

***CITY OF FALLS CITY
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014***

CITY OF FALLS CITY, OREGON
CITY OFFICIALS
JUNE 30, 2014

<u><i>Name</i></u>	<u><i>Term Expires</i></u>
<i>Mayor</i>	
Amy Houghtaling 137 Carey Court Falls City, Oregon 97344	December 31, 2014
<i>Council</i>	
John Volkmann, President 521 Hopkins St. Falls City, Oregon 97344	December 31, 2014
Julee Bishop 540 Hopkins Rd. Falls City, Oregon 97344	December 31, 2016
Dennis Sickles 523 Terrace Street Falls City, Oregon 97344	December 31, 2016
Lori Jean Sickles P.O. Box 81 Falls City, Oregon 97344	December 31, 2014
Barbara Spencer 750 Hopkins Street Falls City, Oregon 97344	December 31, 2014
Terry Ungricht 635 Chamberlain Road Falls City, Oregon 97344	December 31, 2016
<i>City Staff</i>	
Amber Mathiesen, City Administrator Domenica Protheroe, City Clerk Don Poe, Public Works Lead Worker Karl Wagner, Public Works Worker	

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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, 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2014, 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.

Other Reporting Required by Government Auditing Standards and Other Legal and Regulatory Requirements

Reporting Required by Government Auditing Standards

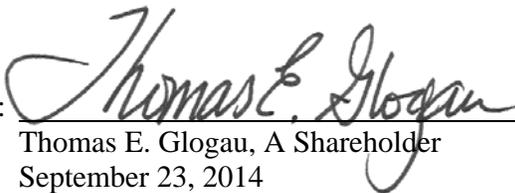
In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014, on our consideration of the City of Falls City's internal control over financial reporting and on our tests of its

compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Falls City's internal control over financial reporting and compliance.

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 23, 2014, 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: 
Thomas E. Glogau, A Shareholder
September 23, 2014

CITY OF FALLS CITY, OREGON
Management's Discussion and Analysis
June 30, 2014

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, 2014.

Financial Highlights

	June 30,		change
	2014	2013	
Net position	\$ 875,962	\$ 932,420	\$ (56,458)
Change in net position	(56,458)	107,558	(164,016)
Governmental net position	404,513	531,857	(127,344)
Proprietary net position	471,449	400,563	70,886
Change in governmental net position	(127,344)	37,142	(164,486)
Change in proprietary net position	70,886	70,416	470

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, cemetery, 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,**

	2014			2013		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 406,369	\$ 471,449	\$ 877,818	\$ 533,824	\$ 400,563	\$ 934,387
Liabilities	1,856	-	1,856	1,967	-	1,967
Net position:						
Restricted	193,734	65,473	259,207	131,709	65,473	197,182
Unrestricted	210,779	405,976	616,755	400,148	335,090	735,238
Total Net Position	<u>\$ 404,513</u>	<u>\$ 471,449</u>	<u>\$ 875,962</u>	<u>\$ 531,857</u>	<u>\$ 400,563</u>	<u>\$ 932,420</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 \$875,962 as of June 30, 2014. Overall, the City’s financial position decreased.

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,

	2014			2013		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues						
Program revenues						
Charges for service	\$ 4,435	\$ 408,126	\$ 412,561	\$ 10,746	\$ 365,279	\$ 376,025
Operating grants	63,874	-	63,874	77,727	32,346	110,073
Capital grants	25,000	7,321	32,321	-	-	-
General revenues						
Property taxes	100,539	-	100,539	103,709	4,666	108,375
Franchise taxes	52,951	-	52,951	50,638	-	50,638
Intergovernmental	23,059	-	23,059	22,389	-	22,389
Miscellaneous	153,494	338	153,832	35,346	444	35,790
<i>Total revenues</i>	<u>423,352</u>	<u>415,785</u>	<u>839,137</u>	<u>300,555</u>	<u>402,735</u>	<u>703,290</u>
Expenses						
General government	130,687	-	130,687	125,608	-	125,608
Community development	227,058	-	227,058	7,700	-	7,700
Cemetery	-	-	-	2,791	-	2,791
Fire service	52,152	-	52,152	46,760	-	46,760
Parks	12,931	-	12,931	10,148	-	10,148
Street	109,773	-	109,773	70,406	-	70,406
Water	-	240,060	240,060	-	201,863	201,863
Sewer	-	122,934	122,934	-	130,456	130,456
<i>Total expenses</i>	<u>532,601</u>	<u>362,994</u>	<u>895,595</u>	<u>263,413</u>	<u>332,319</u>	<u>595,732</u>
Transfers	(18,095)	18,095	-	-	-	-
Change in net position	(127,344)	70,886	(56,458)	37,142	70,416	107,558
Net position, beginning of year	531,857	400,563	932,420	494,715	330,147	824,862
Net position, end of year	<u>\$ 404,513</u>	<u>\$ 471,449</u>	<u>\$ 875,962</u>	<u>\$ 531,857</u>	<u>\$ 400,563</u>	<u>\$ 932,420</u>

Statement of Activities (Modified Cash Basis). The City's net position decreased by \$56,458 during fiscal 2013-2014. This decrease is explained in the governmental and business-type activities as follows:

Governmental activities - The City's net position decreased by \$127,344 from governmental activities. This decrease is due mainly to an increase in community development loan disbursements and bridge improvements. The City also received \$85,000 for the Wagner Reserve Library Fund #71.

Business-type activities - The City's net position increased by \$70,886 from business-type activities. This increase was due to a combination of an increase in charges for services, a decrease in operating grants, an increase in water expenditures, a decrease in sewer expenditures, and an increase in transfers-in.

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 three supplemental budgets to amend appropriations within the General Fund budget during the year.

Significant Fund Transactions

As detailed in the notes to the financial statements, the City follows the provisions of GASB Statement #54 Fund Balance Reporting and Governmental Fund Type Definitions. Therefore, special revenue funds whose primary source of funding is transfers from the General fund are reported as part of the General fund. In the Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, the Cemetery, Municipal Court and State Revenue Sharing funds have been combined with the General fund. All were closed out during the year.

Major Governmental Funds:

- **General:** The General fund had an increase in fund balance of \$14,550 during the year, which is primarily due to increases in intergovernmental revenues, decreases in general government and fire service expenditures and transfers in from funds closed during the year. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 81% of total General fund expenditures.
- **Street:** The Street fund had a decrease in fund balance of \$10,816 during the year due to an increase in expenditures from the prior year.
- **Community Development Revolving Loan:** The Community Development Revolving Loan fund had an decrease in fund balance of \$167,794 during the year due to an increase in community development loan disbursements.
- **Wagner Reserve Library #71:** The Wagner Reserve Library #71 fund had an increase in fund balance of \$71,873 during the year due to trust fund principal and interest received during the year. There were no expenditures in the fund this year.
- **Small Cities Allotment Grant:** The Small Cities Allotment Grant fund is a new fund this year. Revenues are from grants and expenditures were capital outlay for bridge work.

Major Proprietary Funds:

- **Sewer:** The Sewer fund had an increase in net position of \$22,948 during the year due mainly to an increase in sewer rates. There were no capital outlay expenditures in the current year.
- **Water:** The Water fund had an increase in net position of \$95,228 during the year due mainly to an increase in water rates and transfers in. There were no capital outlay expenditures in the current year.
- **City Utility Reserve:** The City Utility Reserve fund had an increase in net position of \$15,739 during the year due to more revenues collected than capital outlay expenditures and an increase in transfers in.

Debt Administration

Long-term debt: The City had total revenue-backed bonded debt outstanding of \$991,403 at the end of the current fiscal year, a fire truck loan of \$20,000 and a Polk County Community Development Loan of \$57,337 outstanding.

The City's total debt decreased by \$26,893 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	
	2014	2013	2014	2013	2014	2013
Loans	\$ 77,337	\$ 84,268	\$ -	\$ -	\$ 77,337	\$ 84,268
Revenue bonds	-	-	991,403	1,011,365	991,403	1,011,365
Total	\$ 77,337	\$ 84,268	\$ 991,403	\$ 1,011,365	\$ 1,068,740	\$ 1,095,633

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 2014-15 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 Administrator
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, 2014

	<u><i>Governmental Activities</i></u>	<u><i>Business-type Activities</i></u>	<u><i>Totals</i></u>
ASSETS			
Cash and cash equivalents	\$ 406,369	\$ 471,449	\$ 877,818
LIABILITIES			
Payroll withholdings	1,856	-	1,856
NET POSITION			
Restricted for:			
Debt service	-	65,473	65,473
Community development	179,829	-	179,829
Streets	13,905	-	13,905
Unrestricted	210,779	405,976	616,755
 <i>Total Net Position</i>	 <u>\$ 404,513</u>	 <u>\$ 471,449</u>	 <u>\$ 875,962</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, 2014

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 130,687	\$ 4,435	\$ 1,000	\$ -
Community development	227,058	-	-	-
Fire service	52,152	-	8,446	-
Parks	12,931	-	-	-
Street	109,773	-	54,428	25,000
<i>Total Governmental activities</i>	532,601	4,435	63,874	25,000
Business-type activities:				
Water	240,060	261,425	-	-
Sewer	122,934	146,701	-	7,321
<i>Total Business-type activities</i>	362,994	408,126	-	7,321
<i>Total Activities</i>	<u>\$ 895,595</u>	<u>\$ 412,561</u>	<u>\$ 63,874</u>	<u>\$ 32,321</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>
\$ (125,252)	\$ -	\$ (125,252)
(227,058)	-	(227,058)
(43,706)	-	(43,706)
(12,931)	-	(12,931)
(30,345)	-	(30,345)
(439,292)	-	(439,292)
-	21,365	21,365
-	31,088	31,088
-	52,453	52,453
(439,292)	52,453	(386,839)
100,539	-	100,539
52,951	-	52,951
23,059	-	23,059
153,494	338	153,832
330,043	338	330,381
(18,095)	18,095	-
(127,344)	70,886	(56,458)
531,857	400,563	932,420
\$ 404,513	\$ 471,449	\$ 875,962

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, 2014

	<u>Special Revenue</u>		
	<u>General</u>	<u>Street Fund</u>	<u>Community Development Revolving Loan Fund</u>
ASSETS			
Cash and cash equivalents	\$ 137,565	\$ 13,905	\$ 58,070
Due from other funds	25,000	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	\$ 162,565	\$ 13,905	\$ 58,070
	<hr/>	<hr/>	<hr/>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Payroll withholdings	\$ 1,856	\$ -	\$ -
Due to other funds	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	1,856	-	-
Fund Balance:			
Restricted for:			
Community development	-	-	-
Streets	-	13,905	-
Committed to:			
Community development	-	-	58,070
Unassigned	160,709	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balance</i>	160,709	13,905	58,070
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities and Fund Balance</i>	\$ 162,565	\$ 13,905	\$ 58,070
	<hr/>	<hr/>	<hr/>

<u>Special Revenue</u>	<u>Capital Projects</u>		
<u>Wagner Reserve Library #71</u>	<u>Small Cities Allotment Grant</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ 168,258	\$ -	\$ 28,571	\$ 406,369
-	-	-	25,000
<u>\$ 168,258</u>	<u>\$ -</u>	<u>\$ 28,571</u>	<u>\$ 431,369</u>
\$ -	\$ -	\$ -	\$ 1,856
-	25,000	-	25,000
<u>-</u>	<u>25,000</u>	<u>-</u>	<u>26,856</u>
168,258	-	28,571	196,829
-	-	-	13,905
-	-	-	58,070
-	(25,000)	-	135,709
<u>168,258</u>	<u>(25,000)</u>	<u>28,571</u>	<u>404,513</u>
<u>\$ 168,258</u>	<u>\$ -</u>	<u>\$ 28,571</u>	<u>\$ 431,369</u>

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, 2014**

	<i>Special Revenue</i>		
	<i>General Fund</i>	<i>Street Fund</i>	<i>Community Development Revolving Loan Fund</i>
REVENUES			
Taxes and assessments	\$ 100,539	\$ -	\$ -
Licenses and permits	56,914	-	-
Charges for services	472	-	-
Intergovernmental	32,505	54,428	-
Miscellaneous	7,835	-	55,818
<i>Total Revenues</i>	<u>198,265</u>	<u>54,428</u>	<u>55,818</u>
EXPENDITURES			
General government	130,687	-	-
Community development	3,446	-	223,612
Fire service	52,152	-	-
Parks	12,931	-	-
Streets	-	59,773	-
Capital outlay	-	-	-
<i>Total Expenditures</i>	<u>199,216</u>	<u>59,773</u>	<u>223,612</u>
REVENUES OVER (UNDER) EXPENDITURES	(951)	(5,345)	(167,794)
OTHER FINANCING SOURCES (USES)			
Transfers in	46,322	1,965	-
Transfers out	(30,821)	(7,436)	-
<i>Total Other Financing Sources (Uses)</i>	<u>15,501</u>	<u>(5,471)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	14,550	(10,816)	(167,794)
FUND BALANCE, beginning of year	<u>146,159</u>	<u>24,721</u>	<u>225,864</u>
FUND BALANCE (Deficit), end of year	<u>\$ 160,709</u>	<u>\$ 13,905</u>	<u>\$ 58,070</u>

<u>Special Revenue</u>	<u>Capital Projects</u>		
<u>Wagner Reserve Library #71</u>	<u>Small Cities Allotment Grant</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 100,539
-	-	-	56,914
-	-	-	472
-	25,000	-	111,933
71,873	-	17,968	153,494
<hr/>	<hr/>	<hr/>	<hr/>
71,873	25,000	17,968	423,352
-	-	-	130,687
-	-	-	227,058
-	-	-	52,152
-	-	-	12,931
-	-	-	59,773
-	50,000	-	50,000
<hr/>	<hr/>	<hr/>	<hr/>
-	50,000	-	532,601
<hr/>	<hr/>	<hr/>	<hr/>
71,873	(25,000)	17,968	(109,249)
-	-	-	48,287
-	-	(28,125)	(66,382)
<hr/>	<hr/>	<hr/>	<hr/>
-	-	(28,125)	(18,095)
<hr/>	<hr/>	<hr/>	<hr/>
71,873	(25,000)	(10,157)	(127,344)
96,385	-	38,728	531,857
<hr/>	<hr/>	<hr/>	<hr/>
\$ 168,258	\$ (25,000)	\$ 28,571	\$ 404,513
<hr/>	<hr/>	<hr/>	<hr/>

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, 2014

	<u>Sewer</u>	<u>Water</u>	<u>City Utility Reserve</u>
ASSETS			
Cash and cash equivalents	\$ 61,389	\$ 133,669	\$ 269,069
LIABILITIES	-	-	-
NET POSITION:			
Restricted for:			
Debt service	-	65,473	-
Unrestricted	61,389	68,196	269,069
<i>Total Net Position</i>	<u>\$ 61,389</u>	<u>\$ 133,669</u>	<u>\$ 269,069</u>

<i>Other Business- Type Funds</i>	<i>Total</i>
\$ 7,322	\$ 471,449
-	-
-	65,473
7,322	405,976
\$ 7,322	\$ 471,449

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, 2014**

	<u>Sewer</u>	<u>Water</u>	<u>City Utility Reserve</u>
OPERATING REVENUES			
Charges for services	\$ 110,562	\$ 261,425	\$ 36,139
Miscellaneous	-	325	-
<i>Total Operating Revenues</i>	110,562	261,750	36,139
OPERATING EXPENSES			
Personal services	47,210	101,581	-
Materials and services	42,166	73,006	-
<i>Total Operating Expenses</i>	89,376	174,587	-
OPERATING INCOME	21,186	87,163	36,139
NONOPERATING REVENUES (EXPENSES)			
Noncapital Financing Revenues (Expenses)			
Transfers in	1,965	73,538	8,065
Transfers out	(214)	-	-
<i>Total Noncapital Financing Revenues (Expenses)</i>	1,751	73,538	8,065
Capital Financing Revenues (Expenses)			
Capital contributions	-	-	-
Capital outlay	-	-	(28,467)
Debt service			
Principal	-	(19,962)	-
Interest	-	(45,511)	-
<i>Total Capital Financing Revenues (Expenses)</i>	-	(65,473)	(28,467)
Investing Revenues			
Interest revenue	11	-	2
<i>Total Nonoperating Revenues (Expenses)</i>	1,762	8,065	(20,400)
CHANGE IN NET POSITION	22,948	95,228	15,739
NET POSITION, beginning of year	38,441	38,441	253,330
NET POSITION, end of year	\$ 61,389	\$ 133,669	\$ 269,069

<i>Other Business- Type Funds</i>	<i>Total</i>
\$ -	\$ 408,126
-	325
-	408,451
-	148,791
5,091	120,263
5,091	269,054
(5,091)	139,397
214	83,782
(65,473)	(65,687)
(65,259)	18,095
7,321	7,321
-	(28,467)
-	(19,962)
-	(45,511)
7,321	(86,619)
-	13
(57,938)	(68,511)
(63,029)	70,886
70,351	400,563
\$ 7,322	\$ 471,449

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

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, 2014

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 / 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 electively added funds as major funds, which either had debt outstanding or specific community focus. Non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The City reports the following major governmental funds:

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.

Cemetery Care

Operations of the City's cemetery are accounted for in this fund. This fund is combined with the general fund for reporting purposes and was closed during the year.

Municipal Court

This fund is used to account for activity in the City's municipal court. This fund is combined with the general fund for reporting purposes and was closed during the year.

State Revenue Sharing

This fund accounts for state shared revenues. This fund is combined with the general fund for reporting purposes and was closed during the year.

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 loans issued and loan repayments received through West Valley Housing Authority. At June 30, 2014, there were \$463,683 of loans outstanding.

Wagner Reserve Library #71 Fund

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

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Small City Allotment Grant

This fund accounts for grant revenues received for improvement. Expenditures are for bridge improvements.

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

Wagner Reserve Library #72 Fund

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

The City reports the following nonmajor governmental capital projects fund.

Equipment Fund

This fund accounts for money set aside for equipment purchases. This fund was closed during the year.

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.

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 following proprietary funds as non-major:

Sewer Debt Service

This fund accounted for debt service reserve as required by USDA. The loan was paid in full in 2013. This fund was closed during the year.

Water Debt Service

This fund accounted for debt service reserve as required by USDA. Payment of debt service was moved to the water fund during 2013-2014 and this fund was closed during the year.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Sewer Master Plan

This fund accounts for the master plan for the City's sewer system.

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.

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.

CITY OF FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2014

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.

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.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Fund Statements 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, 2014 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, 2014. Actual results may differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following at June 30, 2014:

	<i>Carrying Value</i>	<i>Fair Value</i>
	<hr/>	<hr/>
<i>Cash</i>		
Cash on hand	\$ 350	\$ 350
Deposits with financial institutions	64,900	64,900
Cash held by fiscal agents	58,070	58,070
<i>Investments</i>		
Local Government Investment Pool	754,498	754,498
	<hr/>	<hr/>
	\$ 877,818	\$ 877,818
	<hr/> <hr/>	<hr/> <hr/>

CITY OF FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2014

CASH AND CASH EQUIVALENTS (Continued)

Deposits

The book balance of the City's bank deposits (checking accounts) was \$64,900 and the bank balance was \$102,112 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, 2014, 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, 2014, 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.

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.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

CASH AND CASH EQUIVALENTS (Continued)

Custodial Risk - Investments (Continued)

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.

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, 2013</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2014</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	\$ 25,000	\$ -	\$ (5,000)	\$ 20,000	\$ 5,000
Polk County Community Development, original amount \$65,000, interest rate 1.0%	59,268	-	(1,931)	57,337	1,944
	<u>\$ 84,268</u>	<u>\$ -</u>	<u>\$ (6,931)</u>	<u>\$ 77,337</u>	<u>\$ 6,944</u>
	<u>Outstanding July 1, 2013</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2014</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%	\$ 1,011,365	\$ -	\$ (19,962)	\$ 991,403	\$ 20,860
	<u>\$ 1,011,365</u>	<u>\$ -</u>	<u>\$ (19,962)</u>	<u>\$ 991,403</u>	<u>\$ 20,860</u>

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

LONG-TERM DEBT (Continued)

Future debt service requirements are as follows:

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2015	\$ 6,944	\$ 1,450	\$ 8,395
2016	6,962	1,231	8,194
2017	6,984	985	7,969
2018	7,003	740	7,744
2019	2,023	495	2,519
2020-2024	10,422	2,171	12,593
2025-2029	10,956	1,638	12,593
2030-2034	11,515	1,079	12,593
2035-2039	12,102	491	12,593
2040	2,425	25	2,450
	\$ 77,337	\$ 10,305	\$ 87,642

Business-type Activities

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2015	\$ 20,860	\$ 44,613	\$ 65,473
2016	21,799	43,674	65,473
2017	22,779	42,694	65,473
2018	23,805	41,668	65,473
2019	24,876	40,597	65,473
2020-2024	142,212	185,153	327,365
2025-2029	177,222	150,143	327,365
2030-2034	220,852	106,513	327,365
2035-2039	275,221	52,144	327,365
2040	61,777	2,780	64,557
	\$ 991,403	\$ 709,979	\$ 1,701,382

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.

CITY OF FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2014

PENSION PLAN

Plan Description

The City contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the City's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The City participates in the state and local government rate pool (SLGRP). The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying City employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account.

Both PERS plans provide retirement and disability benefits, post employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERS, PO Box 23700, Tigard, OR, 97281-3700 or by calling 503-598-7377.

Funding Policy

Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The City is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate and a police/fire rate for the qualifying employees under the OPSRP plan. The OPERF and the OPSRP rates in effect for the year ended June 30, 2014 were 10.90%, 7.99%, and 10.72%, respectively. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual Pension Cost

The City's contributions to PERS for the years ending June 30, 2014, 2013, and 2012 were \$16,375, \$12,014, and \$11,600, respectively, which equaled the required contribution for the year.

JACOB AND AMILIA WAGNER LIBRARY TRUST FUNDS

The City is the beneficiary of a trust established by Jacob and Amilia Wagner. Prior to March 2014, the terms of the trust required twenty percent of the investment income from the trust fund turned over to the City to be allocated by the City for future expansion of the library and the remaining funds are used annually for purchase of contemporary and historic publications on the subject of art, politics, and political science. Wells Fargo Bank of San Francisco, California is the trustee. The trust was terminated during 2014 and the City received \$85,000 in principal and interest in distributions during the year, to be used for the operation and expansion of the Wagner Community Library as modified by the termination order. The principal balance remaining to be distributed is \$30,709 at June 30, 2014. The principal of the trust is not included in the City's financial statements.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

OVEREXPENDITURES OF APPROPRIATIONS AND DEFICIT FUND BALANCES

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, 2014 occurred as follows:

<u>Fund / Appropriation category</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
Library	\$ 2,950	\$ 3,446	\$ (496)
Street			
Personal services	(5,258)	33,096	(38,354)

At June 30, 2014 the following funds had deficit fund balances in the amounts indicated.

Small Cities Allotment Grant	<u>\$ (25,000)</u>
------------------------------	--------------------

INTERFUND TRANSACTIONS

Interfund transfers in and out for all funds were as follows:

	<u>Transfers in</u>	<u>Transfers out</u>
General	\$ 46,322	\$ -
Street	1,965	7,436
Equipment	-	28,125
Cemetery Care	-	7,656
Muni Court	-	13,424
State Revenue Sharing	-	9,741
Sewer	1,965	214
Water	73,538	-
Utility Reserve	8,065	-
Sewer Debt Service	214	-
Water Debt Service	-	65,473
	<u>\$ 132,069</u>	<u>\$ 132,069</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.

RELATED PARTY TRANSACTIONS

During the year the City awarded a community development revolving loan of \$133,000 to the Falls City Alliance, a local non-profit for which two of the City's counselor's are board members.

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.

NEW PRONOUNCEMENTS

GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities." The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The statement was implemented in the current year.

The City will implement new GASB pronouncements no later than the required fiscal year. Management has not determined the effect on the financial statements from implementing any of the following pronouncements.

GASB Statement No. 68 "Accounting and Reporting for Pension Plans—an amendment of GASB Statement No. 27." The statement establishes accounting and financial reporting requirements related to pensions provided by governments. The statement is effective for fiscal years beginning after June 15, 2014.

GASB Statement No. 69 "Government Combinations and Disposals of Operations." The statement provides guidance on accounting for and reporting government mergers, acquisitions, transfers of operations and disposal. The statement is effective for fiscal years beginning after December 15, 2013.

GASB Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees." The statement provides guidance on accounting for and reporting nonexchange financial guarantees. The statement is effective for fiscal years beginning after December 15, 2013.

GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date". The statement amends transition provisions of GASB Statement No. 68, establishes accounting and financial reporting standards for recognition of contributions made between the measurement date of the net pension liability and implementation of GASB Statement No. 68. The statement is effective for fiscal years beginning after June 15, 2014.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 23, 2014, 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**RECONCILIATION OF BUDGETARY FUNDS TO REPORTING FUNDS - GENERAL FUND****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES****YEAR ENDED JUNE 30, 2014**

	<i>Budgetary funds</i>		
	<i>General Fund</i>	<i>Cemetery</i>	<i>Municipal Court</i>
REVENUES			
Taxes and assessments	\$ 100,539	\$ -	\$ -
Licenses and permits	56,914	-	-
Charges for services	472	-	-
Intergovernmental	32,505	-	-
Miscellaneous	7,835	-	-
<i>Total Revenues</i>	<u>198,265</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
City Council	308	-	-
Library	3,446	-	-
Court	4,054	-	-
Fire	52,152	-	-
Parks	12,931	-	-
Administration	122,937	-	-
Other/Debt	3,388	-	-
<i>Total Expenditures</i>	<u>199,216</u>	<u>-</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	(951)	-	-
OTHER FINANCING SOURCES (USES)			
Transfers in	46,322	-	-
Transfers out	-	(7,656)	(13,424)
NET CHANGE IN FUND BALANCE	45,371	(7,656)	(13,424)
FUND BALANCE, beginning of year	<u>115,338</u>	<u>7,656</u>	<u>13,424</u>
FUND BALANCE, end of year	<u>\$ 160,709</u>	<u>\$ -</u>	<u>\$ -</u>

<i>Budgetary funds</i>	
<i>State Revenue Sharing</i>	<i>Total (reported as General Fund)</i>
\$ -	\$ 100,539
-	56,914
-	472
-	32,505
-	7,835
-	198,265
-	308
-	3,446
-	4,054
-	52,152
-	12,931
-	122,937
-	3,388
-	199,216
-	(951)
-	46,322
(9,741)	(30,821)
(9,741)	14,550
9,741	146,159
\$ -	\$ 160,709

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, 2014**

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Wagner Reserve Library #72</u>	<u>Equipment</u>	<u>Total</u>
REVENUES			
Miscellaneous	\$ 17,968	\$ -	\$ 17,968
EXPENDITURES	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	<u>17,968</u>	<u>-</u>	<u>17,968</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	-	(28,125)	(28,125)
NET CHANGE IN FUND BALANCE	17,968	(28,125)	(10,157)
FUND BALANCE, beginning of year	<u>10,603</u>	<u>28,125</u>	<u>38,728</u>
FUND BALANCE, end of year	<u>\$ 28,571</u>	<u>\$ -</u>	<u>\$ 28,571</u>

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, 2014**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 100,900	\$ 100,900	\$ 100,539	\$ (361)
Licenses and permits	53,700	53,700	56,914	3,214
Charges for services	100	100	472	372
Intergovernmental	24,600	24,600	32,505	7,905
Fines and forfeitures	200	200	-	(200)
Miscellaneous	3,255	3,255	7,835	4,580
<i>Total Revenues</i>	182,755	182,755	198,265	15,510
EXPENDITURES				
City Council	800	800	308	492
Library	1,700	2,950	3,446	(496)
Court	14,100	14,100	4,054	10,046
Fire	56,629	61,414	52,152	9,262
Parks	14,700	14,700	12,931	1,769
Administration	156,063	156,063	122,937	33,126
Other/Debt	12,038	12,038	3,388	8,650
Contingency	10,000	35,010	-	35,010
<i>Total Expenditures</i>	266,030	297,075	199,216	97,859
REVENUES OVER (UNDER) EXPENDITURES	(83,275)	(114,320)	(951)	113,369
OTHER FINANCING SOURCES (USES)				
Transfers in	34,437	38,886	46,322	7,436
NET CHANGE IN FUND BALANCE	(48,838)	(75,434)	45,371	120,805
FUND BALANCE, beginning of year	80,000	115,338	115,338	-
FUND BALANCE, end of year	\$ 31,162	\$ 39,904	\$ 160,709	\$ 120,805

CITY OF FALLS CITY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - CEMETERY CARE FUND

YEAR ENDED JUNE 30, 2014

	<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	(7,000)	(7,656)	(7,656)	-
NET CHANGE IN FUND BALANCE	(7,000)	(7,656)	(7,656)	-
FUND BALANCE, beginning of year	7,000	7,656	7,656	-
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 - MUNICIPAL COURT FUND
YEAR ENDED JUNE 30, 2014

	<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	(18,000)	(13,424)	(13,424)	-
NET CHANGE IN FUND BALANCE	(18,000)	(13,424)	(13,424)	-
FUND BALANCE, beginning of year	18,000	13,424	13,424	-
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 - STATE REVENUE SHARING FUND

YEAR ENDED JUNE 30, 2014

	<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	(1,000)	(9,741)	(9,741)	-
NET CHANGE IN FUND BALANCE	(1,000)	(9,741)	(9,741)	-
FUND BALANCE, beginning of year	1,000	9,741	9,741	-
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 - STREET FUND****YEAR ENDED JUNE 30, 2014**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 52,500	\$ 52,500	\$ 54,428	\$ 1,928
EXPENDITURES				
Personal services	33,096	(5,258)	33,096	(38,354)
Materials and services	30,200	30,200	26,677	3,523
Capital outlay	2,094	10,094	-	10,094
Contingency	8,204	51,150	-	51,150
<i>Total Expenditures</i>	<u>73,594</u>	<u>86,186</u>	<u>59,773</u>	<u>26,413</u>
REVENUES OVER (UNDER) EXPENDITURES	(21,094)	(33,686)	(5,345)	28,341
OTHER FINANCING SOURCES (USES)				
Transfers in	9,094	8,965	1,965	(7,000)
Transfers out	-	-	(7,436)	(7,436)
<i>Total Other Financing Sources and Uses</i>	<u>9,094</u>	<u>8,965</u>	<u>(5,471)</u>	<u>(14,436)</u>
NET CHANGE IN FUND BALANCE	(12,000)	(24,721)	(10,816)	13,905
FUND BALANCE, beginning of year	<u>12,000</u>	<u>24,721</u>	<u>24,721</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,905</u>	<u>\$ 13,905</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, 2014**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 31,500	\$ 31,500	\$ 55,818	\$ 24,318
EXPENDITURES				
Materials and services	96,000	257,364	223,612	33,752
Contingency	74,344	-	-	-
<i>Total Expenditures</i>	<u>170,344</u>	<u>257,364</u>	<u>223,612</u>	<u>33,752</u>
NET CHANGE IN FUND BALANCE	(138,844)	(225,864)	(167,794)	58,070
FUND BALANCE, beginning of year	<u>138,844</u>	<u>225,864</u>	<u>225,864</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,070</u>	<u>\$ 58,070</u>

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, 2014

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 2,600	\$ 2,600	\$ 71,873	\$ 69,273
EXPENDITURES				
Materials and services	100,700	98,985	-	98,985
NET CHANGE IN FUND BALANCE	(98,100)	(96,385)	71,873	168,258
FUND BALANCE, beginning of year	98,100	96,385	96,385	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 168,258	\$ 168,258

CITY OF FALLS CITY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – SMALL CITIES ALLOTMENT GRANT

YEAR ENDED JUNE 30, 2014

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 50,000	\$ 50,000	\$ 25,000	\$ (25,000)
EXPENDITURES				
Capital outlay	50,000	50,000	50,000	-
NET CHANGE IN FUND BALANCE	-	-	(25,000)	(25,000)
FUND BALANCE, beginning of year	-	-	-	-
FUND BALANCE (Deficit), end of year	\$ -	\$ -	\$ (25,000)	\$ (25,000)

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, 2014

	<i>Budget Amounts</i>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Miscellaneous	\$ 710	\$ 710	\$ 17,968	\$ 17,258
EXPENDITURES				
Materials and services	11,732	11,313	-	11,313
NET CHANGE IN FUND BALANCE	(11,022)	(10,603)	17,968	28,571
FUND BALANCE, beginning of year	11,022	10,603	10,603	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 28,571	\$ 28,571

CITY OF FALLS CITY, OREGON
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - EQUIPMENT FUND
YEAR ENDED JUNE 30, 2014

	<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	(29,500)	(28,125)	(28,125)	-
NET CHANGE IN FUND BALANCE	(29,500)	(28,125)	(28,125)	-
FUND BALANCE, beginning of year	29,500	28,125	28,125	-
FUND BALANCE, end of year	\$ -	\$ -	\$ -	\$ -

CITY OF FALLS CITY, OREGON**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
(MODIFIED CASH BASIS) NON-MAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

	<u>Sewer Debt</u>	<u>Water Debt Service</u>	<u>Sewer Master Plan</u>
OPERATING REVENUES	\$ -	\$ -	\$ -
OPERATING EXPENSES			
Materials and services	-	-	5,091
OPERATING INCOME	-	-	(5,091)
NONOPERATING REVENUES (EXPENSES)			
Noncapital Financing Revenues (Expenses)			
Transfers in	214	-	-
Transfers out	-	(65,473)	-
<i>Total Noncapital Financing Revenues (Expenses)</i>	214	(65,473)	-
Capital Financing Revenues (Expenses)			
Capital contributions	-	-	7,321
<i>Total Nonoperating Revenues (Expenses)</i>	214	(65,473)	7,321
CHANGE IN NET POSITION	214	(65,473)	2,230
NET POSITION, end of year	(214)	65,473	5,092
NET POSITION, end of year	\$ -	\$ -	\$ 7,322

Total

\$ -

5,091

(5,091)

214

(65,473)

(65,259)

7,321

(57,938)

(63,029)

70,351

\$ 7,322

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, 2014**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 99,450	\$ 99,450	\$ 110,562	\$ 11,112
Miscellaneous	-	-	11	11
<i>Total Revenues</i>	99,450	99,450	110,573	11,123
EXPENDITURES				
Personal services	65,171	65,171	47,210	17,961
Materials and services	57,430	57,430	42,166	15,264
Capital outlay	2,094	2,094	-	2,094
Contingency	5,156	11,754	-	11,754
<i>Total Expenditures</i>	129,851	136,449	89,376	47,073
REVENUES OVER (UNDER) EXPENDITURES	(30,401)	(36,999)	21,197	58,196
OTHER FINANCING SOURCES (USES)				
Transfers in	2,094	-	1,965	1,965
Transfers out	-	(749)	(214)	535
<i>Total Other Financing Sources and Uses</i>	2,094	(749)	1,751	2,500
CHANGE IN FUND BALANCE	(28,307)	(37,748)	22,948	60,696
FUND BALANCE, beginning of year	29,000	38,441	38,441	-
FUND BALANCE, end of year	\$ 693	\$ 693	\$ 61,389	\$ 60,696

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, 2014**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 251,850	\$ 251,850	\$ 261,425	\$ 9,575
Miscellaneous	-	-	325	325
<i>Total Revenues</i>	251,850	251,850	261,750	9,900
EXPENDITURES				
Personal services	114,687	118,887	101,581	17,306
Materials and services	108,550	108,550	73,006	35,544
Debt service				
Principal	19,962	19,962	19,962	-
Interest	45,511	45,511	45,511	-
Capital outlay	15,437	15,437	-	15,437
Contingency	10,000	33,869	-	33,869
<i>Total Expenditures</i>	314,147	342,216	240,060	102,156
REVENUES OVER (UNDER) EXPENDITURES	(62,297)	(90,366)	21,690	112,056
OTHER FINANCING SOURCES (USES)				
Transfers in	73,910	73,538	73,538	-
CHANGE IN FUND BALANCE	11,613	(16,828)	95,228	112,056
FUND BALANCE, beginning of year	10,000	38,441	38,441	-
FUND BALANCE, end of year	\$ 21,613	\$ 21,613	\$ 133,669	\$ 112,056

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, 2014

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 35,930	\$ 35,930	\$ 36,139	\$ 209
Miscellaneous	-	-	2	2
<i>Total Revenues</i>	35,930	35,930	36,141	211
EXPENDITURES				
Capital outlay	108,438	108,438	28,467	79,971
Contingency	181,930	188,888	-	188,888
<i>Total Expenditures</i>	290,368	297,326	28,467	268,859
REVENUES OVER (UNDER) EXPENDITURES	(254,438)	(261,396)	7,674	269,070
OTHER FINANCING SOURCES (USES)				
Transfers in	8,438	8,066	8,065	(1)
CHANGE IN FUND BALANCE	(246,000)	(253,330)	15,739	269,069
FUND BALANCE, beginning of year	246,000	253,330	253,330	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 269,069	\$ 269,069

CITY OF FALLS CITY, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - SEWER DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2014

	<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 in	-	214	214	-
Transfers out	(2,500)	-	-	-
CHANGE IN FUND BALANCE	(2,500)	214	214	-
FUND BALANCE (Deficit), beginning of year	2,500	(214)	(214)	-
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 - WATER DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2014

	<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	(65,473)	(65,473)	(65,473)	-
CHANGE IN FUND BALANCE	(65,473)	(65,473)	(65,473)	-
FUND BALANCE, beginning of year	65,473	65,473	65,473	-
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 MASTER PLAN FUND
YEAR ENDED JUNE 30, 2014**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 7,321	\$ 7,321
EXPENDITURES				
Materials and services	40,000	5,092	5,091	1
CHANGE IN FUND BALANCE	(40,000)	(5,092)	2,230	7,322
FUND BALANCE, beginning of year	40,000	5,092	5,092	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 7,322	\$ 7,322

OTHER SCHEDULES

CITY OF FALLS CITY, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2014

<u>Tax Year</u>	<u>Uncollected Balances July 1, 2013</u>	<u>2013-2014 Levy</u>	<u>Added To Rolls</u>	<u>Interest, Discounts & Adjustments</u>	<u>Turnovers</u>	<u>Uncollected Balances June 30, 2014</u>
2013-2014	\$ -	\$ 102,274	\$ 62	\$ (3,520)	(95,444)	\$ 3,372
2012-2013	4,646	-	-	(909)	(1,678)	2,059
2011-2012	2,709	-	-	(402)	(805)	1,502
2010-2011	1,632	-	-	(4)	(794)	834
2009-2010	800	-	-	(4)	(417)	379
2008-2009	142	-	-	(4)	(96)	42
2007-2008	67	-	-	(3)	(52)	12
Prior Years	130	-	-	-	(1)	129
Total	<u>\$ 10,126</u>	<u>\$ 102,274</u>	<u>\$ -</u>	<u>\$ (4,846)</u>	<u>\$ (99,287)</u>	<u>\$ 8,329</u>

CITY OF FALLS CITY, OREGON
ADDITIONAL INFORMATION REQUESTED BY FMHA
YEAR ENDED JUNE 30, 2014

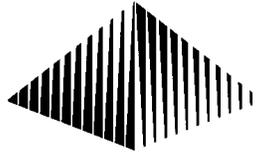
The following information is provided in the format requested by FMHA for account numbers 43-27-936002162-92-01, 43-27-936002162-92-03 and 43-27-936002162-92-05 City of Falls City.

1. Generally accepted auditing procedures have been performed.
2. Comments regarding the City's internal control over financial reporting are contained in our report on Government Auditing Standards.
3. The condition of accounting records is reported in the Government Auditing Standards of the report.
4. Records of capital assets are not maintained. Adequate capital asset historical cost and depreciation records do not exist.
5. The City has complied with the loan agreement, including the reserve account requirements. At June 30, 2014 the City had \$65,473 held in reserve.
6. The financial reports included in the annual financial report are in agreement with the City's accounting records.
7. Deposited funds are in institutions insured by the Federal government. Amounts in excess of insured amounts are collateralized in accordance with Oregon law.
8. Insurance

<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Amount of Coverage</u>	<u>Policy Expiration Date</u>
Property	BO-FLC-2012-0	Per filed values	6/30/14
Liability	BO-FLC-2012-0	\$ 5,000,000	6/30/14
Workers Compensation	BO-FLC-2012-0	Coverage A and B	6/30/14

9. Aged accounts receivable at June 30, 2014 were as follows: 0 – 30 days, \$33,971; 31 – 60 days, \$6,646; 61 – 90 days, \$1,051; over 90 days, \$10,925; total, \$52,593.
10. The City of Falls City is exempt from Federal income tax.

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, 2014, and have issued our report thereon dated September 23, 2014.

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. The City does not maintain historical cost or depreciation records for capital assets.
2. Budgeted transfers in did not equal budgeted transfers out.
3. Excess of actual revenues over actual expenditures in the second preceding year did not equal the beginning balance in the first preceding year in the General fund, Cemetery fund, Municipal Court fund, Street fund, Community Development Revolving Loan fund, Water fund and Sewer fund.
4. Overexpenditures of appropriations and deficit fund balances as noted in the notes to the basic financial statements.

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. See *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

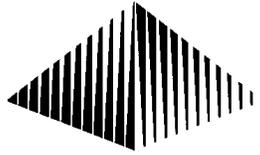
We noted certain matters that we reported to management of the City, in a separate letter dated September 23, 2014.

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: 
Thomas E. Glogau, A Shareholder
September 23, 2014



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 ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falls City (the City), as of and for the year ended , and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 23, 2014.

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

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

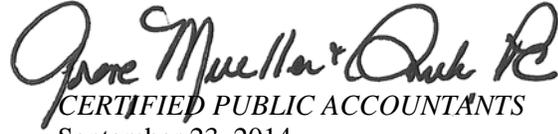
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS
September 23, 2014