

***CITY OF FALLS CITY
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013***

CITY OF FALLS CITY, OREGON
CITY OFFICIALS
JUNE 30, 2013

<u><i>Name</i></u>	<u><i>Term Expires</i></u>
<i>Mayor</i>	
Amy Houghtaling 137 Carey Court Falls City, Oregon 97344	December 31, 2014
<i>Council</i>	
John Volkmann, President 521 Hopkins St. Falls City, Oregon 97344	December 31, 2014
Julee Bishop 540 Hopkins Rd. Falls City, Oregon 97344	December 31, 2014
Lori Jean Sickles P.O. Box 81 Falls City, Oregon 97344	December 31, 2014
Barbara Spencer 750 Hopkins Street Falls City, Oregon 97344	December 31, 2014
Alyssa Reynolds 343 Bridge Street Falls City, Oregon 97344	December 31, 2016
Terry Ungricht 635 Chamberlain Road Falls City, Oregon 97344	December 31, 2016
<i>City Staff</i>	
Amber Mathiesen, City Administrator Domenica Protheroe, City Clerk Don Poe, Public Works Lead Worker Karl Wagner, Public Works Worker	

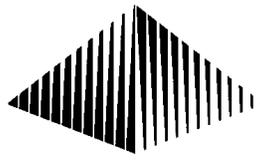
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FINANCIAL SECTION



GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falls City, Oregon, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the modified cash basis 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, 2013, 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 summary of significant accounting policies in the notes to the financial statements.

Other Matters

Report on Supplemental and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the City's basic financial statements. The supplemental information and management's discussion and analysis are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information as listed in the table of contents is the responsibility of management and was 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 such information.

Basis of Accounting

We draw attention to the notes of the financial statements that describes the basis of accounting. The financial statements are prepared 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. Our opinions are not modified with respect to this matter.

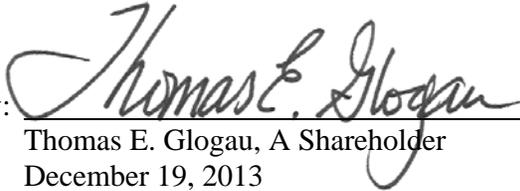
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 19, 2013, on our consideration of the City's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

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

By: 
Thomas E. Glogau, A Shareholder
December 19, 2013

CITY OF FALLS CITY, OREGON
 Management's Discussion and Analysis
 June 30, 2013

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, 2013.

Financial Highlights

	June 30,		change
	2013	2012	
Net position	\$ 932,420	\$ 824,862	\$ 107,558
Change in net position	107,558	(45,772)	153,330
Governmental net position	531,857	494,715	37,142
Proprietary net position	400,563	330,147	70,416
Change in governmental net position	37,142	(46,582)	83,724
Change in proprietary net position	70,416	810	69,606

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, administration, city hall, legal, parks, streets and code enforcement. 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 *other 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,

	2013			2012		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 533,824	\$ 400,563	\$ 934,387	\$ 495,080	\$ 330,147	\$ 825,227
Liabilities	1,967	-	1,967	365	-	365
Net position:						
Restricted	131,709	65,473	197,182	119,291	72,370	191,661
Unrestricted	400,148	335,090	735,238	375,424	257,777	633,201
Total Net Position	\$ 531,857	\$ 400,563	\$ 932,420	\$ 494,715	\$ 330,147	\$ 824,862

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 \$932,420 as of June 30, 2013. Overall, the financial position of the governmental funds and the financial position of the business-type funds 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,

	2013			2012		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues						
Program revenues						
Charges for service	\$ 36,709	\$ 365,279	\$ 401,988	\$ 40,882	\$ 350,195	\$ 391,077
Operating grants	77,727	32,346	110,073	76,235	62,982	139,217
General revenues						
Property taxes	103,709	4,666	108,375	100,837	6,380	107,217
Franchise taxes	50,638	-	50,638	52,643	-	52,643
Intergovernmental	22,389	-	22,389	21,159	-	21,159
Miscellaneous	9,383	444	9,827	11,067	251	11,318
<i>Total revenues</i>	<u>300,555</u>	<u>402,735</u>	<u>703,290</u>	<u>302,823</u>	<u>419,808</u>	<u>722,631</u>
Expenses						
General government	125,608	-	125,608	125,990	-	125,990
Community service	7,700	-	7,700	92,905	-	92,905
Cemetery	2,791	-	2,791	3,369	-	3,369
Fire service	46,760	-	46,760	46,677	-	46,677
Parks	10,148	-	10,148	15,860	-	15,860
Street	70,406	-	70,406	69,104	-	69,104
Water	-	201,863	201,863	-	228,258	228,258
Sewer	-	130,456	130,456	-	186,240	186,240
<i>Total expenses</i>	<u>263,413</u>	<u>332,319</u>	<u>595,732</u>	<u>353,905</u>	<u>414,498</u>	<u>768,403</u>
Transfers	-	-	-	4,500	(4,500)	-
Change in net position	37,142	70,416	107,558	(46,582)	810	(45,772)
Net position, beginning of year	494,715	330,147	824,862	541,297	329,337	870,634
Net position, end of year	<u>\$ 531,857</u>	<u>\$ 400,563</u>	<u>\$ 932,420</u>	<u>\$ 494,715</u>	<u>\$ 330,147</u>	<u>\$ 824,862</u>

Statement of Activities (Modified Cash Basis). The key elements of the change in the City's net position for the year ended June 30, 2013 are as follows:

Operating grants and contributions	\$ (29,144)
Community services expenses	(85,205)
Water expenses	(26,395)
Sewer expenses	(55,784)

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 several transfers of appropriations within the General Fund budget during the year.

Significant Fund Transactions

As detailed in the notes to the financial statements, the City follows the provisions of GASB Statement #54 Fund Balance Reporting and Governmental Fund Types 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 Municipal Court fund and Cemetery fund have been combined with the General fund.

Major Governmental Funds:

- **General:** The General fund had a decrease in fund balance of \$4,882 during the year, which is primarily due to decreases in property taxes and intergovernmental revenues and increases in transfers out.
- **Street:** The Street fund had an increase in fund balance of \$11,354 during the year. Revenues are from gas tax turnovers and fund transfers. The expenditures decreased from the prior year.
- **Wagner Reserve Library #71:** The Wagner Reserve Library #71 fund had an increase in fund balance of \$784 during the year. The fund revenues are from interest earned on the Wagner trust account. In the current year there were only minor expenditures.
- **Community Development Revolving Loan:** The Community Development Revolving Loan fund had an increase in fund balance of \$22,520 during the year. The revenues are from loan repayments (principal and interest). Expenditures were due to loans, loan servicing fees, legal and miscellaneous expenses.

Major Proprietary Funds:

- **Water:** The Water fund had a decrease in net position of \$15,693 during the year. Revenues are from charges for services and expenses are for personnel, materials and services, and a transfer to the Water Debt Service fund. There were no capital outlay expenditures in the current year.
- **Water Debt Service:** The Water Debt Service fund expenses are to cover debt service and revenues consist of fund transfers from the Water fund.
- **Sewer:** The Sewer fund had a decrease in net position of \$1,981 during the year. Revenues are from charges for services and expenses are for personnel and materials and services. There were no capital outlay expenditures in the current year.
- **Sewer Debt Service:** The Sewer Debt Service fund had a decrease in net position of \$6,228 during the year. The revenues are from property tax and expenses are to cover debt service.
- **City Utility Reserve:** The City Utility Reserve fund had an increase in net position of \$24,711 during the year. Revenues are from the Utility Capital Improvement fee and expenses are for capital outlay.

Debt Administration

Long-term debt: The City had total revenue-backed bonded debt outstanding of \$1,011,365 at the end of the current fiscal year, a fire truck loan of \$25,000 and a Polk County Community Development Loan of \$59,268 outstanding.

The City's total debt decreased by \$32,199 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.

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. The City had no outstanding general obligation debt.

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 2013-14 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, 2013

	<u><i>Governmental Activities</i></u>	<u><i>Business-type Activities</i></u>	<u><i>Totals</i></u>
ASSETS			
Cash and cash equivalents	\$ 533,824	\$ 400,563	\$ 934,387
LIABILITIES			
Payroll withholdings	1,967	-	1,967
NET POSITION			
Restricted for:			
Debt service	-	65,473	65,473
Streets	24,721	-	24,721
Community development	106,988	-	106,988
Unrestricted	400,148	335,090	735,238
 <i>Total Net Position</i>	 <u>\$ 531,857</u>	 <u>\$ 400,563</u>	 <u>\$ 932,420</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, 2013

FUNCTIONS/PROGRAMS	Expenses	Program Revenues	
		Fees, Fines and Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 125,608	\$ 6,346	\$ -
Community service	7,700	25,962	3,918
Cemetery	2,791	-	-
Fire service	46,760	4,306	-
Parks	10,148	95	-
Street	70,406	-	73,809
<i>Total Governmental activities</i>	263,413	36,709	77,727
Business-type activities:			
Water	201,863	225,239	32,346
Sewer	130,456	140,040	-
<i>Total Business-type activities</i>	332,319	365,279	32,346
<i>Total Activities</i>	<u>\$ 595,732</u>	<u>\$ 401,988</u>	<u>\$ 110,073</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>
\$ (119,262)	\$ -	\$ (119,262)
22,180	-	22,180
(2,791)	-	(2,791)
(42,454)	-	(42,454)
(10,053)	-	(10,053)
3,403	-	3,403
(148,977)	-	(148,977)
-	55,722	55,722
-	9,584	9,584
-	65,306	65,306
(148,977)	65,306	(83,671)
103,709	4,666	108,375
50,638	-	50,638
22,389	-	22,389
9,383	444	9,827
186,119	5,110	191,229
37,142	70,416	107,558
494,715	330,147	824,862
<u>\$ 531,857</u>	<u>\$ 400,563</u>	<u>\$ 932,420</u>

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, 2013

	<u>General</u>	<u>Street Fund</u>	<u>Special Community Development Revolving Loan Fund</u>
ASSETS			
Cash and cash equivalents	\$ 138,385	\$ 24,721	\$ 225,864
LIABILITIES AND FUND BALANCE			
Liabilities:			
Payroll withholdings	\$ 1,967	\$ -	\$ -
Fund Balance:			
Restricted for:			
Community development	-	-	-
Streets	-	24,721	-
Committed to:			
Community development	7,656	-	225,864
Code enforcement/court	13,424	-	-
Capital outlay	-	-	-
General government	-	-	-
Unassigned	115,338	-	-
<i>Total Fund Balance</i>	136,418	24,721	225,864
<i>Total Liabilities and Fund Balance</i>	\$ 138,385	\$ 24,721	\$ 225,864

Revenue

<i>Wagner Reserve Library #71</i>	<i>Other Governmental Funds</i>	<i>Total</i>
\$ 96,385	\$ 48,469	\$ 533,824
\$ -	\$ -	\$ 1,967
96,385	10,603	106,988
-	-	24,721
-	-	233,520
-	-	13,424
-	28,125	28,125
-	9,741	9,741
-	-	115,338
96,385	48,469	531,857
\$ 96,385	\$ 48,469	\$ 533,824

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, 2013**

			<i>Special</i>
	<i>General Fund</i>	<i>Street Fund</i>	<i>Community Development Revolving Loan Fund</i>
REVENUES			
Taxes and assessments	\$ 103,709	\$ -	\$ -
Licenses and permits	54,618	-	-
Charges for services	505	-	-
Intergovernmental	20,687	51,616	-
Miscellaneous	7,478	151	25,963
	<hr/>	<hr/>	<hr/>
<i>Total Revenues</i>	186,997	51,767	25,963
EXPENDITURES			
Current			
General government	125,608	-	-
Community service	-	-	3,443
Cemetary	2,791	-	-
Fire service	45,532	-	-
Parks	10,148	-	-
Street	-	48,213	-
Capital outlay	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Expenditures</i>	184,079	48,213	3,443
REVENUES OVER (UNDER) EXPENDITURES			
	2,918	3,554	22,520
OTHER FINANCING SOURCES (USES)			
Transfers in	-	7,800	-
Transfers out	(7,800)	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Other Financing Sources (Uses)</i>	(7,800)	7,800	-
NET CHANGE IN FUND BALANCE			
	(4,882)	11,354	22,520
FUND BALANCE, beginning of year			
	141,300	13,367	203,344
	<hr/>	<hr/>	<hr/>
FUND BALANCE, end of year			
	\$ 136,418	\$ 24,721	\$ 225,864
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Revenue

<i>Wagner Reserve Library #71</i>	<i>Other Governmental Funds</i>	<i>Total</i>
\$ -	\$ -	\$ 103,709
-	-	54,618
-	-	505
-	34,425	106,728
1,122	281	34,995
<hr/>	<hr/>	<hr/>
1,122	34,706	300,555
<hr/>	<hr/>	<hr/>
-	-	125,608
338	3,919	7,700
-	-	2,791
-	-	45,532
-	-	10,148
-	22,193	70,406
-	1,228	1,228
<hr/>	<hr/>	<hr/>
338	27,340	263,413
<hr/>	<hr/>	<hr/>
784	7,366	37,142
-	-	7,800
-	-	(7,800)
<hr/>	<hr/>	<hr/>
-	-	-
<hr/>	<hr/>	<hr/>
784	7,366	37,142
95,601	41,103	494,715
<hr/>	<hr/>	<hr/>
\$ 96,385	\$ 48,469	\$ 531,857
<hr/>	<hr/>	<hr/>

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

CITY OF FALLS CITY, OREGON

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

JUNE 30, 2013

	<u>Sewer</u>	<u>Sewer Debt</u>	<u>Water</u>
ASSETS			
Cash and cash equivalents	\$ 38,227	\$ -	\$ 38,441
Due from other funds	214	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	38,441	-	38,441
 LIABILITIES			
Due to other funds	-	214	-
	<hr/>	<hr/>	<hr/>
NET POSITION:			
Restricted for:			
Debt service	-	-	-
Unrestricted	38,441	(214)	38,441
	<hr/>	<hr/>	<hr/>
<i>Total Net Position</i>	\$ 38,441	\$ (214)	\$ 38,441
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

<i>Water Debt Sevice</i>	<i>City Utility Reserve</i>	<i>Sewer Master Plan</i>	<i>Total</i>
\$ 65,473	\$ 253,330	\$ 5,092	\$ 400,563
-	-	-	214
65,473	253,330	5,092	400,777
-	-	-	214
65,473	-	-	65,473
-	253,330	5,092	335,090
\$ 65,473	\$ 253,330	\$ 5,092	\$ 400,563

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

CITY OF FALLS CITY, OREGON**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (MODIFIED CASH BASIS) -
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013**

	<u>Sewer</u>	<u>Sewer Debt</u>	<u>Water</u>
OPERATING REVENUES			
Charges for services	\$ 97,101	\$ -	\$ 225,239
Miscellaneous	-	-	377
<i>Total Operating Revenues</i>	97,101	-	225,616
OPERATING EXPENSES			
Personal services	47,955	-	87,719
Materials and services	43,469	-	48,671
<i>Total Operating Expenses</i>	91,424	-	136,390
OPERATING INCOME	5,677	-	89,226
NONOPERATING REVENUES (EXPENSES)			
Noncapital Financing Revenues (Expenses)			
Transfers in	-	-	-
Transfers out	-	-	(65,473)
Taxes and assessments	-	4,666	-
<i>Total Noncapital Financing Revenues (Expenses)</i>	-	4,666	(65,473)
Capital Financing Revenues (Expenses)			
Intergovernmental	-	-	-
Debt service			
Principal	-	(11,379)	-
Interest	-	(398)	-
<i>Total Capital Financing Revenues (Expenses)</i>	-	(11,777)	-
Investing Revenues			
Interest revenue	57	-	-
<i>Total Nonoperating Revenues (Expenses)</i>	57	(7,111)	(65,473)
CHANGE IN NET POSITION	5,734	(7,111)	23,753
NET POSITION, beginning of year	32,707	6,897	14,688
NET POSITION, end of year	\$ 38,441	\$ (214)	\$ 38,441

<i>Water Debt Sevice</i>	<i>City Utility Reserve</i>	<i>Sewer Master Plan</i>	<i>Total</i>
\$ -	\$ 42,939	\$ -	\$ 365,279
-	-	-	377
-	42,939	-	365,656
-	-	-	135,674
-	-	27,255	119,395
-	-	27,255	255,069
-	42,939	(27,255)	110,587
65,473	-	-	65,473
-	-	-	(65,473)
-	-	-	4,666
65,473	-	-	4,666
-	-	32,346	32,346
(21,799)	-	-	(33,178)
(43,674)	-	-	(44,072)
(65,473)	-	32,346	(44,904)
-	10	-	67
-	10	32,346	(40,171)
-	42,949	5,091	70,416
65,473	210,381	1	330,147
\$ 65,473	\$ 253,330	\$ 5,092	\$ 400,563

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, 2013

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, 2013

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 the loan repayments received for the rehabilitation housing loans through West Valley Housing Authority.

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.

State Revenue Sharing

This fund accounts for state shared revenues.

FEMA Grant Fund

This fund accounts for revenues and expenditures related to the FEMA grant.

Wagner Reserve Library #72 Fund

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Municipal Court

This fund is used to account for activity in the City's municipal court.

Cemetery Care

Operations of the City's cemetery are accounted for in this fund.

The City reports the following nonmajor governmental capital projects funds.

Equipment Fund

This fund accounts for money set aside for equipment purchases.

Heritage Grant Fund

This fund accounts for money received for City heritage capital projects.

The City reports each 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:

Sewer

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

Sewer Debt Service

This fund accounts for debt service reserve as required by USDA.

Water

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

Water Debt Service

This fund accounts for debt service reserve as required by USDA.

City Utility Reserve

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

Sewer Master Plan

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

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

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

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

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

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

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

Definitions of Governmental Fund Types

The General Fund is used to account for all financial resources not accounted for in another fund. In addition, certain Special Revenue Funds are reported as part of the General Fund because their source of funds is primarily transfers from the General Fund.

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

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

Debt Service Funds are utilized to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

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

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

Cash and Cash Equivalents

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

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

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

Investments are stated at cost, which approximates fair value.

Property Taxes

Property taxes are levied by the County Assessor and collected by the County Tax Collector. The taxes are levied and become a lien as of July 1. They may be paid in three installments payable in equal payments due November 15, February 15, and May 15. Uncollected property taxes levied for the current year are recorded as receivable at year-end. 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.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013 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, 2013. Actual results may differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following at June 30, 2013:

	<i>Carrying Value</i>	<i>Fair Value</i>
	<u> </u>	<u> </u>
Cash		
Cash on hand	\$ 350	\$ 350
Deposits with financial institutions	27,989	27,989
Cash held by fiscal agents	225,864	225,864
Investments		
Local Government Investment Pool	680,184	680,184
	<u>\$ 934,387</u>	<u>\$ 934,387</u>

Deposits

The book balance of the City's bank deposits (checking accounts) was \$27,989 and the bank balance was \$41,166 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.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2013

CASH AND CASH EQUIVALENTS (Continued)

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, 2013, 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, 2013, the fair value of the position in the Oregon State Treasurer's Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

Interest Rate Risk

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

Custodial Risk - Investments

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

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.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2013

CASH AND CASH EQUIVALENTS (Continued)

Custodial Risk – Investments (Continued)

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

Cash Held by Fiscal Agents

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

LONG-TERM DEBT

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

	<u>Outstanding July 1, 2012</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2013</u>	<u>Due Within One Year</u>
<i>Governmental activities</i>					
Fire truck loan, semiannual interest payments at 3.0% to 4.5% and irregular principal payments per schedule	\$ 25,000	\$ -	\$ -	\$ 25,000	\$ 5,000
Polk County Community Development, original amount \$65,000, interest rate 1.0%	61,141	-	(1,873)	59,268	1,925
	<u>\$ 86,141</u>	<u>\$ -</u>	<u>\$ (1,873)</u>	<u>\$ 84,268</u>	<u>\$ 6,925</u>
	<u>Outstanding July 1, 2012</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2013</u>	<u>Due Within One Year</u>
<i>Business-type activities</i>					
Sewer System Bonds, original amount \$76,000, issued July 20, 1993, interest rate 5.25%	\$ 11,224	\$ -	\$ (11,224)	\$ -	\$ -
Revenue Bonds, original amount \$1,204,650, issued May 25, 2003 interest rate 4.5%	1,030,467	-	(19,102)	1,011,365	19,962
	<u>\$ 1,041,691</u>	<u>\$ -</u>	<u>\$ (30,326)</u>	<u>\$ 1,011,365</u>	<u>\$ 19,962</u>

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2013

LONG-TERM DEBT (Continued)

Future debt service requirements are as follows:

Governmental Activities

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2014	\$ 6,925	\$ 1,666	\$ 8,592
2015	6,944	1,450	8,395
2016	6,962	1,231	8,194
2017	6,984	985	7,969
2018	7,003	740	7,744
2019-2023	10,320	2,273	12,593
2024-2028	10,846	1,747	12,593
2029-2033	11,401	1,193	12,593
2034-2038	11,982	611	12,593
2039-2040	4,900	75	4,975
	\$ 84,268	\$ 11,971	\$ 96,239

Business-type Activities

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2014	\$ 19,962	\$ 45,511	\$ 65,473
2015	20,860	44,613	65,473
2016	21,799	43,674	65,473
2017	22,779	42,694	65,473
2018	23,805	41,668	65,473
2019-2023	136,088	191,277	327,365
2024-2028	169,591	157,774	327,365
2029-2033	211,341	116,024	327,365
2034-2038	263,370	63,995	327,365
2039-2040	121,770	8,260	130,030
	\$ 1,011,365	\$ 755,490	\$ 1,766,855

CITY OF FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2013

PENSION PLAN

Plan Description

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

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

Funding Policy

Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The City is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate and a police/fire rate for the qualifying employees under the OPSRP plan. The OPERF and the OPSRP rates in effect for the year ended June 30, 2013 were 8.44%, 6.50%, and 9.21%, respectively. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual Pension Cost

The City's contributions to PERS for the years ending June 30, 2013, 2012, and 2011 were \$12,014, \$11,600, and \$4,543, respectively, which equaled the required contribution for the year.

JACOB AND AMILIA WAGNER LIBRARY TRUST FUNDS

The City is the beneficiary of a trust established by Jacob and Amilia Wagner. Under the terms of the trust, as modified by court order, twenty percent of the investment income from the trust fund turned over to the City is allocated by the City for future expansion of the library and the remaining funds are used annually for purchase of contemporary and historic publications on the subject of art, politics, and political science. Wells Fargo Bank of San Francisco, California is the trustee. The principal amount of the trust is \$50,000 with a current value of \$116,442 at year end. The principal of the trust is not included in the City's financial statements.

CITY OF FALLS CITY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2013

OVEREXPENDITURES OF APPROPRIATIONS AND DEFICIT FUND BALANCES

Oregon law prohibits expenditures of a fund in excess of Council approved appropriations. The City Council approves appropriations by department for the General Fund and by major object class (personnel 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, 2013 occurred as follows:

<u>Fund / Appropriation category</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Sewer Debt			
Debt service			
Principal	\$ 6,987	\$ 11,379	\$ (4,392)

At June 30, 2013 the following funds had deficit fund balances in the amounts indicated.

Sewer Debt Service	\$ (214)
--------------------	----------

INTERFUND TRANSACTIONS

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

	<u>Transfers in</u>	<u>Transfers out</u>
General	\$ -	\$ 7,800
Street	7,800	-
Water	-	65,473
Water Debt Service	65,473	-
	<u>\$ 73,273</u>	<u>\$ 73,273</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.

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

NEW PRONOUNCEMENTS

GASB Statement No. 61 “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34.” This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government. The statement was implemented in the current year.

GASB Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.” The objective of this Statement is to incorporate into GASB's authoritative literature certain accounting and financial reporting guidance that were issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The statement was implemented in the current year.

GASB Statement No. 63 “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” The statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The statement was implemented in the current year.

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

GASB Statement No. 65 “Items Previously Reported as Assets and Liabilities.” The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The statement is effective for fiscal years beginning after December 15, 2012.

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

GASB Statement No. 69 “Government Combinations and Disposals of Government Operations.” The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The statement is effective for fiscal years beginning after December 15, 2013.

GASB Statement No. 70 “Accounting and Financial Reporting for Nonexchange Financial Guarantees.” The objective of the statement is to improve accounting and financial reporting by State and local governments that extend and receive nonexchange financial guarantees. The statement is effective for fiscal years beginning after June 15, 2013.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 19, 2013, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

CITY OF FALLS CITY, OREGON
RECONCILIATION OF BUDGETARY FUNDS TO REPORTING FUNDS - GENERAL FUND
BALANCE SHEET (MODIFIED CASH BASIS)
JUNE 30, 2013

	<i>Budgetary funds</i>			<i>Total (reported as General Fund)</i>
	<i>General Fund</i>	<i>Cemetery</i>	<i>Municipal Court</i>	
ASSETS				
Cash and cash equivalents	\$ 117,305	\$ 7,656	\$ 13,424	\$ 138,385
LIABILITIES AND FUND BALANCE				
Liabilities:				
Payroll withholdings	\$ 1,967	\$ -	\$ -	\$ 1,967
Fund Balance:				
Committed to:				
Community development	-	7,656	-	7,656
Code enforcement/court	-	-	13,424	13,424
Unassigned	115,338	-	-	115,338
<i>Total Fund Balance</i>	115,338	7,656	13,424	136,418
<i>Total Liabilities and Fund Balance</i>	\$ 117,305	\$ 7,656	\$ 13,424	\$ 138,385

CITY OF FALLS CITY, OREGON

RECONCILIATION OF BUDGETARY FUNDS TO REPORTING FUNDS - GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

JUNE 30, 2013

	<i>Budgetary funds</i>			<i>Total (reported as General Fund)</i>
	<i>General Fund</i>	<i>Cemetery</i>	<i>Municipal Court</i>	
REVENUES				
Taxes and assessments	\$ 103,709	\$ -	\$ -	\$ 103,709
Licenses and permits	54,618	-	-	54,618
Charges for services	505	-	-	505
Intergovernmental	20,687	-	-	20,687
Miscellaneous	7,478	-	-	7,478
<i>Total Revenues</i>	<u>186,997</u>	<u>-</u>	<u>-</u>	<u>186,997</u>
EXPENDITURES				
Current				
General government	119,481	-	6,127	125,608
Cemetery	-	2,791	-	2,791
Fire service	45,532	-	-	45,532
Parks	10,148	-	-	10,148
<i>Total Expenditures</i>	<u>175,161</u>	<u>2,791</u>	<u>6,127</u>	<u>184,079</u>
REVENUES OVER (UNDER) EXPENDITURES	11,836	(2,791)	(6,127)	2,918
OTHER FINANCING SOURCES (USES)				
Transfers out	(7,800)	-	-	(7,800)
NET CHANGE IN FUND BALANCE	4,036	(2,791)	(6,127)	(4,882)
FUND BALANCE, beginning of year	<u>111,302</u>	<u>10,447</u>	<u>19,551</u>	<u>141,300</u>
FUND BALANCE, end of year	<u>\$ 115,338</u>	<u>\$ 7,656</u>	<u>\$ 13,424</u>	<u>\$ 136,418</u>

CITY OF FALLS CITY, OREGON

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

JUNE 30, 2013

	<i>Special Revenue</i>	
	<i>State Revenue Sharing</i>	<i>Wagner Reserve Library #72</i>
ASSETS		
Cash and cash equivalents	\$ 9,741	\$ 10,603
LIABILITIES AND FUND BALANCE		
Liabilities:	\$ -	\$ -
Fund Balance:		
Restricted for:		
Community development	-	10,603
Committed to:		
Capital outlay	-	-
General government	9,741	-
<i>Total Fund Balance</i>	<u>9,741</u>	<u>10,603</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 9,741</u>	<u>\$ 10,603</u>

Capital Projects

<u>Equipment</u>	<u>Total</u>
\$ 28,125	\$ 48,469
\$ -	\$ -
-	10,603
28,125	28,125
-	9,741
<u>28,125</u>	<u>48,469</u>
\$ 28,125	\$ 48,469

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, 2013**

	<i>Special Revenue</i>		
	<i>State Revenue Sharing</i>	<i>FEMA Grant</i>	<i>Wagner Reserve Library #72</i>
REVENUES			
Intergovernmental	\$ 8,314	\$ 22,193	\$ -
Miscellaneous	-	-	281
<i>Total Revenues</i>	8,314	22,193	281
EXPENDITURES			
Community service	-	-	-
Street	-	22,193	-
Capital outlay	-	-	-
<i>Total Expenditures</i>	-	22,193	-
NET CHANGE IN FUND BALANCE	8,314	-	281
FUND BALANCE, beginning of year	1,427	-	10,322
FUND BALANCE, end of year	<u>\$ 9,741</u>	<u>\$ -</u>	<u>\$ 10,603</u>

Capital Projects

<i>Equipment</i>	<i>Heritage Grant</i>	<i>Total</i>
\$ -	\$ 3,918	\$ 34,425
-	-	281
-	3,918	34,706
-	3,919	3,919
-	-	22,193
1,228	-	1,228
1,228	3,919	27,340
(1,228)	(1)	7,366
29,353	1	41,103
\$ 28,125	\$ -	\$ 48,469

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, 2013**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 103,637	\$ 103,637	\$ 103,709	\$ 72
Licenses and permits	49,300	49,300	54,618	5,318
Charges for services	50	50	505	455
Intergovernmental	22,400	22,400	20,687	(1,713)
Miscellaneous	2,900	2,900	7,478	4,578
<i>Total Revenues</i>	178,287	178,287	186,997	8,710
EXPENDITURES				
General government	147,604	153,224	119,481	33,743
Fire service	54,485	56,885	45,532	11,353
Parks	14,900	15,400	10,148	5,252
Contingency	5,000	29,088	-	29,088
<i>Total Expenditures</i>	221,989	254,597	175,161	79,436
REVENUES OVER (UNDER) EXPENDITURES	(43,702)	(76,310)	11,836	88,146
OTHER FINANCING SOURCES (USES)				
Transfers out	(13,300)	(13,300)	(7,800)	5,500
NET CHANGE IN FUND BALANCE	(57,002)	(89,610)	4,036	93,646
FUND BALANCE, beginning of year	78,694	111,302	111,302	-
FUND BALANCE, end of year	\$ 21,692	\$ 21,692	\$ 115,338	\$ 93,646

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, 2013

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 52,500	\$ 52,500	\$ 51,616	\$ (884)
Miscellaneous	-	-	151	151
<i>Total Revenues</i>	52,500	52,500	51,767	(733)
EXPENDITURES				
Personal services	33,932	34,539	29,547	4,992
Materials and services	29,570	30,020	18,666	11,354
Capital outlay	500	500	-	500
Contingency	8,108	8,108	-	8,108
<i>Total Expenditures</i>	72,110	73,167	48,213	24,954
REVENUES OVER (UNDER) EXPENDITURES	(19,610)	(20,667)	3,554	24,221
OTHER FINANCING SOURCES (USES)				
Transfers in	7,800	7,800	7,800	-
Transfers out	(500)	(500)	-	500
<i>Total Other Financing Sources and Uses</i>	7,300	7,300	7,800	500
NET CHANGE IN FUND BALANCE	(12,310)	(13,367)	11,354	24,721
FUND BALANCE, beginning of year	12,310	13,367	13,367	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 24,721	\$ 24,721

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, 2013**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 31,500	\$ 31,500	\$ 25,963	\$ (5,537)
EXPENDITURES				
Materials and services	96,000	96,000	3,443	92,557
NET CHANGE IN FUND BALANCE	(64,500)	(64,500)	22,520	87,020
FUND BALANCE, beginning of year	179,078	203,344	203,344	-
FUND BALANCE, end of year	\$ 114,578	\$ 138,844	\$ 225,864	\$ 87,020

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, 2013

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 2,500	\$ 2,500	\$ 1,122	\$ (1,378)
EXPENDITURES				
Materials and services	98,099	98,099	338	97,761
NET CHANGE IN FUND BALANCE	(95,599)	(95,599)	784	96,383
FUND BALANCE, beginning of year	95,599	95,601	95,601	-
FUND BALANCE, end of year	\$ -	\$ 2	\$ 96,385	\$ 96,383

CITY OF FALLS CITY, OREGON
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - STATE REVENUE SHARING FUND
YEAR ENDED JUNE 30, 2013

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 6,400	\$ 6,400	\$ 8,314	\$ 1,914
EXPENDITURES				
Contingency	441	1,327	-	1,327
REVENUES OVER (UNDER) EXPENDITURES	5,959	5,073	8,314	3,241
OTHER FINANCING SOURCES (USES)				
Transfers out	(6,500)	(6,500)	-	6,500
NET CHANGE IN FUND BALANCE	(541)	(1,427)	8,314	9,741
FUND BALANCE, beginning of year	541	1,427	1,427	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 9,741	\$ 9,741

CITY OF FALLS CITY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – FEMA GRANT FUND

YEAR ENDED JUNE 30, 2013

	<i>Budget Amounts</i>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Intergovernmental	\$ 16,500	\$ 22,193	\$ 22,193	\$ -
EXPENDITURES				
Materials and services	16,500	22,193	22,193	-
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, beginning of year	-	-	-	-
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2013

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 700	\$ 700	\$ 281	\$ (419)
EXPENDITURES				
Capital outlay	11,022	11,022	-	11,022
NET CHANGE IN FUND BALANCE	(10,322)	(10,322)	281	10,603
FUND BALANCE, beginning of year	10,322	10,322	10,322	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 10,603	\$ 10,603

CITY OF FALLS CITY, OREGON**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - CEMETERY CARE FUND****YEAR ENDED JUNE 30, 2013**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Miscellaneous	\$ 500	\$ 500	\$ -	\$ (500)
EXPENDITURES				
Personal services	6,350	6,350	563	5,787
Materials and services	2,445	2,445	2,228	217
Contingency	4,503	5,151	-	5,151
<i>Total Expenditures</i>	<u>13,298</u>	<u>13,946</u>	<u>2,791</u>	<u>11,155</u>
REVENUES OVER (UNDER) EXPENDITURES	(12,798)	(13,446)	(2,791)	10,655
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>3,000</u>	<u>3,000</u>	<u>-</u>	<u>(3,000)</u>
NET CHANGE IN FUND BALANCE	(9,798)	(10,446)	(2,791)	7,655
FUND BALANCE, beginning of year	<u>9,798</u>	<u>10,446</u>	<u>10,447</u>	<u>1</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,656</u>	<u>\$ 7,656</u>

CITY OF FALLS CITY, OREGON
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - MUNICIPAL COURT FUND
YEAR ENDED JUNE 30, 2013

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Personal services	7,310	7,310	5,801	1,509
Materials and services	2,780	2,780	326	2,454
Contingency	15,862	16,461	-	16,461
<i>Total Expenditures</i>	<u>25,952</u>	<u>26,551</u>	<u>6,127</u>	<u>20,424</u>
REVENUES OVER (UNDER)				
EXPENDITURES	(25,952)	(26,551)	(6,127)	20,424
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>7,000</u>	<u>7,000</u>	<u>-</u>	<u>(7,000)</u>
NET CHANGE IN FUND BALANCE	(18,952)	(19,551)	(6,127)	13,424
FUND BALANCE, beginning of year	<u>18,952</u>	<u>19,551</u>	<u>19,551</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,424</u>	<u>\$ 13,424</u>

CITY OF FALLS CITY, OREGON
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - EQUIPMENT FUND
YEAR ENDED JUNE 30, 2013

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Capital outlay	28,600	28,600	1,228	27,372
REVENUES OVER (UNDER) EXPENDITURES	(28,600)	(28,600)	(1,228)	27,372
OTHER FINANCING SOURCES (USES)				
Transfers in	7,000	7,000	-	(7,000)
NET CHANGE IN FUND BALANCE	(21,600)	(21,600)	(1,228)	20,372
FUND BALANCE, beginning of year	33,566	29,353	29,353	-
FUND BALANCE, end of year	\$ 11,966	\$ 7,753	\$ 28,125	\$ 20,372

CITY OF FALLS CITY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL – HERITAGE GRANT FUND

YEAR ENDED JUNE 30, 2013

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 6,425	\$ 6,425	\$ 3,918	\$ (2,507)
EXPENDITURES				
Materials and services	6,425	6,425	3,919	2,506
NET CHANGE IN FUND BALANCE	-	-	(1)	(1)
FUND BALANCE, beginning of year	-	-	1	1
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, 2013

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 95,500	\$ 95,500	\$ 97,101	\$ 1,601
Miscellaneous	-	-	57	57
<i>Total Revenues</i>	95,500	95,500	97,158	1,658
EXPENDITURES				
Personal services	54,995	55,995	47,955	8,040
Materials and services	57,430	59,280	43,469	15,811
Contingency	18,496	21,516	-	21,516
<i>Total Expenditures</i>	130,921	136,791	91,424	45,367
REVENUES OVER (UNDER)	(35,421)	(41,291)	5,734	47,025
OTHER FINANCING SOURCES (USES)				
Transfers in	9,084	9,084	-	(9,084)
Transfers out	(500)	(500)	-	500
<i>Total Other Financing Sources and Uses</i>	8,584	8,584	-	(8,584)
CHANGE IN FUND BALANCE	(26,837)	(32,707)	5,734	38,441
FUND BALANCE, beginning of year	26,837	32,707	32,707	-
FUND BALANCE, end of year	\$ -	\$ -	\$ 38,441	\$ 38,441

CITY OF FALLS CITY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - SEWER DEBT SERVICE FUND

YEAR ENDED JUNE 30, 2013

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Taxes and assessments	\$ 6,000	\$ 6,000	\$ 4,666	\$ (1,334)
EXPENDITURES				
Debt service				
Principal	6,657	6,987	11,379	(4,392)
Interest	951	951	398	553
Contingency	4,959	4,959	-	4,959
<i>Total Expenditures</i>	<u>12,567</u>	<u>12,897</u>	<u>11,777</u>	<u>1,120</u>
CHANGE IN FUND BALANCE	(6,567)	(6,897)	(7,111)	(214)
FUND BALANCE, beginning of year	<u>6,567</u>	<u>6,897</u>	<u>6,897</u>	<u>-</u>
FUND BALANCE (DEFICIT), end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (214)</u>	<u>\$ (214)</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, 2013**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 230,400	\$ 230,400	\$ 225,239	\$ (5,161)
Miscellaneous	100	100	377	277
<i>Total Revenues</i>	230,500	230,500	225,616	(4,884)
EXPENDITURES				
Personal services	99,893	100,993	87,719	13,274
Materials and services	73,005	73,105	48,671	24,434
Contingency	9,047	7,507	-	7,507
<i>Total Expenditures</i>	181,945	181,605	136,390	45,215
REVENUES OVER (UNDER)	48,555	48,895	89,226	40,331
OTHER FINANCING SOURCES (USES)				
Transfers in	5,040	5,040	-	(5,040)
Transfers out	(67,473)	(67,473)	(65,473)	2,000
<i>Total Other Financing Sources and Uses</i>	(62,433)	(62,433)	(65,473)	(3,040)
CHANGE IN FUND BALANCE	(13,878)	(13,538)	23,753	37,291
FUND BALANCE, beginning of year	15,028	14,688	14,688	-
FUND BALANCE, end of year	\$ 1,150	\$ 1,150	\$ 38,441	\$ 37,291

CITY OF FALLS CITY, OREGON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - WATER DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2013**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Debt service				
Principal	19,102	19,102	21,799	(2,697)
Interest	46,371	46,371	43,674	2,697
<i>Total Expenditures</i>	<u>65,473</u>	<u>65,473</u>	<u>65,473</u>	<u>-</u>
REVENUES OVER (UNDER)	(65,473)	(65,473)	(65,473)	-
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>65,473</u>	<u>65,473</u>	<u>65,473</u>	<u>-</u>
CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, beginning of year	<u>65,473</u>	<u>65,473</u>	<u>65,473</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ 65,473</u>	<u>\$ 65,473</u>	<u>\$ 65,473</u>	<u>\$ -</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, 2013**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Charges for services	\$ 43,400	\$ 43,400	\$ 42,939	\$ (461)
Miscellaneous	-	-	10	10
<i>Total Revenues</i>	43,400	43,400	42,949	(451)
EXPENDITURES				
Capital outlay	50,000	50,000	-	50,000
Contingency	-	6,935	-	6,935
<i>Total Expenditures</i>	50,000	56,935	-	56,935
REVENUES OVER (UNDER)	(6,600)	(13,535)	42,949	56,484
OTHER FINANCING SOURCES (USES)				
Transfers out	(16,124)	(16,124)	-	16,124
CHANGE IN FUND BALANCE	(22,724)	(29,659)	42,949	72,608
FUND BALANCE, beginning of year	203,446	210,381	210,381	-
FUND BALANCE, end of year	\$ 180,722	\$ 180,722	\$ 253,330	\$ 72,608

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, 2013**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
REVENUES				
Intergovernmental	\$ 81,500	\$ 81,500	\$ 32,346	\$ (49,154)
EXPENDITURES				
Materials and services	81,500	81,500	27,255	54,245
CHANGE IN FUND BALANCE	-	-	5,091	5,091
FUND BALANCE, beginning of year	-	-	1	1
FUND BALANCE, end of year	\$ -	\$ -	\$ 5,092	\$ 5,092

OTHER SCHEDULES

CITY OF FALLS CITY, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2013

<i>Tax Year</i>	<i>Uncollected Balances July 1, 2012</i>	<i>2012-2013 Levy</i>	<i>Interest, Discounts & Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balances June 30, 2013</i>
2012-2013	\$ -	\$ 109,628	\$ (2,937)	\$ (102,045)	\$ 4,646
2011-2012	4,972	-	(3)	(2,260)	2,709
2010-2011	2,826	-	(1)	(1,193)	1,632
2009-2010	2,071	-	-	(1,271)	800
2008-2009	624	-	-	(482)	142
2007-2008	121	-	-	(54)	67
2006-2007	27	-	-	(18)	9
Prior Years	122	-	-	(1)	121
Total	\$ 10,763	\$ 109,628	\$ (2,941)	\$ (107,324)	\$ 10,126

CITY OF FALLS CITY, OREGON
SCHEDULE OF DEBT TRANSACTIONS
YEAR ENDED JUNE 30, 2013

DEBT PRINCIPAL TRANSACTIONS	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Fiscal Year of Maturity</u>
<i>Governmental</i>			
2008 Fire truck loan	3.0% - 4.5%	2008	2017-18
2010 Polk County Community Development	1.0%	2010	2039-40
<i>Business-type</i>			
2000 Water Revenue Bonds	4.5%	2000	2039-40
1993 Sewer System Bonds	5.25%	1993	2031-32

DEBT INTEREST TRANSACTIONS	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Unmatured Interest Outstanding July 1, 2012</u>
<i>Governmental</i>			
2008 Fire truck loan	3.0% - 4.5%	2008	\$ 4,422
2010 Polk County Community Development	1.0%	2010	9,318
<i>Business-type</i>			
2000 Water Revenue Bonds	4.5%	2000	801,861
1993 Sewer System Bonds		1993	498
			<u>\$ 816,099</u>

<i>Outstanding July 1, 2012</i>	<i>Issued</i>	<i>Paid</i>	<i>Outstanding June 30, 2013</i>
\$ 25,000	\$ -	\$ -	\$ 25,000
61,141	-	(1,873)	59,268
1,030,467	-	(19,102)	1,011,365
11,224	-	(11,224)	-
<u>\$ 1,127,832</u>	<u>\$ -</u>	<u>\$ (32,199)</u>	<u>\$ 1,095,633</u>

<i>Early Payoff</i>	<i>Interest Paid</i>	<i>Unmatured Interest June 30, 2013</i>
\$ -	\$ (1,123)	\$ 3,299
-	(646)	8,672
-	(46,371)	755,490
-	(498)	-
<u>\$ -</u>	<u>\$ (48,638)</u>	<u>\$ 767,461</u>

CITY OF FALLS CITY, OREGON
SCHEDULE OF FUTURE DEBT SERVICE REQUIREMENTS
JUNE 30, 2013

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>2008 Fire truck loan</i>			<i>2010 Polk County Community Development Loan</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2014	\$ 5,000	\$ 1,073	\$ 6,073	\$ 1,925	\$ 593	\$ 2,519
2015	5,000	876	5,876	1,944	574	2,519
2016	5,000	675	5,675	1,962	556	2,519
2017	5,000	450	5,450	1,984	535	2,519
2018	5,000	225	5,225	2,003	515	2,519
2019	-	-	-	2,023	495	2,519
2020	-	-	-	2,042	476	2,519
2021	-	-	-	2,064	455	2,519
2022	-	-	-	2,085	434	2,519
2023	-	-	-	2,106	413	2,519
2024	-	-	-	2,126	393	2,519
2025	-	-	-	2,148	371	2,519
2026	-	-	-	2,169	349	2,519
2027	-	-	-	2,191	328	2,519
2028	-	-	-	2,212	307	2,519
2029	-	-	-	2,235	284	2,519
2030	-	-	-	2,257	261	2,519
2031	-	-	-	2,280	239	2,519
2032	-	-	-	2,302	216	2,519
2033	-	-	-	2,326	193	2,519
2034	-	-	-	2,349	170	2,519
2035	-	-	-	2,373	146	2,519
2036	-	-	-	2,396	123	2,519
2037	-	-	-	2,420	98	2,519
2038	-	-	-	2,444	74	2,519
2039	-	-	-	2,469	50	2,519
2040	-	-	-	2,431	25	2,456
	<u>\$ 25,000</u>	<u>\$ 3,299</u>	<u>\$ 28,299</u>	<u>\$ 59,268</u>	<u>\$ 8,672</u>	<u>\$ 67,940</u>

<i>2000 Water Revenue Bonds</i>			<i>Totals</i>		
<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
\$ 19,962	\$ 45,511	\$ 65,473	\$ 26,887	\$ 47,177	\$ 74,065
20,860	44,613	65,473	27,804	46,063	73,868
21,799	43,674	65,473	28,761	44,905	73,667
22,779	42,694	65,473	29,763	43,679	73,442
23,805	41,668	65,473	30,808	42,408	73,217
24,876	40,597	65,473	26,899	41,092	67,992
25,995	39,478	65,473	28,037	39,954	67,992
27,165	38,308	65,473	29,229	38,763	67,992
28,387	37,086	65,473	30,472	37,520	67,992
29,665	35,808	65,473	31,771	36,221	67,992
31,000	34,473	65,473	33,126	34,866	67,992
32,395	33,078	65,473	34,543	33,449	67,992
33,852	31,621	65,473	36,021	31,970	67,992
35,376	30,097	65,473	37,567	30,425	67,992
36,968	28,505	65,473	39,180	28,812	67,992
38,631	26,842	65,473	40,866	27,126	67,992
40,370	25,103	65,473	42,627	25,364	67,992
42,186	23,287	65,473	44,466	23,526	67,992
44,085	21,388	65,473	46,387	21,604	67,992
46,069	19,404	65,473	48,395	19,597	67,992
48,142	17,331	65,473	50,491	17,501	67,992
50,308	15,165	65,473	52,681	15,311	67,992
52,572	12,901	65,473	54,968	13,024	67,992
54,938	10,535	65,473	57,358	10,633	67,992
57,410	8,063	65,473	59,854	8,137	67,992
59,993	5,480	65,473	62,462	5,530	67,992
61,777	2,780	64,557	64,208	2,805	67,013
<u>\$ 1,011,365</u>	<u>\$ 755,490</u>	<u>\$ 1,766,855</u>	<u>\$ 1,095,633</u>	<u>\$ 767,461</u>	<u>\$ 1,863,094</u>

CITY OF FALLS CITY, OREGON
ADDITIONAL INFORMATION REQUESTED BY FMHA
YEAR ENDED JUNE 30, 2013

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

1. Generally accepted auditing procedures have been performed.
2. Comments regarding the City's internal control over financial reporting are contained in our report on Government Auditing Standards.
3. The condition of accounting records is reported in the Government Auditing Standards of the report.
4. Records of capital assets are not maintained. Adequate capital asset historical cost and depreciation records do not exist.
5. The City has complied with the loan agreement, including the reserve account requirements. At June 30, 2013 the City had \$65,473 held in reserve.
6. The financial reports included in the annual financial report are in agreement with the City's accounting records.
7. Deposited funds are in institutions insured by the Federal government. Amounts in excess of insured amounts are collateralized in accordance with Oregon law.
8. Insurance

<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Amount of Coverage</u>	<u>Policy Expiration Date</u>
Property	BO-FLC-2012-0	Per filed values	6/30/13
Liability	BO-FLC-2012-0	\$ 5,000,000	6/30/13
Workers Compensation	BO-FLC-2012-0	Coverage A and B	6/30/13

9. Aged accounts receivable at June 30, 2013 were as follows: 0 – 30 days, \$36,500; 31 – 60 days, \$285; 61 – 90 days, \$564; over 90 days, \$14,717; total, \$52,066.
10. The City of Falls City is exempt from Federal income tax.

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

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

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the City of Falls City, Oregon as of and for the year ended June 30, 2013, and have issued our report thereon dated December 19, 2013.

Compliance and Other Matters

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

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

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

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

1. The City does not maintain historical cost or depreciation records for capital assets,
2. Debt service payments were not identified for principal and interest payments in the 13-14 adopted budget.
3. Excess of actual revenues over actual expenditures in the second preceding year did not equal the beginning balance in the first preceding year in the Cemetery fund, the Community Development Revolving Loan fund, and the Sewer fund.
4. Overexpenditures of appropriations and deficit fund balances as noted in the notes to the basic financial statements.

OAR 162-10-0230 - Internal Control

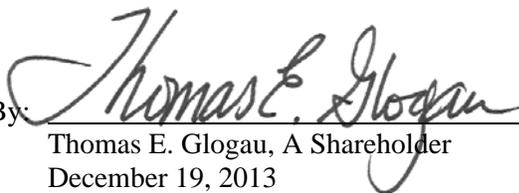
In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. See *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

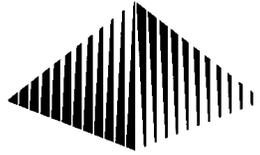
We noted certain matters that we reported to management of the City, in a separate letter dated December 19, 2013.

Restriction on Use

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

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

By: 
Thomas E. Glogau, A Shareholder
December 19, 2013



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falls City (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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


CERTIFIED PUBLIC ACCOUNTANTS
December 19, 2013