

***CITY OF FALLS CITY
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018***

Mayor

Jeremy Gordon
180 Dayton Street
Falls City, Oregon 97344

Council

Tony Meier, President
P.O. Box 223
Falls City, Oregon 97344

Lori Jean Sickles
P.O. Box 81
Falls City, Oregon 97344

Jennifer Drill
136 Carey Court
Falls City, Oregon 97344

Cliff Lauder
471 Prospect Ave.
Falls City, Oregon 97344

Dennis Sickles
523 Terrace Street
Falls City, Oregon 97344

Charlie Flynn
592 Wood Street
Falls City, Oregon 97344

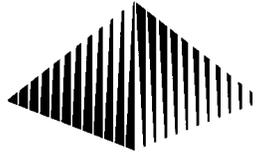
City Staff

Macahan Corthell, JD, City Administrator
JoHanna Birr, City Clerk
299 Mill Street
Falls City, Oregon 97344

CITY OF FALLS CITY, OREGON
TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position (Modified Cash Basis)	8
Statement of Activities (Modified Cash Basis)	9
Fund Financial Statements	
Balance Sheet (Modified Cash Basis) - Governmental Funds	10
Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) - Governmental Funds	11
Statement of Fund Net Position (Modified Cash Basis) - Proprietary Funds	12
Statement of Revenues, Expenses and Changes in Fund Net Position (Modified Cash Basis) - Proprietary Funds	13
Notes to Basic Financial Statements	14-28
Supplemental Information	
Governmental Funds	
Combining Balance Sheet (Modified Cash Basis) - Non-major Governmental Funds	29
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) - Non-major Governmental Funds	30
Schedules of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) - Budget and Actual	
General Fund	31
Street Fund	32
Community Development Revolving Loan Fund	33
Wagner Reserve Library #71 Fund	34
Wagner Reserve Library #72 Fund	35
Proprietary Funds	
Schedules of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis) - Budget and Actual	
Sewer Fund	36
Water Fund	37
City Utility Reserve Fund	38
COMPLIANCE SECTION	
Independents Auditor's Comments Required by Oregon State Regulations	39-40

FINANCIAL SECTION



GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Falls City
299 Mill Street
Falls City, Oregon 97344

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falls City, Oregon, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in the notes to the financial statements. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falls City as of June 30, 2018, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in the notes to the financial statements.

Basis of Accounting

We draw attention to the notes to financial statements, which describe the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Report on Supplemental and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The management's discussion and analysis, budgetary comparison information and combining nonmajor fund financial statements, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Management's discussion and analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated November 9, 2018, on our consideration of the City's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

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

By: 
Devan W. Esch, A Shareholder
November 9, 2018

CITY OF FALLS CITY, OREGON
 Management's Discussion and Analysis
 June 30, 2018

As management of the City of Falls City, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2018.

Financial Highlights

	June 30,		change
	2018	2017	
Net position	\$ 1,290,107	\$ 1,202,006	\$ 88,101
Change in net position	88,101	36,531	51,570
Governmental net position	585,762	575,090	10,672
Proprietary net position	704,345	626,916	77,429
Change in governmental net position	10,672	8,181	2,491
Change in proprietary net position	77,429	28,350	49,079

Overview of the Financial Statements

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

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

The Statement of Net Position (Modified Cash Basis). This presents information on the assets and liabilities of the City as of the date on the statement utilizing the modified cash basis of accounting. Net position is the difference between the assets and liabilities recorded using the modified cash basis of accounting. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities (Modified Cash Basis). The *statement of activities* presents information showing how the cash basis net position of the City changed over the most recent fiscal year by tracking revenues, expenditures and other transactions that increase or reduce net position utilizing the modified cash basis of accounting.

In the government-wide financial statements, the City's basic activities are shown as governmental activities. All basic City government functions are shown here, such as general government, community development, fire service, parks and street. These activities are primarily financed through property taxes and other intergovernmental activities. The business-type activities of the City include utility operations.

Fund financial statements. The *fund financial statements* provide more detailed information about the City's funds, focusing on its most significant or "major" funds – not the City of Falls City as a whole. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific

activities or objectives. The City of Falls City, like state and other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. The *governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful in obtaining an understanding of each fund’s activity.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplemental information*, including the budgetary comparison schedules, the combining nonmajor fund financial statements, and other schedules.

Government-wide Financial Analysis

City of Falls City
Statements of Net Position (Modified Cash Basis)
June 30,

	2018			2017		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 585,895	\$ 704,345	\$ 1,290,240	\$ 575,305	\$ 626,916	\$ 1,202,221
Liabilities	133	-	133	215	-	215
Net position:						
Restricted	248,396	65,473	313,869	239,859	65,473	305,332
Unrestricted	337,366	638,872	976,238	335,231	561,443	896,674
Total Net Position	\$ 585,762	\$ 704,345	\$ 1,290,107	\$ 575,090	\$ 626,916	\$ 1,202,006

Statement of Net Position. The Statement of Net Position (modified cash basis) is provided on a comparative basis. As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City of Falls City, assets exceeded liabilities by \$1,290,107 as of June 30, 2018. Overall, the City's financial position increased.

Net position - restricted represent sources that are subject to external restrictions on their use, such as debt service or capital projects.

Net position - unrestricted is available for general operations of the City.

City of Falls City
Statements of Activities (Modified Cash Basis)
Year Ended June 30,

	2018			2017		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues						
Program revenues						
Charges for service	\$ 9,560	\$ 481,842	\$ 491,402	\$ 165,281	\$ 464,238	\$ 629,519
Operating grants	88,722	20,000	108,722	248,506	2,360	250,866
General revenues						
Property taxes	114,588	-	114,588	110,750	-	110,750
Franchise taxes	54,656	-	54,656	54,157	-	54,157
Intergovernmental	29,239	-	29,239	26,781	-	26,781
Miscellaneous	71,429	-	71,429	52,479	-	52,479
<i>Total revenues</i>	368,194	501,842	870,036	657,954	466,598	1,124,552
Expenses						
General government	194,690	-	194,690	300,158	-	300,158
Community development	53,988	-	53,988	226,682	-	226,682
Fire service	91,938	-	91,938	64,577	-	64,577
Parks	8,648	-	8,648	6,580	-	6,580
Street	69,283	-	69,283	113,016	-	113,016
Interest on long-term debt	975	-	975	760	-	760
Water	-	1,236,051	1,236,051	-	256,396	256,396
Sewer	-	96,604	96,604	-	119,852	119,852
<i>Total expenses</i>	419,522	1,332,655	1,752,177	711,773	376,248	1,088,021
Transfers	62,000	(62,000)	-	62,000	(62,000)	-
Proceeds from issuance of debt	-	970,242	970,242	-	-	-
Change in net position	10,672	77,429	88,101	8,181	28,350	36,531
Net position, beginning of year	575,090	626,916	1,202,006	566,909	598,566	1,165,475
Net position, end of year	\$ 585,762	\$ 704,345	\$ 1,290,107	\$ 575,090	\$ 626,916	\$ 1,202,006

Statement of Activities (Modified Cash Basis). The City's net position increased by \$88,101 during fiscal 2017-2018. This increase is explained in the governmental and business-type activities as follows:

Governmental activities - The City's net position increased by \$10,672 from governmental activities. This increase is due mainly to expenditures approximately \$40,000 more than revenues offset by \$62,000 of transfers in.

Business-type activities - The City's net position increased by \$77,429 from business-type activities. This increase was due primarily to an increase in charges for services. There was a debt refinancing in the current year, but it did not affect the net position.

Financial Analysis of the City of Falls City's Government Funds

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

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

General Fund Budget

There were no changes to the General Fund budget during the year.

Significant Fund Transactions

Major Governmental Funds:

- General: The General fund had an increase in fund balance of \$36,949 during the year, which is primarily due to expenditures less than what were budgeted. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 95% of total General fund expenditures.
- Street: The Street fund had an increase in fund balance of \$3,114 during the year due to expenditures in excess of revenues and transfers in.
- Community Development Revolving Loan: The Community Development Revolving Loan fund had a decrease in fund balance of \$179 during the fiscal year. The decrease was due to loan disbursements in excess of loan payments received.

Major Proprietary Funds:

- Sewer: The Sewer fund had an increase in net position of \$45,926 during the year due mainly to expenditures less than budget and a transfer in. There were no capital outlay expenditures in the current year.
- Water: The Water fund had a decrease in net position of \$10,841 during the year due mainly to personal services expenditures in excess of what had been budgeted.
- City Utility Reserve: The City Utility Reserve fund had an increase in net position of \$42,344 during the year due expenditures less than budget.

Debt Administration

Long-term debt: The City had total revenue-backed bonded debt outstanding of \$875,000 at the end of the current fiscal year, and loans in the amount of \$116,833 outstanding.

The City’s total debt decreased by \$65,284 during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 3 percent of its total assessed valuation. The City had no outstanding general obligation debt.

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Loans	\$ 116,833	\$ 131,152	\$ -	\$ -	\$ 116,833	\$ 131,152
Revenue bonds	-	-	875,000	925,965	875,000	925,965
Total	\$ 116,833	\$ 131,152	\$ 875,000	\$ 925,965	\$ 991,833	\$ 1,057,117

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

Economic Factors and the Next Year's Budget

The City of Falls City's Budget Committee considered all the following factors while preparing the City budget for the 2018-19 fiscal year:

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

Requests for Information

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

City of Falls City
299 Mill Street
Falls City, Oregon 97344

BASIC FINANCIAL STATEMENTS

CITY OF FALLS CITY, OREGON
STATEMENT OF NET POSITION (MODIFIED CASH BASIS)
JUNE 30, 2018

	<u><i>Governmental Activities</i></u>	<u><i>Business-type Activities</i></u>	<u><i>Totals</i></u>
ASSETS			
Cash and cash equivalents	\$ 585,895	\$ 704,345	\$ 1,290,240
LIABILITIES			
Payroll withholdings	133	-	133
NET POSITION			
Restricted for:			
Debt service	-	65,473	65,473
Community development	94,651	-	94,651
Streets	153,745	-	153,745
Unrestricted	337,366	638,872	976,238
<i>Total Net Position</i>	<u>\$ 585,762</u>	<u>\$ 704,345</u>	<u>\$ 1,290,107</u>

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

CITY OF FALLS CITY, OREGON
STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)
YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	Expenses	Program Revenues	
		Fees, Fines and Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 194,690	\$ 9,560	\$ 28,424
Community development	53,988	-	-
Fire service	91,938	-	-
Parks	8,648	-	-
Street	69,283	-	60,298
Interest on long-term debt	975	-	-
<i>Total Governmental activities</i>	419,522	9,560	88,722
Business-type activities:			
Water	1,236,051	316,969	20,000
Sewer	96,604	164,873	-
<i>Total Business-type activities</i>	1,332,655	481,842	20,000
<i>Total Activities</i>	<u>\$ 1,752,177</u>	<u>\$ 491,402</u>	<u>\$ 108,722</u>
General Revenues:			
Property taxes			
Franchise taxes			
Intergovernmental			
Miscellaneous			
<i>Total General Revenues</i>			
Transfers			
Proceeds from issuance of debt			
Change in net position			
Net Position - beginning of year			
Net Position - end of year			

***Net (Expenses) Revenues
and Changes in Net Position***

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
\$ (156,706)	\$ -	\$ (156,706)
(53,988)	-	(53,988)
(91,938)	-	(91,938)
(8,648)	-	(8,648)
(8,985)	-	(8,985)
(975)	-	(975)
(321,240)	-	(321,240)
-	(899,082)	(899,082)
-	68,269	68,269
-	(830,813)	(830,813)
(321,240)	(830,813)	(1,152,053)
114,588	-	114,588
54,656	-	54,656
29,239	-	29,239
71,429	-	71,429
269,912	-	269,912
62,000	(62,000)	-
-	970,242	970,242
10,672	77,429	88,101
575,090	626,916	1,202,006
\$ 585,762	\$ 704,345	\$ 1,290,107
\$ 585,762	\$ 704,345	\$ 1,290,107

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

CITY OF FALLS CITY, OREGON

BALANCE SHEET (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS

JUNE 30, 2018

		<u>Special Revenue</u>	
	<u>General</u>	<u>Street Fund</u>	<u>Community Development Revolving Loan Fund</u>
ASSETS			
Cash and cash equivalents	\$ 280,428	\$ 153,745	\$ 91,706
LIABILITIES AND FUND BALANCE			
Liabilities:			
Payroll withholdings	\$ 133	\$ -	\$ -
Fund Balance:			
Restricted for:			
Community development	-	-	-
Streets	-	153,745	-
Committed to:			
Community development	-	-	91,706
Unassigned	280,295	-	-
<i>Total Fund Balance</i>	<u>280,295</u>	<u>153,745</u>	<u>91,706</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 280,428</u>	<u>\$ 153,745</u>	<u>\$ 91,706</u>

<i>Other Governmental Funds</i>	<i>Total</i>
\$ 60,016	\$ 585,895
-	133
60,016	60,016
-	153,745
-	91,706
-	280,295
60,016	585,762
\$ 60,016	\$ 585,895

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

CITY OF FALLS CITY, OREGON**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****(MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS****YEAR ENDED JUNE 30, 2018**

		<u>Special Revenue</u>	
			<u>Community Development Revolving Loan Fund</u>
	<u>General Fund</u>	<u>Street Fund</u>	
REVENUES			
Taxes and assessments	\$ 114,588	\$ -	\$ -
Licenses and permits	65,139	-	-
Charges for services	1,020	-	-
Intergovernmental	71,613	60,298	-
Miscellaneous	30,840	99	24,597
<i>Total Revenues</i>	<u>283,200</u>	<u>60,397</u>	<u>24,597</u>
EXPENDITURES			
Current			
General government	179,995	-	-
Community development	-	-	24,776
Fire service	92,221	-	-
Parks	9,298	-	-
Streets	-	28,017	-
Debt payments			
Principal	9,002	5,316	-
Interest	975	853	-
Capital acquisitions	-	35,097	-
Other/Debt	4,760	-	-
<i>Total Expenditures</i>	<u>296,251</u>	<u>69,283</u>	<u>24,776</u>
REVENUES OVER (UNDER) EXPENDITURES	(13,051)	(8,886)	(179)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	12,000	-
Transfers out	50,000	-	-
<i>Total Other Financing Sources (Uses)</i>	<u>50,000</u>	<u>12,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	36,949	3,114	(179)
FUND BALANCE, beginning of year	<u>243,346</u>	<u>150,631</u>	<u>91,885</u>
FUND BALANCE, end of year	<u>\$ 280,295</u>	<u>\$ 153,745</u>	<u>\$ 91,706</u>

<i>Other Governmental Funds</i>	<i>Total</i>
\$ -	\$ 114,588
-	65,139
-	1,020
-	131,911
-	55,536
-	368,194
29,212	209,207
-	24,776
-	92,221
-	9,298
-	28,017
-	14,318
-	1,828
-	35,097
-	4,760
29,212	419,522
(29,212)	(51,328)
34,635	46,635
(34,635)	15,365
-	62,000
(29,212)	10,672
89,228	575,090
\$ 60,016	\$ 585,762

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

CITY OF FALLS CITY, OREGON

STATEMENT OF FUND NET POSITION (MODIFIED CASH BASIS) - PROPRIETARY FUNDS

JUNE 30, 2018

	<u>Sewer</u>	<u>Water</u>	<u>City Utility Reserve</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 179,359	\$ 211,048	\$ 313,938	\$ 704,345
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES	\$ -	\$ -	\$ -	\$ -
NET POSITION				
Restricted for:				
Debt service	-	65,473	-	65,473
Unrestricted	179,359	145,575	313,938	638,872
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Net Position	<u>\$ 179,359</u>	<u>\$ 211,048</u>	<u>\$ 313,938</u>	<u>\$ 704,345</u>

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

CITY OF FALLS CITY, OREGON**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION (MODIFIED CASH BASIS) - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	<u>Sewer</u>	<u>Water</u>	<u>City Utility Reserve</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services	\$ 113,722	\$ 316,473	\$ 51,152	\$ 481,347
Miscellaneous	-	495	-	495
<i>Total Operating Revenues</i>	113,722	316,968	51,152	481,842
OPERATING EXPENSES				
Personal services	47,022	124,447	-	171,469
Materials and services	40,774	77,178	-	117,952
<i>Total Operating Expenses</i>	87,796	201,625	-	289,421
OPERATING INCOME	25,926	115,343	51,152	192,421
NONOPERATING ITEMS				
Intergovernmental	-	20,000	-	20,000
Proceeds from issuance of debt	-	970,242	-	970,242
Capital acquisitions	-	(247)	(8,808)	(9,055)
Debt payments				
Principal	-	(975,964)	-	(975,964)
Interest	-	(58,215)	-	(58,215)
<i>Total Nonoperating Items</i>	-	(44,184)	(8,808)	(52,992)
NET INCOME BEFORE TRANSFERS	25,926	71,159	42,344	139,429
Transfers in	20,000	-	-	20,000
Transfers out	-	(82,000)	-	(82,000)
<i>Net transfers</i>	20,000	(82,000)	-	(62,000)
CHANGE IN NET POSITION	45,926	(10,841)	42,344	77,429
NET POSITION, beginning of year	133,433	221,889	271,594	626,916
NET POSITION, end of year	\$ 179,359	\$ 211,048	\$ 313,938	\$ 704,345

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

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

There are certain governmental agencies and various service districts which provide services within the City. These agencies have independently elected governing boards and the City is not financially accountable for these organizations. Therefore, financial information for these agencies is not included in the accompanying basic financial statements.

As discussed further under *Measurement Focus and Basis of Accounting*, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

Basic Financial Statements

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

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

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

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

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the City has governmental and proprietary type funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

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

Government accounting standards set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures / expenses of either fund category or the government and enterprise combined) for the determination of major funds. The City may electively add funds as major funds, which either have debt outstanding or specific community focus. Non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The City reports the following major governmental funds:

General Fund

This fund accounts for all transactions not accounted for in other funds. Property taxes are the primary revenues. Expenditures are primarily for general government.

Street Fund

Gas tax apportionments received from the State are recorded in this fund. Expenditures are for construction and maintenance of public streets.

Community Development Revolving Loan Fund

This fund accounts for rehabilitation housing loan repayments received from Polk CDC. At June 30, 2018, Polk CDC had \$450,699 of loans outstanding. Collections from these loans will either be remitted to the City or loaned to qualified applicants.

The City reports the following non-major governmental special revenue funds:

Wagner Reserve Library #71 Fund

This fund accounts for the distributions from the Wagner Trust which are designated for library purposes.

Wagner Reserve Library #72 Fund

This fund accounts for revenues and expenditures related to the funds designated for library expansion.

The City reports all three of its proprietary funds as major funds. These funds are used to account for the acquisition, operation, and maintenance of the sewer and water systems. These funds are entirely or predominantly self-supported through user charges to customers.

Sewer

This fund accounts for the operation of the City's sewer system.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Water

This fund accounts for the operation of the City's water system.

City Utility Reserve

This fund accounts for funds reserved for capital improvements and repairs for water and sewer.

Fund Balance

In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

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

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

Fund balance is reported as committed when the City Council takes formal action that places specific constraints on how the resources may be used. The City Council can modify or rescind the commitment at any time through taking a similar formal action.

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

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds.

Definitions of Governmental Fund Types

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Definitions of Governmental Fund Types (Continued)

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

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

In the government-wide Statement of Net Position (Modified Cash Basis) and Statement of Activities (Modified Cash Basis), both governmental and business-type activities are presented using the economic resource measurement focus, within the limitations of the modified cash basis of accounting, as defined below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an economic resource measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, change in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include:

1. Interfund receivables and payables that are temporary borrowing and result from transactions involving cash or cash equivalents are recognized.
2. Assets that normally convert to cash or cash equivalents (e.g., certificates of deposit, external cash pools, and marketable investments) that arise from transactions and events involving cash or cash equivalents are recognized.
3. Liabilities for cash (or cash equivalents) held on behalf of others or held in escrow are recognized.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

The modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods and services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value. Additionally, long-term liabilities such as debt are only reported in the notes to the financial statements.

If the City utilized the basis of accounting recognized as generally accepted in the United States of America, the fund financial statements for the governmental funds would use the modified accrual basis of accounting, and the fund financial statements for the enterprise funds would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

The City's policy, although not in accordance with accounting principles generally accepted in the United States of America, is acceptable under Oregon Law (ORS 294.333), which leaves the selection of the method of accounting to the discretion of the municipal corporation.

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

Cash and Cash Equivalents

The City maintains cash and cash equivalents in a common pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as cash and cash equivalents. The City considers cash on hand, demand deposits and savings accounts, and short-term investments with an original maturity of three months or less from the date of acquisition to be cash and cash equivalents.

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

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are stated at cost, which approximates fair value.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes are levied by the County Assessor and collected by the County Tax Collector. The taxes are levied and become a lien as of July 1. They may be paid in three installments payable in equal payments due November 15, February 15, and May 15. The City's property tax collection records show that most of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years.

Capital Assets

The City does not maintain historical cost or depreciation records for capital assets. Therefore, capital assets are not reported on the government-wide Statement of Net Position or the Enterprise Funds Statement of Net Position.

Long-Term Debt

Long-term debt is presented only in the notes to the financial statements. Payments of principal and interest are recorded as expenditures / expenses when paid.

Accrued Compensated Absences

Accumulated unpaid vacation pay is not accrued. Earned but unpaid vacation pay is recorded as an expenditure when paid. The amount payable for accumulated vacation time as of June 30, 2018 was not available.

Budgets and Budgetary Accounting

The City adopts the budget on a department basis for the General fund and a program basis (equivalent to a fund), for all other funds. Therefore, cash expenditures of a fund may not legally exceed that object's appropriations for cash expenditures. The City Council may amend the budget to expend unforeseen revenues by supplemental appropriations. All supplemental appropriations are included in the budget comparison statements. Appropriations lapse at year-end and may not be carried over. The City does not use encumbrance accounting.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect reporting amounts of certain assets, liabilities, revenues and expenditures as of June 30, 2018. Actual results may differ from those estimates.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following at June 30, 2018:

Cash

Cash on hand	\$	328
Deposits with financial institutions		24,894
Cash held by fiscal agents		91,706

Investments

Local Government Investment Pool		1,173,312
		<hr/>
	\$	1,290,240
		<hr/> <hr/>

Deposits

The book balance of the City's bank deposits (checking accounts) was \$24,894 and the bank balance was \$34,631 at year end. The difference is due to transactions in process. Bank deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS295 under a collateral program administered by the Oregon State Treasurer.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits with financial institutions for up to \$250,000 each for the aggregate of all demand deposits and the aggregate of all time deposit and savings accounts at each financial institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2018, all of the City's bank balances were covered by FDIC insurance.

Local Government Investment Pool

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations.

The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2018, the fair value of the position in the Oregon State Treasurer's Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality.

Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

CASH AND CASH EQUIVALENTS (Continued)

Interest Rate Risk

In accordance with its investment policy, the City manages its exposure to declines in fair value of its investments by limiting its investments to the LGIP.

Custodial Risk - Investments

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

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments.

The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

Cash Held by Fiscal Agents

Cash held by fiscal agents is held by Polk Community Development Corporation. Information on collateralization of this cash is contained in the annual financial report of the corporation. The corporation is subject to the same regulations regarding collateralization as the City.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

LONG-TERM DEBT

As a result of the use of the modified cash basis of accounting in this report, obligations related to long-term debt and other obligations are not reported as liabilities in the financial statements. Long-term debt transactions for the year were as follows:

	<u>Outstanding July 1, 2017</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2018</u>	<u>Due Within One Year</u>
<i>Governmental activities</i>					
Fire truck loan, semiannual interest payments at 3.0% to 4.5% and irregular principal payments per schedule	\$ 5,000	\$ -	\$ (5,000)	\$ -	\$ -
Polk County Community Development, original amount \$65,000, interest rate 1.0%, maturing May 2040	51,524	-	(2,119)	49,405	2,023
Public works truck loan, four annual payments of \$6,169, interest at 5.09%, maturing June 2020	16,772	-	(5,316)	11,456	5,586
Park expansion loan, 30 payments of \$2,242, interest at 1%, maturing October 2046	57,856	-	(1,884)	55,972	1,682
	<u>\$ 131,152</u>	<u>\$ -</u>	<u>\$ (14,319)</u>	<u>\$ 116,833</u>	<u>\$ 9,291</u>
<i>Business-type activities</i>					
Revenue Bonds, original amount \$1,204,650, issued May 25, 2003 interest rate 4.5%	\$ 925,964	\$ -	\$ (925,964)	\$ -	\$ -
Full Faith and Credit Refunding Obligations \$925,000 issued October 11, 2017. Average coupon rate 3.23%, maturing April 2037	-	925,000	(50,000)	875,000	35,000
	<u>\$ 925,964</u>	<u>\$ 925,000</u>	<u>\$ (975,964)</u>	<u>\$ 875,000</u>	<u>\$ 35,000</u>

The City refinanced the 2003 revenue bonds in the current year. New debt in the amount of \$925,000 was issued at an average coupon rate of 3.23% and an average life of 10.8 years to retire the existing debt. The refinancing is estimated to save the City \$148,868 over the life of the new debt.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

LONG-TERM DEBT (Continued)

Future debt service requirements are as follows:

Governmental Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 9,291	\$ 1,639	\$ 10,930
2020	9,611	1,319	10,930
2021	3,778	983	4,761
2022	3,818	943	4,761
2023	3,856	905	4,761
2024-2028	19,746	4,059	23,805
2029-2033	20,877	2,928	23,805
2034-2038	21,942	1,863	23,805
2039-2043	15,441	807	16,248
2044-2047	8,473	209	8,682
	\$ 116,833	\$ 15,655	\$ 132,488

Business-type Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 35,000	\$ 28,512	\$ 63,512
2020	35,000	27,812	62,812
2021	35,000	26,762	61,762
2022	35,000	25,712	60,712
2023	40,000	24,662	64,662
2024-2028	215,000	98,710	313,710
2029-2033	260,000	59,026	319,026
2034-2038	220,000	16,504	236,504
	\$ 875,000	\$ 307,700	\$ 1,182,700

Debt Service Covenants

Reserves required by the water debt are maintained in the Water fund. The City was in compliance with the reserve requirements of \$65,473 for the water bonds. The fire truck loan required the City to restrict all debt to less than 10% of the assessed value of the City. The City was in compliance with this requirement.

CITY OF FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2018

PENSION PLAN

Plan Description – City employees are provided pension benefits through the Oregon Public Employees Retirement System (PERS). PERS is a cost-sharing multiple-employer defined benefit pension plan for units of state and local government in Oregon, containing multiple actuarial pools. Benefits are established and amended by the Oregon State Legislature pursuant to ORS Chapters 238 and 238A. The legislature has delegated the authority to administer and manage PERS to the Public Employees Retirement Board. PERS issues a publicly available financial report that can be found at: <https://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>

Benefits Provided - PERS provides retirement, disability, and death benefits which vary based on a qualified employee's hiring date and employment class (general service or police/fire). All City employees are eligible to participate after six months of covered employment. Details applicable to police/fire employees are noted in [square brackets] where different.

The Tier One/Tier Two Retirement Plan applies to qualifying employees hired before August 29, 2003 and is closed to new members.

Monthly retirement benefits are based on final 3-year average salary multiplied by years of service and a factor of 1.67% [2.00%]. Benefits may also be based on a money match computation, or formula plus annuity (for members contributing before August 21, 1981), if a greater benefit results. Employees are fully vested after making contributions in each of five calendar years, and are eligible to retire at age 55 [50]. Tier One benefits are reduced if retirement occurs prior to age 58 [55] with less than 30 [25] years of service; Tier Two benefits are reduced for retirement prior to age 60.

Employees are eligible for service-related disability benefits regardless of length of service; 10 years of service is required for nonservice-related benefits. Disability benefits are determined in the same manner as retirement benefits with service time computed to age 58 [55].

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance. The beneficiary may also receive a matching lump-sum payment from employer funds if the member was in covered employment at the time of death, or if the member died less than 120 days after termination, while on official leave of absence, or as a result of a job-related injury.

Monthly benefits are subject to annual cost-of-living adjustments (COLA). For benefits earned after the relevant effective dates, the COLA is subject to a cap of 1.25% on the first \$60,000 of annual benefits and 0.15% thereafter (ORS 238.360).

The Oregon Public Service Retirement Plan (OPSRP) applies to qualifying employees hired on or after August 29, 2003.

Monthly retirement benefits are based on final 3-year average salary multiplied by years of service and a factor of 1.50% [1.80%]. Employees are fully vested after completing 600 hours of service in each of five calendar years, and are eligible to retire at age 58 [53] with 30 [25] years of service, or at age 65 [60] otherwise.

Employees are eligible for service-related disability benefits regardless of length of service; 10 years of service is required for nonservice-related benefits. The benefit is 45% of the employee's salary during the last full month of employment before the disability occurred.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

PENSION PLAN (Continued)

Upon the death of a non-retired member, the beneficiary receives a monthly benefit equal to 50% of the retirement benefit that would have been paid to the member.

Monthly benefits are subject to annual cost-of-living adjustments (COLA). For benefits earned after the relevant effective dates, the COLA is subject to a cap of 1.25% on the first \$60,000 of annual benefits and 0.15% thereafter (ORS 238A.210).

Contribution Requirements – As a participating employer, the City is required to make monthly contributions to PERS based on actuarially determined percentages of covered payroll. Rates in effect for fiscal year 2017 were 17.05% for Tier One/Tier Two employees, 10.19% for OPSRP general service employees, and 14.96% for OPSRP police/fire employees. The City's total contributions to PERS were \$20,350, for fiscal year ended June 30, 2018.

Contribution requirements are established by Oregon statute and may be amended by an act of the Oregon State Legislature. Employer contribution rates for fiscal year 2018 were based on the December 31, 2015 actuarial valuation using the entry age normal actuarial cost method. It is important to note that the actuarial valuations used for rate setting are based on different methods and assumptions than those used for financial reporting which are described later in this note.

Employee contributions are set by statute at 6% of salary and are remitted by participating employers, who may agree to make employee contributions on the employee's behalf. Prior to January 1, 2004, employee contributions were credited to the defined benefit pension plan. Beginning January 1, 2004, all employee contributions were placed in the OPSRP Individual Account Program (IAP), a defined contribution pension plan described further at the end of this note.

Pension Assets/Liabilities, Pension Expense, and Pension-Related Deferrals – At June 30, 2017, the City reported a net pension liability of \$197,958 as its proportionate share of the collective net pension liability for PERS, measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was based on a December 31, 2015 actuarial valuation, rolled forward to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to PERS relative to the projected contributions of all participating employers, as actuarially determined. The City's proportion was 0.00237661% as of the June 30, 2017 measurement date, compared to 0.00146853% as of June 30, 2016.

Actuarial Methods and Assumptions – The total pension liability in the December 31, 2015 actuarial valuation was determined using the entry age normal method and the following actuarial assumptions, applied to all periods included in the measurement: inflation rate of 2.50%, projected salary increases of 3.50%, investment rate of return of 7.50%, and mortality rates based on the RP-2000 sex-distinct mortality tables, with generational adjustments per scale BB. These assumptions were based on the results of an actuarial experience study for the four-year period ending December 31, 2014.

The long-term expected rate of return on pension plan investments was developed by combining estimated rates of return for each major asset class weighted by target asset allocation percentages and adjusting for inflation.

Target allocations and estimated geometric rates of return for each major asset class are available in the PERS publicly available financial report previously mentioned.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

PENSION PLAN (Continued)

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following chart shows the sensitivity of the net pension liability (asset) to changes in the discount rate, based on calculations using discount rates of 6.50%, 7.50%, and 8.50%.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$ 337,357	\$ 197,958	\$ 81,395

Pension Plan Fiduciary Net Position – Detailed information about PERS’ net position is available in its separately issued financial report.

Defined Contribution Plan – PERS-eligible employees are statutorily required to contribute 6% of their annual covered salary to the OPSRP Individual Account Program (IAP), a defined contribution pension plan. Benefits terms, including contribution requirements, are established by the Oregon Legislature. As permitted, the City has opted to pick-up the contributions on behalf of employees. Employees are fully vested after completing 600 hours of service in each of five calendar years. PERS contracts with VOYA Financial to administer the IAP.

Changes in Plan Provisions Subsequent to Measurement Date – The PERS Board lowered the Assumed Rate of Return from 7.50% to 7.20% on July 28, 2017. This change is effective January 1, 2018, and will decrease the net OPEB asset or increase the net OPEB liability in future periods.

POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The other postemployment benefits (OPEB) for the City combines two separate plans. The City provides an implicit rate subsidy for retiree health insurance premiums administered by Citycounty Insurance Services (CIS), and a contribution to the State of Oregon’s PERS cost-sharing multiple-employer defined health insurance benefit plan. The total OPEB liability is based on a valuation provided by an independent actuarial firm based on assumptions including inflation rate, projected salary increases, discount rate, medical, dental and vision increases, and mortality rates and other inputs. The total OPEB liability was estimated at June 30, 2018 by Milliman Actuarial Services for both plans. Management has determined that the total OPEB liability is not material to the financial statements taken as a whole.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

INTERFUND TRANSACTIONS

Interfund transactions during the current fiscal year were as follows.

	<u>Transfers in</u>	<u>Transfers out</u>
General	\$ 50,000	\$ -
Street	12,000	-
Library Expansion	-	34,635
Library Reserve Fund	34,635	-
Sewer	20,000	-
Water	-	82,000
	<u>\$ 116,635</u>	<u>\$ 116,635</u>

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

OVEREXPENDITURES OF APPROPRIATIONS

Oregon law prohibits expenditures in excess of Council approved appropriations. Overexpenditures of appropriations in the current year were as follows:

<u>Fund / Appropriation category</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Water			
Debt service			
Principal	\$ 20,860	\$ 975,964	\$ (955,104)
Interest	44,613	58,215	(13,602)

The Water Fund overexpenditures for debt service are due to current year debt refinancing and are not a violation of local budget law.

CONTINGENCIES

The City purchases commercial insurance to cover all commonly insurable risks, which includes property damage, liability and employee bonds. Most policies carry a small deductible amount. There were no open claims at the time of this report. There were no claims in the prior three years exceeding insurance coverage.

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

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2018

RELATED PARTY TRANSACTIONS

The City paid \$40 to Falls City Screen Printing. The payments were in the normal course of business.

NEW PRONOUNCEMENTS

The City implemented the following pronouncement during the current fiscal year:

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. It requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. The statement is effective for fiscal years beginning after June 15, 2017. The statement had no effect on the current year financial statements.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 9, 2018, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

CITY OF FALLS CITY, OREGON

COMBINING BALANCE SHEET (MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2018

	<u>Special Revenue</u> <u>Wagner Reserve</u> <u>Library #71</u>
ASSETS	
Cash and cash equivalents	\$ 60,016
	<hr/> <hr/>
LIABILITIES AND FUND BALANCE	
Liabilities:	\$ -
Fund Balance:	
Restricted for:	
Community development	60,016
	<hr/>
Total Liabilities and Fund Balance	\$ 60,016
	<hr/> <hr/>

CITY OF FALLS CITY, OREGON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	<i>Special Revenue</i>		<i>Total</i>
	<i>Wagner Reserve Library #71</i>	<i>Wagner Reserve Library #72</i>	
REVENUES	\$ -	\$ -	
EXPENDITURES			
General government	29,212	-	29,212
REVENUES OVER (UNDER) EXPENDITURES	(29,212)	-	(29,212)
OTHER FINANCING SOURCES (USES)			
Transfers in	34,635	-	34,635
Transfers out	-	(34,635)	(34,635)
<i>Total Other Financing Sources and Uses</i>	34,635	(34,635)	-
NET CHANGE IN FUND BALANCE	5,423	(34,635)	(29,212)
FUND BALANCE, beginning of year	54,593	34,635	89,228
FUND BALANCE, end of year	\$ 60,016	\$ -	\$ 60,016

CITY OF FALLS CITY, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 105,000	\$ 105,000	\$ 114,588	\$ 9,588
Licenses and permits	45,800	45,800	65,139	19,339
Charges for services	50	50	1,020	970
Intergovernmental	53,600	53,600	71,613	18,013
Miscellaneous	10,350	10,350	30,840	20,490
<i>Total Revenues</i>	214,800	214,800	283,200	68,400
EXPENDITURES				
City Council	1,450	1,450	530	920
Court	21,400	21,400	759	20,641
Fire	79,215	104,217	92,221	11,996
Parks	9,920	12,920	9,298	3,622
Administration	287,000	307,000	188,683	118,317
Other/Debt	6,017	6,017	4,760	1,257
Contingency	64,798	71,283	-	71,283
<i>Total Expenditures</i>	469,800	524,287	296,251	228,036
REVENUES OVER (UNDER) EXPENDITURES	(255,000)	(309,487)	(13,051)	296,436
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	50,000	50,000	-
NET CHANGE IN FUND BALANCE	(205,000)	(259,487)	36,949	296,436
FUND BALANCE, beginning of year	205,000	259,487	243,346	(16,141)
FUND BALANCE, end of year	\$ -	\$ -	\$ 280,295	\$ 280,295

CITY OF FALLS CITY, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - STREET FUND****YEAR ENDED JUNE 30, 2018**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 304,000	\$ 304,000	\$ 60,298	\$ (243,702)
Miscellaneous	-	-	99	99
<i>Total Revenues</i>	304,000	304,000	60,397	(243,603)
EXPENDITURES				
Materials and services	63,350	73,980	34,186	39,794
Capital outlay	355,000	355,000	35,097	319,903
Contingency	37,650	37,650	-	37,650
<i>Total Expenditures</i>	456,000	466,630	69,283	397,347
REVENUES OVER (UNDER) EXPENDITURES	(152,000)	(162,630)	(8,886)	153,744
OTHER FINANCING SOURCES (USES)				
Transfers in	12,000	12,000	12,000	-
NET CHANGE IN FUND BALANCE	(140,000)	(150,630)	3,114	153,744
FUND BALANCE, beginning of year	140,000	150,630	150,631	1
FUND BALANCE, end of year	\$ -	\$ -	\$ 153,745	\$ 153,745

CITY OF FALLS CITY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

**(MODIFIED CASH BASIS) – BUDGET AND ACTUAL – COMMUNITY DEVELOPMENT REVOLVING
LOAN FUND**

YEAR ENDED JUNE 30, 2018

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 8,502	\$ 8,502	\$ 24,597	\$ 16,095
EXPENDITURES				
Materials and services	35,187	35,187	24,776	10,411
NET CHANGE IN FUND BALANCE	(26,685)	(26,685)	(179)	26,506
FUND BALANCE, beginning of year	137,434	137,434	91,885	(45,549)
FUND BALANCE, end of year	\$ 110,749	\$ 110,749	\$ 91,706	\$ (19,043)

CITY OF FALLS CITY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – WAGNER RESERVE LIBRARY #71 FUND

YEAR ENDED JUNE 30, 2018

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Personal services	60,000	60,000	29,212	30,788
Contingency	29,228	29,228	-	29,228
<i>Total Expenditures</i>	89,228	89,228	29,212	60,016
REVENUES OVER (UNDER) EXPENDITURES	(89,228)	(89,228)	(29,212)	60,016
OTHER FINANCING SOURCES (USES)				
Transfers in	34,635	34,635	34,635	-
NET CHANGE IN FUND BALANCE	(54,593)	(54,593)	5,423	60,016
FUND BALANCE, beginning of year	54,593	54,593	54,593	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 60,016	\$ 60,016

CITY OF FALLS CITY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - WAGNER RESERVE LIBRARY #72 FUND

YEAR ENDED JUNE 30, 2018

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers out	(34,635)	(34,635)	(34,635)	-
NET CHANGE IN FUND BALANCE	(34,635)	(34,635)	(34,635)	-
FUND BALANCE, beginning of year	34,635	34,635	34,635	-
FUND BALANCE, end of year	\$ -	\$ -	\$ -	\$ -

CITY OF FALLS CITY, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - SEWER FUND****YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual	Variance
	Original	Final		
REVENUES				
Charges for services	\$ 109,520	\$ 109,520	\$ 113,722	\$ 4,202
EXPENDITURES				
Personal services	79,500	79,500	47,022	32,478
Materials and services	74,100	74,100	40,774	33,326
Capital outlay	55,000	55,000	-	55,000
Contingency	38,920	49,352	-	49,352
<i>Total Expenditures</i>	<u>247,520</u>	<u>257,952</u>	<u>87,796</u>	<u>170,156</u>
REVENUES OVER (UNDER) EXPENDITURES	(138,000)	(148,432)	25,926	174,358
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>15,000</u>	<u>15,000</u>	<u>20,000</u>	<u>5,000</u>
CHANGE IN FUND BALANCE	(123,000)	(133,432)	45,926	179,358
FUND BALANCE, beginning of year	<u>123,000</u>	<u>133,432</u>	<u>133,433</u>	<u>1</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 179,359</u>	<u>\$ 179,359</u>

CITY OF FALLS CITY, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - WATER FUND
YEAR ENDED JUNE 30, 2018**

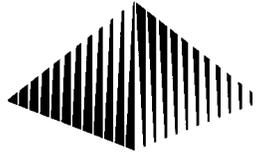
	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 285,800	\$ 285,800	\$ 316,473	\$ 30,673
Intergovernmental	-	-	20,000	20,000
Miscellaneous	-	-	495	495
<i>Total Revenues</i>	285,800	285,800	336,968	51,168
EXPENDITURES				
Personal services	98,000	137,292	124,447	12,845
Materials and services	135,450	135,450	77,178	58,272
Debt service				
Principal	20,860	20,860	975,964	(955,104)
Interest	44,613	44,613	58,215	(13,602)
Capital outlay	22,000	22,000	247	21,753
Contingency	47,404	-	-	-
<i>Total Expenditures</i>	368,327	360,215	1,236,051	(875,836)
REVENUES OVER (UNDER) EXPENDITURES	(82,527)	(74,415)	(899,083)	(824,668)
OTHER FINANCING SOURCES (USES)				
Transfers out	(82,000)	(82,000)	(82,000)	-
Proceeds from issuance of debt	-	-	970,242	970,242
<i>Total Other Financing Sources and Uses</i>	(82,000)	(82,000)	888,242	970,242
CHANGE IN FUND BALANCE	(164,527)	(156,415)	(10,841)	145,574
FUND BALANCE, beginning of year	230,000	221,888	221,889	1
FUND BALANCE, end of year	\$ 65,473	\$ 65,473	\$ 211,048	\$ 145,575

CITY OF FALLS CITY, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - CITY UTILITY RESERVE FUND
YEAR ENDED JUNE 30, 2018**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 46,151	\$ 46,151	\$ 51,152	\$ 5,001
EXPENDITURES				
Capital outlay	65,000	65,000	8,808	56,192
Contingency	241,151	252,745	-	252,745
<i>Total Expenditures</i>	306,151	317,745	8,808	308,937
CHANGE IN FUND BALANCE	(260,000)	(271,594)	42,344	313,938
FUND BALANCE, beginning of year	260,000	271,594	271,594	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 313,938	\$ 313,938

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Honorable Mayor and Members of the City Council
City of Falls City
299 Mill Street
Falls City, Oregon 97344

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the City of Falls City, Oregon as of and for the year ended June 30, 2018, and have issued our report thereon dated November 9, 2018.

Compliance and Other Matters

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

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

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

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

Internal Control over Financial Reporting

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

Restriction on Use

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

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

By: 
Devan W. Esch, A Shareholder
November 9, 2018