

***CITY OF FALLS CITY
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2015***

Mayor

Terry Ungricht
635 Chamberlain Road
Falls City, Oregon 97344

Council

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

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

Julee Bishop
540 Hopkins Rd.
Falls City, Oregon 97344

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

Jennifer Drill
136 Carey Court
Falls City, Oregon 97344

Gerald Melin
199 Pine Street
Falls City, Oregon 97344

City Staff

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

CITY OF FALLS CITY, OREGON
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FINANCIAL SECTION



GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falls City, Oregon, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falls City as of June 30, 2015, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in the notes to the financial statements.

Basis of Accounting

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

Other Matters

Report on Supplemental and Other Information

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated November 13, 2015, on our consideration of the City's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

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

By: 

Devan W. Esch, A Shareholder
November 13, 2015

CITY OF FALLS CITY, OREGON
 Management's Discussion and Analysis
 June 30, 2015

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, 2015.

Financial Highlights

| | June 30, | | change |
|-------------------------------------|--------------|------------|------------|
| | 2015 | 2014 | |
| Net position | \$ 1,020,897 | \$ 875,962 | \$ 144,935 |
| Change in net position | 144,935 | (56,458) | 201,393 |
| Governmental net position | 438,739 | 404,513 | 34,226 |
| Proprietary net position | 582,158 | 471,449 | 110,709 |
| Change in governmental net position | 34,226 | (127,344) | 161,570 |
| Change in proprietary net position | 110,709 | 70,886 | 39,823 |

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,

| | 2015 | | | 2014 | | |
|---------------------------|----------------------------|-----------------------------|---------------------|----------------------------|-----------------------------|-------------------|
| | Governmental Activities | Business-type Activities | Total | Governmental Activities | Business-type Activities | Total |
| Cash and cash equivalents | \$ 437,348 | \$ 582,158 | \$ 1,019,506 | \$ 406,369 | \$ 471,449 | \$ 877,818 |
| Liabilities | - | - | - | 1,856 | - | 1,856 |
| Net position: | | | | | | |
| Restricted | 197,672 | 65,473 | 263,145 | 193,734 | 65,473 | 259,207 |
| Unrestricted | 239,676 | 516,685 | 756,361 | 210,779 | 405,976 | 616,755 |
| Total Net Position | <u>\$ 437,348</u> | <u>\$ 582,158</u> | <u>\$ 1,019,506</u> | <u>\$ 404,513</u> | <u>\$ 471,449</u> | <u>\$ 875,962</u> |

Statement of Net Position. The Statement of Net Position (modified cash basis) is provided on a comparative basis. As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City of Falls City, assets exceeded liabilities by \$1,019,506 as of June 30, 2015. Overall, the City's financial position increased.

Net position - restricted represent sources that are subject to external restrictions on their use, such as debt service or capital projects. Net position - unrestricted is available for general operations of the City.

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

| | 2015 | | | 2014 | | |
|---------------------------------|----------------------------|---------------------------------|---------------------|----------------------------|---------------------------------|-------------------|
| | Governmental Activities | Business- type Activities | Total | Governmental Activities | Business- type Activities | Total |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for service | \$ 7,351 | \$ 424,694 | \$ 432,045 | \$ 4,435 | \$ 408,126 | \$ 412,561 |
| Operating grants | 160,605 | - | 160,605 | 63,874 | - | 63,874 |
| Capital grants | - | - | - | 25,000 | 7,321 | 32,321 |
| General revenues | | | | | | |
| Property taxes | 102,382 | - | 102,382 | 100,539 | - | 100,539 |
| Franchise taxes | 50,373 | - | 50,373 | 52,951 | - | 52,951 |
| Intergovernmental | 23,900 | - | 23,900 | 23,059 | - | 23,059 |
| Miscellaneous | 68,552 | - | 68,552 | 153,494 | 338 | 153,832 |
| <i>Total revenues</i> | <u>413,163</u> | <u>424,694</u> | <u>837,857</u> | <u>423,352</u> | <u>415,785</u> | <u>839,137</u> |
| Expenses | | | | | | |
| General government | 202,242 | - | 202,242 | 130,687 | - | 130,687 |
| Community development | 19,251 | - | 19,251 | 227,058 | - | 227,058 |
| Fire service | 116,848 | - | 116,848 | 52,152 | - | 52,152 |
| Parks | 10,927 | - | 10,927 | 12,931 | - | 12,931 |
| Street | 29,669 | - | 29,669 | 109,773 | - | 109,773 |
| Water | - | 202,843 | 202,843 | - | 240,060 | 240,060 |
| Sewer | - | 111,142 | 111,142 | - | 122,934 | 122,934 |
| <i>Total expenses</i> | <u>378,937</u> | <u>313,985</u> | <u>692,922</u> | <u>532,601</u> | <u>362,994</u> | <u>895,595</u> |
| Transfers | - | - | - | (18,095) | 18,095 | - |
| Change in net position | 34,226 | 110,709 | 144,935 | (127,344) | 70,886 | (56,458) |
| Net position, beginning of year | 404,513 | 471,449 | 875,962 | 531,857 | 400,563 | 932,420 |
| Net position, end of year | <u>\$ 438,739</u> | <u>\$ 582,158</u> | <u>\$ 1,020,897</u> | <u>\$ 404,513</u> | <u>\$ 471,449</u> | <u>\$ 875,962</u> |

Statement of Activities (Modified Cash Basis). The City's net position increased by \$144,935 during fiscal 2014-2015. This increase is explained in the governmental and business-type activities as follows:

Governmental activities - The City's net position increased by \$34,226 from governmental activities. This increase is due mainly to an increase in operating grants and a decrease in community development and street expenses.

Business-type activities - The City's net position increased by \$110,709 from business-type activities. This increase was due to a combination of an increase in charges for services, a decrease in water expenditures, and a decrease in sewer expenditures.

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

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

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

General Fund Budget

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

Significant Fund Transactions

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 fund has been combined with the General fund.

Major Governmental Funds:

- **General:** The General fund had a decrease in fund balance of \$422 during the year, which is primarily due to increases in expenditures and no transfers in. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 47% of total General fund expenditures.
- **Street:** The Street fund had an increase in fund balance of \$24,359 during the year due to a decrease in expenditures from the prior year.
- **Community Development Revolving Loan:** The Community Development Revolving Loan fund had an increase in fund balance of \$20,475 during the year due to a decrease in community development loan disbursements.
- **Wagner Reserve Library #71:** The Wagner Reserve Library #71 fund had an increase in fund balance of \$43,485 during the year due to trust fund principal and interest received during the year. There were no expenditures in the fund this year.

Major Proprietary Funds:

- **Sewer:** The Sewer fund had an increase in net position of \$9,206 during the year due mainly to reduced spending. There were no capital outlay expenditures in the current year.
- **Water:** The Water fund had an increase in net position of \$73,748 during the year due mainly to reduced spending. There were minimal capital outlay expenditures in the current year.
- **City Utility Reserve:** The City Utility Reserve fund had an increase in net position of \$35,076 during the year due to more revenues collected than capital outlay expenditures.

Debt Administration

Long-term debt: The City had total revenue-backed bonded debt outstanding of \$970,543 at the end of the current fiscal year, a fire truck loan of \$15,000 and a Polk County Community Development Loan of \$55,470 outstanding.

The City's total debt decreased by \$27,804 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 | |
|---------------|-------------------------|------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Loans | \$ 70,470 | \$ 77,414 | \$ - | \$ - | \$ 70,470 | \$ 77,414 |
| Revenue bonds | - | - | 970,543 | 991,403 | 970,543 | 991,403 |
| Total | \$ 70,470 | \$ 77,414 | \$ 970,543 | \$ 991,403 | \$ 1,041,013 | \$ 1,068,817 |

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 2015-16 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, 2015

| | <u><i>Governmental Activities</i></u> | <u><i>Business-type Activities</i></u> | <u><i>Totals</i></u> |
|---------------------------|---|--|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 437,348 | \$ 582,158 | \$ 1,019,506 |
| LIABILITIES | - | - | - |
| NET POSITION | | | |
| Restricted for: | | | |
| Debt service | - | 65,473 | 65,473 |
| Community development | 159,408 | - | 159,408 |
| Streets | 38,264 | - | 38,264 |
| Unrestricted | 239,676 | 516,685 | 756,361 |
| | <u>\$ 437,348</u> | <u>\$ 582,158</u> | <u>\$ 1,019,506</u> |
| <i>Total Net Position</i> | <u>\$ 437,348</u> | <u>\$ 582,158</u> | <u>\$ 1,019,506</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, 2015

| | <u>Expenses</u> | <u>Program Revenues</u> | |
|---|-------------------|---|---|
| | | <u>Fees, Fines and Charges for Services</u> | <u>Operating Grants and Contributions</u> |
| FUNCTIONS/PROGRAMS | | | |
| Governmental activities: | | | |
| General government | \$ 202,242 | \$ 7,351 | \$ 60,177 |
| Community development | 19,251 | - | - |
| Fire service | 116,848 | - | 21,400 |
| Parks | 10,927 | - | - |
| Street | 29,669 | - | 79,028 |
| Interest on long-term debt | 1,391 | - | - |
| <i>Total Governmental activities</i> | <u>380,328</u> | <u>7,351</u> | <u>160,605</u> |
| Business-type activities: | | | |
| Water | 202,843 | 276,590 | - |
| Sewer | 111,142 | 148,104 | - |
| <i>Total Business-type activities</i> | <u>313,985</u> | <u>424,694</u> | <u>-</u> |
| <i>Total Activities</i> | <u>\$ 694,313</u> | <u>\$ 432,045</u> | <u>\$ 160,605</u> |
| General Revenues: | | | |
| Property taxes | | | |
| Franchise taxes | | | |
| Intergovernmental | | | |
| Miscellaneous | | | |
| <i>Total General Revenues</i> | | | |
| 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> |
|---|--|---------------------|
| \$ (134,714) | \$ - | \$ (134,714) |
| (19,251) | - | (19,251) |
| (95,448) | - | (95,448) |
| (10,927) | - | (10,927) |
| 49,359 | - | 49,359 |
| (1,391) | - | (1,391) |
| (212,372) | - | (212,372) |
| - | 73,747 | 73,747 |
| - | 36,962 | 36,962 |
| - | 110,709 | 110,709 |
| (212,372) | 110,709 | (101,663) |
| 102,382 | - | 102,382 |
| 50,373 | - | 50,373 |
| 23,900 | - | 23,900 |
| 68,552 | - | 68,552 |
| 245,207 | - | 245,207 |
| 32,835 | 110,709 | 143,544 |
| 404,513 | 471,449 | 875,962 |
| \$ 437,348 | \$ 582,158 | \$ 1,019,506 |
| \$ 437,348 | \$ 582,158 | \$ 1,019,506 |

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, 2015

| | | <u>Special Revenue</u> | |
|---|----------------|------------------------|--|
| | <u>General</u> | <u>Street Fund</u> | <u>Community Development Revolving Loan Fund</u> |
| ASSETS | | | |
| Cash and cash equivalents | \$ 161,131 | \$ 38,264 | \$ 78,545 |
| | <hr/> | <hr/> | <hr/> |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities: | \$ - | \$ - | \$ - |
| Fund Balance: | | | |
| Restricted for: | | | |
| Community development | - | - | - |
| Streets | - | 38,264 | - |
| Committed to: | | | |
| Community development | - | - | 78,545 |
| Unassigned | 161,131 | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total Fund Balance | 161,131 | 38,264 | 78,545 |
| | <hr/> | <hr/> | <hr/> |
| Total Liabilities and Fund Balance | \$ 161,131 | \$ 38,264 | \$ 78,545 |
| | <hr/> | <hr/> | <hr/> |

| <u>Special Revenue</u> | <u>Other Governmental Funds</u> | |
|---------------------------------------|---|--------------|
| <u>Wagner Reserve Library #71</u> | <u>Wagner Reserve Library #72</u> | <u>Total</u> |
| \$ 124,773 | \$ 34,635 | \$ 437,348 |
| - | - | - |
| 124,773 | 34,635 | 159,408 |
| - | - | 38,264 |
| - | - | 78,545 |
| - | - | 161,131 |
| 124,773 | 34,635 | 437,348 |
| \$ 124,773 | \$ 34,635 | \$ 437,348 |

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, 2015**

| | <i>Special Revenue</i> | | |
|---|------------------------|--------------------|--|
| | <i>General Fund</i> | <i>Street Fund</i> | <i>Community Development Revolving Loan Fund</i> |
| REVENUES | | | |
| Taxes and assessments | \$ 102,382 | \$ - | \$ - |
| Licenses and permits | 57,568 | - | - |
| Charges for services | 157 | - | - |
| Intergovernmental | 105,477 | 54,028 | - |
| Miscellaneous | 13,661 | - | 24,570 |
| <i>Total Revenues</i> | <u>279,245</u> | <u>54,028</u> | <u>24,570</u> |
| EXPENDITURES | | | |
| Current | | | |
| General government | 200,298 | - | - |
| Community development | 14,551 | - | 4,095 |
| Fire service | 111,848 | - | - |
| Parks | 10,927 | - | - |
| Streets | - | 29,656 | - |
| Debt Payments | | | |
| Principal | 6,944 | - | - |
| Interest | 1,391 | - | - |
| Capital outlay | - | 13 | - |
| <i>Total Expenditures</i> | <u>345,959</u> | <u>29,669</u> | <u>4,095</u> |
| REVENUES OVER (UNDER) EXPENDITURES | (66,714) | 24,359 | 20,475 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 67,136 | - | - |
| Transfers out | - | - | - |
| <i>Total Other Financing Sources (Uses)</i> | <u>67,136</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | 422 | 24,359 | 20,475 |
| FUND BALANCE, beginning of year | <u>160,709</u> | <u>13,905</u> | <u>58,070</u> |
| FUND BALANCE, end of year | <u>\$ 161,131</u> | <u>\$ 38,264</u> | <u>\$ 78,545</u> |

Special Revenue

| <u>Wagner Reserve Library #71</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|--|--|---------------------|
| \$ - | \$ - | \$ 102,382 |
| - | - | 57,568 |
| - | - | 157 |
| - | 25,000 | 184,505 |
| 24,256 | 6,064 | 68,551 |
| <u>24,256</u> | <u>31,064</u> | <u>413,163</u> |
| - | - | 200,298 |
| 605 | - | 19,251 |
| - | - | 111,848 |
| - | - | 10,927 |
| - | - | 29,656 |
| - | - | 6,944 |
| - | - | 1,391 |
| - | - | 13 |
| <u>605</u> | <u>-</u> | <u>380,328</u> |
| 23,651 | 31,064 | 32,835 |
| - | - | 67,136 |
| (67,136) | - | (67,136) |
| <u>(67,136)</u> | <u>-</u> | <u>-</u> |
| (43,485) | 31,064 | 32,835 |
| 168,258 | 3,571 | 404,513 |
| <u>\$ 124,773</u> | <u>\$ 34,635</u> | <u>\$ 437,348</u> |

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, 2015

| | <u>Sewer</u> | <u>Water</u> | <u>City Utility Reserve</u> |
|---------------------------|--------------|--------------|-----------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 70,595 | \$ 207,417 | \$ 304,145 |
| | <hr/> | <hr/> | <hr/> |
| LIABILITIES | \$ - | \$ - | \$ - |
| | | | |
| NET POSITION | | | |
| Restricted for: | | | |
| Debt service | - | - | 65,473 |
| Unrestricted | 70,595 | 207,417 | 238,672 |
| | <hr/> | <hr/> | <hr/> |
| <i>Total Net Position</i> | \$ 70,595 | \$ 207,417 | \$ 304,145 |
| | <hr/> | <hr/> | <hr/> |

| <i>Sewer Master Plan</i> | <i>Total</i> |
|------------------------------|--------------|
| \$ 1 | \$ 582,158 |
| \$ - | \$ - |
| - | 65,473 |
| 1 | 516,685 |
| \$ 1 | \$ 582,158 |

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, 2015**

| | <u>Sewer</u> | <u>Water</u> | <u>City Utility Reserve</u> |
|--|------------------|-------------------|-----------------------------|
| OPERATING REVENUES | | | |
| Charges for services | \$ 111,108 | \$ 276,591 | \$ 36,995 |
| OPERATING EXPENSES | | | |
| Personal services | 61,199 | 85,218 | - |
| Materials and services | 40,703 | 52,152 | - |
| <i>Total Operating Expenses</i> | <u>101,902</u> | <u>137,370</u> | <u>-</u> |
| OPERATING INCOME | 9,206 | 139,221 | 36,995 |
| NONOPERATING ITEMS | | | |
| Capital acquisitions | - | - | (1,919) |
| Debt payments | | | |
| Principal | - | (20,860) | - |
| Interest | - | (44,613) | - |
| <i>Total Nonoperating Items</i> | <u>-</u> | <u>(65,473)</u> | <u>(1,919)</u> |
| CHANGE IN NET POSITION | 9,206 | 73,748 | 35,076 |
| NET POSITION, beginning of year | <u>61,389</u> | <u>133,669</u> | <u>269,069</u> |
| NET POSITION, end of year | <u>\$ 70,595</u> | <u>\$ 207,417</u> | <u>\$ 304,145</u> |

| <i>Sewer Master Plan</i> | <i>Total</i> |
|------------------------------|-------------------|
| \$ - | \$ 424,694 |
| - | 146,417 |
| 5,821 | 98,676 |
| 5,821 | 245,093 |
| (5,821) | 179,601 |
| (1,500) | (3,419) |
| - | (20,860) |
| - | (44,613) |
| (1,500) | (68,892) |
| (7,321) | 110,709 |
| 7,322 | 471,449 |
| <u>\$ 1</u> | <u>\$ 582,158</u> |

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

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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, 2015

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.

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, 2015, 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.

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.

Small City Allotment Grant

This fund accounts for grant revenues received for improvement. Expenditures are for bridge improvements. This fund was closed in the current year.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

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.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Definitions of Governmental Fund Types (Continued)

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.

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.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents (Continued)

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.

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, 2015 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, 2015. Actual results may differ from those estimates.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following at June 30, 2015:

| | <i>Carrying Value</i> | <i>Fair Value</i> |
|--------------------------------------|---------------------------|-----------------------|
| Cash | | |
| Cash on hand | \$ 350 | \$ 350 |
| Deposits with financial institutions | 71,116 | 71,116 |
| Cash held by fiscal agents | 78,545 | 78,545 |
| Investments | | |
| Local Government Investment Pool | 869,495 | 869,495 |
| | <u>\$ 1,019,506</u> | <u>\$ 1,019,506</u> |

Deposits

The book balance of the City’s bank deposits (checking accounts) was \$71,116 and the bank balance was \$77,204 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, 2015, 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, 2015, the fair value of the position in the Oregon State Treasurer’s Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality.

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

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

CASH AND CASH EQUIVALENTS (Continued)

Interest Rate Risk

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

Custodial Risk - Investments

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

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

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

Cash Held by Fiscal Agents

Cash held by fiscal agents is held by West Valley Housing Authority. Information on collateralization of this cash is contained in the annual financial report of the Authority. The Authority is subject to the same regulations regarding collateralization as the City.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

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, 2014</u> | <u>Issued</u> | <u>Matured/ Redeemed During Year</u> | <u>Outstanding June 30, 2015</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 | \$ 20,000 | \$ - | \$ (5,000) | \$ 15,000 | \$ 5,000 |
| Polk County Community Development, original amount \$65,000, interest rate 1.0% | 57,414 | - | (1,944) | 55,470 | 1,962 |
| | <u>\$ 77,414</u> | <u>\$ -</u> | <u>\$ (6,944)</u> | <u>\$ 70,470</u> | <u>\$ 6,962</u> |
| | <u>Outstanding July 1, 2014</u> | <u>Issued</u> | <u>Matured/ Redeemed During Year</u> | <u>Outstanding June 30, 2015</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% | \$ 991,403 | \$ - | \$ (20,860) | \$ 970,543 | \$ 21,799 |

Future debt service requirements are as follows:

Governmental Activities

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|------------------|-----------------|------------------|
| 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 | 2,042 | 476 | 2,519 |
| 2021-2025 | 10,528 | 2,065 | 12,593 |
| 2026-2030 | 11,065 | 1,528 | 12,593 |
| 2031-2035 | 11,630 | 963 | 12,593 |
| 2036-2040 | 12,233 | 370 | 12,603 |
| | <u>\$ 70,470</u> | <u>\$ 8,855</u> | <u>\$ 79,325</u> |

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

LONG-TERM DEBT (Continued)

Business-type Activities

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--|-------------------|-------------------|---------------------|
| 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 | 25,995 | 39,478 | 65,473 |
| 2021-2025 | 148,612 | 178,753 | 327,365 |
| 2026-2030 | 185,197 | 142,168 | 327,365 |
| 2031-2035 | 230,790 | 96,575 | 327,365 |
| 2036-2040 | 286,690 | 39,759 | 326,449 |
| | <u>\$ 970,543</u> | <u>\$ 665,366</u> | <u>\$ 1,635,909</u> |

Debt Service Reserve Accounts

Reserves required by the water debt are maintained in the Water fund. The City was in compliance with the reserve requirements of \$65,473 for the water bonds.

PENSION PLAN

Defined Benefit Plan

Name of the pension plan: The Oregon Public Employees Retirement System (OPERS) is a cost-sharing multiple-employer defined benefit plan.

Plan description. Employees of the City are provided with pensions through OPERS. All the benefits of OPERS are established by the Oregon legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. OPERS issues a publicly available financial report. This report can be obtained at the PERS website: http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

Benefits provided under Chapter 238-Tier One / Tier Two

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

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Benefits provided under Chapter 238-Tier One / Tier Two (Continued)

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

2. *Death Benefits.* Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:
 - Member was employed by a OPERS employer at the time of death,
 - Member died within 120 days after termination of OPERS-covered employment,
 - Member died as a result of injury sustained while employed in a OPERS-covered job, or
 - Member was on an official leave of absence from a OPERS-covered job at the time of death.
3. *Disability Benefits.* A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including OPERS judge members) for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.
4. *Benefit Changes After Retirement.* Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

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

1. *Pension Benefits.* The ORS 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.

This portion of the OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

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

Police and Fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

General Service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

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

2. *Death Benefits.* Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.
3. *Disability Benefits.* A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.
4. *Benefit Changes After Retirement.* Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

Contributions

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

Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation, as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013. The state of Oregon and certain schools, community colleges, and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced.

Employer contributions for the year ended June 30, 2015 were \$33,468, excluding amounts to fund employer specific liabilities. These contributions were allocated \$20,040 to PERS/OPSRP, \$12,260 to the IAP, and \$1,168 to the Retiree Health Insurance accounts.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Contributions (Continued)

The rates in effect for the fiscal year ended June 30, 2015 were: (1) Tier1/Tier 2 – 10.90%, (2) OPSRP general service – 7.99%, and (3) OPSRP uniformed – 10.72%.

Actuarial Valuations

The employer contribution rates effective July 1, 2013, through June 30, 2015, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

Actuarial Methods and Assumptions

| | |
|----------------------------|---|
| Valuation Date | December 31, 2012 rolled forward to June 30, 2014 |
| Experience Study Report | 2012, published September 18, 2013 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years. |
| Asset Valuation Method | Market value of assets |
| Actuarial Assumptions: | |
| Inflation Rate | 2.75 percent |
| Investment Rate of Return | 7.75 percent |
| Projected Salary Increases | 3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service. |
| Mortality | <p>Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.</p> <p>Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.</p> |

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2012 Experience Study which reviewed experience for the four-year period ending on December 31, 2012.

Discount Rate

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

Depletion Date Projection

GASB 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 67 (paragraph 43) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for Oregon PERS:

- Oregon PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 67 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is our independent actuary's opinion that the detailed depletion date projections outlined in GASB 67 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Assumed Asset Allocation

| <u>Asset Class/Strategy</u> | <u>Low Range</u> | <u>High Range</u> | <u>OIC Target</u> |
|-----------------------------|------------------|-------------------|-------------------|
| Cash | 0.0 % | 3.0 % | 0.0 % |
| Debt Securities | 15.0 | 25.0 | 20.0 |
| Public Equity | 32.5 | 42.5 | 37.5 |
| Private Equity | 16.0 | 24.0 | 20.0 |
| Real Estate | 9.5 | 15.5 | 12.5 |
| Alternative Equity | 0.0 | 10.0 | 10.0 |
| Opportunity Portfolio | 0.0 | 3.0 | 0.0 |
| Total | | | <u>100.0 %</u> |

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

| <u>Asset Class</u> | <u>Target</u> | <u>Compound Annual Return (Geometric)</u> |
|-----------------------------------|---------------|---|
| Core Fixed Income | 7.20 % | 4.50 % |
| Short-Term Bonds | 8.00 | 3.70 |
| Intermediate-Term Bonds | 3.00 | 4.10 |
| High Yield Bonds | 1.80 | 6.66 |
| Large Cap US Equities | 11.65 | 7.20 |
| Mid Cap US Equities | 3.88 | 7.30 |
| Small Cap US Equities | 2.27 | 7.45 |
| Developed Foreign Equities | 14.21 | 6.90 |
| Emerging Foreign Equities | 5.49 | 7.40 |
| Private Equity | 20.00 | 8.26 |
| Opportunity Funds/Absolute Return | 5.00 | 6.01 |
| Real Estate (Property) | 13.75 | 6.51 |
| Real Estate (REITS) | 2.50 | 6.76 |
| Commodities | 7.71 | 6.07 |
| Assumed Inflation - Mean | | 2.75 |

CITY OF FALLS CITY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Long-Term Expected Rate of Return (Continued)

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

| | 1% Decrease (6.75%) | Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|--------------------------------------|--|--------------------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Proportionate share of the net pension liability | \$ 94,654 | \$ (44,697) | \$ (162,556) |

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City had an asset of \$44,697 for its proportionate share of the net pension asset. As the City utilizes the modified cash basis of accounting, this asset is not reported on the Statement of Net Position. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2012 and rolled forward to June 30, 2014. Therefore, these calculations did not reflect current year amounts paid. The City's proportion of the net pension asset was based on the City's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers.

Rates of every employer have at least two major components:

1. Normal Cost Rate: The economic value, stated as a percent of payroll, for the portion of each active member's total projected retirement benefit that is allocated to the upcoming year of service. The rate is in effect for as long as each member continues in OPERS-covered employment. The current value of all projected future Normal Cost contributions is the Present Value of Future Normal Costs (PVFNC). The PVFNC represents the portion of the projected long-term contribution effort related to future service.
2. UAL Rate: If system assets are less than the actuarial liability, an Unfunded Actuarial Liability (UAL) exists. UAL can arise in a biennium when an event such as experience differing from the assumptions used in the actuarial valuation occurs. An amortization schedule is established to eliminate the UAL that arises in a given biennium over a fixed period of time if future experience follows assumption. The UAL Rate is the upcoming year's component of the cumulative amortization schedules, stated as a percent of payroll. The present value of all projected UAL Rate contributions is simply the Unfunded Actuarial Liability (UAL) itself. The UAL represents the portion of the projected long-term contribution effort related to past service.
3. Looking at both rate components, the projected long-term contribution effort is just the sum of the PVFNC and the UAL. The PVFNC part of the contribution effort pays for the value of future service while the UAL part of the contribution effort pays for the value of past service not already funded by accumulated contributions and investment earnings.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The UAL has Tier 1/Tier 2 and OPSRP pieces. The Tier 1/Tier 2 piece is based on the employer's Tier 1/Tier 2 pooling arrangement. If an employer participates in one of the two large Tier 1/Tier 2 rate pools [State & Local Government Rate Pool (SLGRP) or School Districts Rate Pool], then the employer's Tier 1/Tier 2 UAL is just their pro-rata share of their pool's UAL. The pro-rata calculation is based on the employer's payroll in proportion to the pool's total payroll. For example, if the employer's payroll is one percent of the pool's total payroll, the employer will be allocated one percent of the pool's UAL. The OPSRP piece of the UAL follows a parallel pro-rata approach, as OPSRP experience is mandatorily pooled at a state-wide level. Employers that do not participate in a Tier 1/Tier 2 pooling arrangement, who are referred to as "Independent Employers", have their Tier 1/Tier 2 UAL tracked separately in the actuarial valuation. The division of the UAL across employers is shown graphically below.

An employer's PVFNC depends on both the normal cost rates charged on the employer's payrolls, and on the underlying demographics of the respective payrolls. For OPERS funding, employers have up to three different payrolls, each with a different normal cost rate: (1) Tier 1/Tier 2 payroll, (2) OPSRP general service payroll, and (3) OPSRP police and fire payroll.

The employer's Normal Cost Rates for each payroll are combined with system-wide present value factors for each payroll to develop an estimated PVFNC. The present value factors are actuarially determined at a system level for simplicity and to allow for the PVFNC calculations to be audited in a timely, cost-effective manner. Thus for each and every system employer, the PVFNC is calculated following the format in the table below.

Since many governments in Oregon have sold pension obligation bonds and deposited the proceeds with OPERS (referred to as side accounts or transitional liability or surplus), adjustments are required. After each employer's projected long-term contribution effort is calculated, that amount is reduced by the value of the employer's side account, transitional liability/surplus, and pre-SLGRP liability/surplus (if any). This is done as those balances increase/decrease the employer's projected long-term contribution effort because side accounts are effectively pre-paid contributions.

Looking at both rate components, the projected long-term contribution effort is just the sum of the PVFNC and UAL. The PVFNC part of the contribution effort pays for the value of future service while the UAL part of the contribution effort pays for the value of past service not already funded by accumulated contributions and investment earnings. Each of the two contribution effort components are calculated at the employer-specific level. The sum of these components across all employers is the total projected long-term contribution effort.

At June 30, 2015, the City's proportion was 0.00197191%.

For the year ended June 30, 2015, the City reported pension expense of \$21,831.

Changes in Plan Provisions Subsequent to Measurement Date

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. The City will make restoration payments to those benefit recipients.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Changes in Plan Provisions Subsequent to Measurement Date (Continued)

PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

This is a change in benefit terms subsequent to the measurement date of June 30, 2014, and will not be included in the net pension liability (asset) proportionate shares provided to employers in June 2015.

It is estimated that this change will increase overall PERS net pension liability by \$178 million.

Changes in Assumptions

A summary of key changes implemented since the December 31, 2011 valuation are described briefly below. Additional detail and a comprehensive list of changes in methods and assumptions can be found in the 2012 Experience Study for the System, which was published on September 18, 2013, and can be found at the PERS website: <http://www.oregon.gov/pers/docs/2012%20Exp%20Study%20Updated.pdf>

Changes in Actuarial Methods and Allocation Procedures

Actuarial Cost Method

The Actuarial Cost Method was changed from the Projected Unit Credit (PUC) Cost Method to the Entry Age Normal (EAN) Cost Method. This change will allow PERS to use the same cost method for contribution rate calculations as required for financial reporting under GASB Statements 67 and 68.

Tier 1/Tier 2 UAL Amortization

In combination with the change in cost method, the Board chose to re-amortize the outstanding Tier 1/Tier 2 UAL as of December 31, 2013 over a closed period of 20 years as a level percentage of projected payroll. Gains and losses between subsequent rate-setting valuations will be amortized over a closed 20 year period from the valuation in which they are first recognized.

Contribution Rate Stabilization Method

The “grade-in range” over which the rate collar gradually doubles was modified so that the collar doubles as funded status (excluding side accounts) decreases from 70% to 60% or increases from 130% to 140%. Previously the ranges had been 80% to 70% and 120% to 130%. The modification to the grade-in range was made in combination with the change to actuarial cost method, as discussed at the July 2013 PERS Board public meeting.

Allocation of Liability for Service Segments

For purposes of allocating Tier 1/Tier 2 member’s actuarial accrued liability among multiple employers, the valuation uses a weighted average of the Money Match methodology and the Full Formula methodology used by PERS when the member retires. The weights are determined based on the prevalence of each formula among the current Tier 1/Tier 2 population. For the December 31, 2010 and December 31, 2011 valuations, the Money Match was weighted 40 percent for General Service members and 10 percent for Police & Fire members. For the

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Allocation of Liability for Service Segments (Continued)

December 31, 2012 and December 31, 2013 valuations, this weighting has been adjusted to 30 percent for General Service members and 5 percent for Police & Fire members, based on a projection of the proportion of liability attributable to Money Match benefits at those valuation dates.

Changes in Economic Assumptions

Investment Return and Interest Crediting

The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.75%. Previously, the assumed investment return and interest crediting to regular account balances was 8.00% and the assumed interest crediting to variable account balances was 8.25%.

OPSRP Administrative Expenses

Assumed administrative expenses for the OPSRP System were reduced from \$6.6 million per year to \$5.5 million per year.

Healthcare Cost Inflation

The healthcare cost inflation for the maximum RHIPA subsidy was updated based on analysis performed by Milliman's healthcare actuaries. This analysis includes the consideration of the excise tax that will be introduced in 2018 by the Patient Protection and Affordable Care Act.

Changes in Demographic Assumptions

Healthy Mortality

The healthy mortality assumption is based on the RP2000 generational mortality tables with group-specific class and setback adjustments. The group-specific adjustments have been updated to more closely match recently observed system experience.

Disabled Mortality

The disabled mortality assumption base was changed from the RP2000 healthy tables to the RP2000 disabled tables. Gender-specific adjustments were applied to align the assumption with recently observed system experience.

Disability, Retirement from Active Status, and Termination

Rates for disability, retirement from active status, and termination were adjusted. Termination rates were changed from being indexed upon age to being indexed upon duration from hire date.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Changes in Salary Increase Assumptions

Merit Increases, Unused Sick Leave, and Vacation Pay

Unused Sick Leave and Vacation Pay rates were adjusted.

Retiree Healthcare Participation

The RHIA participation rate for healthy retirees was reduced from 48% to 45%. The RHIPA participation rate was changed from a uniform rate of 13% to a service-based table of rates. (Source: December 31, 2012 Actuarial Valuation p.89)

Defined Contribution Plan

OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

Participants in OPERS defined benefit pension plans also participate in their defined contribution plan. An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5, 10, 15, 20 year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Contributions

The City has chosen to pay the employees contributions to both plans. 6% of covered payroll is paid for general service employees and 6% of covered payroll is paid for firefighters and police officers.

Recordkeeping

PERS contracts with VOYA Financial to maintain IAP participant records

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

PENSION PLAN (Continued)

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY OF THE OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Last Two Fiscal Years¹

| | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|
| Proportion of the net pension liability (asset) | 0.00197191% | 0.00197191% |
| Proportionate share of the net pension liability (asset) | \$ (44,697) | \$ 100,629 |
| Covered-employee payroll | 185,078 | 166,561 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -24.15% | 60.42% |

CONTRIBUTIONS TO THE OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Last Two Fiscal Years¹

| | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|
| Contractually required contribution | \$ 21,831 | \$ 16,375 |
| Contributions in relation to the contractually required contribution | 21,831 | 16,375 |
| Contribution deficiency (excess) | - | - |
| City's covered-employee payroll | 185,078 | 166,561 |
| Contributions as a percentage of covered-employee payroll | 11.80% | 9.83% |

¹ Ten year trend information as required by GASB Statement No. 68 will be presented on a prospective basis.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

OVEREXPENDITURES OF APPROPRIATIONS

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

Expenditures in excess of appropriations in individual funds for the year ended June 30, 2015 occurred as follows:

| <i>Fund / Appropriation category</i> | <i>Budget</i> | <i>Actual</i> | <i>Variance</i> |
|--------------------------------------|---------------|---------------|-----------------|
| General | | | |
| Parks | \$ 10,600 | \$ 10,927 | \$ (327) |
| Other/Debt | 3,519 | 4,155 | (636) |
| Street | | | |
| Personal services | - | 1,423 | (1,423) |
| Wagner Reserve Library #71 | | | |
| Personal services | - | 605 | (605) |
| Water | | | |
| Personal services | 70,277 | 85,218 | (14,941) |
| Sewer Master | | | |
| Materials and services | - | 5,821 | (5,821) |
| Capital outlay | - | 1,500 | (1,500) |

INTERFUND TRANSACTIONS

Interfund transactions during the current fiscal year were as follows.

| | <i>Transfers in</i> | <i>Transfers out</i> |
|----------------------|---------------------|----------------------|
| General | \$ 67,136 | \$ - |
| Library Reserve Fund | - | 67,136 |
| | <u>\$ 67,136</u> | <u>\$ 67,136</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.

CONTINGENCIES

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

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

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2015

NEW 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 was implemented in the current year.

GASB Statement No. 69 “Government Combinations and Disposals of Government Operations.” The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The statement was implemented in the current year.

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 was implemented in the current year.

The City will implement applicable 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. 72 “Fair Value Measurement and Application” addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes, as well as guidance for applying fair value to certain investments, and disclosures related to all fair value measurements. The statement is effective for fiscal years beginning after June 15, 2015.

GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”, completes the suite of pension standards. The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. The statement is generally effective for fiscal years beginning after June 15, 2015.

GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. It requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. The statement is effective for fiscal years beginning after June 15, 2016.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 13, 2015, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

CITY OF FALLS CITY, OREGON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

| | <u>Special Revenue</u> | <u>Capital Projects</u> | |
|--|---------------------------------------|---|--------------|
| | <u>Wagner Reserve Library #72</u> | <u>Small Cities Allotment Grant</u> | <u>Total</u> |
| REVENUES | | | |
| Intergovernmental | \$ - | \$ 25,000 | \$ 25,000 |
| Miscellaneous | 6,064 | - | 6,064 |
| <i>Total Revenues</i> | 6,064 | 25,000 | 31,064 |
| EXPENDITURES | - | - | - |
| NET CHANGE IN FUND BALANCE | 6,064 | 25,000 | 31,064 |
| FUND BALANCE (Deficit), beginning of year | 28,571 | (25,000) | 3,571 |
| FUND BALANCE, end of year | \$ 34,635 | \$ - | \$ 34,635 |

CITY OF FALLS CITY, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2015

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Taxes and assessments | \$ 99,400 | \$ 99,400 | \$ 102,382 | \$ 2,982 |
| Licenses and permits | 51,700 | 51,700 | 57,568 | 5,868 |
| Charges for services | 100 | 100 | 157 | 57 |
| Intergovernmental | 143,006 | 143,006 | 105,477 | (37,529) |
| Fines and forfeitures | 200 | 200 | - | (200) |
| Miscellaneous | 3,055 | 3,055 | 13,661 | 10,606 |
| <i>Total Revenues</i> | 297,461 | 297,461 | 279,245 | (18,216) |
| EXPENDITURES | | | | |
| City Council | 1,150 | 1,150 | 558 | 592 |
| Library | 67,136 | 67,136 | 14,551 | 52,585 |
| Court | 16,020 | 16,020 | 3,500 | 12,520 |
| Fire | 186,316 | 186,316 | 117,664 | 68,652 |
| Parks | 10,600 | 10,600 | 10,927 | (327) |
| Administration | 217,851 | 217,851 | 194,604 | 23,247 |
| Other/Debt | 3,519 | 3,519 | 4,155 | (636) |
| Contingency | 17,853 | 17,853 | - | 17,853 |
| <i>Total Expenditures</i> | 520,445 | 520,445 | 345,959 | 174,486 |
| REVENUES OVER (UNDER) EXPENDITURES | (222,984) | (222,984) | (66,714) | 156,270 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 145,626 | 145,626 | 67,136 | (78,490) |
| Transfers out | (27,642) | (27,642) | - | 27,642 |
| <i>Total Other Financing Sources and Uses</i> | 117,984 | 117,984 | 67,136 | (50,848) |
| NET CHANGE IN FUND BALANCE | (105,000) | (105,000) | 422 | 105,422 |
| FUND BALANCE, beginning of year | 105,000 | 105,000 | 160,709 | 55,709 |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 161,131 | \$ 161,131 |

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, 2015**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|-----------------|------------------|------------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Intergovernmental | \$ 52,500 | \$ 52,500 | \$ 54,028 | \$ 1,528 |
| EXPENDITURES | | | | |
| Personal services | - | - | 1,423 | (1,423) |
| Materials and services | 47,511 | 47,511 | 28,233 | 19,278 |
| Capital outlay | 13,000 | 13,000 | 13 | 12,987 |
| Contingency | 26,396 | 26,396 | - | 26,396 |
| <i>Total Expenditures</i> | <u>86,907</u> | <u>86,907</u> | <u>29,669</u> | <u>57,238</u> |
| REVENUES OVER (UNDER) EXPENDITURES | (34,407) | (34,407) | 24,359 | 58,766 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | <u>(26,837)</u> | <u>(26,837)</u> | - | 26,837 |
| NET CHANGE IN FUND BALANCE | (61,244) | (61,244) | 24,359 | 85,603 |
| FUND BALANCE, beginning of year | <u>61,244</u> | <u>61,244</u> | <u>13,905</u> | <u>(47,339)</u> |
| FUND BALANCE, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 38,264</u> | <u>\$ 38,264</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, 2015

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|--|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Miscellaneous | \$ 27,500 | \$ 27,500 | \$ 24,570 | \$ (2,930) |
| EXPENDITURES | | | | |
| Materials and services | 105,364 | 105,364 | 4,095 | 101,269 |
| NET CHANGE IN FUND BALANCE | (77,864) | (77,864) | 20,475 | 98,339 |
| FUND BALANCE, beginning of year | 77,864 | 77,864 | 58,070 | (19,794) |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 78,545 | \$ 78,545 |

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, 2015

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Miscellaneous | \$ - | \$ - | \$ 24,256 | \$ 24,256 |
| EXPENDITURES | | | | |
| Personal services | - | - | 605 | (605) |
| Contingency | 123,134 | 123,134 | - | 123,134 |
| <i>Total Expenditures</i> | 123,134 | 123,134 | 605 | 122,529 |
| REVENUES OVER (UNDER) EXPENDITURES | (123,134) | (123,134) | 23,651 | 146,785 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (67,136) | (67,136) | (67,136) | - |
| NET CHANGE IN FUND BALANCE | (190,270) | (190,270) | (43,485) | 146,785 |
| FUND BALANCE, beginning of year | 190,270 | 190,270 | 168,258 | (22,012) |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 124,773 | \$ 124,773 |

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, 2015

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|--|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Miscellaneous | \$ - | \$ - | \$ 6,064 | \$ 6,064 |
| EXPENDITURES | | | | |
| Materials and services | 26,575 | 26,575 | - | 26,575 |
| NET CHANGE IN FUND BALANCE | (26,575) | (26,575) | 6,064 | 32,639 |
| FUND BALANCE, beginning of year | 26,575 | 26,575 | 28,571 | 1,996 |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 34,635 | \$ 34,635 |

CITY OF FALLS CITY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

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

YEAR ENDED JUNE 30, 2015

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

CITY OF FALLS CITY, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - SEWER FUND****YEAR ENDED JUNE 30, 2015**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|----------------|------------------|------------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Charges for services | \$ 103,500 | \$ 103,500 | \$ 111,108 | \$ 7,608 |
| EXPENDITURES | | | | |
| Personal services | 65,000 | 65,000 | 61,199 | 3,801 |
| Materials and services | 58,230 | 58,230 | 40,703 | 17,527 |
| Capital outlay | 2,094 | 2,094 | - | 2,094 |
| Contingency | 13,424 | 13,424 | - | 13,424 |
| <i>Total Expenditures</i> | <u>138,748</u> | <u>138,748</u> | <u>101,902</u> | <u>36,846</u> |
| REVENUES OVER (UNDER) EXPENDITURES | (35,248) | (35,248) | 9,206 | 44,454 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 49,209 | 49,209 | - | (49,209) |
| Transfers out | (38,461) | (38,461) | - | 38,461 |
| <i>Total Other Financing Sources and Uses</i> | <u>10,748</u> | <u>10,748</u> | <u>-</u> | <u>(10,748)</u> |
| CHANGE IN FUND BALANCE | (24,500) | (24,500) | 9,206 | 33,706 |
| FUND BALANCE, beginning of year | <u>24,500</u> | <u>24,500</u> | <u>61,389</u> | <u>36,889</u> |
| FUND BALANCE, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 70,595</u> | <u>\$ 70,595</u> |

CITY OF FALLS CITY, OREGON**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - WATER FUND****YEAR ENDED JUNE 30, 2015**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|---|-----------------------|------------------|-------------------|-------------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Charges for services | \$ 264,450 | \$ 264,450 | \$ 276,591 | \$ 12,141 |
| EXPENDITURES | | | | |
| Personal services | 70,277 | 70,277 | 85,218 | (14,941) |
| Materials and services | 79,740 | 79,740 | 52,152 | 27,588 |
| Debt service | | | | |
| Principal | 20,860 | 20,860 | 20,860 | - |
| Interest | 44,613 | 44,613 | 44,613 | - |
| Capital outlay | 15,437 | 15,437 | - | 15,437 |
| Contingency | 32,477 | 32,477 | - | 32,477 |
| <i>Total Expenditures</i> | <u>263,404</u> | <u>263,404</u> | <u>202,843</u> | <u>60,561</u> |
| REVENUES OVER (UNDER) EXPENDITURES | 1,046 | 1,046 | 73,748 | 72,702 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 38,650 | 38,650 | - | (38,650) |
| Transfers out | (70,923) | (70,923) | - | 70,923 |
| <i>Total Other Financing Sources and Uses</i> | <u>(32,273)</u> | <u>(32,273)</u> | <u>-</u> | <u>32,273</u> |
| CHANGE IN FUND BALANCE | (31,227) | (31,227) | 73,748 | 104,975 |
| FUND BALANCE, beginning of year | <u>96,700</u> | <u>96,700</u> | <u>133,669</u> | <u>36,969</u> |
| FUND BALANCE, end of year | <u>\$ 65,473</u> | <u>\$ 65,473</u> | <u>\$ 207,417</u> | <u>\$ 141,944</u> |

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, 2015**

| | <i>Budget Amounts</i> | | <i>Actual</i> | <i>Variance</i> |
|--|-----------------------|--------------|---------------|-----------------|
| | <i>Original</i> | <i>Final</i> | | |
| REVENUES | | | | |
| Charges for services | \$ 35,950 | \$ 35,950 | \$ 36,995 | \$ 1,045 |
| EXPENDITURES | | | | |
| Capital outlay | 100,000 | 100,000 | 1,919 | 98,081 |
| Contingency | 210,950 | 210,950 | - | 210,950 |
| <i>Total Expenditures</i> | 310,950 | 310,950 | 1,919 | 309,031 |
| CHANGE IN FUND BALANCE | (275,000) | (275,000) | 35,076 | 310,076 |
| FUND BALANCE, beginning of year | 275,000 | 275,000 | 269,069 | (5,931) |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 304,145 | \$ 304,145 |

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, 2015**

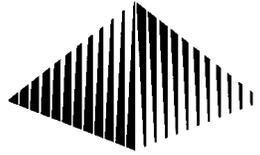
| | <u>Budget Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|--|-----------------------|--------------|---------------|-----------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | \$ - | \$ - | \$ - | \$ - |
| EXPENDITURES | | | | |
| Materials and services | - | - | 5,821 | (5,821) |
| Capital outlay | - | - | 1,500 | (1,500) |
| <i>Total Expenditures</i> | - | - | 7,321 | (7,321) |
| CHANGE IN FUND BALANCE | - | - | (7,321) | (7,321) |
| FUND BALANCE, beginning of year | - | - | 7,322 | 7,322 |
| FUND BALANCE, end of year | \$ - | \$ - | \$ 1 | \$ 1 |

OTHER SCHEDULES

CITY OF FALLS CITY, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2015

| <u>Tax Year</u> | <u>Uncollected Balances July 1, 2014</u> | <u>2014-2015 Levy</u> | <u>Added To Rolls</u> | <u>Interest, Discounts & Adjustments</u> | <u>Turnovers</u> | <u>Uncollected Balances June 30, 2015</u> |
|-----------------|--|---------------------------|---------------------------|--|---------------------|---|
| 2014-2015 | \$ - | \$ 103,529 | \$ 10 | \$ (2,807) | \$ (97,795) | \$ 2,937 |
| 2013-2014 | 3,372 | - | 14 | (15) | (1,718) | 1,653 |
| 2012-2013 | 2,060 | - | - | (6) | (860) | 1,194 |
| 2011-2012 | 1,502 | - | - | (4) | (762) | 736 |
| 2010-2011 | 833 | - | - | (4) | (486) | 343 |
| 2009-2010 | 379 | - | - | (1) | (82) | 296 |
| 2008-2009 | 42 | - | - | (1) | (15) | 26 |
| Prior Years | 141 | - | - | (15) | (5) | 121 |
| Total | <u>\$ 8,329</u> | <u>\$ 103,529</u> | <u>\$ 24</u> | <u>\$ (2,853)</u> | <u>\$ (101,723)</u> | <u>\$ 7,306</u> |

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, 2015, and have issued our report thereon dated November 13, 2015.

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 fire truck loan was not included in the summary of indebtedness on the LB-1.
2. 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 Wagner Library Reserve funds.
3. Overexpenditures of appropriations as noted in the notes to the basic financial statements.

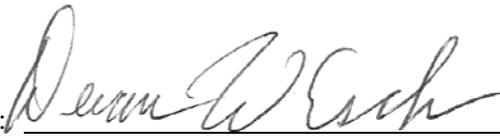
Internal Control over Financial Reporting

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.

Restriction on Use

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

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

By: 

Devan W. Esch, A Shareholder
November 13, 2015