

***CITY OF FALLS CITY
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016***

Mayor

Terry Ungricht
635 Chamberlain Road
Falls City, Oregon 97344

Council

Dennis Sickles, President
523 Terrace Street
Falls City, Oregon 97344

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

Julee Bishop
540 Hopkins Rd.
Falls City, Oregon 97344

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

Jennifer Drill
136 Carey Court
Falls City, Oregon 97344

Gerald Melin
199 Pine Street
Falls City, Oregon 97344

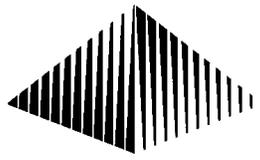
City Staff

Domenica Protheroe, City Clerk
Don Poe, Public Works Lead Worker
Karl Wagner, Public Works Worker

CITY OF FALLS CITY, OREGON
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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2016, 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, combining nonmajor fund financial statements, and other schedules, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

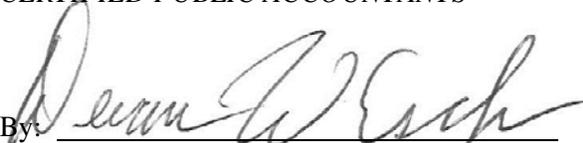
The budgetary comparison information, combining nonmajor fund financial statements and other schedules as listed in the table of contents are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial 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 September 26, 2016, 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
September 26, 2016

CITY OF FALLS CITY, OREGON
 Management's Discussion and Analysis
 June 30, 2016

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, 2016.

Financial Highlights

	June 30,		change
	2016	2015	
Net position	\$ 1,165,475	\$ 1,019,505	\$ 145,970
Change in net position	145,970	143,544	2,426
Governmental net position	566,909	437,348	129,561
Proprietary net position	598,566	582,157	16,409
Change in governmental net position	129,561	32,835	96,726
Change in proprietary net position	16,409	110,709	(94,300)

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,**

	2016			2015		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 567,210	\$ 598,566	\$ 1,165,776	\$ 437,348	\$ 582,157	\$ 1,019,505
Liabilities	301	-	301	-	-	-
Net position:						
Restricted	168,869	65,473	234,342	197,672	65,473	263,145
Unrestricted	398,040	533,093	931,133	239,676	516,684	756,360
Total Net Position	<u>\$ 566,909</u>	<u>\$ 598,566</u>	<u>\$ 1,165,475</u>	<u>\$ 437,348</u>	<u>\$ 582,157</u>	<u>\$ 1,019,505</u>

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 \$1,165,475 as of June 30, 2016. 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,

	2016			2015		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues						
Program revenues						
Charges for service	\$ 6,525	\$ 451,316	\$ 457,841	\$ 7,351	\$ 424,694	\$ 432,045
Operating grants	82,903	-	82,903	160,605	-	160,605
General revenues						
Property taxes	107,755	-	107,755	102,382	-	102,382
Franchise taxes	52,906	-	52,906	50,373	-	50,373
Intergovernmental	21,570	-	21,570	23,900	-	23,900
Miscellaneous	97,854	-	97,854	68,552	-	68,552
<i>Total revenues</i>	<u>369,513</u>	<u>451,316</u>	<u>820,829</u>	<u>413,163</u>	<u>424,694</u>	<u>837,857</u>
Expenses						
General government	152,153	-	152,153	202,242	-	202,242
Community development	49,776	-	49,776	19,251	-	19,251
Fire service	65,642	-	65,642	116,848	-	116,848
Parks	6,510	-	6,510	10,927	-	10,927
Street	24,946	-	24,946	29,669	-	29,669
Interest on long-term debt	925	-	925	1,391	-	1,391
Water	-	234,777	234,777	-	202,843	202,843
Sewer	-	140,130	140,130	-	111,142	111,142
<i>Total expenses</i>	<u>299,952</u>	<u>374,907</u>	<u>674,859</u>	<u>380,328</u>	<u>313,985</u>	<u>694,313</u>
Transfers	60,000	(60,000)	-	-	-	-
Change in net position	129,561	16,409	145,970	32,835	110,709	143,544
Net position, beginning of year	437,348	582,157	1,019,505	404,513	471,448	875,961
Net position, end of year	<u>\$ 566,909</u>	<u>\$ 598,566</u>	<u>\$ 1,165,475</u>	<u>\$ 437,348</u>	<u>\$ 582,157</u>	<u>\$ 1,019,505</u>

Statement of Activities (Modified Cash Basis). The City's net position increased by \$145,970 during fiscal 2015-2016. This increase is explained in the governmental and business-type activities as follows:

Governmental activities - The City's net position increased by \$129,561 from governmental activities. This increase is due mainly to a decrease in general government and fire service expenses, and transfers from business-type activities.

Business-type activities - The City's net position increased by \$16,409 from business-type activities. This increase was due to a combination of an increase in charges for services and expenses which were less than revenues.

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 \$72,790 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 85% of total General fund expenditures.
- Street: The Street fund had an increase in fund balance of \$41,377 during the year due to expenditures less than what were budgeted and a \$10,000 transfer in.
- Community Development Revolving Loan: The Community Development Revolving Loan fund had an increase in fund balance of \$85,574 during the year due to loan repayments received and no expenditures.

Major Proprietary Funds:

- Sewer: The Sewer fund had an increase in net position of - during the year due mainly to revenues in excess of budget and expenditures less than budget. There were minimal capital outlay expenditures in the current year.
- Water: The Water fund had an increase in net position of - during the year due mainly to revenues in excess of budget and expenditures less than budget. There were minimal capital outlay expenditures in the current year.
- City Utility Reserve: The City Utility Reserve fund had a decrease in net position of - during the year due to a \$60,000 transfer out.

Debt Administration

Long-term debt: The City had total revenue-backed bonded debt outstanding of \$948,744 at the end of the current fiscal year, a fire truck loan of \$10,000 and a Polk County Community Development loan of \$53,508 outstanding.

The City’s total debt decreased by \$28,761 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.

**City of Falls City
Outstanding Debt**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Loans	\$ 63,508	\$ 70,470	\$ -	\$ -	\$ 63,508	\$ 70,470
Revenue bonds	-	-	948,744	970,543	948,744	970,543
Total	\$ 63,508	\$ 70,470	\$ 948,744	\$ 970,543	\$ 1,012,252	\$ 1,041,013

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 2016-17 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, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 567,210	\$ 598,566	\$ 1,165,776
LIABILITIES			
Payroll withholdings	301	-	301
NET POSITION			
Restricted for:			
Debt service	-	65,473	65,473
Community development	89,228	-	89,228
Streets	79,641	-	79,641
Unrestricted	398,040	533,093	931,133
<i>Total Net Position</i>	<u>\$ 566,909</u>	<u>\$ 598,566</u>	<u>\$ 1,165,475</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, 2016

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>
FUNCTIONS/PROGRAMS			
Governmental activities:			
General government	\$ 152,153	\$ 6,525	\$ 26,580
Community development	49,776	-	-
Fire service	65,642	-	-
Parks	6,510	-	-
Street	24,946	-	56,323
Interest on long-term debt	925	-	-
<i>Total Governmental activities</i>	299,952	6,525	82,903
Business-type activities:			
Water	234,777	304,767	-
Sewer	140,130	146,549	-
<i>Total Business-type activities</i>	374,907	451,316	-
<i>Total Activities</i>	<u>\$ 674,859</u>	<u>\$ 457,841</u>	<u>\$ 82,903</u>
General Revenues:			
Property taxes			
Franchise taxes			
Intergovernmental			
Miscellaneous			
<i>Total General Revenues</i>			
Transfers			
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>
\$ (119,048)	\$ -	\$ (119,048)
(49,776)	-	(49,776)
(65,642)	-	(65,642)
(6,510)	-	(6,510)
31,377	-	31,377
(925)	-	(925)
(210,524)	-	(210,524)
-	69,990	69,990
-	6,419	6,419
-	76,409	76,409
(210,524)	76,409	(134,115)
107,755	-	107,755
52,906	-	52,906
21,570	-	21,570
97,854	-	97,854
280,085	-	280,085
60,000	(60,000)	-
129,561	16,409	145,970
437,348	582,157	1,019,505
\$ 566,909	\$ 598,566	\$ 1,165,475

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, 2016

	<u>Special Revenue</u>		
	<u>General</u>	<u>Street Fund</u>	<u>Community Development Revolving Loan Fund</u>
ASSETS			
Cash and cash equivalents	\$ 234,222	\$ 79,641	\$ 164,119
LIABILITIES AND FUND BALANCE			
Liabilities:			
Payroll withholdings	\$ 301	\$ -	\$ -
Fund Balance:			
Restricted for:			
Community development	-	-	-
Streets	-	79,641	-
Committed to:			
Community development	-	-	164,119
Unassigned	233,921	-	-
<i>Total Fund Balance</i>	233,921	79,641	164,119
Total Liabilities and Fund Balance	\$ 234,222	\$ 79,641	\$ 164,119

<i>Other Governmental Funds</i>	<i>Total</i>
\$ 89,228	\$ 567,210
-	-
-	301
89,228	89,228
-	79,641
-	164,119
-	233,921
89,228	566,909
\$ 89,228	\$ 567,210

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, 2016**

	Special Revenue		
	General Fund	Street Fund	Community Development Revolving Loan Fund
REVENUES			
Taxes and assessments	\$ 107,755	\$ -	\$ -
Licenses and permits	59,221	-	-
Charges for services	210	-	-
Intergovernmental	48,149	56,323	-
Miscellaneous	12,281	-	85,574
<i>Total Revenues</i>	<u>227,616</u>	<u>56,323</u>	<u>85,574</u>
EXPENDITURES			
Current			
General government	150,191	-	-
Community development	49,776	-	-
Fire service	60,642	-	-
Parks	6,510	-	-
Streets	-	24,946	-
Debt Payments			
Principal	6,962	-	-
Interest	925	-	-
<i>Total Expenditures</i>	<u>275,006</u>	<u>24,946</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	(47,390)	31,377	85,574
OTHER FINANCING SOURCES (USES)			
Transfers in	120,180	10,000	-
Transfers out	-	-	-
<i>Total Other Financing Sources (Uses)</i>	<u>120,180</u>	<u>10,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>72,790</u>	<u>41,377</u>	<u>85,574</u>
FUND BALANCE, beginning of year	<u>161,131</u>	<u>38,264</u>	<u>78,545</u>
FUND BALANCE, end of year	<u>\$ 233,921</u>	<u>\$ 79,641</u>	<u>\$ 164,119</u>

<i>Other Governmental Funds</i>	<i>Total</i>
\$ -	\$ 107,755
-	59,221
-	210
-	104,472
-	97,855
-	369,513
-	150,191
-	49,776
-	60,642
-	6,510
-	24,946
-	6,962
-	925
-	299,952
-	69,561
-	130,180
(70,180)	(70,180)
(70,180)	60,000
(70,180)	129,561
159,408	437,348
\$ 89,228	\$ 566,909

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, 2016

	<u>Sewer</u>	<u>Water</u>	<u>City Utility Reserve</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 98,628	\$ 257,407	\$ 242,531	\$ 598,566
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES	\$ -	\$ -	\$ -	\$ -
NET POSITION				
Restricted for:				
Debt service	-	65,473	-	65,473
Unrestricted	98,628	191,934	242,531	533,093
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Net Position	<u>\$ 98,628</u>	<u>\$ 257,407</u>	<u>\$ 242,531</u>	<u>\$ 598,566</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, 2016**

	<u>Sewer</u>	<u>Water</u>	<u>City Utility Reserve</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services	\$ 108,535	\$ 304,767	\$ 38,014	\$ 451,316
OPERATING EXPENSES				
Personal services	60,779	71,081	-	131,860
Materials and services	39,357	94,737	-	134,094
<i>Total Operating Expenses</i>	<u>100,136</u>	<u>165,818</u>	<u>-</u>	<u>265,954</u>
OPERATING INCOME	8,399	138,949	38,014	185,362
NONOPERATING ITEMS				
Capital acquisitions	(366)	(3,486)	(39,628)	(43,480)
Debt payments				
Principal	-	(21,799)	-	(21,799)
Interest	-	(43,674)	-	(43,674)
<i>Total Nonoperating Items</i>	<u>(366)</u>	<u>(68,959)</u>	<u>(39,628)</u>	<u>(108,953)</u>
NET INCOME BEFORE TRANSFERS	8,033	69,990	(1,614)	76,409
Transfers in	20,000	60,000	-	80,000
Transfers out	-	(80,000)	(60,000)	(140,000)
<i>Net transfers</i>	<u>20,000</u>	<u>(20,000)</u>	<u>(60,000)</u>	<u>(60,000)</u>
CHANGE IN NET POSITION	28,033	49,990	(61,614)	16,409
NET POSITION, beginning of year	<u>70,595</u>	<u>207,417</u>	<u>304,145</u>	<u>582,157</u>
NET POSITION, end of year	<u>\$ 98,628</u>	<u>\$ 257,407</u>	<u>\$ 242,531</u>	<u>\$ 598,566</u>

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, 2016

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.

CITY OF FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2016

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, 2016, Polk CDC had \$532,976 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 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. The City reports the following proprietary funds as major:

Sewer

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

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.

The city reports the no proprietary funds as non-major.

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. In addition, certain Special Revenue Funds are reported as part of the General Fund because their source of funds is primarily transfers from the General Fund.

CITY OF FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Definitions of Governmental Fund Types (Continued)

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.

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, capital assets such as property and equipment, and 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, 2016

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, 2016 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, 2016. Actual results may differ from those estimates.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2016

CASH AND CASH EQUIVALENTS

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

	<u>Carrying Value</u>	<u>Fair Value</u>
Cash		
Cash on hand	\$ 350	\$ 350
Deposits with financial institutions	19,996	19,996
Cash held by fiscal agents	164,117	164,117
Investments		
Local Government Investment Pool	981,313	981,313
	<u>\$ 1,165,776</u>	<u>\$ 1,165,776</u>

Deposits

The book balance of the City's bank deposits (checking accounts) was \$19,996 and the bank balance was \$43,252 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, 2016, 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, 2016, 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, 2016

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 West Valley Housing Authority. Information on collateralization of this cash is contained in the annual financial report of the Authority. The Authority 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, 2016

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, 2015</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2016</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	\$ 15,000	\$ -	\$ (5,000)	\$ 10,000	\$ 5,000
Polk County Community Development, original amount \$65,000, interest rate 1.0%	55,470	-	(1,962)	53,508	1,984
	<u>\$ 70,470</u>	<u>\$ -</u>	<u>\$ (6,962)</u>	<u>\$ 63,508</u>	<u>\$ 6,984</u>
	<u>Outstanding July 1, 2015</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2016</u>	<u>Due Within One Year</u>
<i>Business-type activities</i>					
Revenue Bonds, original amount \$1,204,650, issued May 25, 2003 interest rate 4.5%	\$ 970,543	\$ -	\$ (21,799)	\$ 948,744	\$ 22,779

Future debt service requirements are as follows:

Governmental Activities

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 6,984	\$ 985	\$ 7,969
2018	7,003	740	7,744
2019	2,023	495	2,519
2020	2,042	476	2,519
2021	2,064	455	2,519
2022-2026	10,633	1,960	12,593
2027-2031	11,176	1,417	12,593
2032-2036	11,746	847	12,593
2037-2040	9,837	247	10,084
	<u>\$ 63,508</u>	<u>\$ 7,624</u>	<u>\$ 71,132</u>

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2016

LONG-TERM DEBT (Continued)

Business-type Activities

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 22,779	\$ 42,694	\$ 65,473
2018	23,805	41,668	65,473
2019	24,876	40,597	65,473
2020	25,995	39,478	65,473
2021	27,165	38,308	65,473
2022-2026	155,299	172,066	327,365
2027-2031	193,531	133,834	327,365
2032-2036	241,176	86,189	327,365
2037-2040	234,118	26,858	260,976
	\$ 948,744	\$ 621,692	\$ 1,570,436

Debt Service Reserve Accounts

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.

PENSION PLAN

The Oregon Public Employees Retirement System (OPERS) is a cost-sharing multiple employer defined benefit plan. Qualified employees of the City are provided with pensions through OPERS. Employees hired before August 29, 2003 belong to the Tier One/Tier Two Retirement Benefit Program (established pursuant to ORS Chapter 238), while employees hired on or after August 29, 2003 belong to the OPSRP Pension Program (established pursuant to ORS Chapter 238A). OPERS issues a publicly available financial report that can be obtained at

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

Benefits provided under ORS Chapter 238 – Tier One/ Tier Two

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

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2016

PENSION PLAN (Continued)

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

Death Benefits: Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met: the member was employed by a PERS employer at the time of death; the member died within 120 days after termination of PERS-covered employment; the member died as a result of injury sustained while employed in a PERS-covered job, or; the member was on an official leave of absence from a PERS-covered job at the time of death.

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

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

Benefits provided under Chapter 238A - OPSRP Pension Program (OPSRP DB)

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: 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.

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

CITY OF FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2016

PENSION PLAN (Continued)

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

Disability Benefits: A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement: Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2016 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation. The City's contribution rates in effect for the fiscal year ended June 30, 2016 were 13.22 percent for Tier One/Two members, 8.44 percent for OPSRP general service members, and 12.55 percent for OPSRP uniformed members. The City's contributions for the year ended June 30, 2016 were \$15,112, excluding amounts to fund employer specific liabilities.

Members of PERS are required to contribute 6% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The total contributed by the City on behalf of employees for the year ended December 31, 2015 was \$15,112.

Actuarial Methods and Assumptions:

The employer contribution rates effective July 1, 2015, through June 30, 2017, were set by OPERS using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2016

PENSION PLAN (Continued)

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
Actuarial assumptions:	
Inflation rate	2.75 percent
Investment rate of return	7.75 percent
Projected salary increases	3.75 percent overall payroll growth
Cost of living adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> 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 retiree rates that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

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

Discount Rate

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

CITY OF FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2016

PENSION PLAN (Continued)*Long-Term Expected Rate of Return*

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

<u>Asset Class</u>	<u>Target</u>	<u>Compound Annual Return (Geometric)</u>
Core Fixed Income	8.00 %	4.10 %
Short-Term Bonds	8.00	3.65
Bank/Leveraged Loans	3.00	5.69
High Yield Bonds	1.00	6.67
Large/Mid Cap US Equities	15.75	7.96
Small Cap US Equities	1.31	8.93
Micro Cap US Equities	1.31	9.37
Developed Foreign Equities	13.13	8.34
Emerging Market Equities	4.13	10.56
Non-US Small Cap Equities	1.88	9.01
Private Equity	17.50	11.60
Real Estate (Property)	10.00	6.48
Real Estate (REITS)	2.50	8.74
Hedge Fund of Funds - Diversified	2.50	4.94
Hedge Fund - Event-driven	0.63	7.07
Timber	1.88	6.60
Farmland	1.88	7.11
Infrastructure	3.75	8.31
Commodities	1.88	6.07
Assumed Inflation - Mean		2.50

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2016

PENSION PLAN (Continued)

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

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

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate share of the net pension liability	\$ 289,606	\$ 119,996	\$ (22,941)

OVEREXPENDITURES OF APPROPRIATIONS

Oregon law prohibits expenditures of a fund in excess of Council approved appropriations. The City Council approves appropriations by department for the General Fund and by major object class (personal services, materials and services, capital outlay and debt service) for all other funds.

Expenditures in excess of appropriations in individual funds for the year ended June 30, 2016 occurred as follows:

Fund / Appropriation category	Budget	Actual	Variance
Street			
Personal services	\$ -	\$ 1,870	\$ (1,870)

INTERFUND TRANSACTIONS

Interfund transactions during the current fiscal year were as follows.

	Transfers in	Transfers out
General	\$ 120,180	\$ -
Street	10,000	-
Library Reserve Fund	-	70,180
Sewer	20,000	-
Water	60,000	80,000
Utility Reserve	-	60,000
	\$ 210,180	\$ 210,180

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.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2016

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.

RELATED PARTY TRANSACTIONS

The City paid \$100 to Boondocks and \$240 to Robert C. Young Construction. The payments were in the normal course of business.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 26, 2016, 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 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	<i>Special Revenue</i>		<i>Total</i>
	<i>Wagner Reserve Library #71</i>	<i>Wagner Reserve Library #72</i>	
REVENUES	\$ -	\$ -	
EXPENDITURES	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	-	-
OTHER FINANCING SOURCES (USES)			
Transfers out	(70,180)	-	(70,180)
NET CHANGE IN FUND BALANCE	(70,180)	-	(70,180)
FUND BALANCE, beginning of year	124,773	34,635	159,408
FUND BALANCE, end of year	\$ 54,593	\$ 34,635	\$ 89,228

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, 2016

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 100,000	\$ 100,000	\$ 107,755	\$ 7,755
Licenses and permits	49,950	49,950	59,221	9,271
Charges for services	100	100	210	110
Intergovernmental	165,800	165,800	48,149	(117,651)
Miscellaneous	2,325	2,325	12,281	9,956
<i>Total Revenues</i>	318,175	318,175	227,616	(90,559)
EXPENDITURES				
City Council	1,500	1,500	490	1,010
Library	70,180	70,180	49,776	20,404
Court	8,480	8,480	540	7,940
Fire	71,006	71,006	66,010	4,996
Parks	11,850	11,850	6,510	5,340
Administration	230,570	230,570	148,801	81,769
Other/Debt	125,219	125,219	2,879	122,340
Contingency	19,550	19,550	-	19,550
<i>Total Expenditures</i>	538,355	538,355	275,006	263,349
REVENUES OVER (UNDER) EXPENDITURES	(220,180)	(220,180)	(47,390)	172,790
OTHER FINANCING SOURCES (USES)				
Transfers in	120,180	120,180	120,180	-
NET CHANGE IN FUND BALANCE	(100,000)	(100,000)	72,790	172,790
FUND BALANCE, beginning of year	100,000	100,000	161,131	61,131
FUND BALANCE, end of year	\$ -	\$ -	\$ 233,921	\$ 233,921

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, 2016

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 54,775	\$ 54,775	\$ 56,323	\$ 1,548
EXPENDITURES				
Personal services	-	-	1,870	(1,870)
Materials and services	35,900	35,900	23,076	12,824
Capital outlay	13,000	13,000	-	13,000
Contingency	15,875	15,875	-	15,875
<i>Total Expenditures</i>	<u>64,775</u>	<u>64,775</u>	<u>24,946</u>	<u>39,829</u>
REVENUES OVER (UNDER) EXPENDITURES	(10,000)	(10,000)	31,377	41,377
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	41,377	41,377
FUND BALANCE, beginning of year	<u>-</u>	<u>-</u>	<u>38,264</u>	<u>38,264</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,641</u>	<u>\$ 79,641</u>

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, 2016

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Miscellaneous	\$ 25,100	\$ 25,100	\$ 85,574	\$ 60,474
EXPENDITURES				
Materials and services	83,170	83,170	-	83,170
NET CHANGE IN FUND BALANCE	(58,070)	(58,070)	85,574	143,644
FUND BALANCE, beginning of year	58,070	58,070	78,545	20,475
FUND BALANCE, end of year	\$ -	\$ -	\$ 164,119	\$ 164,119

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, 2016

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Contingency	54,593	54,593	-	54,593
REVENUES OVER (UNDER) EXPENDITURES	(54,593)	(54,593)	-	54,593
OTHER FINANCING SOURCES (USES)				
Transfers out	(70,180)	(70,180)	(70,180)	-
NET CHANGE IN FUND BALANCE	(124,773)	(124,773)	(70,180)	54,593
FUND BALANCE, beginning of year	124,773	124,773	124,773	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 54,593	\$ 54,593

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, 2016

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Materials and services	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	\$ -	\$ -	\$ 34,635	\$ 34,635

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, 2016**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 94,000	\$ 94,000	\$ 108,535	\$ 14,535
EXPENDITURES				
Personal services	81,000	81,000	60,779	20,221
Materials and services	63,000	63,000	39,357	23,643
Capital outlay	5,000	5,000	366	4,634
Contingency	26,389	26,389	-	26,389
<i>Total Expenditures</i>	<u>175,389</u>	<u>175,389</u>	<u>100,502</u>	<u>74,887</u>
REVENUES OVER (UNDER) EXPENDITURES	(81,389)	(81,389)	8,033	89,422
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
CHANGE IN FUND BALANCE	(61,389)	(61,389)	28,033	89,422
FUND BALANCE, beginning of year	<u>61,389</u>	<u>61,389</u>	<u>70,595</u>	<u>9,206</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,628</u>	<u>\$ 98,628</u>

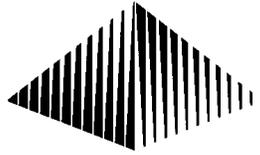
CITY OF FALLS CITY, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - WATER FUND
YEAR ENDED JUNE 30, 2016

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 279,800	\$ 279,800	\$ 304,767	\$ 24,967
EXPENDITURES				
Personal services	89,500	89,500	71,081	18,419
Materials and services	153,400	153,400	94,737	58,663
Debt service				
Principal	21,760	21,760	21,799	(39)
Interest	43,713	43,713	43,674	39
Capital outlay	17,500	17,500	3,486	14,014
Contingency	33,454	33,454	-	33,454
<i>Total Expenditures</i>	<i>359,327</i>	<i>359,327</i>	<i>234,777</i>	<i>124,550</i>
REVENUES OVER (UNDER) EXPENDITURES	(79,527)	(79,527)	69,990	149,517
OTHER FINANCING SOURCES (USES)				
Transfers in	60,000	60,000	60,000	-
Transfers out	(80,000)	(80,000)	(80,000)	-
<i>Total Other Financing Sources and Uses</i>	<i>(20,000)</i>	<i>(20,000)</i>	<i>(20,000)</i>	<i>-</i>
CHANGE IN FUND BALANCE	(99,527)	(99,527)	49,990	149,517
FUND BALANCE, beginning of year	165,000	165,000	207,417	42,417
FUND BALANCE, end of year	\$ 65,473	\$ 65,473	\$ 257,407	\$ 191,934

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, 2016

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 37,250	\$ 37,250	\$ 38,014	\$ 764
EXPENDITURES				
Capital outlay	50,000	50,000	39,628	10,372
Contingency	221,850	221,850	-	221,850
<i>Total Expenditures</i>	271,850	271,850	39,628	232,222
REVENUES OVER (UNDER) EXPENDITURES	(234,600)	(234,600)	(1,614)	232,986
OTHER FINANCING SOURCES (USES)				
Transfers out	(60,000)	(60,000)	(60,000)	-
CHANGE IN FUND BALANCE	(294,600)	(294,600)	(61,614)	232,986
FUND BALANCE, beginning of year	294,600	294,600	304,145	9,545
FUND BALANCE, end of year	\$ -	\$ -	\$ 242,531	\$ 242,531

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, 2016, and have issued our report thereon dated September 26, 2016.

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 except for the following:

1. Overexpenditures of appropriations as noted in the notes to the basic financial statements.
2. The City does not maintain historical cost records for capital assets.

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
September 26, 2016