

***CITY OF FALLS CITY  
ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2011***

***CITY OF FALLS CITY, OREGON***  
***CITY OFFICIALS***  
***JUNE 30, 2011***

---

*Mayor*

Amy Houghtaling (Term started January 1, 2011)  
197 Carey Court  
Falls City, Oregon 97344

Darrin Fleener (Term ended January 1, 2011)  
285 N. Main St.  
Falls City, Oregon 97344

*Council*

Erma Ferguson  
273 Mill St.  
Falls City, Oregon 97344

Julee Bishop  
540 Hopkins Rd.  
Falls City, Oregon 97344

Bruce Garrett (Term ended January 1, 2011)  
5135 Waymire Rd.  
Falls City, Oregon 97344

David Graham (Term started January 1, 2011)  
P.O. Box 117  
Falls City, Oregon 97344

John Volkmann  
521 Hopkins St.  
Falls City, Oregon 97344

William Lowman (resigned September 2010)  
506 1<sup>st</sup> Ave.  
Falls City, Oregon 97344

Henry Hughes  
180 Dayton St.  
Falls, City, Oregon 97344

Lori Jean Sickles (Terms started January 1, 2011)  
P.O. Box 81  
Falls City, Oregon 97344

*City Staff*

Gian Paolo Mammone, City Administrator  
Keith Moes, Finance Director  
Tresa Bowlin, Assistant to City Administrator/City Clerk  
Don Poe, Public Works Supervisor  
Karl Wagner, Public Works  
Mary Gaeta, Code Enforcement Officer  
Marsha Heater, On-call Clerical Staff  
James Walton, Part-time Clerical Staff  
Domenica Protheroe, Part-time Clerical Staff

**CITY OF FALLS CITY, OREGON**  
**TABLE OF CONTENTS**

---

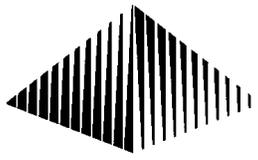
	<u>Page</u>
<b>FINANCIAL SECTION</b>	
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets (Modified Cash Basis)	8
Statement of Activities (Modified Cash Basis)	9
Fund Financial Statements	
Statement of Assets and Liabilities (Modified Cash Basis) - Governmental Funds	10
Statement of Receipts, Disbursements and Changes in Fund Balances (Modified Cash Basis) - Governmental Funds	11
Statement of Assets and Liabilities (Modified Cash Basis) - Proprietary Funds	12
Statement of Receipts, Disbursements and Changes in Net Assets (Modified Cash Basis) - Proprietary Funds	13
Notes to Basic Financial Statements	14-26
Required Supplementary Information	
Schedule of Receipts, Disbursements and Changes in Fund Balance (Cash Basis) - Budget and Actual	
General Fund	27
Special Revenue Funds	
Street Fund	28
Wagner Library Reserve Fund	29
CDBG Fund	30
Other Supplementary Information	
Reconciliation of Budgetary Funds to Reporting Funds – General Fund – Statement of Assets and Liabilities (Modified Cash Basis)	31
Reconciliation of Budgetary Funds to Reporting Funds – General Fund – Statement of Receipts, Disbursements and Changes in Fund Balances (Modified Cash Basis)	32
Nonmajor Governmental Funds - Statements and Schedules	
Combining Statement of Assets and Liabilities (Modified Cash Basis)	33
Combining Statement of Receipts, Disbursements and Changes in Fund Balances (Modified Cash Basis)	34
Schedules of Receipts, Disbursements and Changes in Fund Balances (Cash Basis) - Budget and Actual - Special Revenue Funds	
State Revenue Sharing Fund	35
Wagner Library Expansion Fund	36
Cemetery Care Fund	37
Municipal Court Fund	38
Equipment Fund	39
Enterprise Funds	
Schedules of Receipts, Disbursements and Changes in Fund Net Assets (Cash Basis) - Budget and Actual	
Sewer Fund	40
Sewer Debt Service Fund	41
City Utility Reserve Fund	42
Water Fund	43
Water Debt Service Fund	44
Other Schedules	
Schedule of Property Tax Transactions	45
Schedule of Debt Transactions	46
Schedule of Future Bonded Debt Service Requirements	47-48

**CITY OF FALLS CITY, OREGON**  
**TABLE OF CONTENTS (Continued)**

---

	<b><u>Page</u></b>
<b>COMPLIANCE SECTION</b>	
Independents Auditor's Comments Required by Oregon State Regulations	49-50
Additional Information Requested by FMHA	51
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	52-53

***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

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 the City of Falls City, Oregon, as of June 30, 2011, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described below, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinions.

As described in the summary of significant accounting policies of the notes to the financial statements, the City prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Oregon, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The City does not maintain historical cost and depreciation records for capital assets including infrastructure, and therefore, no information for capital assets is presented in the financial statements.

In our opinion, except for the matter discussed above, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate fund information of the City of Falls City, Oregon, as of June 30, 2011, and the respective changes in financial position – modified cash basis thereof for the year then ended, in conformity with the basis of accounting described in the summary of significant accounting policies in the notes to the financial statements.

As described in the notes to the financial statements, during the year ended June 30, 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated October 26, 2011 on our consideration of the City's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and the budgetary comparison information on pages 3 through 6 and 25 through 28 be presented to supplements the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with managements responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance. The budgetary comparison information on pages 25 through 28 is the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The budgetary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Falls City's basic financial statements as a whole. The combining and individual nonmajor fund financial statements and other schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole. The other schedules have 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 them.

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

By:   
\_\_\_\_\_  
Charles A. Swank, A Shareholder  
October 26, 2011

CITY OF FALLS CITY, OREGON  
Management's Discussion and Analysis  
June 30, 2011

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, 2011.

**Financial Highlights**

	June 30,	
	2011	2010
Net assets	\$ 870,634	\$ 824,653
Change in net assets	45,981	(33,990)
Governmental funds - net assets	541,297	501,206
Proprietary funds - net assets	329,337	323,447

**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 Assets (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 assets are what remain after the liabilities have been paid or otherwise satisfied. Over time, increases or decreases in net assets 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 assets of the City changed over the most recent fiscal year by tracking receipts, disbursements and other transactions that increase or reduce net assets 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 police. 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 *required supplementary information* and *other supplemental information*.

### Government-wide Financial Analysis

	Statements of Net Assets at June 30,					
	2011			2010		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Cash and investments	\$ 544,963	\$ 329,337	\$ 874,300	\$ 502,765	\$ 323,447	\$ 826,212
Receivables	289,752	-	289,752	237,030	-	237,030
Total assets	834,715	329,337	1,164,052	739,795	323,447	1,063,242
Liabilities	293,418	-	293,418	238,589	-	238,589
Net assets:						
Restricted	365,629	78,598	444,227	118,507	77,892	196,399
Unrestricted	175,668	250,739	426,407	382,699	245,555	628,254
Total Net Assets	\$ 541,297	\$ 329,337	\$ 870,634	\$ 501,206	\$ 323,447	\$ 824,653

**Statement of Net Assets.** The Statement of Net Assets (modified cash basis) is provided on a comparative basis. As noted earlier, net assets 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 \$870,634 as of June 30, 2011. Overall, the financial position of the governmental funds and the financial position of the business-type funds improved.

Restricted net assets represent sources that are subject to external restrictions on their use, such as debt service payments or capital projects. Unrestricted net assets are available for general operations of the City.

**Statements of Activity**  
**For the years ended June 30,**

	2011			2010		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
<b>Receipts</b>						
Charges for service	\$ 29,856	\$ 353,548	\$ 383,404	\$ 93,673	\$ 349,741	\$ 443,414
Operating grants	59,250	-	59,250	53,313	-	53,313
Property taxes	98,886	5,314	104,200	96,540	7,268	103,808
Franchise fees	48,327	-	48,327	29,700	-	29,700
Intergovernmental	85,885	-	85,885	18,727	-	18,727
Miscellaneous	12,745	-	12,745	22,148	77	22,225
<i>Total Receipts</i>	<u>334,949</u>	<u>358,862</u>	<u>693,811</u>	<u>314,101</u>	<u>357,086</u>	<u>671,187</u>
<b>Disbursements</b>						
General government	117,075	-	117,075	170,496	-	170,496
Community services	78,185	-	78,185	48,734	-	48,734
Cemetery	2,179	-	2,179	1,639	-	1,639
Fire	42,559	-	42,559	44,801	-	44,801
Parks	9,035	-	9,035	7,696	-	7,696
Streets	50,325	-	50,325	56,233	-	56,233
Water	-	242,083	242,083	-	250,804	250,804
Sewer	-	106,389	106,389	-	124,774	124,774
<i>Total Disbursements</i>	<u>299,358</u>	<u>348,472</u>	<u>647,830</u>	<u>329,599</u>	<u>375,578</u>	<u>705,177</u>
Loan proceeds	-	-	-	-	-	-
Transfers	4,500	(4,500)	-	4,500	(4,500)	-
Change in net assets	40,091	5,890	45,981	(10,998)	(22,992)	(33,990)
Net assets – July 1	501,206	323,447	824,653	512,204	346,439	858,643
Net assets – June 30	<u>\$ 541,297</u>	<u>\$ 329,337</u>	<u>\$ 870,634</u>	<u>\$ 501,206</u>	<u>\$ 323,447</u>	<u>\$ 824,653</u>

**Statement of Activities (Modified Cash Basis).** The key elements of the change in the City's net assets for the year ended June 30, 2011 are as follows:

Key elements in changes in net assets:

Charges for service	\$ (60,010)
Franchise fees	18,627
Intergovernmental	67,158
General government disbursements	(53,421)
Community services disbursements	29,451

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

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

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

### General Fund Budget

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

### Significant Fund Transactions

As detailed in the notes to the financial statements, the City adopted the provisions of GASB Statement #54 Fund Balance Reporting and Governmental Fund Types Definitions. Among the changes required is that Special Revenue Funds whose primary source of funding is transfers from the General Fund be reported as part of the General Fund. Therefore, in the Governmental Funds Statement of Assets and Liabilities and the Statement of Receipts, Disbursements and Changes in Fund Balances, the Municipal Court Fund and Cemetery Funds have been combined with the General Fund. In addition, the Equipment Fund previously reported as a Special Revenue Fund is being reported as a Capital Projects Fund.

#### Major Governmental Funds:

- General: The General fund had an increase in fund balance of \$383 which is primarily related to an increase in the licenses and permits revenues, an overall decrease in administration expenditures, and transfers to other funds.
- Street: The Street fund had an increase in fund balance of \$7,470. Receipts are from gas tax turnovers and fund transfers. The disbursements remained consistent from the prior year.
- Wagner Library Reserve: The Wagner Library Reserve fund had an increase in fund balance of \$2,159. The fund receipts are from interest earned on the Wagner trust account. In the current year there were no disbursements.
- CDBG: The CDBG fund had an increase in fund balance of \$21,233. The receipts are from loan repayments (principal and interest) as well as from interest earned on saving and intergovernmental revenue of \$65,000. Disbursements were due to loans, loan servicing fees, legal and miscellaneous expenses.

#### Major Proprietary Funds:

- Water: The Water fund had a decrease in fund net assets of \$24,300. Receipts are from charges for services and disbursements 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 disbursements are to cover debt service and receipts consist of fund transfers from the Water fund.
- Sewer: The Sewer fund had an increase in fund net assets of \$7,696. Receipts are from charges for services and disbursements 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 an increase in fund net assets of \$706. The receipts are from property tax and disbursements are to cover debt service.
- City Utility Reserve-Sewer: The City Utility Reserve fund had an increase in fund net assets of \$21,788. Receipts are from the Utility Capital Improvement fee and disbursements are for capital outlay.

## **Debt Administration**

Long-term debt: At the end of the current fiscal year, the City had total revenue-backed bonded debt outstanding of \$1,071,763 , a fire truck loan of \$25,000 and a Polk County Community Development Loan of \$63,014 outstanding.

During the current fiscal year, the City's total debt decreased by \$22,862 .

State statutes limit the amount of general obligation debt a governmental entity may issue to 3 percent of its total assessed valuation. The assessed valuation of the City of Falls City is in excess of \$34,600,000, therefore, the current debt limitation for the City of Falls City is in excess of \$1,038,000. 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.

## **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 2010-11 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 Recorder  
City of Falls City  
299 Mill Street  
Falls City, Oregon 97344

***BASIC FINANCIAL STATEMENTS***

**CITY OF FALLS CITY, OREGON**  
**STATEMENT OF NET ASSETS (MODIFIED CASH BASIS)**  
**JUNE 30, 2011**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and investments	\$ 544,963	\$ 329,337	\$ 874,300
Property taxes receivable	9,956	-	9,956
Loans receivable	279,796	-	279,796
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	834,715	329,337	1,164,052
<b>LIABILITIES</b>			
Payroll withholdings	3,667	-	3,667
Deferred revenue	289,751	-	289,751
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	293,418	-	293,418
<b>NET ASSETS</b>			
Restricted for:			
Debt service	-	78,598	78,598
Streets	15,080	-	15,080
Capital outlay	102,471	-	102,471
Community development	248,078	-	248,078
Unrestricted	175,668	250,739	426,407
	<hr/>	<hr/>	<hr/>
<i>Net Assets</i>	<u>\$ 541,297</u>	<u>\$ 329,337</u>	<u>\$ 870,634</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, 2011**

	<u>Disbursements</u>	<u>Program Receipts</u>	
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Functions/Programs</b>			
<b>Governmental activities:</b>			
General government	\$ 117,075	\$ 5,026	\$ 3,500
Community services	78,185	24,830	4,756
Cemetery	2,179	-	-
Fire	42,559	-	-
Parks	9,035	-	-
Street	50,325	-	50,994
	<hr/>	<hr/>	<hr/>
<i>Total governmental activities</i>	299,358	29,856	59,250
<b>Business-type activities:</b>			
Water	242,083	217,284	-
Sewer	106,389	136,264	-
	<hr/>	<hr/>	<hr/>
<i>Total business-type activities</i>	348,472	353,548	-
	<hr/>	<hr/>	<hr/>
<i>Total activities</i>	\$ 647,830	\$ 383,404	\$ 59,250
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>General Receipts:</b>			
Property taxes			
Franchise fees			
Intergovernmental			
Miscellaneous			
<i>Total general receipts</i>			
<b>Transfers</b>			
<b>Change in net assets</b>			
<i>Net assets, July 1, 2010</i>			
<i>Net assets, June 30, 2011</i>			

---

*Net Changes in Net Assets*

---

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
\$ (108,549)	\$ -	\$ (108,549)
(48,599)	-	(48,599)
(2,179)	-	(2,179)
(42,559)	-	(42,559)
(9,035)	-	(9,035)
669	-	669
(210,252)	-	(210,252)
-	(24,799)	(24,799)
-	29,875	29,875
-	5,076	5,076
(210,252)	5,076	(205,176)
98,886	5,314	104,200
48,327	-	48,327
85,885	-	85,885
12,745	-	12,745
245,843	5,314	251,157
4,500	(4,500)	-
40,091	5,890	45,981
501,206	323,447	824,653
\$ 541,297	\$ 329,337	\$ 870,634

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

**CITY OF FALLS CITY, OREGON****STATEMENT OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS**

JUNE 30, 2011

		<b>Special Revenue</b>		
	<b>General</b>	<b>Street</b>	<b>Wagner Library Reserve</b>	<b>CDBG</b>
<b>ASSETS</b>				
Cash and investments	\$ 147,428	\$ 15,080	\$ 92,839	\$ 248,078
Property taxes receivable	9,956	-	-	-
Loans receivable	-	-	-	279,795
<i>Total Assets</i>	<u>\$ 157,384</u>	<u>\$ 15,080</u>	<u>\$ 92,839</u>	<u>\$ 527,873</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Payroll withholdings	\$ 3,667	\$ -	-	\$ -
Deferred revenue	9,956	-	-	279,795
<i>Total Liabilities</i>	13,623	-	-	279,795
<b>Fund Balances</b>				
Restricted for:				
Streets	-	15,080	-	-
Capital Outlay	-	-	92,839	-
Community Development	-	-	-	248,078
Committed to:				
Community Development	10,766	-	-	-
Public Safety	22,407	-	-	-
Capital Outlay	-	-	-	-
Unassigned	110,588	-	-	-
<i>Total Fund Balances</i>	<u>143,761</u>	<u>15,080</u>	<u>92,839</u>	<u>248,078</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 157,384</u>	<u>\$ 15,080</u>	<u>\$ 92,839</u>	<u>\$ 527,873</u>

---

<i>Other Governmental Funds</i>	<i>Totals</i>
<u>          </u>	<u>          </u>
\$ 41,539	\$ 544,964
-	9,956
-	279,795
<u>          </u>	<u>          </u>
\$ 41,539	\$ 834,715
<u>          </u>	<u>          </u>
\$ -	\$ 3,667
-	289,751
<u>          </u>	<u>          </u>
-	293,418
-	15,080
9,632	102,471
-	248,078
641	11,407
-	22,407
31,266	31,266
-	110,588
<u>          </u>	<u>          </u>
41,539	541,297
<u>          </u>	<u>          </u>
\$ 41,539	\$ 834,715
<u>          </u>	<u>          </u>

**CITY OF FALLS CITY, OREGON****STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES****(MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS****YEAR ENDED JUNE 30, 2011**

	<b>Special Revenue Funds</b>			
	<b>General</b>	<b>Street</b>	<b>Wagner Library Reserve</b>	<b>CDBG</b>
<b>RECEIPTS</b>				
Taxes and assessments	\$ 98,886	\$ -	\$ -	\$ -
Licenses and permits	53,156	-	-	-
Charges for services	250	-	-	-
Intergovernmental	22,284	45,741	-	65,000
Miscellaneous	9,993	-	2,159	24,829
<i>Total Receipts</i>	184,569	45,741	2,159	89,829
<b>DISBURSEMENTS</b>				
Personal services	69,856	21,487	-	-
Materials and services	111,029	22,775	-	67,597
Capital outlay	-	489	-	-
<i>Total Disbursements</i>	180,885	44,751	-	67,597
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	3,684	990	2,159	22,232
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	23,499	6,800	-	-
Transfers out	(26,800)	(500)	-	(999)
<i>Total Other Financing Sources (Uses)</i>	(3,301)	6,300	-	(999)
<b>NET CHANGE IN FUND BALANCES</b>	383	7,290	2,159	21,233
<b>FUND BALANCES, Beginning of year</b>	143,378	7,790	90,680	226,845
<b>FUND BALANCES, End of year</b>	\$ 143,761	\$ 15,080	\$ 92,839	\$ 248,078

---

<i>Other Governmental Funds</i>	<i>Totals</i>
\$ -	\$ 98,886
-	53,156
-	250
6,857	139,882
5,794	42,775
<hr/>	<hr/>
12,651	334,949
-	91,343
550	201,951
5,575	6,064
<hr/>	<hr/>
6,125	299,358
<hr/>	<hr/>
6,526	35,591
9,000	39,299
(6,500)	(34,799)
<hr/>	<hr/>
2,500	4,500
<hr/>	<hr/>
9,026	40,091
32,513	501,206
<hr/>	<hr/>
\$ 41,539	\$ 541,297
<hr/> <hr/>	<hr/> <hr/>

**CITY OF FALLS CITY, OREGON**

**STATEMENT OF NET ASSETS (MODIFIED CASH BASIS) - PROPRIETARY FUNDS**

**JUNE 30, 2011**

---

	<u>Sewer</u>	<u>Sewer Debt Service</u>	<u>City Utility Reserve</u>
<b>ASSETS</b>			
Cash and investments	\$ 34,688	\$ 13,125	\$ 185,670
<b>LIABILITIES</b>			
	-	-	-
<b>NET ASSETS</b>			
Restricted for debt service	-	13,125	-
Unrestricted	34,688	-	185,670
<i>Net Assets</i>	<u>\$ 34,688</u>	<u>\$ 13,125</u>	<u>\$ 185,670</u>

---

<u>Water</u>	<u>Water Debt Service</u>	<u>Totals</u>
\$ 30,381	\$ 65,473	\$ 329,337
-	-	-
-	65,473	78,598
30,381	-	250,739
<u>\$ 30,381</u>	<u>\$ 65,473</u>	<u>\$ 329,337</u>

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

**CITY OF FALLS CITY, OREGON****STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS****(MODIFIED CASH BASIS) - PROPRIETARY FUNDS****YEAR ENDED JUNE 30, 2011**

	<u>Sewer</u>	<u>Sewer Debt Service</u>	<u>City Utility Reserve</u>
<b>OPERATING RECEIPTS</b>			
Charges for services	\$ 92,850	\$ -	\$ 43,375
Miscellaneous	39	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Operating Receipts</i>	92,889	-	43,375
<b>OPERATING DISBURSEMENTS</b>			
Personal services	48,384	-	-
Materials and services	43,433	-	-
Capital outlay	-	-	9,963
	<hr/>	<hr/>	<hr/>
<i>Total Operating Disbursements</i>	91,817	-	9,963
<b>OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS</b>			
	1,072	-	33,412
<b>NONOPERATING RECEIPTS (DISBURSEMENTS)</b>			
Taxes and assessments	-	5,314	-
Debt service disbursements			
Principal	-	(3,384)	-
Interest	-	(1,224)	-
	<hr/>	<hr/>	<hr/>
<i>Net Nonoperating Receipts (Disbursements)</i>	-	706	-
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>			
	1,072	706	33,412
Transfers in	7,124	-	-
Transfers out	(500)	-	(11,624)
	<hr/>	<hr/>	<hr/>
<i>Total Other Financing Sources (Uses)</i>	6,624	-	(11,624)
<b>CHANGE IN NET ASSETS</b>			
	7,696	706	21,788
<b>NET ASSETS, Beginning of year</b>			
	<hr/>	<hr/>	<hr/>
	26,992	12,419	163,882
<b>NET ASSETS, End of year</b>			
	<hr/>	<hr/>	<hr/>
	\$ 34,688	\$ 13,125	\$ 185,670
	<hr/>	<hr/>	<hr/>

---

<u>Water</u>	<u>Water Debt Service</u>	<u>Totals</u>
\$ 216,383	\$ -	\$ 352,608
901	-	940
217,284	-	353,548
121,499	-	169,883
55,112	-	98,545
-	-	9,963
176,611	-	278,391
40,673	-	75,157
-	-	5,314
-	(17,492)	(20,876)
-	(47,981)	(49,205)
-	(65,473)	(64,767)
40,673	(65,473)	10,390
2,500	65,473	75,097
(67,473)	-	(79,597)
(64,973)	65,473	(4,500)
(24,300)	-	5,890
54,681	65,473	323,447
\$ 30,381	\$ 65,473	\$ 329,337

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

*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 Assets (Modified Cash Basis) and the Statement of Activities (Modified Cash Basis).

The Statement of Net Assets (Modified Cash Basis) presents the assets and liabilities of the City, including capital assets and related debt. Net assets, 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 disbursements of a given function or segment are offset by program receipts. *Direct disbursements* are those that are clearly identifiable with a specific function or segment. *Program receipts* 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 receipts*.

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of Presentation*

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

Government accounting standards set forth minimum criteria (percentage of the assets, liabilities, receipts or disbursements 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's financial operations are accounted for in the following fund types:

*Governmental Fund Types*

*General Fund*

This fund accounts for the financial operations of the City not accounted for in any other fund. Principal sources of revenue are property taxes, licenses and permits, franchise fees and State shared revenues. Primary expenditures are for fire protection, insurance and general administration.

*Special Revenue Funds*

These funds account for revenue derived from specific taxes or other earmarked revenue sources, including Federal and State grant awards, which are legally restricted to finance particular functions or activities.

*Capital Projects Fund*

This fund is to account for revenue and disbursements that are to be used for capital outlay. Revenue is primarily from the sale of equipment and transfers from other funds. Disbursements are for capital outlay.

*Proprietary Fund Type*

*Enterprise Funds*

These funds account for the financing of predominantly self-supporting activities which render services on a user charge basis to the general public.

The City reports the following major governmental funds:

*Street Fund*

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

**CITY OF FALLS CITY, OREGON**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2011*

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of Presentation (Continued)*

*Wagner Library Reserve Fund*

This fund accounts for receipts and disbursements related to the funds designated for library expansion.

*CDBG Fund*

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

The City reports the following nonmajor governmental special revenue funds.

*Community Center Fund*

This fund accounts for receipts and disbursements related to the community center.

*State Revenue Sharing*

This fund accounts for state shared revenues.

*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.

*Wagner Library Expansion Fund*

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

*Technical Assistance Grant*

This fund accounts for money received as a technical assistance grant.

The City reports the following nonmajor governmental capital projects fund.

*Equipment Fund*

This fund accounts for money set aside for equipment purchases.

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:

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of Presentation (Continued)*

*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 debt service reserve as required by USDA.

*Fund Balance*

In the year ended June 30, 2011, the City adopted GASB Statement #54 *Fund Balance Reporting and Governmental Fund Types Definitions*. In the fund financial statements, the fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Among the changes required is that Special Revenue Funds whose primary source of funding is transfers from the General Fund be reported as part of the General Fund. Therefore, in the Governmental Funds Statement of Net Assets and Liabilities and the Statement of Receipts, Disbursements and Changes in Fund Balances, the Municipal Court Fund and Cemetery Fund have been combined with the General Fund. In addition, the Equipment Fund previously reported as a Special Revenue Fund has been reported as a Capital Projects Fund.

Although not a major impact on the financial statement, Governmental Fund type fund balances are now reported in the following classifications. 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.

**CITY OF FALLS CITY, OREGON**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2011*

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of Presentation (Continued)*

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's Finance Director 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.

*Measurement Focus and Basis of Accounting*

Accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standards Board, define principles that should be used to report financial transactions. The government-wide and proprietary fund financial statements are reported using the economic resources and accrual basis of accounting. Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded when the liability is incurred. The governmental fund financial statements are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when they become both measurable and available, while expenditures are recorded when the related liability is incurred.

**CITY OF FALLS CITY, OREGON**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2011*

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of Presentation (Continued)*

*Measurement Focus and Basis of Accounting (Continued)*

The City's policy is to prepare its financial statements on the basis of modified cash receipts and disbursements. Consequently, certain receipts and the related assets are recognized when received rather than when earned and certain disbursements and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred. Also, assets that are measurable, but not yet collected are recorded on the City's statement of assets and liabilities as an asset and deferred revenue. 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 294.445), which leaves the selection of the method of accounting to the discretion of the municipal corporation.

The City has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting." The City has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed under GASB No. 20, the City has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB.

*Cash and Investments*

The City maintains cash and investments in a common pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of assets and liabilities as cash and investments.

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.

Investments are stated at cost, which approximates fair value.

*Receivables and Deferred Revenues*

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.

Property tax receivables are offset by deferred revenue and, accordingly, have not been recorded as revenues.

*Long-Term Debt*

In the government-wide financial statements long-term debt is not reported. Payment of principal and interest is charged to expenditures when paid. The fire truck and Polk County Community Development loans are reported as governmental long-term debt, repayments are made from the General fund.

**CITY OF FALLS CITY, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

---

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of Presentation (Continued)*

*Accrued Compensated Absences*

Accumulated unpaid vacation pay is not accrued. Earned but unpaid sick pay is recorded as an expenditure when paid. Annually at June 30, employees may request to be paid for unused sick leave in excess of 80 hours. Payment is made at 50% of the employee's hourly rate. The amount of accrued but unpaid vacation and sick pay at June 30, 2011 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 disbursements of a fund may not legally exceed that object's appropriations for cash disbursements. The City Council may amend the budget to expend unforeseen receipts 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 Restricted Net Assets*

When disbursements are paid for purposes in which both restricted and unrestricted net assets are available, the City deems restricted net assets to be spent first.

*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, 2011. Actual results may differ from those estimates.

**CASH AND INVESTMENTS**

Cash and investments are comprised of the following at June 30, 2011:

	<i>Carrying Value</i>	<i>Fair Value</i>
<b>Cash</b>		
Deposits with financial institutions	\$ 21,916	\$ 21,916
Cash held by fiscal agents	248,078	248,078
<b>Investments</b>		
Local Government Investment Pool	604,306	604,306
	<u>\$ 874,300</u>	<u>\$ 874,300</u>

**CITY OF FALLS CITY, OREGON**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2011*

---

**CASH AND INVESTMENTS (Continued)**

*Deposits*

The book balance of the City's bank deposits (checking accounts) was \$21,916 and the bank balance was \$29,620 at year end. The difference is due to transactions in process. Bank deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS295 under a collateral program administered by the Oregon State Treasurer.

*Custodial Credit Risk - Deposits*

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides unlimited insurance for the City's deposits with financial institutions for the aggregate of all non-interest bearing accounts and up to \$250,000 for the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCB 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 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, 2011, all of the City's bank balances were covered by FDIC insurance.

*Investments*

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, 2011, the fair value of the position in the Oregon State Treasurer's Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

*Interest Rate Risk*

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

*Custodial Risk - Investments*

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

**CITY OF FALLS CITY, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**CASH AND INVESTMENTS (Continued)**

*Custodial Risk – Investments (Continued)*

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

*Cash Held by Fiscal Agents*

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

**LONG-TERM DEBT**

Long-term debt transactions for the year ended June 30, 2011 are as follows:

	<u>Outstanding July 1, 2010</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2011</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	\$ -
Polk County Community Development, original amount \$65,000, interest rate 1.0%	65,000	-	(1,986)	63,014	1,886
	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ (1,986)</u>	<u>\$ 88,014</u>	<u>\$ 1,886</u>
	<u>Outstanding July 1, 2010</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2011</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%	\$ 26,400	\$ -	\$ (3,384)	\$ 23,016	\$ 3,391
Revenue Bonds, original amount \$1,204,650, issued May 25, 2003 interest rate 4.5%	1,066,239	-	(17,492)	1,048,747	18,279
	<u>\$ 1,092,639</u>	<u>\$ -</u>	<u>\$ (20,876)</u>	<u>\$ 1,071,763</u>	<u>\$ 21,670</u>

**CITY OF FALLS CITY, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2011**

**LONG-TERM DEBT (Continued)**

Future debt service requirements are as follows:

*Governmental Activities*

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 1,886	\$ 1,120	\$ 3,006
2013	1,906	1,685	3,592
2014	6,925	1,666	8,592
2015	6,944	1,450	8,395
2016	6,962	1,231	8,194
2017-18	63,390	7,624	71,014
	<u>\$ 88,014</u>	<u>\$ 14,777</u>	<u>\$ 102,791</u>

*Business-type Activities*

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 21,670	\$ 48,411	\$ 70,081
2013	22,671	47,410	70,081
2014	23,719	46,362	70,081
2015	24,814	45,267	70,081
2016	25,960	44,121	70,081
2017-21	128,804	203,135	331,939
2022-26	155,299	172,066	327,365
2027-31	193,531	133,834	327,365
2032-36	241,176	86,189	327,365
2037-40	234,119	26,858	260,977
	<u>\$ 1,071,763</u>	<u>\$ 853,653</u>	<u>\$ 1,925,416</u>

**PENSION PLAN**

*Plan Description*

The City is a participating employer in the Oregon Public Employees Retirement System (“OPERS”), a cost-sharing multiple-employer defined benefit pension plan. The 2003 legislature adopted certain changes in the Oregon Public Employee Retirement System, and created a new system for all people hired after August 29, 2003. The Public Employee Retirement System (PERS), which was established under Oregon Revised Statute (ORS) 238.600, applies to all employees who had established membership prior to August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), which was established under ORS 238A and went into effect on January 1, 2004, applies to all people who are first employed with a public employer after August 29, 2003. The

**CITY OF FALLS CITY, OREGON**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2011*

---

***PENSION PLAN (Continued)***

*Plan Description (Continued)*

Public Employees Retirement Board (PERB) governs and acts as a common investment and administrative agent for both plans which are the retirement plans for most public employers in the State of Oregon. Benefits are established by state statute, and employer contributions are made at the actuarially determined rate for each system as adopted by the PERB. The Oregon Public Employees Retirement System, a component unit of the State of Oregon, issues a comprehensive annual financial report, which may be obtained by writing to Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

Both PERS and OPSRP plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

*Funding Status*

Covered employees are required by state statute to contribute 6.0 percent of their salary to the plan which is invested in the Individual Account Program (IAP). Employers are permitted to pay employee contributions to the fund.

The City is required by statute to contribute actuarially computed amounts as determined by OPERS. OPERS completes an actuarial valuation as of December 31 of odd numbered years for new rates to be implemented July 1 of the next odd numbered year. Rates are subject to change as a result of subsequent actuarial valuations and the proportion of the system that is funded for each local government employer.

For OPSRP, all employers are included in a single pool, with separate rates assigned for police and fire participants and general service participants. Beginning July 1, 2009 OPSRP rates were set at 5.19 percent for police and fire and 5.19 percent for general service employees based on the December 31, 2007 valuation.

*Annual Pension Cost*

The City's contributions to PERS for the fiscal years ending June 30, 2008, 2009, and 2010 were \$13,843, \$3,506, 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 \$115,332 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, 2011**

---

**INTERFUND TRANSACTIONS**

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

	<u>Transfers in</u>	<u>Transfers out</u>
General	\$ 999	\$ 26,800
Street	6,800	500
State Revenue Sharing	-	6,500
Equipment	9,000	-
CDBG	-	999
Cemetery	2,000	-
Court	20,500	-
Water	2,500	-
Water Debt Service	65,473	67,473
Sewer	7,124	500
Utility	-	11,624
	<u>\$ 114,396</u>	<u>\$ 114,396</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 receipts restricted to debt service from the funds collecting the receipts 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.

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.

**EXPENDITURES IN EXCESS OF APPROPRIATIONS**

Oregon law prohibits disbursements of a fund in excess of Council approved appropriations.

Disbursements in excess of appropriations in individual funds for the year ended June 30, 2011 occurred as follows:

<u>Fund / Appropriation category</u>	<u>Appropriation</u>	<u>Disbursement</u>	<u>Variance</u>
<i>Street</i>			
Materials and Services	\$ 22,480	\$ 22,775	\$ (295)

**CITY OF FALLS CITY, OREGON**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*  
*YEAR ENDED JUNE 30, 2011*

---

***SUBSEQUENT EVENTS***

The City follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855), as of June 30, 2009. ASC 855 establishes accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through October 26, 2011, 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.

***REQUIRED SUPPLEMENTARY INFORMATION***

**CITY OF FALLS CITY, OREGON****SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - GENERAL FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Taxes and assessments	\$ 98,900	\$ 98,900	\$ 98,887	\$ (13)
Licenses and permits	46,025	46,025	53,156	7,131
Charges for services	-	-	250	250
Intergovernmental	21,050	21,050	22,284	1,234
Miscellaneous	5,350	5,350	9,937	4,587
<i>Total Receipts</i>	<u>171,325</u>	<u>171,325</u>	<u>184,514</u>	<u>13,189</u>
<b>DISBURSEMENTS</b>				
Administration	119,410	119,410	116,525	2,885
Parks	9,900	9,900	9,035	865
Fire	50,425	50,425	42,559	7,866
Library	900	900	646	254
Contingency	63,439	63,439	-	63,439
<i>Total Disbursements</i>	<u>244,074</u>	<u>244,074</u>	<u>168,765</u>	<u>75,309</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(72,749)	(72,749)	15,749	88,498
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	999	999
Transfers out	(26,800)	(26,800)	(26,800)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(26,800)</u>	<u>(26,800)</u>	<u>(25,801)</u>	<u>999</u>
<b>NET CHANGE IN FUND BALANCE</b>	(99,549)	(99,549)	(10,052)	89,497
<b>FUND BALANCE, Beginning of year</b>	<u>99,549</u>	<u>99,549</u>	<u>120,640</u>	<u>21,091</u>
<b>FUND BALANCE, End of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 110,588</u></u>	<u><u>\$ 110,588</u></u>

**CITY OF FALLS CITY, OREGON****SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - STREET FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 45,741	\$ 5,741
<b>DISBURSEMENTS</b>				
Personal services	25,170	25,170	21,487	3,683
Materials and services	22,480	22,480	22,775	(295)
Capital outlay	500	500	489	11
Contingency	3,150	3,150	-	3,150
<i>Total Disbursements</i>	<u>51,300</u>	<u>51,300</u>	<u>44,751</u>	<u>6,549</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(11,300)	(11,300)	990	12,290
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	6,800	6,800	6,800	-
Transfers out	(500)	(500)	(500)	-
<i>Total Other Financing Sources (Uses)</i>	<u>6,300</u>	<u>6,300</u>	<u>6,300</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(5,000)	(5,000)	7,290	12,290
<b>FUND BALANCE, Beginning of year</b>	<u>5,000</u>	<u>5,000</u>	<u>7,790</u>	<u>2,790</u>
<b>FUND BALANCE, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,080</u>	<u>\$ 15,080</u>

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -**

**WAGNER LIBRARY RESERVE FUND**

**YEAR ENDED JUNE 30, 2011**

---

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 2,500	\$ 2,500	\$ 2,159	\$ (341)
<b>DISBURSEMENTS</b>				
Materials and services	95,219	95,219	-	95,219
<b>RECEIPTS OVER (UNDER)</b>				
<b>DISBURSEMENTS</b>	(92,719)	(92,719)	2,159	94,878
<b>FUND BALANCE, Beginning of year</b>	92,719	92,719	90,680	(2,039)
<b>FUND BALANCE, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,839</u>	<u>\$ 92,839</u>

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -  
BUDGET AND ACTUAL - CDBG FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 65,000	\$ 65,000	\$ 65,000	\$ -
Miscellaneous	-	-	24,829	24,829
<i>Total Receipts</i>	65,000	65,000	89,829	24,829
<b>DISBURSEMENTS</b>				
Materials and services	235,500	235,500	67,597	167,903
Contingency	69,433	69,433	-	69,433
<i>Total Disbursements</i>	304,933	304,933	67,597	237,336
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(239,933)	(239,933)	22,232	262,165
<b>FUND BALANCE, Beginning of year</b>	239,933	239,933	226,845	(13,088)
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ 248,078	\$ 248,078

***OTHER SUPPLEMENTARY INFORMATION***

**CITY OF FALLS CITY, OREGON**

**RECONCILIATION OF BUDGETARY FUNDS TO REPORTING FUNDS - GENERAL FUND**

**STATEMENT OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS)**

**JUNE 30, 2011**

	<i>Budgetary funds</i>			<i>Total (reported as General Fund)</i>
	<i>General</i>	<i>Cemetery Care</i>	<i>Municipal Court</i>	
<b>ASSETS</b>				
Cash and investments	\$ 114,255	\$ 10,766	\$ 22,407	\$ 147,428
Property taxes receivable	9,956	-	-	9,956
<i>Total Assets</i>	<u>\$ 124,211</u>	<u>\$ 10,766</u>	<u>\$ 22,407</u>	<u>\$ 157,384</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<i>Liabilities</i>				
Accounts payable				
Payroll withholdings	\$ 3,667	\$ -	\$ -	\$ 3,667
Deferred revenue	9,956	-	-	9,956
<i>Total Liabilities</i>	13,623	-	-	13623
<i>Fund Balances</i>				
Committed to:				
Community Development	-	10,766	-	10,766
Public Safety	-	-	22,407	22,407
Unassigned	110,588	-	-	110,588
<i>Total Fund Balances</i>	<u>110,588</u>	<u>10,766</u>	<u>22,407</u>	<u>143,761</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 124,211</u>	<u>\$ 10,766</u>	<u>\$ 22,407</u>	<u>\$ 157,384</u>

**CITY OF FALLS CITY, OREGON**

**RECONCILIATION OF BUDGETARY FUNDS TO REPORTING FUNDS - GENERAL FUND**

**STATEMENT OF RECEIPT, DISBURSEMENTS AND CHANGES IN FUND BALANCES**

**JUNE 30, 2011**

	<i>Budgetary funds</i>			<i>Total (reported as General Fund)</i>
	<i>General</i>	<i>Cemetery Care</i>	<i>Municipal Court</i>	
<b>RECEIPTS</b>				
Taxes and assessments	\$ 98,886	\$ -	\$ -	\$ 98,886
Licenses and permits	53,156	-	-	53,156
Charges for services	250	-	-	250
Intergovernmental	22,284	-	-	22,284
Fines and forfeitures	-	-	-	-
Miscellaneous	9,937	-	56	9,993
<i>Total Receipts</i>	184,513	-	56	184,569
<b>DISBURSEMENTS</b>				
Personal services	62,125	1,094	6,637	69,856
Materials and services	106,639	1,085	3,305	111,029
Contingency	-	-	-	-
<i>Total Disbursements</i>	168,764	2,179	9,942	180,885
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	15,749	(2,179)	(9,886)	3,684
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	999	2,000	20,500	23,499
Transfers out	(26,800)	-	-	(26,800)
<i>Total Other Financing Sources (Uses)</i>	(25,801)	2,000	20,500	(3,301)
<b>NET CHANGE IN FUND BALANCE</b>	(10,052)	(179)	10,614	383
<b>FUND BALANCE, Beginning of year</b>	120,640	10,945	11,793	143,378
<b>FUND BALANCE, End of year</b>	\$ 110,588	\$ 10,766	\$ 22,407	\$ 143,761

**CITY OF FALLS CITY, OREGON**  
**COMBINING STATEMENT OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS) -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Totals</u>
	<u>State Revenue Sharing</u>	<u>Wagner Library Expansion</u>	<u>Equipment</u>	
<b>ASSETS</b>				
Cash and investments	\$ 641	\$ 9,632	\$ 31,266	\$ 41,539
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>	\$ -	\$ -	\$ -	\$ -
<b>Fund Balances</b>				
Restricted for:				
Capital Outlay	-	9,632	-	9,632
Committed to:				
Community Development	641	-	-	641
Public Safety	-	-	-	-
Capital Outlay	-	-	31,266	31,266
Unassigned	-	-	-	-
<b>Total Fund Balances</b>	<b>641</b>	<b>9,632</b>	<b>31,266</b>	<b>41,539</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 641</b>	<b>\$ 9,632</b>	<b>\$ 31,266</b>	<b>\$ 41,539</b>

**CITY OF FALLS CITY, OREGON**  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
**(MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	<u>State Revenue Sharing</u>	<u>Wagner Library Expansion</u>	<u>Equipment</u>	<u>Totals</u>
<b>RECEIPTS</b>				
Intergovernmental	\$ 6,857	\$ -	\$ -	\$ 6,857
Miscellaneous	-	540	5,254	5,794
<i>Total Receipts</i>	6,857	540	5,254	12,651
<b>DISBURSEMENTS</b>				
Personal services	-	-	-	-
Materials and services	550	-	-	550
Capital outlay	-	-	5,575	5,575
<i>Total Disbursements</i>	550	-	5,575	6,125
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	6,307	540	(321)	6,526
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	9,000	9,000
Transfers out	(6,500)	-	-	(6,500)
<i>Total Other Financing Sources (Uses)</i>	(6,500)	-	9,000	2,500
<b>NET CHANGE IN FUND BALANCES</b>	(193)	540	8,679	9,026
<b>FUND BALANCES, Beginning of year</b>	834	9,092	22,587	32,513
<b>FUND BALANCES, End of year</b>	\$ 641	\$ 9,632	\$ 31,266	\$ 41,539

**CITY OF FALLS CITY, OREGON****SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -****STATE REVENUE SHARING FUND****YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 6,800	\$ 6,800	\$ 6,857	\$ 57
<b>DISBURSEMENTS</b>				
Materials and services	600	600	550	50
Contingency	640	640	-	640
<i>Total Disbursements</i>	<u>1,240</u>	<u>1,240</u>	<u>550</u>	<u>690</u>
<b>RECEIPTS OVER (UNDER)</b>				
<b>DISBURSEMENTS</b>	5,560	5,560	6,307	747
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(6,500)</u>	<u>(6,500)</u>	<u>(6,500)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(940)	(940)	(193)	747
<b>FUND BALANCE, Beginning of year</b>	<u>940</u>	<u>940</u>	<u>834</u>	<u>(106)</u>
<b>FUND BALANCE, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 641</u>	<u>\$ 641</u>

**CITY OF FALLS CITY, OREGON**  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -**  
**WAGNER LIBRARY EXPANSION FUND**  
**YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 750	\$ 750	\$ 540	\$ (210)
<b>DISBURSEMENTS</b>				
Capital outlay	10,147	10,147	-	10,147
<b>RECEIPTS OVER (UNDER)</b>				
<b>DISBURSEMENTS</b>	(9,397)	(9,397)	540	9,937
<b>FUND BALANCE, Beginning of year</b>	9,397	9,397	9,092	(305)
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ 9,632	\$ 9,632

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -  
CEMETERY CARE FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 500	\$ 500	\$ -	\$ (500)
<b>DISBURSEMENTS</b>				
Personal services	6,200	6,200	1,094	5,106
Materials and services	1,350	1,350	1,085	265
Contingency	4,550	4,550	-	4,550
<i>Total Disbursements</i>	<u>12,100</u>	<u>12,100</u>	<u>2,179</u>	<u>9,921</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(11,600)	(11,600)	(2,179)	9,421
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(9,600)	(9,600)	(179)	9,421
<b>FUND BALANCE, Beginning of year</b>	<u>9,600</u>	<u>9,600</u>	<u>10,945</u>	<u>1,345</u>
<b>FUND BALANCE, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,766</u>	<u>\$ 10,766</u>

**CITY OF FALLS CITY, OREGON****SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -****MUNICIPAL COURT FUND****YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Charges for services	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
Miscellaneous	-	-	56	56
<i>Total Receipts</i>	1,000	1,000	56	(944)
<b>DISBURSEMENTS</b>				
Personal services	22,740	22,740	6,637	16,103
Materials and services	3,350	3,350	3,305	45
Contingency	4,000	4,000	-	4,000
<i>Total Disbursements</i>	30,090	30,090	9,942	20,148
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(29,090)	(29,090)	(9,886)	19,204
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	20,500	20,500	20,500	-
<b>NET CHANGE IN FUND BALANCE</b>	(8,590)	(8,590)	10,614	19,204
<b>FUND BALANCE, Beginning of year</b>	8,590	8,590	11,793	3,203
<b>FUND BALANCE, End of year</b>	\$ -	\$ -	\$ 22,407	\$ 22,407

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE (CASH BASIS) -  
EQUIPMENT FUND  
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Miscellaneous	\$ 2,000	\$ 2,000	\$ 5,254	\$ 3,254
<b>DISBURSEMENTS</b>				
Capital outlay	28,200	28,200	5,575	22,625
Contingency	4,150	4,150	-	4,150
<i>Total Disbursements</i>	<u>32,350</u>	<u>32,350</u>	<u>5,575</u>	<u>26,775</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(30,350)	(30,350)	(321)	30,029
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>9,000</u>	<u>9,000</u>	<u>9,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(21,350)	(21,350)	8,679	30,029
<b>FUND BALANCE, Beginning of year</b>	<u>21,350</u>	<u>21,350</u>	<u>22,587</u>	<u>1,237</u>
<b>FUND BALANCE, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,266</u>	<u>\$ 31,266</u>

**CITY OF FALLS CITY, OREGON****SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - SEWER FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Charges for services	\$ 82,500	\$ 82,500	\$ 92,850	\$ 10,350
Intergovernmental	2,500	2,500	-	(2,500)
Miscellaneous	100	100	39	(61)
<i>Total Receipts</i>	<u>85,100</u>	<u>85,100</u>	<u>92,889</u>	<u>7,789</u>
<b>DISBURSEMENTS</b>				
Personal services	60,380	60,380	48,384	11,996
Materials and services	44,320	44,320	43,433	887
Contingency	3,824	3,824	-	3,824
<i>Total Disbursements</i>	<u>108,524</u>	<u>108,524</u>	<u>91,817</u>	<u>16,707</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(23,424)	(23,424)	1,072	24,496
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	7,124	7,124	7,124	-
Transfers out	(500)	(500)	(500)	-
<i>Total Other Financing Sources (Uses)</i>	<u>6,624</u>	<u>6,624</u>	<u>6,624</u>	<u>-</u>
<b>NET CHANGE IN FUND NET ASSETS</b>	(16,800)	(16,800)	7,696	24,496
<b>FUND NET ASSETS, Beginning of year</b>	<u>16,800</u>	<u>16,800</u>	<u>26,992</u>	<u>10,192</u>
<b>FUND NET ASSETS, End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,688</u>	<u>\$ 34,688</u>

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - SEWER DEBT SERVICE FUND  
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Taxes and assessments	\$ 6,000	\$ 6,000	\$ 5,314	\$ (686)
<b>DISBURSEMENTS</b>				
Debt service				
Principal	3,185	3,185	3,384	(199)
Interest	1,423	1,423	1,224	199
<b>Total Disbursements</b>	<u>4,608</u>	<u>4,608</u>	<u>4,608</u>	<u>-</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	1,392	1,392	706	(686)
<b>FUND NET ASSETS, Beginning of year</b>	<u>12,551</u>	<u>12,551</u>	<u>12,419</u>	<u>(132)</u>
<b>FUND NET ASSETS, End of year</b>	<u>\$ 13,943</u>	<u>\$ 13,943</u>	<u>\$ 13,125</u>	<u>\$ (818)</u>

**CITY OF FALLS CITY, OREGON****SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - CITY UTILITY RESERVE FUND  
YEAR ENDED JUNE 30, 2011**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>RECEIPTS</b>				
Charges for services	\$ 39,300	\$ 39,300	\$ 43,375	\$ 4,075
<b>DISBURSEMENTS</b>				
Capital outlay	10,000	10,000	9,963	37
Contingency	44,676	44,676	-	44,676
<i>Total Disbursements</i>	<u>54,676</u>	<u>54,676</u>	<u>9,963</u>	<u>44,713</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(15,376)	(15,376)	33,412	48,788
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(11,624)	(11,624)	(11,624)	-
<b>NET CHANGE IN FUND NET ASSETS</b>	(27,000)	(27,000)	21,788	48,788
<b>FUND NET ASSETS, Beginning of year</b>	<u>162,000</u>	<u>162,000</u>	<u>163,882</u>	<u>1,882</u>
<b>FUND NET ASSETS, End of year</b>	<u>\$ 135,000</u>	<u>\$ 135,000</u>	<u>\$ 185,670</u>	<u>\$ 50,670</u>

**CITY OF FALLS CITY, OREGON****SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - WATER FUND  
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Charges for services	\$ 244,600	\$ 244,600	\$ 216,383	\$ (28,217)
Miscellaneous	200	200	901	701
<i>Total Receipts</i>	<u>244,800</u>	<u>244,800</u>	<u>217,284</u>	<u>(27,516)</u>
<b>DISBURSEMENTS</b>				
Personal services	143,150	143,150	121,499	21,651
Materials and services	65,400	65,400	55,112	10,288
Contingency	20,277	20,277	-	20,277
<i>Total Disbursements</i>	<u>228,827</u>	<u>228,827</u>	<u>176,611</u>	<u>52,216</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>				
	15,973	15,973	40,673	24,700
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,500	2,500	2,500	-
Transfers out	(67,473)	(67,473)	(67,473)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(64,973)</u>	<u>(64,973)</u>	<u>(64,973)</u>	<u>-</u>
<b>NET CHANGE IN FUND NET ASSETS</b>	<u>(49,000)</u>	<u>(49,000)</u>	<u>(24,300)</u>	<u>24,700</u>
<b>FUND NET ASSETS, Beginning of year</b>	<u>51,150</u>	<u>51,150</u>	<u>54,681</u>	<u>3,531</u>
<b>FUND NET ASSETS, End of year</b>	<u>\$ 2,150</u>	<u>\$ 2,150</u>	<u>\$ 30,381</u>	<u>\$ 28,231</u>

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS (CASH BASIS) -  
BUDGET AND ACTUAL - WATER DEBT SERVICE FUND  
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>	\$ -	\$ -	\$ -	\$ -
<b>DISBURSEMENTS</b>				
Debt service				
Principal	17,492	17,492	17,492	-
Interest	47,981	47,981	47,981	-
<b>Total Disbursements</b>	<u>65,473</u>	<u>65,473</u>	<u>65,473</u>	<u>-</u>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	(65,473)	(65,473)	(65,473)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>65,473</u>	<u>65,473</u>	<u>65,473</u>	<u>-</u>
<b>NET CHANGE IN FUND NET ASSETS</b>	-	-	-	-
<b>FUND NET ASSETS, Beginning of year</b>	<u>65,473</u>	<u>65,473</u>	<u>65,473</u>	<u>-</u>
<b>FUND NET ASSETS, End of year</b>	<u>\$ 65,473</u>	<u>\$ 65,473</u>	<u>\$ 65,473</u>	<u>\$ -</u>

***OTHER SCHEDULES***

**CITY OF FALLS CITY, OREGON**  
**SCHEDULE OF PROPERTY TAX TRANSACTIONS**  
**YEAR ENDED JUNE 30, 2011**

<u>Tax Year</u>	<u>Uncollected Balances July 1, 2010</u>	<u>2010-2011 Levy</u>	<u>Interest, Discounts &amp; Adjustments</u>	<u>Turnovers</u>	<u>Uncollected Balances June 30, 2011</u>
2010-2011	\$ -	\$ 107,116	\$ (2,775)	\$ (99,457)	\$ 4,884
2009-2010	4,851	-	(26)	(2,172)	2,653
2008-2009	2,742	-	(17)	(990)	1,735
2007-2008	930	-	(15)	(509)	406
2006-2007	316	-	(16)	(245)	55
2005-2006	49	-	(6)	(23)	20
2004-2005	27	-	(3)	(8)	16
Prior Years	194	-	(3)	(4)	187
Total	<u>\$ 9,109</u>	<u>\$ 107,116</u>	<u>\$ (2,861)</u>	<u>\$ (103,408)</u>	<u>\$ 9,956</u>

**CITY OF FALLS CITY, OREGON**  
**SCHEDULE OF DEBT TRANSACTIONS**  
**YEAR ENDED JUNE 30, 2011**

<b>DEBT PRINCIPAL TRANSACTIONS</b>	<u><b>Interest Rates</b></u>	<u><b>Date of Issue</b></u>	<u><b>Fiscal Year of Maturity</b></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
			<b>Unmatured Interest Outstanding</b>
<b>DEBT INTEREST TRANSACTIONS</b>	<u><b>Interest Rates</b></u>	<u><b>Date of Issue</b></u>	<u><b>July 1, 2010</b></u>
<i>Governmental</i>			
2008 Fire truck loan	3.0% - 4.5%	2008	\$ 6,518
2010 Polk County Community Development	1.0%	2010	10,568
<i>Business-type</i>			
2000 Water Revenue Bonds	4.5%	2000	897,036
1993 Sewer System Bonds	5.25%	1993	5,822
			\$ 919,944

<i>Outstanding July 1, 2010</i>	<i>Issued</i>	<i>Paid</i>	<i>Outstanding June 30, 2011</i>
\$ 25,000	\$ -	\$ -	\$ 25,000
65,000	-	(1,986)	63,014
1,066,239	-	(17,492)	1,048,747
26,400	-	(3,384)	23,016
<u>\$ 1,182,639</u>	<u>\$ -</u>	<u>\$ (22,862)</u>	<u>\$ 1,159,777</u>

<i>New Issues</i>	<i>Interest Coupons Paid/ Prepaid</i>	<i>Unmatured Interest June 30, 2011</i>
\$ -	\$ (1,659)	\$ 4,859
-	(650)	9,918
-	(47,981)	849,055
-	(1,224)	4,598
<u>\$ -</u>	<u>\$ (51,514)</u>	<u>\$ 868,430</u>

**CITY OF FALLS CITY, OREGON**  
**SCHEDULE OF FUTURE BONDED DEBT SERVICE REQUIREMENTS**  
**JUNE 30, 2011**

<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>
2012	\$ -	\$ 487	\$ 487	\$ 1,886	\$ 633	\$ 2,519
2013	-	1,073	1,073	1,906	612	2,519
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	-	-	-	2,386	25	2,411
	<u>\$ 25,000</u>	<u>\$ 4,859</u>	<u>\$ 29,859</u>	<u>\$ 63,014</u>	<u>\$ 9,918</u>	<u>\$ 72,932</u>

<i>2000 Water Revenue Bonds</i>			<i>1993 Sewer System Bonds</i>		
<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
\$ 18,279	\$ 47,194	\$ 65,473	\$ 3,391	\$ 1,217	\$ 4,608
19,102	46,371	65,473	3,569	1,039	4,608
19,962	45,511	65,473	3,757	851	4,608
20,860	44,613	65,473	3,954	654	4,608
21,799	43,674	65,473	4,161	447	4,608
22,779	42,694	65,473	4,184	390	4,574
23,805	41,668	65,473	-	-	-
24,876	40,597	65,473	-	-	-
25,995	39,478	65,473	-	-	-
27,165	38,308	65,473	-	-	-
28,387	37,086	65,473	-	-	-
29,665	35,808	65,473	-	-	-
31,000	34,473	65,473	-	-	-
32,395	33,078	65,473	-	-	-
33,852	31,621	65,473	-	-	-
35,376	30,097	65,473	-	-	-
36,968	28,505	65,473	-	-	-
38,631	26,842	65,473	-	-	-
40,370	25,103	65,473	-	-	-
42,186	23,287	65,473	-	-	-
44,085	21,388	65,473	-	-	-
46,069	19,404	65,473	-	-	-
48,142	17,331	65,473	-	-	-
50,308	15,165	65,473	-	-	-
52,572	12,901	65,473	-	-	-
54,938	10,535	65,473	-	-	-
57,410	8,063	65,473	-	-	-
59,993	5,480	65,473	-	-	-
61,778	2,780	64,558	-	-	-
<u>\$ 1,048,747</u>	<u>\$ 849,055</u>	<u>\$ 1,897,802</u>	<u>\$ 23,016</u>	<u>\$ 4,598</u>	<u>\$ 27,614</u>

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF FUTURE BONDED DEBT SERVICE REQUIREMENTS (Continued)**

**JUNE 30, 2011**

---

<i>Fiscal Year Ending June 30,</i>	<i>Totals</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2012	\$ 23,556	\$ 49,531	\$ 73,087
2013	24,577	49,095	73,673
2014	30,644	48,028	78,673
2015	31,758	46,717	78,476
2016	32,922	45,352	78,275
2017	33,947	44,069	78,016
2018	30,808	42,408	73,217
2019	26,899	41,092	67,992
2020	28,037	39,954	67,992
2021	29,229	38,763	67,992
2022	30,472	37,520	67,992
2023	31,771	36,221	67,992
2024	33,126	34,866	67,992
2025	34,543	33,449	67,992
2026	36,021	31,970	67,992
2027	37,567	30,425	67,992
2028	39,180	28,812	67,992
2029	40,866	27,126	67,992
2030	42,627	25,364	67,992
2031	44,466	23,526	67,992
2032	46,387	21,604	67,992
2033	48,395	19,597	67,992
2034	50,491	17,501	67,992
2035	52,681	15,311	67,992
2036	54,968	13,024	67,992
2037	57,358	10,633	67,992
2038	59,854	8,137	67,992
2039	62,462	5,530	67,992
2040	64,164	2,805	66,969
	<u>\$ 1,159,777</u>	<u>\$ 868,430</u>	<u>\$ 2,028,207</u>

***COMPLIANCE SECTION***



## GROVE, MUELLER & SWANK, P.C.

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

### ***INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS***

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

We have audited the basic financial statements of the City of Falls City, Oregon as of and for the year ended June 30, 2011, and have issued our report thereon dated October 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

#### **Compliance**

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 as follows:

1. The City does not maintain historical cost or depreciation records for capital assets
2. Over expenditures of appropriations as noted in the notes to the financial statements
3. The excess of revenues over expenditures for the second preceding year did not agree to the carryforward balance in the first preceding year by \$371 for the Sewer fund budget.

**OAR 162-10-0230 Internal Control**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting. See the *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*.

This report is intended solely for the information and use of the mayor and council members 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:   
Charles A. Swank, A Shareholder  
October 26, 2011

**CITY OF FALLS CITY, OREGON**  
**ADDITIONAL INFORMATION REQUESTED BY FMHA**  
**YEAR ENDED JUNE 30, 2011**

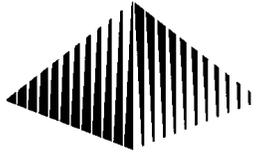
---

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 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, 2011 the City had \$78,598 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-2011-0	Per filed values	6/30/12
Liability	BO-FLC-2011-0	\$ 5,000,000	6/30/12
Workers Compensation	BO-FLC-2011-0	Coverage A and B	6/30/12

9. Aged accounts receivable at June 30, 2011 were not available.
10. The City of Falls City is exempt from Federal income tax.



## GROVE, MUELLER & SWANK, P.C.

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

### **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 the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Falls City as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 26, 2011. Our report was qualified for no historical cost and depreciation records for capital assets. 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 *Governmental Auditing Standards*.

This report is intended solely for the information and use of the City of Falls City, the State of Oregon Division of Audits, Federal awarding agencies and passthrough entities and is not intended to be and should not be used by anyone other than those specified parties.

  
CERTIFIED PUBLIC ACCOUNTANTS  
October 26, 2011