140	303,708
235,946	265,154	991,675	4,984	-	1,833,940
2,500	-	-	-	-	2,960
<u>\$ 238,446</u>	<u>\$ 394,211</u>	<u>\$ 998,252</u>	<u>\$ 4,984</u>	<u>\$ 14,140</u>	<u>\$ 2,147,185</u>
\$ -	\$ -	\$ -	\$ -	\$ 10,036	\$ 40,304
5,000	-	-	-	4,104	58,144
-	-	-	-	-	-
<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,140</u>	<u>98,448</u>
-	394,211	-	4,984	-	680,186
233,446	-	998,252	-	-	1,310,863
-	-	-	-	-	57,688
-	-	-	-	-	-
<u>233,446</u>	<u>394,211</u>	<u>998,252</u>	<u>4,984</u>	<u>-</u>	<u>2,048,737</u>
<u>\$ 238,446</u>	<u>\$ 394,211</u>	<u>\$ 998,252</u>	<u>\$ 4,984</u>	<u>\$ 14,140</u>	<u>\$ 2,147,185</u>

MOLALLA RIVER SCHOOL DISTRICT 35

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2016

	FOOD SERVICE	PUBLIC PURPOSE	E-RATE	MHS ATHLETIC
REVENUES				
Local sources	\$ 238,099	\$ 43,763	\$ 129,658	\$ 211,062
Intermediate sources	-	-	-	-
State sources	28,832	-	-	-
Federal sources	606,440	-	-	-
Total revenues	<u>873,371</u>	<u>43,763</u>	<u>129,658</u>	<u>211,062</u>
EXPENDITURES				
Instruction	-	-	-	420,660
Support services	-	-	297,562	32,219
Enterprise and community services	845,542	-	-	-
Facilities acquisition and construction	-	-	-	-
Debt service	-	-	-	-
Total expenditures	<u>845,542</u>	<u>-</u>	<u>297,562</u>	<u>452,879</u>
Excess of revenues over (under) expenditures	27,829	43,763	(167,904)	(241,817)
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	-	225,000
Transfer out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>225,000</u>
Net change in fund balance	27,829	43,763	(167,904)	(16,817)
FUND BALANCE, beginning of year	<u>31,034</u>	<u>178,365</u>	<u>195,980</u>	<u>125,594</u>
FUND BALANCE, end of year	<u>\$ 58,863</u>	<u>\$ 222,128</u>	<u>\$ 28,076</u>	<u>\$ 108,777</u>

MOLALLA RIVER SCHOOL DISTRICT 35

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2016

CAPITAL RESERVE	CAPITAL CONSTRUCTION	PENSION OBLIGATION BONDS	MISC. COMMUNITY GRANTS	STATE FUNDED GRANTS	TOTAL
\$ 366,004	\$ 312,559	\$ 1,834,483	\$ 20,976	\$ -	\$ 3,156,604
-	-	-	-	4,645	4,645
-	-	-	-	36,484	65,316
-	-	-	-	-	606,440
366,004	312,559	1,834,483	20,976	41,129	3,833,005
-	-	-	8,697	12,863	442,220
107,139	-	-	8,152	28,266	473,338
-	-	-	1,569	-	847,111
644,444	320,000	-	-	-	964,444
-	-	1,780,749	-	-	1,780,749
751,583	320,000	1,780,749	18,418	41,129	4,507,862
(385,579)	(7,441)	53,734	2,558	-	(674,857)
45,000	-	-	-	-	270,000
-	-	-	-	-	-
45,000	-	-	-	-	270,000
(340,579)	(7,441)	53,734	2,558	-	(404,857)
574,025	401,652	944,518	2,426	-	2,453,594
\$ 233,446	\$ 394,211	\$ 998,252	\$ 4,984	\$ -	\$ 2,048,737

MOLALLA RIVER SCHOOL DISTRICT 35

FOOD SERVICE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Local sources	\$ 266,500	\$ 266,500	\$ 238,099	\$ (28,401)
State sources	29,500	29,500	28,832 (2)	(668)
Federal sources	575,000	575,000	606,440	31,440
Total revenues	871,000	871,000	873,371	2,371
EXPENDITURES				
Enterprise and community services	896,000	896,000 (1)	845,542	50,458
Net change in fund balance	(25,000)	(25,000)	27,829	52,829
FUND BALANCE, beginning of year	25,000	25,000	31,034	6,034
FUND BALANCE, end of year	\$ -	\$ -	\$ 58,863	\$ 58,863

(1) Appropriation level

(2) Included in this is the required state revenue match of \$8,627 the District must recognize in the Food Service Fund for National School Lunch Support in order to meet the general cash assistance match.

MOLALLA RIVER SCHOOL DISTRICT 35

PUBLIC PURPOSE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Local sources	\$ 46,000	\$ 46,000	\$ 43,763	\$ (2,237)
EXPENDITURES				
Facilities acquisition and construction	224,650	224,650 (1)	-	224,650
Net change in fund balance	(178,650)	(178,650)	43,763	222,413
FUND BALANCE, beginning of year	178,650	178,650	178,365	(285)
FUND BALANCE, end of year	\$ -	\$ -	\$ 222,128	\$ 222,128

(1) Appropriation level

MOLALLA RIVER SCHOOL DISTRICT 35

E-RATE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL

Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Local sources	\$ 125,000	\$ 125,000	\$ 129,658	\$ 4,658
EXPENDITURES				
Support services	300,000	300,000 (1)	297,562	2,438
Net change in fund balance	(175,000)	(175,000)	(167,904)	7,096
FUND BALANCE, beginning of year	175,000	175,000	195,980	20,980
FUND BALANCE, end of year	\$ -	\$ -	\$ 28,076	\$ 28,076

(1) Appropriation level

MOLALLA RIVER SCHOOL DISTRICT 35

MHS ATHLETIC
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Local sources	\$ 155,000	\$ 155,000	\$ 211,062	\$ 56,062
EXPENDITURES				
Instruction	490,000	490,000 (1)	420,660	69,340
Support services	35,000	35,000 (1)	32,219	2,781
Total expenditures	525,000	525,000	452,879	72,121
Excess of revenues over (under) expenditures	(370,000)	(370,000)	(241,817)	128,183
OTHER FINANCING SOURCES (USES)				
Transfer in	225,000	225,000	225,000	-
Net change in fund balance	(145,000)	(145,000)	(16,817)	128,183
FUND BALANCE, beginning of year	145,000	145,000	125,594	(19,406)
FUND BALANCE, end of year	\$ -	\$ -	\$ 108,777	\$ 108,777

(1) Appropriation level

MOLALLA RIVER SCHOOL DISTRICT 35

CAPITAL RESERVE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Local sources	\$ 42,000	\$ 367,000	\$ 366,004	\$ (996)
EXPENDITURES				
Support services	95,000	195,000 (1)	107,139	87,861
Facilities acquisition and construction	527,000	752,000 (1)	644,444	107,556
Total expenditures	622,000	947,000	751,583	195,417
Excess of revenues over (under) expenditures	(580,000)	(580,000)	(385,579)	194,421
OTHER FINANCING SOURCES				
Transfers In	45,000	45,000	45,000	-
Net change in fund balance	(535,000)	(535,000)	(340,579)	194,421
FUND BALANCE, beginning of year	535,000	535,000	574,025	39,025
FUND BALANCE, end of year	\$ -	\$ -	\$ 233,446	\$ 233,446

(1) Appropriation level

MOLALLA RIVER SCHOOL DISTRICT 35

CAPITAL CONSTRUCTION FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Local sources	\$ 35,000	\$ 35,000	\$ 312,559	\$ 277,559
EXPENDITURES				
Facilities acquisition and construction	320,000	320,000 (1)	320,000	-
Total expenditures	320,000	320,000	320,000	-
Net change in fund balance	(285,000)	(285,000)	(7,441)	277,559
FUND BALANCE, beginning of year	285,000	285,000	401,652	116,652
FUND BALANCE, end of year	\$ -	\$ -	\$ 394,211	\$ 394,211

(1) Appropriation level

MOLALLA RIVER SCHOOL DISTRICT 35

PENSION OBLIGATION BONDS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Local sources	\$ 1,785,000	\$ 1,785,000	\$ 1,834,483	\$ 49,483
EXPENDITURES				
Debt service	1,780,751	1,780,751 (1)	1,780,749	2
Contingency	904,249	904,249 (1)	-	904,249
Total expenditures	2,685,000	2,685,000	1,780,749	904,251
Net change in fund balance	(900,000)	(900,000)	53,734	953,734
FUND BALANCE, beginning of year	900,000	900,000	944,518	44,518
FUND BALANCE, end of year	\$ -	\$ -	\$ 998,252	\$ 998,252

(1) Appropriation Level

MOLALLA RIVER SCHOOL DISTRICT 35

MISCELLANEOUS COMMUNITY GRANTS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Local sources	\$ 22,000	\$ 33,000	\$ 20,976	\$ (12,024)
Intermediate sources	2,500	2,500	-	(2,500)
State sources	-	-	-	-
Total revenues	<u>24,500</u>	<u>35,500</u>	<u>20,976</u>	<u>(14,524)</u>
EXPENDITURES				
Instruction	21,500	21,500 (1)	8,697	12,803
Support services	3,000	13,000 (1)	8,152	4,848
Enterprise and community services	<u>1,000</u>	<u>2,000 (1)</u>	<u>1,569</u>	<u>431</u>
Total expenditures	<u>25,500</u>	<u>36,500</u>	<u>18,418</u>	<u>18,082</u>
Net change in fund balance	(1,000)	(1,000)	2,558	3,558
FUND BALANCE, beginning of year	<u>1,000</u>	<u>1,000</u>	<u>2,426</u>	<u>1,426</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,984</u>	<u>\$ 4,984</u>

(1) Appropriation level

MOLALLA RIVER SCHOOL DISTRICT 35

STATE FUNDED GRANTS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Intermediate Sources	\$ -	\$ -	\$ 4,645	\$ 4,645
State sources	40,000	40,000	36,484	(3,516)
Total revenues	40,000	40,000	41,129	1,129
EXPENDITURES				
Instruction	6,300	6,300 (1)	12,863	(6,563)
Support services	53,700	53,700 (1)	28,266	25,434
Total expenditures	60,000	60,000	41,129	18,871
Net change in fund balance	(20,000)	(20,000)	-	20,000
FUND BALANCE, beginning of year	20,000	20,000	-	(20,000)
FUND BALANCE, end of year	\$ -	\$ -	\$ -	\$ -

(1) Appropriation level

MOLALLA RIVER SCHOOL DISTRICT 35

MHS LAND LAB
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
REVENUES				
Local sources	\$ 31,500	\$ 31,500	\$ 13,909	\$ (17,591)
EXPENDITURES				
Instruction	217,021	217,021 (1)	199,202	17,819
Support services	74,485	74,485 (1)	40,214	34,271
Total expenditures	291,506	291,506	239,416	52,090
Excess of revenues over (under) expenditures	(260,006)	(260,006)	(225,507)	34,499
OTHER FINANCING SOURCES (USES)				
Transfer in	230,006	230,006	218,073	(11,933)
Net change in fund balance	(30,000)	(30,000)	(7,434)	22,566
FUND BALANCE, beginning of year	30,000	30,000	33,109	3,109
FUND BALANCE, end of year	\$ -	\$ -	\$ 25,675	\$ 25,675

(1) Appropriation level

Note: This fund's activities have been combined with the General Fund activities in accordance with GASB #54 due to its financial resources being derived primarily from General Fund Transfers.

MOLALLA RIVER SCHOOL DISTRICT 35

RISK MANAGEMENT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET (NON-GAAP BASIS) AND ACTUAL
 Year Ended June 30, 2016

	Budget		Actual	Variance with Final Budget
	Adopted	Final		
EXPENDITURES				
Support services	198,000	198,000 (1)	15,084	182,916
Excess of revenues over (under) expenditures	(198,000)	(198,000)	(15,084)	182,916
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	-	-
Net change in fund balance	(198,000)	(198,000)	(15,084)	182,916
FUND BALANCE, beginning of year	198,000	198,000	187,970	(10,030)
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 172,886</u>	<u>\$ 172,886</u>

(1) Appropriation level

MOLALLA RIVER SCHOOL DISTRICT 35

AGENCY FUND
 SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
 Year Ended June 30, 2016

	<u>BALANCES</u> <u>JULY 1, 2015</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCES</u> <u>JUNE 30, 2016</u>
ASSETS				
Cash and cash equivalents:				
Student activity funds:				
Molalla High School	\$ 82,791	\$ 294,687	\$ 317,776	\$ 59,702
Molalla River Middle School	34,681	78,467	64,408	48,740
Clarkes Elementary School	4,952	4,411	3,517	5,846
Molalla Elementary School	7,801	23,403	23,460	7,744
Mulino Elementary School	3,875	5,476	6,140	3,211
Rural Dell Elementary School	3,363	10,761	9,717	4,407
	<u>\$ 137,463</u>	<u>\$ 417,205</u>	<u>\$ 425,018</u>	<u>\$ 129,650</u>
Total assets	<u>\$ 137,463</u>	<u>\$ 417,205</u>	<u>\$ 425,018</u>	<u>\$ 129,650</u>
LIABILITIES				
Due to student groups	<u>\$ 137,463</u>	<u>\$ 417,205</u>	<u>\$ 425,018</u>	<u>\$ 129,650</u>
Total liabilities	<u>\$ 137,463</u>	<u>\$ 417,205</u>	<u>\$ 425,018</u>	<u>\$ 129,650</u>

MOLALLA RIVER SCHOOL DISTRICT 35

GENERAL FUND
 SCHEDULE OF PROPERTY TAX TRANSACTIONS
 Year Ended June 30, 2016

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED AT July 1, 2015	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UN- SEGREGATED AT June 30, 2016
Current Year 2015-16	\$ 7,568,863	\$ 181,751	\$ (13,554)	\$ 3,132	\$ 7,209,072	\$ 167,618
Prior Years						
2014-15	164,949	(51)	(9,651)	7,640	82,244	80,745
2013-14	84,422	(6)	(9,230)	7,871	34,689	48,380
2012-13	62,312	(6)	(11,233)	9,716	29,113	31,688
2011-12	40,831	(8)	(6,265)	6,192	13,546	27,220
2010-11 & Prior	69,271	(8)	(29,564)	4,565	7,331	36,949
Total prior	421,785	(79)	(65,943)	35,984	166,923	224,982
TOTALS	\$ 7,990,648	\$ 181,672	\$ (79,497)	\$ 39,116	\$ 7,375,995	\$ 392,600

Cash Collections by County Treasurer	\$ 7,375,995
Accrual of Receivables	
June 30, 2015	(23,880)
June 30, 2016	44,408
Taxes in lieu	(116,818)
Total Revenue	<u>\$ 7,279,705</u>

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MOLALLA RIVER SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2016

Program Title	Pass Through Organization	Federal CFDA Number	Pass Through Entity Number	Period Covered	Expenditures	
U.S. Department of Education						
F210	Title I Grants to Local Educational Agencies	Oregon Department of Education	84.010	32630	7/1/14-9/30/15	\$ 53,796
		Oregon Department of Education	84.010	36021	7/1/15-9/30/16	353,451
			84.010			
F210	Total Title I Grants to Local Education Agencies					407,248
F222	Title 1C - Migrant Education	ODE>Clackamas ESD	84.011	33594	7/01/14 - 9/30/15	3,379
		ODE>Clackamas ESD	84.011	37712	7/1/15-9/30/16	43,288
F223	Summer Ed	ODE>Clackamas ESD	84.011	35099	5/1/15-9/30/15	40,911
F222-3	Total Title 1C - Migrant Education					87,578
F230	Perkins - Basic	ODE>Clackamas ESD	84.048	36400	7/1/15-9/30/16	10,149
	Perkins - Reserve Fund	ODE>Clackamas ESD	84.048	36426	7/1/15-9/30/16	6,424
F222-3	Total Perkins Grants					16,573
F213	Title III - Language Instruction	Oregon Department of Education	84.365	32342	7/01/14 - 9/30/15	6,599
		Oregon Department of Education	84.365	36341	7/1/15-9/30/16	19,914
F213	Total Title III - Language Instruction					26,513
F220	Title IIA - Teacher Quality	Oregon Department of Education	84.367	32954	7/01/14 - 9/30/15	48,417
		Oregon Department of Education	84.367	36218	7/1/15-9/30/16	31,508
F220	Total Title IIA - Teacher Quality					79,925
F236	Special Education Cluster	Oregon Department of Education	84.027	33328	07/01/14 - 09/30/16	18,046
		Oregon Department of Education	84.027	36916	10/01/14 - 09/30/15	421,919
	Enhancement	Oregon Department of Education	84.027	38373	10/01/15 - 09/30/16	6,305
	Extended Assessment	Oregon Department of Education	84.027	35777	07/01/15 - 06/30/16	900
	SPR & I	Oregon Department of Education	84.027	37932	08/01/14- 06/30/15	3,423
	SPDG EBISS Breadth	Oregon Department of Education	84.323	32740	09/01/14 - 01/15/16	793
	SPDG EBISS Breadth	Oregon Department of Education	84.323	37324	08/01/15-07/30/16	7,000
	Sect 619 Pre-K	Oregon Department of Education	84.173	33498	07/14/14 - 09/30/16	1,285
	Sect 619 Pre-K	Oregon Department of Education	84.173	37215	07/14/15 - 09/30/17	1,226
F236	Total Special Education Cluster					460,897
F235	Multnomah County IGA	ODE> PPS> CRP	99.998		7/1/15 - 6/30/16	38,400
						38,400
F283	Title 2B-Mathematics & Science Partnerships	ODE>Pacific University	99.999	34671	Not sure if it belongs	13,406
	Total U.S. Department of Education					1,130,539
U.S. Department of Health & Human Services						
F100	YTP Grant Contract #149082	DHS Trust & Rcvng	84.126A	Yr 1 of 2	07/01/15 - 06/30/17	39,834
	Total U.S. Department of Health & Human Services					39,834
U.S. Department of Agriculture:						
	Child Nutrition Cluster:					
	Donated Commodities (Non-Cash Assistance)	Oregon Department of Education	10.553/555		7/1/15-6/30/16	60,509
	School Breakfast Program	Oregon Department of Education	10.553		7/1/15-6/30/16	96,629
	National School Lunch Program	Oregon Department of Education	10.555		7/1/15-6/30/16	436,613
	Summer Food	Oregon Department of Education	10.559		7/1/15-6/30/16	12,689
	Total Child Nutrition Cluster					606,440
	Federal Forest Fees	Clackamas County	10.665		7/1/15-6/30/16	15,174
	Total U.S. Department of Agriculture					621,614
	Total Grants Expended or Passed Through to Subrecipients					1,791,987

Reconciliation to Federal Revenue:	
Federal Revenue Expended	\$ 1,791,987
Accruals	(50,625)
Federal Revenue Recognized	<u>\$ 1,741,362</u>

MOLALLA RIVER SCHOOL DISTRICT 35
CLACKAMAS COUNTY, OREGON

OTHER INFORMATION

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MOLALLA RIVER SCHOOL DISTRICT 35

SCHEDULE OF BOND AND BOND INTEREST TRANSACTIONS

Year Ended June 30, 2016

ISSUE DATE	ORIGINAL ISSUE	LIMITED TAX PENSION OBLIGATION BONDS				INTEREST COUPON RATES	
		OUTSTANDING AT JUNE 30, 2015		REDEEMED	ISSUED		OUTSTANDING AT JUNE 30, 2016
		MATURED					
October 31, 2002, Series 2002	\$ 8,635,318	\$ 7,019,875	\$ -	\$ 172,324	\$ -	\$ 6,847,551	2.06-6.10
April 21, 2003, Series 2003	12,181,530	9,138,739	-	333,081	-	8,805,658	1.50-6.27
TOTALS	\$ 20,816,848	\$ 16,158,614	\$ -	\$ 505,405	\$ -	\$ 15,653,209	

ISSUE DATE	INTEREST				
	OUTSTANDING AT JUNE 30, 2015	MATURED	REDEEMED	ISSUED	OUTSTANDING AT JUNE 30, 2016
	October 31, 2002, Series 2002	\$ -	\$ 536,577	\$ 536,577	\$ -
April 21, 2003, Series 2003	-	735,569	735,569	-	-
TOTALS	\$ -	\$ 1,272,146	\$ 1,272,146	\$ -	\$ -

MOLALLA RIVER SCHOOL DISTRICT 35

SCHEDULE OF BOND REDEMPTION AND INTEREST REQUIREMENTS

June 30, 2016

	LIMITED TAX PENSION OBLIGATION BONDS				TOTAL REQUIREMENTS	
	OCTOBER 31, 2002 ISSUE		APRIL 21, 2003 ISSUE		ALL ISSUES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016-2017	176,747	572,154	334,004	789,646	510,751	1,361,800
2017-2018	180,135	608,766	331,898	846,753	512,033	1,455,519
2018-2019	182,339	663,062	330,391	908,259	512,730	1,571,321
2019-2020	183,330	685,568	328,262	970,388	511,592	1,655,956
2020-2021	275,000	347,151	326,509	1,037,141	601,509	1,384,292
2021-2022	655,000	323,776	324,742	1,103,908	979,742	1,427,684
2022-2023	735,000	287,882	324,852	1,173,798	1,059,852	1,461,680
2023-2024	825,000	247,530	1,200,000	368,650	2,025,000	616,180
2024-2025	925,000	201,742	1,345,000	301,324	2,270,000	503,066
2025-2026	1,030,000	150,405	1,500,000	224,928	2,530,000	375,333
2026-2027	1,145,000	93,240	1,670,000	139,728	2,815,000	232,968
2027-2028	535,000	29,693	790,000	44,869	1,325,000	74,562
TOTALS	<u>\$ 6,847,551</u>	<u>\$ 4,210,969</u>	<u>\$ 8,805,658</u>	<u>\$ 7,909,392</u>	<u>\$ 15,653,209</u>	<u>\$ 12,120,361</u>

MOLALLA RIVER SCHOOL DISTRICT 35

SUPPLEMENTAL INFORMATION, 2015-2016

School District Business Managers and Auditors:

This page is a required part of your annual audited financial statements. Please make sure it is included.

Part A is needed for computing Oregon's full allocation for ESEA, Title I & other Federal Funds for Education.

A.	Energy bills for heating - all funds:		<u>Objects 325 and 326</u>
		Function 2540	\$ 424,684
		Function 2550	-
B.	Replacement of equipment - General Fund:		
	Include all General Fund expenditures in Object 542, except for the following exclusions:		<u>Amount</u>
	Exclude these functions:		
	1113, 1122 & 1132 Co-curricular activities	4150	Construction
	1140 Pre-kindergarten	2550	Pupil transportation
	1300 Continuing education	3100	Food service
	1400 Summer school	3300	Community services
			\$ 44,060

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MOLALLA RIVER SCHOOL DISTRICT 35
CLACKAMAS COUNTY, OREGON

REPORTS ON LEGAL AND OTHER REGULATORY REQUIREMENTS

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MOLALLA RIVER SCHOOL DISTRICT 35
CLACKAMAS COUNTY, OREGON

INDEPENDENT AUDITORS' REPORT REQUIRED BY OREGON STATE REGULATIONS

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PAULY, ROGERS, AND Co., P.C.
12700 SW 72nd Ave. Tigard, OR 97223
(503) 620-2632 (503) 684-7523 FAX
www.paulyrogersandcocpas.com

September 26, 2016

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the Molalla River School District 35 as of and for the year ended June 30, 2016, and have issued our report thereon dated September 26, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Compliance

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

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

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **State school fund factors and calculation.**

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

- 1) Expenditures were within authorized appropriation levels except as noted on page 19.

OAR 162-10-0230 Internal Control

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

This report is intended solely for the information and use of the Board of Directors and management and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.

MOLALLA RIVER SCHOOL DISTRICT 35
CLACKAMAS COUNTY, OREGON

GRANT COMPLIANCE REVIEW

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PAULY, ROGERS, AND Co., P.C.
12700 SW 72nd Ave. Tigard, OR 97223
(503) 620-2632 (503) 684-7523 FAX
www.paulyrogersandcocpas.com

September 26, 2016

To the Board of Directors
Molalla River School District 35
Clackamas County, Oregon

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Molalla River School District 35 as of and for the year ended June 30, 2016, and the related notes to the basic financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated September 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the 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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the basic 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.

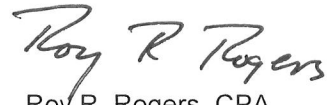
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Roy R. Rogers". The signature is written in a cursive style with a large, prominent "R" and "R".

Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.



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September 26, 2016

To the Board of Directors
Molalla River School District 35
Clackamas County, Oregon

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Report on Compliance for Each Major Federal Program

We have audited Molalla School District 35's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the major federal programs for the year ended June 30, 2016. The major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of compliance.

Opinion on Each Major Federal Program

In our opinion, Molalla River School District 35 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.

MOLALLA RIVER SCHOOL DISTRICT 35
CLACKAMAS COUNTY, OREGON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section I – Summary of Auditors’ Results

Financial Statements

Type of Auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses Yes No

Noncompliance material to financial statements noted? Yes No

Any GAGAS findings disclosed that are required to be reported in accordance with the Uniform Guidance? Yes No

Federal Awards

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses Yes None reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? Yes No

Identification of major programs

CFDA Number(s):
84.027, 84.173

Name of Federal Program:
Individuals with Disabilities Education Act

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

Notes to the schedule of Expenditures of Federal Awards

The schedule of expenditures of federal awards included in this report includes the federal grant activity and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

MOLALLA RIVER SCHOOL DISTRICT 35
CLACKAMAS COUNTY, OREGON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None